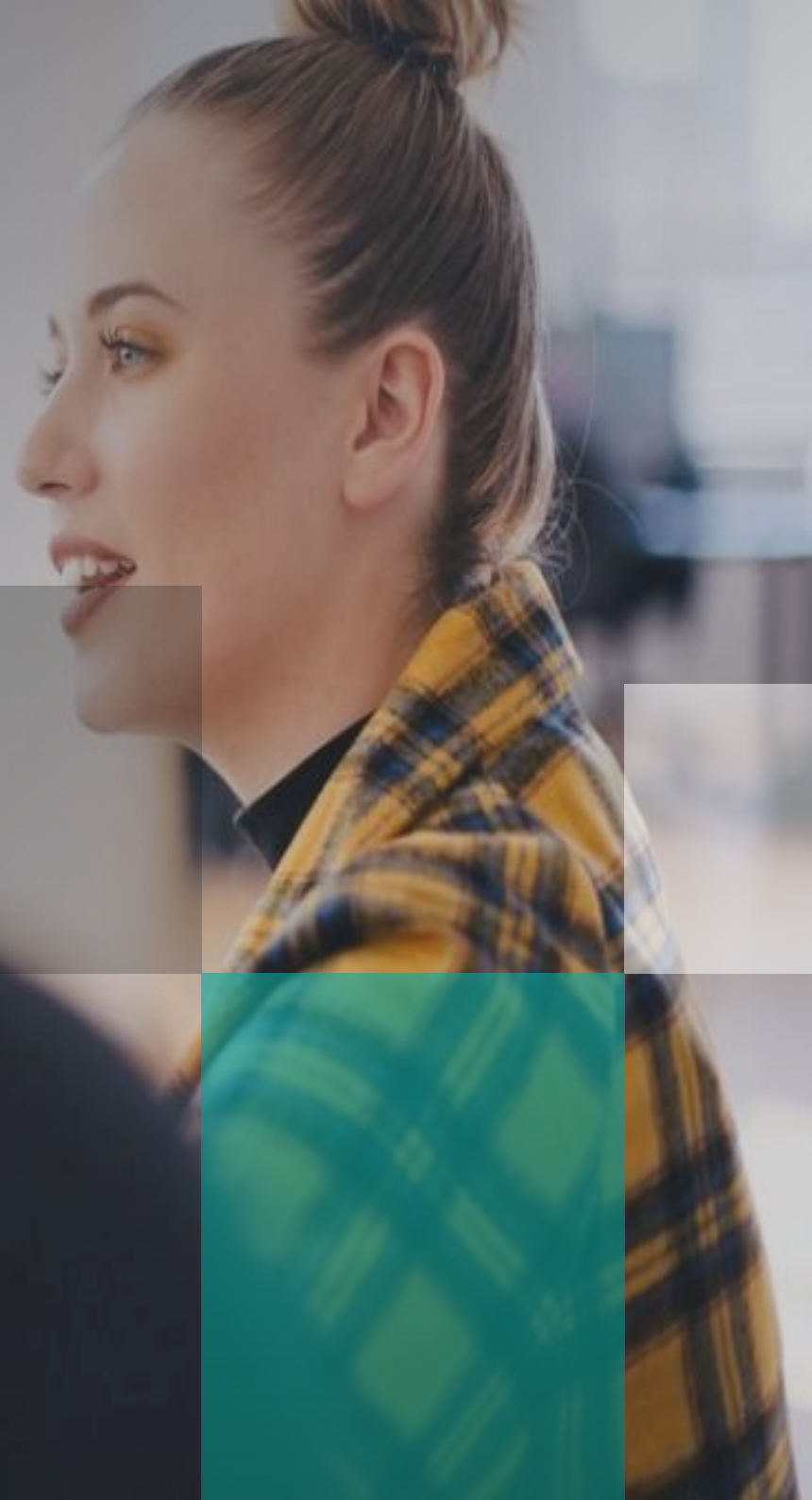


Reserves policy –  
engaging your  
board with  
strategy



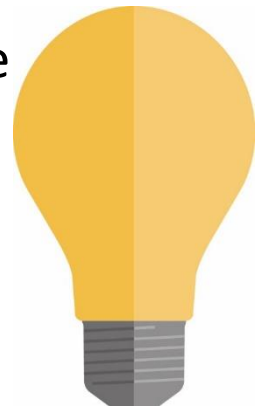
## Board engagement

- Focus on mission and shared objectives
  - Direction
  - Priorities
- Financial management
  - sound administration
  - reporting – actuals and forecasts and risk therein
  - managing reserves
- Relationship with Executive
  - Behaviour
  - Board and staff dynamic
  - Define and respect roles and delegation
- Confidence in ability to forecast income and plan is key

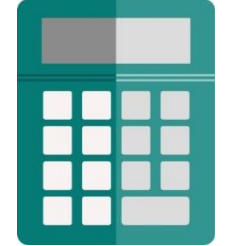


# Managing and using reserves – where matters can drift

- In managing financial risks, need to include reserves **BUT** cannot be considered in isolation
- Need to understand financial model of the charity
- Risks of that model from scenario planning – understanding when, why and how will use reserves
- Strategy and future plans – income risk, income growth plans, capital expenditure, investment required?
- Working capital and cash flow
- All interact with the need to come up with a reserves policy to feed into the strategic plan
- Once used they are gone – plan wisely
- **Not a safety net**
- **Need to understand in what circumstances reserves are for and how they will be used**



# The Citizenship Foundation T/A Young Citizens



## Reserves level and policy history

- Charity went through a period between 2012 and 2014 when grant funding that accounted for some 60% of total income was lost and cash and reserve levels dropped
- “Survivalist” reserve policy adopted to primarily ensure “structured closure” whilst trying to salvage mission
- Charity eventually turned corner and needed to cautiously venture into growth phase
- Trustees needed to be brought along and reassured they would be adhering to their responsibilities whilst supporting growth
- Detailed review performed during 2019 to ensure reserves policy was fit for the future and develop new reserves strategy. Agreed revised policy that would ensure the safeguarding of charitable commitments, the funding of operational expenditure, ensure adequate working capital and financial resilience for the charity
- Agreed to aim for free reserves of £300k
- Free reserves at year-end 31 March 20 were £481K
- Resultant varied income profile reduces risk

# Young Citizens next steps



## Growth phase with Trustee support

- Revised reserve policy enables resources to be freed up
- Prudence maintained and risk carefully assessed
- New approach results in good standing pre-COVID crisis
- Trustees determined their risk appetite



**Board engagement ensures financial focus on resilience and sustainability as confidence in financial reporting by management and strategy plan**

# Building the picture to create the strategy

- Where are you now?
  - Your income/potential income
  - How guaranteed is that income and for how long?
  - How do you deliver any change?
  - What are your resources and what can they achieve? Change job roles and work patterns? Premises and services– short term or long term shift?
  - What could you drop, change or do without? Deliver more for less?
  - How will this affect your ability to deliver on your cause?
  - Mergers/collaborations/partnership working – expand knowledge, reach and offerings?
  - Identify key performance indicators – use as early warning signs



## Reserves –sustainability, usage and resilience reserve elements

- Sustainability and resilience - income security and cashflow – income risk, growth and risks of deficits on unrestricted funds. Variation in income is normally a key risk. Also seed funding and growth, capital spend, investment or covering known specific one off liabilities all feature
- So what do we need to know on income risk and resilience based on future expectations and how quickly income could fall away. How far into the future can we be confident and predict/forecast?
- This is about giving the charity time to look for new income/cut costs etc if things go wrong. Spending part of the reserves could feature here
- So time needed to invest in specific projects to prove concept for funding or the time needed to build grow new income streams OR
- If lose income commitments its about perhaps reducing costs–how quickly can costs be cut. What does this look like?





# How Young Citizens applied this.



- A “rolling” budget approach agreed for the year 20/21
- Board in February 20 provisionally agreed a “normal” operating budget showing a breakeven position – full impact of COVID was unclear
- First revision of budget, including cashflow projections, presented to the Board in July 20 showing the initial assessed impacts of COVID

Board acknowledged the need to prudently draw on reserves

- Second revision of budget and cashflow projections presented to the Board Sept 20 in the light of improved information
- Final assessment planned for January 21 – revision if necessary/prudent. Else begin to focus on coming year



# Application to Young Citizens: Price Bailey Price Bailey CHARTERED ACCOUNTANTS

- Scenario planning – programme delivery and income generation opportunities forecast in three different timeframes. How guaranteed is our future income?
- Maintaining services in the interim – existing online provision; resource adaptations; communications. Change job roles and work patterns. Premises and services – short term change and potential long term shift
- Revised budgets and cash flow modelling – what can be salvaged of this financial year. What are the future “pinch-points” in forecasts? Additional costs and/or savings required to deliver planned strategy – adaptable approach
- Furlough or redundancies, staff stress levels/holidays
- Reserves and cash usage – prudence and preservation. What could we drop, change or do without? Desire to deliver more for less cost
- Mergers, partnership working and collaborations
- Identify key performance indicators – simple early warning signs – cashflow and staffing retention as specialist



## Charity Commission guidance

- <https://www.gov.uk/guidance/coronavirus-covid-19-guidance-for-the-charity-sector>
- Trustees should consider **short, medium and longer term priorities**, and if need to amend financial planning given their current situation
- Trustees to think about whether or not certain projects, spends or activities can be stopped or delayed in order to focus on essential spending if they are facing financial challenges at this time
- **Reserves can be spent to help cope with unexpected events like those unfolding at present**



## Going concern and longer term strategy

- September 2019 revised International Standard on Auditing – ISA 570 on Going Concern
- For all audits for periods commencing on or after 15 December 2019
- More requirements and guidance for auditors
- Future forecasts need to flex and include a variety of potential scenarios occurring in order to assess the impact of COVID-19 on the ability of the entity to continue to operate as a going concern
- Robustly challenge management’s assessment of going concern



## Longer term goals

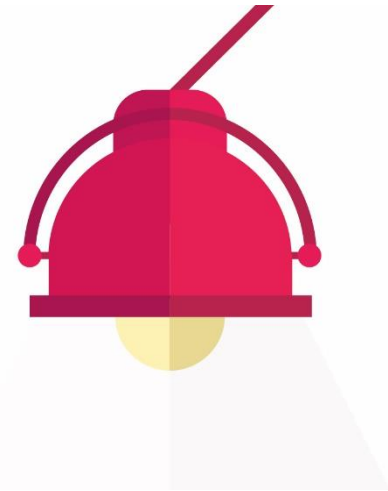
What are you trying to achieve? Helps focus on direction of travel

Individuals:

- situation (eg housing, employment)
- wellbeing (eg mental or physical health)
- behaviour (eg involvement in crime, drug use)
- attitudes and feelings (eg how people feel about themselves or others)
- skills and abilities (eg communication skills or ability to work under pressure)
- relationships (eg with peers, family or at work)

Strategic:

- policy (eg changes in law)
- environment (eg better access to green spaces)
- services (eg new services or services delivered in different ways)
- ways of working (eg new partnerships developed)
- social norms (eg knowledge, attitudes, values or behaviours)



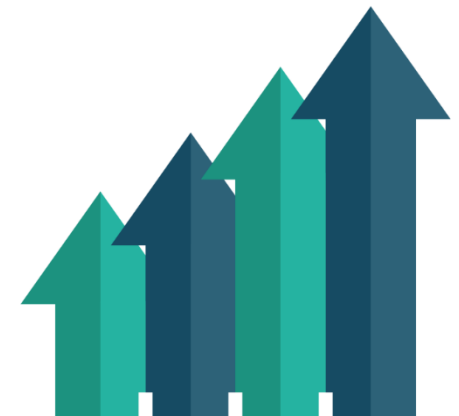
## Longer term goals for Young Citizens

### Individuals:

- behaviour (eg involvement in crime, drug use)
- attitudes and feelings (eg how people feel about themselves or others)
- relationships (eg with peers, family or at work)

### Strategic:

- policy (eg changes in law)
- services (eg new services or services delivered in different ways)
- social norms (eg knowledge, attitudes, values or behaviours)



# Young Citizens medium term strategy

- Board strategy - Looking at a two-year period before activities return to pre-COVID levels
- Ensure COVID survival – “last man standing”
- **Relationships:** Maintaining communications, leading emerging conversations with:
  - key funders
  - ‘trading’ partners - corporates and schools
  - think-tanks and stakeholders
- **Services and social norms:** Planning future service delivery, innovations and income streams – increase avenues for debate to influence emerging social norms - retaining relevance in the “new normal” post-COVID 19/lockdown
- **Financial and operational viability:**
  - Seeking new avenues of grant funding – increased priority
  - Considering prudent applications of reserves and attendant opportunity costs – do we invest in more digital infrastructure, do we invest in staff retention, do we play safe???





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