

Friends of Dinosaur Isle (FODI)

Policy on Financial Reserves



What is the FODI Reserves Policy?

FODI aims to maintain a general reserve of unrestricted funds sufficient to meet its financial, legal and moral obligations to its beneficiaries and to all relevant authorities.

What are reserves and why does FODI need them?

Section 3.1 of the Charity Commission's guidance document CC19, Charity Reserves, Building Resilience defines "Reserves" as:

Reserves are that part of a charity's unrestricted funds that are freely available to spend on any of the charity's purposes. (This definition excludes restricted income funds and endowment funds.)

Charity law requires that "Restricted Funds" can only be spent in accordance with the wishes of the donor(s). Therefore, restricted funds will be accounted for separately from other funds in order that FODI can demonstrate convincingly that the money has been used strictly in accordance with the terms under which it was given to the charity. Any restricted funds unspent at the end of the financial year will be identified and explained so that they do not get mixed up with the charity's Reserve Fund and can be carried forward to the next year. Currently FODI does not have any restricted income or endowment funds.

The commonly accepted definition of financial reserves is funds held back from day-to-day expenditure. However, as FODI has no day-to-day expenditure commitments all of the money that the charity holds at any point in time are its "Reserves".

Why does FODI need a Reserves Policy?

FODI needs the Policy for four principal reasons:

1. To assist the Trustees in assessing what a sufficient level of reserves should be at any given time. Indeed, this will change over time as the charity grows and the risk profile of its income and expenditure changes. It should be noted that, whilst FODI like all charities should be maintaining sufficient reserves, it also has a duty to not be over-cautious and maintain excessive levels of reserves. Subject to maintaining sufficient reserves (in accordance with the Policy) FODI should apply all of its income and assets in-line with its charitable objectives.
2. To clarify the arrangements for monitoring and reviewing the level of reserves.
3. For compliance purposes, as standard practice requires charities to report on its reserves and reserves policy in the annual Charity Commission report.

4. To assist with fundraising, as many charitable trusts and similar organisations now require details of, or even sight of, the Policy as part of their assessment of any funding application.

How will the Reserves Policy apply in practice?

The Trustees will agree a target level for the general reserve, which will be kept under review and reassessed regularly. The actual level of reserves at any time will then be measured against this target, and appropriate action taken to make up any shortfall / utilise any surplus.

How will the target level of general reserves be assessed?

In assessing the appropriate level for the target general reserve, the Trustees will consider each of the following:

1. **Cash-flow:** Money coming in and money going out does not always occur regularly, or at times which synchronise receipts with payments. Therefore, FODI will allocate a small reserve to cover essential bills such as the public liability insurance and website costs. As a small charity with little outgoings it is unlikely that we will experience any cash-flow issues.
2. **Contingency:** Contingencies are, by their nature, unpredictable in both their likelihood of occurring and their cost, should they occur. The FODI charity activities are such that we are unlikely to need a contingency reserve. However, any need for this type of reserve will be discussed at Trustee meetings under the risk management agenda item and should a risk be identified that requires a contingency reserve then one will be set up whilst the risk remains.
3. **Commitment:** There are two types of commitments, “Must-Do’s” (Charity Commission guidance refers to these commitments as “Designations”) and “Would be Nice to Do’s”. Both types of commitments are the opposite of contingencies in that both are forward looking plans by Trustees, both types of commitments will be considered as falling within FODI’s Reserves Policy and documented in the annual assessment.
4. **Conservation:** funds which the trustees cannot spend immediately without compromising their legal responsibilities to ensure that their charity’s resources are used necessarily, reasonably and incidentally in fulfilment of their charitable objects.
5. **Cost of closure:** should an event or events occur which cause the Trustees to decide to close FODI, how closure of the charity would be funded.

Arrangements for monitoring and reviewing the general reserve, and the Policy

Given that FODI is a dynamic organisation, it is likely that the target general reserve will need to change from time to time. The target reserve, and indeed the Policy itself, will be the subject of an annual review by the FODI Treasurer and the FODI Chair. Any proposed changes will be reported to, and discussed at Trustee meetings.

A formal assessment of the target reserve and of actual reserves will be undertaken between the Chair and the FODI Treasurer on an annual basis, as part of the preparation of the Report of Trustees that is ultimately submitted to The Charities Commission.

The formal assessment of a target reserve for the charity will be presented to, and approved by the Trustees each year at the AGM.

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