

Report Title: Draft Reserves Policy

Report of: Dorota Dominiczak, Director of Finance and Corporate Resources, Alexandra Park and Palace.

1. Purpose

This report explains the requirement to publish and adopt a reserves policy by Alexandra Park and Palace Charitable Trust and proposes a draft reserve policy for adoption.

2. Recommendations

2.1 To approve the draft Reserves Policy attached at Appendix 1.

2.2 To note that a more comprehensive Reserves Policy will be presented to the Board at a later stage.

Report Authorised by: Louise Stewart, Chief Executive Officer, Alexandra Park and Palace

Contact Officer: Natalie Layton, Executive Assistant, Alexandra Park and Palace
Email: Natalie.layton@alexandrapalace.com , Telephone: 020 8365 4335

3. Executive Summary

Charities are required by law to publish and adopt a policy for maintaining reserves (unrestricted available funds) to cover the organisation's running costs for a 6 month period. Alexandra Park and Palace will be in a position of holding a reserve fund for the first time in 2016-17 and the attached draft policy will enable this. A more comprehensive Reserves Policy will be presented to the Board in the future.

4. Reasons for any change in policy or for new policy development (if applicable)

N/A

5. Local Government (Access to Information) Act 1985

N/A

6. Introduction

6.1 Alexandra Park and Palace is a charitable trust which was registered with the Charity Commission in 1981. The function of the Trustees was transferred to the London Borough of Haringey in 1980 and the Trust is subject to local government legislation as well as the requirements of charity law. The Charity Commission expects trustees to decide, publish, implement and monitor their charity's reserves policy so that they can comply with their legal duties to:

- act in the interests of their charity and its beneficiaries;
- protect and safeguard the assets of their charity;
- act with reasonable care and skill;
- ensure their charity is accountable.

6.2 In practice, this means that trustees should develop a reserves policy that:

- fully justifies and clearly explains keeping or not keeping reserves;
- identifies and plans for the maintenance of essential services for beneficiaries;
- reflects the risks of unplanned closure associated with the charity's business model, spending commitments, potential liabilities and financial forecasts;
- helps to address the risks of unplanned closure on their beneficiaries (in particular, vulnerable beneficiaries), staff and volunteers.

6.3 The reserves policy should be published (even if not required to by law) and be tailored to the charity's circumstances – it should not be a standard form of wording. It should explain to funders, beneficiaries, the public and the commission exactly what reserves are kept (or not kept) for and when they are to be used.

6.4 Larger charities are required to:

- publish their assessment of the risks that the charity faces and how to manage them in their annual report;
- make sure that their reserves policy is put in place and operated;
- regularly monitor and review the effectiveness of the policy in the light of the changing funding and financial climate and other risks.

7. What are reserves?

7.1 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, although holding such funds may influence a charity's reserves policy.

- 7.2 Reserves will normally exclude tangible fixed assets such as land, buildings and other assets held for the charity's use. It also excludes amounts designated for essential future spending.
- 7.3 Once a reserves policy is set, it should not be regarded as a static policy. The circumstances of a charity or the environment in which it operates will change with time and trustees should review their policy at least annually as part of a charity's planning processes. The amount held in reserves should also be monitored during the course of the year as part of a charity's budgetary processes.

8. Why is a reserves policy important?

- 8.1 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.
- 8.2 The Charities SORP (Statement of Recommended Practice) 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.
- 8.3 The reserves policy should clearly explain
- where material funds have been designated, the amount and the purpose of the designation;
 - where designated funds are set aside for future expenditure, the likely timing of that expenditure.
- 8.4 Deciding the level of reserves that a charity needs to hold is an important part of financial management and forward financial planning. Failure to do this may result in reserves levels which are either:
- higher than necessary and may tie up money unnecessarily. Holding excessive reserves can unnecessarily limit the amount spent on charitable activities and the potential benefits a charity can provide;
 - too low, increasing the risk to the charity's ability to carry on its activities in future in the event of financial difficulties, and increasing the risks of unplanned and unmanaged closure and insolvency.
- 8.5 These requirements of the Charities SORP are given legal force by the Regulations, which also require a statement in the event of a charity not having a reserves policy.

9. Reserve Policy and Fundraising

- 9.1 It is important when fundraising that trustees maintain the confidence of the public in their charity by being open and transparent about their charity's need for funds. If the charity has excess reserves, the trustees should ensure that they do not misrepresent the urgency or need for funds.
- 9.2 When a charity is applying for a grant or is bidding for a contract, it is important that the funder understands the charity's reserves policy and that the policy explains and justifies the reserves held.

10. Alexandra Park and Palace Current Position

The organisation will not be in a position to provide an actual reserves figure until the closing of the annual accounts in April 2016 therefore this report seeks to adopt the draft Reserves Policy with a review of the policy later in the year to include confirmed figures and more detail.

11. Legal Implications

- 11.1 The Council's Assistant Director of Corporate Governance has been consulted in the preparation of this report.
- 11.2 The statutory and regulatory requirements for the Trust to hold, and publish its policy as to, reserves is set out in the body of this report and other statutory officer comments. The Assistant Director has no further comments."

12. Financial Implications

- 12.1 The Council's Chief Financial Officer has been consulted in the preparation of this report; in addition to the reasons, set out in the body of this report, to develop a reserves policy, it is clearly good practice to do so and the Trust is encouraged to develop a policy that meets its needs as well as the statutory requirements.
- 12.2 The Trust will want to consider, in addition to the requirement to hold sufficient Oreserves to cover running and staff costs for a six month period, sufficient additional earmarked reserves to provide cover against a range of other risks and eventualities such as insurance claims or for example the additional risks of cost overruns given the extensive capital works being undertaken.
- 12.3 The adoption of a reserves policy will subsequently form part of the decision making process for setting and managing the Trusts budget where there may need to be consideration over competing priorities such as whether to incur expenditure or to maintain or enhance the level of reserves held.

13. Use of Appendices

Appendix 1 – Proposed Alexandra Park and Palace Draft Reserves Policy

**DRAFT RESERVES POLICY FOR ALEXANDRA PARK AND PALACE
April 2016**

The funds generated by the organisation are available, at the discretion of the Trustees (appointed representatives of the London Borough of Haringey, the Corporate Trustee), to further the general objectives of the Trust.

Furthermore, the Trustees have the objective of establishing unrestricted reserves sufficient to cover the Park and Palace's running costs and staff costs for a 6 month period in case of a significant decrease in funding or a downturn of the Charity's own fund generating activities, whether directly undertaken by the Trust or by its trading subsidiary.

The Park and Palace's running and staff costs for a 6 month period equates to approximately £ xxxxx.

The Trustees are mindful of the possible impact of the current East Wing Regeneration Project on income generation and the potential need to permit the use of unrestricted reserves to support the Project on a temporary basis. The project will conclude in 2018.

The Trustees will aim to build designated reserves to support any expenditure of a capital nature as necessary for the maintenance of the Palace outside the Regeneration project. The actual reserves at the 2016 year end amounted to £yyyy.

This reserves policy will be reviewed as part of the annual accounts preparation and published in the Park and Palace's annual review.