

Durham SU Reserves Policy 2019-20

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| Policy Name: | Durham SU Reserves Policy 2019-20 | | |
| Approval Date: | 20 January 2020 | To Be Reviewed: | Annually, to take account of current circumstances and level of reserves. |
| Approved By: | Board of Trustees | | |
| Noted / Endorsed: | Senior Leadership Team | | |
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|----------------|-----------------|-----------|----------|
| Date | Name | Signature | Comments |
| November 2019 | Martin Horrocks | | |
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The Charity Commission is vague as to the specifics of what should go into a reserves policy. It rightly takes the view that for different charities different levels would be appropriate (so for some time limited small organisations, nil, or little reserves, may be appropriate). It merely asks that trustees are clear about what their policy is, and express this in the annual report, so that funders are reassured that levels are reasonable.

The advice held in Charity Commission Guidance CC19: Charities- Building Resilience is as follows:-

In practice, this means that trustees should:

- *develop a reserves policy that:*
 1. *fully justifies and clearly explains keeping or not keeping reserves*
 2. *identifies and plans for the maintenance of essential services for beneficiaries*
 3. *reflects the risks of unplanned closure associated with the charity's business model, spending commitments, potential liabilities and financial forecasts*
 4. *helps to address the risks of unplanned closure on their beneficiaries (in particular, vulnerable beneficiaries), staff and volunteers*

For Durham SU, it may be considered that the answers to the above points are as follows:-

1. Responsible trustees should keep reasonable levels of reserves to allow for any temporary cash flow fluctuations .The Unions financial year is erratic in its income streams, with little income coming in during the period July to September, but most

normal expenses are still being met. It would clearly not be acceptable to run at zero reserves, and run the risk that minor glitches, before funding streams come back on line, cause cash flow difficulties in an otherwise very sound organisation. Not keeping reserves is therefore not an option.

There are other good reasons for keeping reserves – our budget model is based on achieving commercial income towards Charitable Activities of £82k per year.

Although it's unlikely that all income from commercial activities would cease overnight, there are risks in such activities (supplier failure, poor offer, or inability to develop in line with budget due to University restrictions. Brexit may well have an impact on margins. Government policy may have an impact also.)

Brexit may impact the Universities own income streams –and lead to a longer term reduction in support. It seems unlikely that such a cut would come without reasonable warning though.

2. The Union is here to serve its members to the best of its capabilities. To help facilitate that, it has rigorous business and budget planning processes, with strong financial controls and reporting. This enables it to be reasonably secure in any one year that its finances will be well managed, with it being unlikely that any surplus/deficit is going to be so far off expectations as to cause serious impact to the organisation. The strong relationship with its prime funder, Durham University, also provides a strong comfort factor that any impactful changes to its main income streams are likely to be in the medium to long term rather than immediate.
3. None the less, we must define how we calculate a reasonable level of reserves, given the reasonable strength of the operating position.

The Charity Commission, contrary to popular belief, does not advocate or recommend “3-6 months running costs” be kept in hand as reserves (whilst it is clear that this has become the default position of the majority of charities, and accepted by the Charities Commission). The Charity Commission does make reference to “Funds might be needed to give the trustees time to take action if income falls below expectations”. In the Unions case, the income referred to can only be, currently, Block Grant income from the University and Commercial Income (DUCK and Society income are restricted funds, and so outside of the scope of the reserves policy). In this context, it seems appropriate to provide reserves to allow time for change and investment to move to a new model, after some consideration by the Senior Management Team and Trustees in the event of a planned reduction in funding.

Experience has taught us that such restructures can take up to six months to achieve. However, it would seem to be overly prudent to reserve a full six months costs, as activities would be adjusted progressively over the course of this time (to suit available funds and new structure, with staffing being adjusted as work and variable notice periods fall within the six months).

We therefore believe that, for perhaps slightly more realistic reasons than outlined in most charities reserves policy, the figure should be set at half of six months costs of strategic and core costs – i.e. 3 months. Working directly from the 2018-19 accounts, this would suggest a figure of £252k. (One quarter of £1,010k)

It would not seem appropriate to provide within the policy numbers that relate to commercial activity – so long as this was not running at a loss. It should be regarded as a profit centre that contributes to the cost of charitable activity, and so does not affect cost provision within the reserves policy.