

## **WSCT Reserves policy**

### **Definition of Reserves**

The Charity Commission has provided a specific definition for “reserves” as “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, although holding such funds may influence a charity’s reserves policy. Reserves will also normally exclude tangible fixed assets held for the charity’s use and amounts designated for essential future spending.”

This definition is intended to provide the charity with a way of identifying those reserves that are readily available in relatively liquid form if required by the charity. The free reserves of WSCT for which a policy is needed are represented by unrestricted general funds of the charity and exclude both the fixed asset revaluation reserve and funds that have been designated by the trustee to meet future planned expenditure.

It is recognised that charities are under a general duty to apply charity funds within a reasonable time of their receipt although there are no such requirements in WSCT’s governing documents. Similarly, whilst the Charity Commission requirements only require consideration of free reserves, it would be inappropriate to not apply restricted funds within a reasonable time period. For WSCT, this is not relevant as restricted funds represent funds set aside for major projects which will be utilised during the timeframe of the relevant project.

### **Legal Authority to hold reserves**

The Charity Commission has identified that all charities have legal authority to hold reserves. Specifically they state: “Trustees of every charity must ensure that the charity’s funds are used appropriately, prudently, lawfully and in accordance with the charity’s purposes for the public benefit. The general principle of trust law is that funds received as income should be spent within a reasonable period of receipt.

The holding of reserves will be authorised either by using an express or implied power to hold reserves. The trustee is justified in exercising its power to hold income reserves, whether express or implied only if, in its considered view, it is necessary in the charity’s best interests.” For WSCT, there is no explicit legal authority to hold reserves set out in its governing documents, but the implied authority is deemed sufficient. Specifically, the charity has no need to formally accumulate reserves.

### **Why does WSCT hold free reserves?**

The charity is required to consider what level of reserves it is appropriate for the charity to hold in order to demonstrate appropriate financial management, stewardship and sustainability. The trustee wishes to do this to provide assurance to all the charity’s stakeholders that the charity is being managed in a prudent manner for the best interests of its beneficiaries. The trustee also wants to provide confidence that there is a strong justification for the reserves held by the charity, and that they wish to be open and transparent on all aspects concerning the charity’s reserves policy. In doing this WSCT has considered the following areas.

### *Working Capital*

Any organisation needs working capital to allow it to meet its liabilities as they arise – this is a key going concern requirement. Cash or other liquid assets are required to meet normal operating expenditure. For WSCT its cashflow is strong due to the profile of its incoming resources at regular intervals throughout the year.

### *Financial risk management*

All charities are subject to a wide range of risks, many of which have financial implications. “Rainy day” funds are appropriate to be held as mitigation against the affect of such risks. WSCT has a formalised approach to risk management which identifies major risks that it faces, assesses their severity in terms of impact and likelihood, and identifies mitigating actions.

For example, to cover the annual grounds maintenance contract, non-routine maintenance and employee costs, WSCT is reliant on 3 main sources of unrestricted income – pay & display parking, Hammersmith Hospital car park license and Kensington Aldridge Academy license fees. If one or more of these income sources is significantly reduced or even lost, the charity may need to cover 6-12 months of core operating expenditure while it restructures its operations and seeks to reduce costs.

The financial risks that are mitigated by the holding of reserves include:

- Variability of income – pay & display parking income based on sensitivity analysis of activity levels and condition of car park, termination of existing license agreements, investment income projections based on market rates
- Variability of expenditure – non-routine maintenance of the Scrubs can be hard to predict but the amounts are not usually significant, other areas of expenditure are relatively “fixed” such as the grounds maintenance contract and staff costs, relatively low likelihood of significant unplanned expenditure
- Risks noted in risk register – those identified as high or medium risk that have financial significance.

### *Future development*

As part of their strategic planning the charity Trustee should also consider the need for funds to develop their charity’s activities or to consider new opportunities to assist their beneficiaries. A designated fund has already been set up for future capital maintenance works including the long-term maintenance of the AEM Masterplan and the contribution towards the refurbishment of the Linford Christie stadium.

## **Explanation of the Policy in the Accounts**

The Charities Statement of Recommended Practice (SORP) 2019 requires disclosure of WSCT’s policy on reserves in the TAR – stating

- the amount of the total funds the charity holds at the end of the reporting period;
- the amount of any funds which are restricted and not available for general purposes of the charity at the end of the reporting period;
- any material amounts which have been designated or otherwise committed as at the end of the reporting period;
- the likely timing of the expenditure of any material amounts designated or otherwise committed at the end of the reporting period;
- identify the amount of any fund that can only be realised by disposing of tangible fixed assets or programme related investments;
- state the amount of reserves the charity holds at the end of the reporting period after making allowance for any restricted funds, and the amount of designations, commitments (not provided for as a liability in the accounts) or the carrying amount of functional assets which the charity considers to represent a commitment of the reserves they hold; and
- compare the amount of reserves with the charity's reserves policy and explain, where relevant, what steps it is taking to bring the amount of reserves it holds into line with the level of reserves identified by the trustee as appropriate given their plans for the future activities of the charity.

The above information as at the end of the 2022-23 financial year is disclosed in Annex 1. A summary of this policy will be included in the TAR as required each year. The wording shall be considered by the WSCT committee as part of their consideration of the annual financial statements. Where actual reserves held are significantly different to the required policy level an explanation will be included to explain how the charity is seeking to resolve this disparity. The notes to the accounts will identify any designated funds, the purpose of each fund and the expected date of future application of those funds.

### **Reserves policy and Going Concern considerations**

The charity's policy for reserves is linked to and part of its formal consideration of the charity's going concern presumption. An appropriate level of reserves underlies the forecasts and cashflow projections that are used by the committee to confirm that WSCT is a going concern and is able to meet its liabilities as they arise.

At the year end the reserves policy, actual reserves held and future business planning forecasts are used to confirm the going concern principle applies for at least 12 months from the date that the statutory accounts are approved by the committee.

### **When does the charity consider its reserves policy?**

Monitoring and oversight of the reserves held by the charity is undertaken throughout the year. This is achieved through quarterly management accounts, cashflow monitoring and regular financial forecasts. At least on an annual basis the reserves

policy is reviewed formally by the trustee as part of its strategic and business planning process.

Approved on behalf of the WSCT committee: .....

Date: 06/03/2024

Next review date: 04/12/2024

**Annex 1: Analysis of WSCT Unrestricted Income Funds (Reserves) balances compared to target on 31<sup>st</sup> March 2023**

<u>Unrestricted income funds @ 31st March 2023</u>	
	£
'Free' reserves	757,794.00
Designated funds - Capital maintenance works	700,000.00
<b>Total</b>	<b>1,457,794.00</b>

<u>Target range based on average core annual operating expenditure between 2017-18 to 2023-24</u>			
'Free' reserves target (lower) - 6 months	418,469.00		
'Free' reserves target (upper) - 12 months	836,938.00		

The level of 'free' reserves was £757,794 at 31st March 2023 which is within the target range. The plan is to keep 'Free' reserves within the target range (6-12 months) and then designate any surplus funds to future capital programme works. This programme will include access improvement works, developing on-site facilities, the AEM Masterplan maintenance costs beyond the initial 10-year period and an ongoing contribution to the Linford Christie Stadium. This designation remains unrestricted.