



Reserves Policy

Board approved and accepted 25 November 2021

Version 3

Reserves Policy - 2022/23

(Date of Last Review November 2021)

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.

In exceptional circumstances it may be necessary to create a Surplus Reserves fund for designating monies to offset a foreseen budget shortfall for future years following a major event affecting finances (such as the Covid-19 Global Pandemic). Monies received (for example) as grants for offsetting loss of income would be placed into this fund if the General Reserve was already at or above target.

General Reserves are important in terms of good financial governance and to ensure that there is some built in resilience or sustainability for the charity.

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 two to three months would likely be needed for the organisation to react and adjust comfortably to a new situation of that magnitude. WDLT also is supported by WDC as the organisations registered sole member and the organisation would be in the position to seek assistance and funding from WDC in the event of extreme financial difficulties. This additional support contingency does not however negate the requirement for WDLT to have its own reserves fund that could be accessed if required with the aim of being self-sufficient and able to deal with changes in finance without assistance from WDC.

5. Level of Reserves Required

Planning for a reserves fund that equates to 7.5% of total funding would seem a reasonable reserve buffer for WDLT to build for the purposes of coping effectively with unexpected circumstances given the underwriting guarantee from WDC.

The likelihood of the management fee from WDC being greatly reduced with no reasonable notice is low; however this possibility cannot be discounted entirely given the financial pressures that Local Authorities are facing over the next few years. It does however seem incompatible for WDLT to hold a higher than necessary level of reserve fund at a time when their main funder is under extreme financial pressure.

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 is a more likely scenario. Therefore basing the reserve fund target on 7.5% of total operating cost is a common-sense rational to adopt.

Where the General 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. If however Surplus Reserves have been set aside (due to an exceptional circumstances) and used for the assigned purpose these do not require to be replenished.

6. Reviewing the Reserves Fund

Since the last review of this Reserves Policy the ability of WDLT to cope financially and be resilient in uncertain times has been tested by the fallout from the ongoing Covid-19 Global Pandemic in 2020/21. Having sufficient reserves in place at the start of that crisis gave breathing space to the organisation until funding streams could be sourced and utilised and subsequently enabled the organisation to pay furloughed staff 100% of wages during the lock down periods.

It is recommended that charitable organisations review their reserves fund rational 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 General Reserves Fund and spend some reserves; the organisation may therefore need to take action to consequently replenish the fund. If Surplus Reserves have been set aside and used for the assigned purpose these do not require to be replenished as the need for a Surplus Reserve Fund would only be in most exceptional circumstances.

Changes should be made as necessary and the reserves target and rational kept up to date. Currently it is agreed by the board 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.

If the board agree that a two yearly review schedule is still relevant for this policy the next review will be carried out in November 2023.