



Reserves Policy

Board approved and accepted 22 February 2018

Version 1

Reserves Policy

1. Overview of the Organisation

West Dunbartonshire Leisure Trust (WDLT) is an organisation with charitable status that operates a range of leisure, community and outdoor recreation facilities and also delivers Sports Development and Active School services. WDLT is an arms-length organisation to West Dunbartonshire Council (WDC) and receives an agreed annual management fee for delivering services for the citizens of West Dunbartonshire.

To meet the cost of delivering the range of services WDLT also relies on generating customer income across services as well as receiving grant funding from various sources including NHS and **sportscotland**.

2. Purpose of Policy

A reserves policy is a key part of the internal financial management of charities and helps the organisation to manage resources effectively and plan ahead. A reserves policy will also assist with explaining to potential and current funders why the organisation holds a particular level of reserves.

3. Purpose of the Reserve Fund

The general reserves fund will sit separate from any restricted funds, fixed assets and designated funds on the fund notes of the organisation's annual Statement of Financial Activity. The fund is created as a financial contingency resource for unforeseen circumstances such as the sudden removal of key external funding, any sudden and unexpected loss of income or an unexpected large additional expenditure. This fund is designed to give the organisation breathing space to strategize and adjust to any unforeseen or sudden circumstance that affects cash flow or creates an unexpected significant expenditure. Therefore the purpose of building reserve funds is to protect the organisation as a viable going concern and form a financial buffer.

4. Reserves Rationale

There is no set formula or framework to follow on how to calculate what level of reserves fund a charitable organisation would require as each organisation is unique. Therefore the WDLT Trustees have considered the likely needs of the organisation to respond to unexpected events when setting the reserves fund target.

If WDLT was to lose funding from a major source without due notice it is likely the organisation would need to adjust services and possibly staffing levels accordingly. Similarly if the organisation was to suddenly lose a major income resource for example due to a catastrophic failure of a facility, the organisation would need to reallocate staffing and adjust customer bookings to retain income. A time span of at least three months would likely be needed for the organisation to react and adjust comfortably to a new situation of that magnitude.

5. Level of Reserves Required

Planning for a three month funding buffer would seem a reasonable reserve for WDLT to build for the purposes of coping effectively with unexpected circumstances..

The likelihood of the management fee from WDC being suddenly greatly reduced is in reality quite low. The WDC management fee for each year is negotiated and agreed several months in advance and any requirements for service changes as a result would be well underway by the time a reduction in fee became a reality. The possibility of a sudden loss of funding from other sources, or a sudden negative change in income / expenditure due to unforeseen circumstances, although not highly likely is a more likely scenario. Therefore basing the reserve fund target on three months income from customer receipts and funding (out with the WDC management fee) is a common-sense rational to adopt.

Where the reserves fund target is not reached the board should agree an action plan with timeframes for addressing the shortfall. Once the reserves target is reached additional funds accrued will be treated as surplus funds and allocated accordingly.

6. Reviewing the Reserves Fund

It is recommended that charitable organisations review their reserves fund on a regular basis. This may result in the fund moving up or down dependant on the variables of income and expenditure of that particular organisation.

There may also have been a requirement within a particular financial year to access the fund and spend some reserves; the organisation may therefore need to take action to replenish the fund.

Changes should be made as necessary and the reserves target kept up to date. It is for the Board to decide how often they wish to review the WDLT reserves fund policy and target. After considering all of the information supplied the WDLT Board of Trustees agreed as of 22 February 2018 that a review of the reserves fund policy and target will take place on a bi-annual basis (every two years) basis. This review is to be carried out by the Audit and Risk Committee and ratified by the Board.