PARAROCHIAL CHURCH COUNCIL OF SWANAGE
RESERVES POLICY

1. Introduction

Every charity is required by the Charities Commission to have a Reserves policy and to comment on reserves in the annual report of the charity. See the Appendix for an extract from the Charity Commissioners about reserves. In its Annual report, Swanage PCC has been including a paragraph about reserves which contains a sentence outlining the Reserves policy. This states:
"The reserves policy of the PCC is to maintain a balance on unrestricted funds, which equates to approximately six months' unrestricted payments, to cover emergencies that may from time to time arise."

In 2021 the amount of reserves that the PCC needs to hold from this statement equates to approximately £150,000. Given the additional (Restricted, Endowment) funds that the PCC holds, this has seemed an excessive amount. At the end of 2021, the actual unrestricted reserves held by the PCC are £93,458 (unaudited figure) i.e. significantly below the level calculated from the reserves Policy. Further it is considered that the single sentence on Reserves Policy in the Annual Report could usefully be amplified in a separate document. This is the purpose of this document.

2. Financial Risks

The key to developing a Reserves policy is an understanding of the financial risks faced by the PCC and what mitigations exist for those risks. The Church of England Parish Resources website (https://www.parishresources.org.uk/pccs/managing-risk/) identifies a series of generic financial risks faced by a parish. These are discussed below:

2.1 Fraud
No organisation is immune from the risk of fraud however the risk is mitigated through our policies, specifically the expenses and purchasing policies, and through our financial control processes, especially the segregation of duties associated with authorising payments. It is not considered necessary to allocate specific reserves to mitigate this risk.

2.2 Budget cost over-runs
Constructing the PCC budget – an agreed forecast of income and expenditure – is not easy and neither is operating within it. There is significant risk that the actual income and expenditure will deviate significantly from the budget. The main mitigation for this is for the PCC to keep money in reserve (specific amounts considered in section 3)

2.3 Taxation
Charities (including PCCs) are not automatically exempt from Corporation Tax. However provided the PCC operates wholly within its charitable aims and objectives there should not be a tax liability on the PCC. It is not considered necessary to allocate specific reserves to mitigate this risk.

2.4 Cashflow sensitivity
Well over half of the PCC's income is derived from regular monthly donations from our congregations, together with Gift Aid tax reclaims derived from this giving. Whilst this income is not guaranteed, and the PCC would never presume on our parishioners' generosity, it does provide an income stream with a good degree of certainty. Additionally income streams from investments provide another £10k per annum, again with high degree of certainty.

Regarding expenditure, nearly three quarters of the PCC's expenditure is on fixed predictable payments. The diocesan share dominates this, followed by staff salaries and contractor payments, and other fixed costs like insurance.

So overall cash flow sensitivity is moderate. The biggest risk to cash flow, within a given year, are unexpectedly large maintenance bills and these are discussed separately. The main mitigation for this is for the PCC to keep money in reserve (specific amounts considered in section 3)

2.5 Large increase in diocesan share required
The diocesan share is usually known in November of the previous year so allowing the PCC to budget for the year. It does comprise around half of the PCC's costs so any increase will always be difficult to accommodate. The main mitigation for this is for the PCC to keep money in reserve (specific amounts considered in section 3). This does not, of course, remove the risk but, crucially, keeping reserves allows the PCC time to accommodate changes such as this.

2.6 Loss of regular income from members
The majority of the PCC's income comes from its regular attenders for which the PCC is very grateful, however this income is not guaranteed. People are generous and historically have responded well to appeals for further donations. If income does drop over an extended period then the PCC either needs to reduce expenditure or re-direct money from other funds. Holding reserves is the main mitigation for this (specific amounts considered in section 3).

2.7 Misuse of restricted or endowment funds
The PCC has a legal obligation to ensure that donations are used for the purpose stated by the donor. This obligation is met through the financial control processes whereby two people are needed to sign off expenditure and sign off the fund from which the expenditure is made. Allocation of expenditure is also checked during the annual accounts process which acts as a further safeguard. It is not considered necessary to allocate specific reserves to mitigate this risk.

2.8 Loss of fees etc.
The COVID-19 pandemic has shown the PCC that many streams of income are not guaranteed, and income from hall hire and wedding fees were hit hard by the pandemic. The annual budget is constructed on the basis of the prevailing conditions at the time but not all future events can be predicted. The main mitigation for this is for the PCC to keep money in reserve (specific amounts considered in section 3)

Finally, two risks not on the Church of England list:

2.9 Unexpected large maintenance bills
The largest unpredictability around cost increases over the budget forecast has historically come from the need arising for urgent and costly maintenance in the year. This is mitigated by setting a limit in the budget on maintenance expenditure and relying on specific funds and/ or appeals to provide the funding for major works.

2.10 Increasing energy costs
Utility bills account for around £10k of expenditure per annum. In 2021 world energy costs have risen sharply and are expected to continue rising into 2022. An estimate of increased costs is included in the annual budget but this could be quite inaccurate. The main mitigation for this is for the PCC to keep money in reserve (specific amounts considered in section 3)

3 Reserves required

In order for the PCC to run smoothly and for the PCC members to discharge their duty of prudence as Trustees of the charity, it is necessary for the PCC to hold adequate reserves to mitigate the risks outlined in section 2. These reserves do not remove those risks but adequate reserves allow the PCC time to take action to cope with any risks that have materialised.

Evaluating what level of reserves to keep is not easy. These reserves need to be in Unrestricted funds, as these are the only funds that the PCC has control over, but the presence of substantial Restricted and Endowment funds can be considered when evaluating the level of reserves. For example, if there is a short term cash flow problem then any liquid Restricted and Endowment funds, over and above General funds, will help ensure that the PCC does not run out of cash to pay for essential Unrestricted funds expenditure until the cash flow problem is alleviated.

Given the presence of significant Restricted and Endowment funds (approximately £90,000 of which are current assets at the end of 2021), **it is considered adequate for the PCC to hold around three months' Unrestricted expenditure as general reserves. This equates to around £75,000.**

As stated in the Introduction at the end of 2021 the PCC holds £93,458 (unaudited figure) in Unrestricted funds.

Should Unrestricted funds fall below this Reserve level of £75,000 then the Treasurer should notify the PCC and the PCC should develop and approve a plan to restore the reserves above this minimum level.

It was agreed at the PCC Meeting on 16th March 2022 to hold around three months' Unrestricted expenditure as general reserves. This equates to around £75,000.

Policy reviewed: 31.01.2023

Date for Next Review: January 2024

PCC of Swanage

Charity Registration Number 1134114

Appendix

Extract from charity Commission's document "Charity Reserves: Building Resilience (CC19)"
(This document can be found on the Charity Commission's website here https://www.gov.uk/government/publications/charities-and-reserves-cc19/charities-and-reserves)

"3. Understanding reserves and the need for a reserves policy

3.1 What are reserves?

Reserves are that part of a charity's unrestricted funds that is freely available to spend on any of the charity's purposes. The starting point for calculating the amount of reserves held is therefore the amount of unrestricted funds held by a charity. However, some or all of the unrestricted funds of a charity may not be readily available for spending. This is because spending those funds may adversely impact on the charity's ability to deliver its aims. The items that should be excluded from reserves are:

- tangible fixed assets used to carry out the charity's activities, such as land and buildings
- programme-related investments those held solely to further the charity's purposes
- designated funds set aside to meet essential future spending, such as funding a project that could not be met from future income
- commitments that have not been provided for as a liability in the accounts

Restricted funds

Restricted funds fall outside the definition of reserves, but the nature and amount of such funds may impact on a charity's reserves policy. Where significant amounts are held as restricted funds the nature of the restriction should be considered, as such funds may reduce the need for reserves in particular areas of the charity's work. These factors and their potential impact on the reserves policy are explained in Annex 2 of this guidance.

Reserves held by subsidiaries

A charity may carry out activities through one or more trading subsidiaries and, in such cases, group or consolidated accounts may be required. Group accounts show the activities and resources of the charity and its subsidiaries. Where group accounts are prepared, the annual report will provide a narrative of the group's activities. In particular, the amount of reserves stated must take account of the net assets of subsidiaries.

3.2 Why is a reserves policy important?

A reserves policy explains to existing and potential funders, donors, beneficiaries and other stakeholders why a charity is holding a particular amount of reserves. A good reserves policy gives confidence to stakeholders that the charity's finances are being properly managed and will also provide an indicator of future funding needs and its overall resilience.

The Charities SORP requires a statement of a charity's reserves policy within its annual report. In addition, if a charity operates without a reserves policy, the regulations require this fact to be stated in the annual report."