



Reserves Policy

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1. Background

Reserves

Reserves are the part of Adult Literacy Trust's unrestricted funds that are freely available to spend on any of the charity's purposes.

Guidance published by the Charity Commission for England and Wales in 2016 (available at: <https://www.gov.uk/government/publications/charities-and-reserves-cc19>) sets out key points for charity Trustees when setting or reporting on their charity's reserves policy:

- Charity law requires any income received by a charity to be spent within a reasonable period of receipt. Trustees should be able to justify the holding of income as reserves.
- A reserves policy should take into account the charity's financial circumstances and other relevant factors. It should demonstrate the charity's resilience and capacity to manage unforeseen financial difficulties.
- Trustees should regularly monitor and review the effectiveness of the policy in the light of the changing funding and financial climate and other risks.

Adult Literacy Trust intends for its reserves policy to explain to existing and potential funders, donors and other stakeholders why the charity is holding a particular amount of reserves. This reserves policy should give confidence to stakeholders that the charity's finances are being managed prudently and can also provide an indicator of future funding needs.

Adult Literacy Trust's annual report must contain a summary of this policy, stating the level of reserves and the purpose for which they are held.

2. Objective

The objective of this policy is to set out what Adult Literacy Trust aims to achieve through the maintenance of reserves, the planned level of reserves, and the process of reserves monitoring.

3. Responsibilities

Trustees 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 (generally) by an implied power to hold reserves. Trustees are justified in exercising their power to hold income reserves if, in their considered view, it is necessary in the charity's best interests.

4. Approach to developing reserves policy

Understanding the nature of charitable reserves held

Reserves are the part of the charity's unrestricted income fund that are freely available to spend on any of the charity's purposes. Adult Literacy Trust may hold restricted funds that are to be used in accordance with specific restrictions imposed by donors. Restricted funds are excluded from the calculation of free reserves.

Identifying functional assets

Where the Trustees of Adult Literacy Trust consider functional fixed assets to be essential to the delivery of the charity's aims, the value of such assets can be designated and excluded from the calculation of reserves. Adult Literacy Trust has no fixed assets.

Agreeing a reserves policy

Although Adult Literacy Trust has little diversification of income sources, expenditure levels can be significantly reduced in a 3-month period to fit revised funding levels if needed.

The reserves policy seeks to balance spending the maximum amount of income raised as soon as possible after receipt with maintaining the minimum level of reserves to ensure uninterrupted operation and provide time to adjust to a change in financial circumstances.

A target reserve level of unrestricted funds not committed or invested in tangible fixed assets held by Adult Literacy Trust of between 3 and 6 months of expenditure (excluding costs for which specific, restricted funding has been raised) is assessed as striking an appropriate balance between the need to spend income when it is received and maintaining operational integrity.

The reserves are needed to meet Adult Literacy Trust's working capital needs, and the Board of Trustees are confident that at this level they would be able to continue Adult Literacy Trust's current activities in the event of a significant drop in funding, such as due to adverse economic conditions, or to allow for an orderly reduction in activity or cessation of operations should this prove necessary.

This level of reserves is consistent with Adult Literacy Trust's business model and the financial impact of key risks. It is important to retain some flexibility in the range from median due to variations in actual resources versus budget and the potential for uneven cashflow to impact working capital.

5. Form of reserves

Adult Literacy Trust holds its reserves in cash and does not hold investment assets.

6. Reserves monitoring

Reserves are reviewed at least annually by the Board of Trustees, or more frequently if business plans change significantly. Business plans are set with the intent to maintain reserves around the target range. Given operational issues and changes in economic circumstances, it is possible for reserves to fall outside the target range. However, the Board will seek to calibrate business activities across the medium term so that reserves remain within the target range.

Although the reserves are held in cash, if reserves move outside the target range, i.e. below 4 month's costs (resource constrained) or above 6 months' costs (opportunity constrained) then the Chair, Executive Director and Treasurer (when appointed) will prepare a recovery plan for consideration by the Trustees.