SEERAH FOUNDATION

Reserves Policy
Policy Number – P4

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Reserves

Section 3.1 of the Charity Commission's guidance document CC19, Charity Reserves, Building Resilience defines *"Reserves"* as:

Reserves are that part of a charity's unrestricted funds that is freely available to spend on any of the charity's purposes. This definition excludes restricted income funds and endowment funds.

This definition means that, after taking out any unspent restricted funds, all of the money that Seerah Foundation has at any point in time are its "Reserves".

Seerah Foundation will hold reserves for 4 types of reasons known as the "**4 Cs**" as recognised as legitimate reserves by the Charity Commission. They are to cover:

(1) **C**ontingency: unexpected expenditure in the event of an emergency;
(2) **C**ash-flow: situations where a bill has to be paid before the money to cover it has been received;
(3) **C**ommitment: a commitment to expenditure which cannot be covered by the annual income;
(4) **C**losure: the charity becomes financially unsustainable and has to be wound up.

These four categories form the basis of Seerah Foundations's Reserves Policy.

Reserves Policy

The purpose of this policy is:

- to explain to the Charity Commission, major funders & donors, the charity's beneficiaries and the public at large why Seerah Foundation is holding unspent charitable funds instead of spending it on promoting the charity's charitable activities for the public benefit.
- to explain why Seerah Foundation is asking for more funds from their funders/donors when they already have significant amounts in their bank account and other assets.
- to justify the setting of operational budgets which would create a net surplus in order to generate the funds that are required to be added to its reserves year-on-year until the required level of reserves is reached.

Funds that are not "Reserves"

1. Restricted Funds

Money which is given to support a particular subset or aspects of Seerah Foundation's activities are Restricted Funds. Charity law requires that Restricted Funds (and/or Gift Aid income which they generate) can only be spent in accordance with the wishes of the donor(s).

For that reason, Restricted Funds must be accounted for separately from other funds in order that Seerah Foundation can demonstrate convincingly that the money has been used strictly in accordance with the terms under which it was given to them.

Where there are restricted funds unspent at the end of the financial year that has to be identified and explained so that they do not get mixed up with Seerah Foundation's Reserve Fund and can be carried forward to the next year.

For that reason, even though unspent ‘Restricted Funds’ have much in common with Committed Reserves (as they are money being held unspent to meet future commitments to the donors), ‘Restricted Funds’ are not part of the charity’s Reserves.

2. *Hoarded Funds*

Unspent charity funds which are surplus to the agreed budget and are not being held for an identified purpose (one or more of the 4-Cs) are hoarded funds.

Large surpluses will need an explanation within the Financial Review section of the Trustees’ Annual Report – including how they will be managed in the following year.

Managing Reserves

Seerah Foundation reviews the financial risks under each of the ‘**4-Cs**’ categories and outlines a reserve policy for each category:

(1) the reason & category of the risk;

(2) the level of reserve required;

(3) the other risks, if any, with which the reserve for that risk could be shared;

(4) for Contingency, Cash-flow and Closure risks, the likelihood of the risk occurring and for Commitment risks the time-scale when the reserve fund will be utilised.

Cash Flow

To identify and avoid cash-flow issues, Seerah Foundation has developed a ‘Monthly Budgeting and Cash Flow Forecasting’ spreadsheet.

This spreadsheet has the following functions:

- budgeting and monitoring cash-flows “in real time” on a month-by-month basis (i.e. the monthly/annual budget and cash-flow analysis update automatically as financial transactions are entered). This means that up-to-date monthly/annual budget and cash-flow reports can be produced whenever required for Trustees (and others).
- helps to identify in advance when and how much Seerah Foundation expects to receive money (income, grants, donations, Gift Aid, etc) and when and how much it expects to pay out money (both regular bills such as salaries, utilities, and ad hoc payments such as start-up costs for a new activity).
- helps to avoid cash-flow problems – e.g. by rescheduling an ad hoc payment till after a block of receipts have arrived, or bringing forward a fund-raising activity.

Where predictable cash-flow issues cannot be resolved by rescheduling receipts and/or payments then incorporating appropriate provisions into the charity’s Reserves Policy is an alternative solution.

Contingencies:

Seerah Foundation will have carried out a Risk Analysis and will regularly review it. The Risk Analysis should include not just the likelihood of the risk occurring but also a review of its impacts and the likely costs of mitigating them. That information will form the basis of what funds Seerah Foundation needs to keep “on hand” – i.e. its contingency reserves – to cope with the risk it should occur.

But contingencies are, by their nature, unpredictable – both their likelihood of occurring and their cost if they should occur. So while Seerah Foundation hopes it never occurs and the reserve remains unused – similarly the chance of them all occurring simultaneously is negligible . Seerah Foundation’s reserves do not have to be sufficient to cover the sum of the costs of all identified contingencies. In practice, therefore, the contingency reserve will normally be based on the costs of mitigating the most “expensive” contingency.

The most “costly” contingency is something that so adversely affects Seerah Foundation’s long-term sustainability that it leaves the charity no longer financially viable (e.g. the loss of a major resource, such as property; of an unavoidable increase in outgoings, such as utility costs).

Commitments

There are two types of Commitments – (i) Must-Do’s & (ii) Would be Nice to Do’s.

Both types of Commitments are the opposite of Contingencies as both are forward looking plans by the Trustees. Seerah Foundation’s cost and the timescale of Commitments are known in advance and, to some extent, both the costs and the timing may also be controllable (eg: costs mitigated, timings advanced or delayed).

The difference between the two types of Commitment is that “Must-Do” commitments are major undertakings which the Trustees can only avoid to the detriment of Seerah Foundation while “Would be Nice to Do” are a bit more speculative and more of a disappointment than a disaster if lack of funding means that they are delayed or are unable to go ahead at all.

The likelihood and impact of the proposed commitment not being able to go ahead because of insufficient reserves should be noted in the Annual Report.

“Would-be-Nice-to-Do” commitments are a bit less demanding. In the event that they are unable to go ahead – e.g. Seerah Foundation is unable to raise enough reserves to make the commitment viable, or a change in circumstances makes the commitment no longer appropriate – the funds can be re-allocated to other activities. However, Trustees should take heed of the advice in the Charity Commission guidance:

Designations which are never used, or the nature of which are frequently changed without funds being spent, risk bringing the charity into disrepute with donors and financial supporters. If a complaint is made to the commission about a charity’s reserves, the inappropriate use of designated funds may attract regulatory attention.

Closure:

Unless the Trustees have decided that, for reasons other than insurmountable contingencies, Seerah Foundation has come to the end of its useful life and needs to be closed down, the presumption is Seerah Foundation producing their account on a Receipts & Payments basis are not required to be able to make any formal statement in their financial review that their organisation is a “going concern”.

The going concern principle is the assumption that an entity will remain in business for the foreseeable future. Conversely, this means the entity will not be forced to halt operations and liquidate its assets in the near term at what may be very low fire-sale prices.

The Trustees will ensure that Seerah Foundation is managed in a sustainable way. So a charity needs to keep in Reserve (i.e. have a Reserves Policy which describes) the amount of money that it will need in order to be able to keep on going while it completes all its obligations and can close down in good order, with nobody being left “out of pocket”.

Where Seerah Foundation has committed (designated) reserve funds it is likely (but not inevitable) that if Seerah Foundation is facing closure the purpose(s) for which those fund(s) is(are) being held will not materialise.

In that case the money in those committed fund(s) (which, legally, are part of the charity’s unrestricted general fund) will contribute to the “Closure” reserve fund.

But restricted funds – money given for, and protected for, a specific purpose agreed with the donors, CANNOT be transferred to the general fund to cover wind-up costs without the explicit permission of the donors. So restricted funds CANNOT be counted as part of the Reserve Policy.

Restricted funds which carry a commitment on the charity to deliver charitable services for a specific period of time can create a particular problem if completing that specific project is dependent on Seerah Foundation being able to provide background (e.g. administrative) support.