



Central England Quakers
Trustees Finance Committee

November 2015

Guidelines for Local Meetings and Branches on Reserves Policies

What is the purpose of a Reserves Policy?

The purpose of a Reserves Policy is twofold:-

- (a) to ensure that the charity has adequate funds to undertake its charitable activities and protect itself from fluctuations in income or expenditure and
- (b) to reassure its members, the public and the Charity Commission that it is using its financial resources for charitable work, and not accumulating excessive reserves.

In the past Quakers (and other charities) tended to believe that the more money you could accumulate the better, and that capital should never be sold. (In the past interest rates were far higher than they are now, and capital provided vital income). However, as noted in (b) above, the Charity Commission expects charities to have prudent but not excessive reserves, and to release surplus funds for charitable work.

For CEQ, we have for some time managed our central funds in accordance with a Reserves Policy agreed (and regularly reviewed) by Trustees. Local Meetings and Branches have been **encouraged** to have their own policies, defined in the Memorandum of Understanding (under Financial Stewardship) as follows:-

“Ensuring that financial reserves are kept at an appropriate level: they should be sufficient to meet expenditure without having recourse to borrowing (while ensuring that funds are employed for the purposes for which they were given). As a guide, funds equivalent to 6 months’ typical expenditure would normally be considered to be appropriate as a reserve for routine expenditure. In addition, for LM/Bs with responsibility for a property, the meeting/branch may wish to hold additional funds (which may be kept in a separate designated property fund) as a reserve for exceptional (non-routine) repairs or improvements to the Meeting House. The amount of money held in a property fund is for the Meeting to decide, but the Property Link Friend should be consulted. It should be remembered that the CEQ Building Fund exists to provide financial assistance for projects which are beyond the resources of the local meeting”.

Changes in Charity Commission accounting practice for 2015 mean that we need to move from “encouraged” to “required”, and this guideline is to help LMs and Branches to develop their own individual policies.

How do we go about developing a Reserves Policy?

Any Policy needs to be tailored to the individual needs of an LM or Branch, and “one size doesn’t fit all”.

The Policy needs to be “owned” by the LM/B, with collective responsibility for it – it is not something you ask your Treasurer to do on his/her own, though they can draft proposals.

First, you may need different policies for different types of funds, such as a general “unrestricted” fund, or a “designated fund” (eg premises fund) which is earmarked for a purpose but can be reallocated by agreement, or a “restricted” fund which can only be used for a specific purpose. In the latter case a Reserves Policy may not be appropriate, as the Meeting may have no control over the amount of money held.

For general/unrestricted funds, various factors need to be taken into account, such as:-

- 1 How reliable is your income? Do you enjoy a high level of income from regular donations from members, and is this “stable”? Are you heavily dependent on one or two generous donors, and might their circumstances change? Are you heavily dependent on Room Hire income? This may be less reliable than voluntary income, as hirers can “come and go” but you can take a view on this.
- 2 If you have investments, how reliant are you on the investment income? Is it significant, or could you afford to release some capital (for charitable work) and still have enough income to cover your routine expenditure?
- 3 Do you employ staff? If so your Reserves Policy must allow for fulfilling obligations to staff in the event of a financial crisis, and an LM or Branch with staff may need to carry more reserves than one without.
- 4 Do you have a property to manage? If so what is a prudent level of reserve for unforeseen expenditure, bearing in mind that for major projects the CEQ Building Fund can provide assistance (see MoU statement on the previous page).
- 5 Are your expenses (apart from major property projects) fairly predictable, and regular? If your expenditure fluctuates you need to carry sufficient reserves to cover the cash flow variations.

Having taken these factors into account, how much money should the LM or Branch aim to hold in reserve (bank accounts and investments) is something that each LM and Branch needs to “discern” for itself, in the time-honoured Quaker way.

Reserves Policies usually define a “target” limit (or upper and lower limits) for what should be held in a particular bank account, or for what should be held as investments. This can be expressed as a fixed amount (eg £xxx) or linked to another parameter, such as “6 months net operating expenditure”, to take account of changes in circumstances.

Having agreed all this, the principle should be “if we have more money than our Reserves Policy says we should be holding, we need to consider spending it on charitable activities, and if we have less than we should, we need to build our reserves up”.

Budgeting for a deficit for one or more years can be contentious, but there is no shame in spending more than your income in a given year if you are simply using accumulated funds to do good work. (NB if you decide to “downsize” your bank account, or investment portfolio, before making decisions to send donations to other worthy charities, please consider the needs of area meeting and its many projects, and the support needed by BYM for centrally-managed work. Also remember that you can only send donations from your funds to registered charities).

It is very tempting, when doing this exercise, to “work backwards from the answer” and justify the status quo! Each year you should work from first principles.

If you need guidance or advice on the process, or you find that Friends in your Meeting are not in unity over the Policy, feel free to involve your Link Trustee, Examiner or other independent Friends.

Where do we go from here?

Having agreed a Reserves Policy for one or more of your Funds, you need to record the decisions by Minute at a Business Meeting, and agree a routine for reviewing the Policy from time to time. Ad hoc reviews may also be triggered by an event or a change in circumstance.

You can then draw up plans for either spending or fundraising – as dictated by the outcome.

Please let your Link Trustee know that you have a Policy, and provide a copy of it (or the Business Meeting Minute). This will help Trustees to monitor the situation, and individual Policies will contribute to an overall Reserves Policy for the Charity.

Finally, if you would like to view the CEQ Reserves Policy for central funds, this is a standard document held in the Finance Library, also available on request from James Bradbury.

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