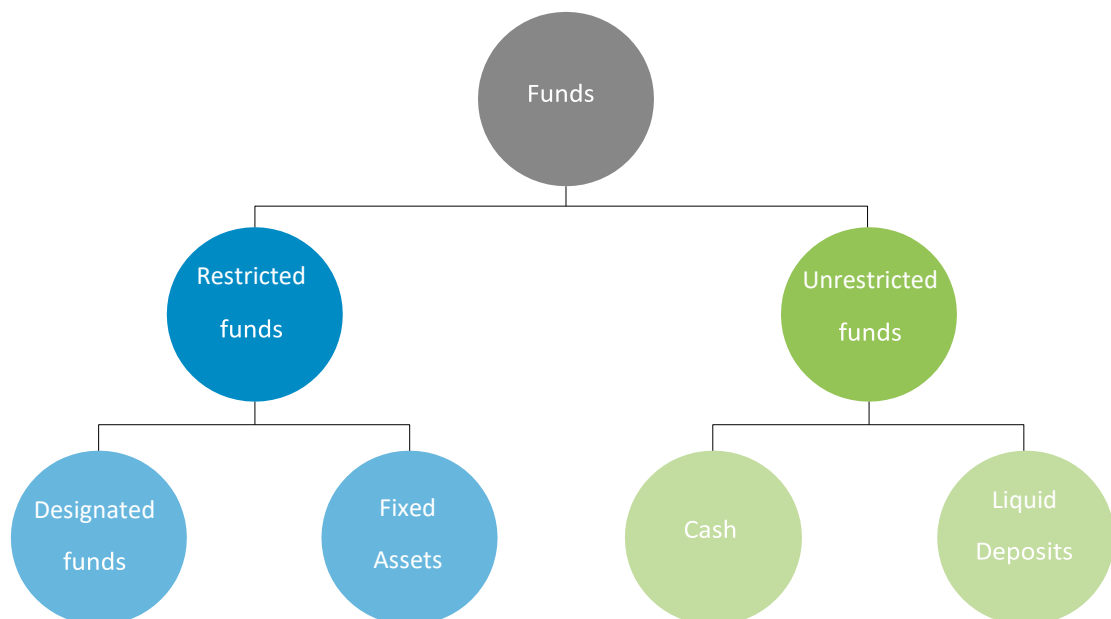


Financial Reserves Policy

1. Introduction: Definition of Reserves

The Charity Commission defines reserves as two categories:

- **Unrestricted funds.** These funds are freely available to be spent on any of the charity's purposes and to manage any reasonable / foreseeable contingency. This includes cash at the bank, deposits and other investments which can reasonably and easily be realised.
- **Restricted funds.** These are funds which can only be used for specific purposes. For example:
 - If a funder makes a grant for a particular project, the funding may only be spent on that project.
 - Designated Funds allocated by the Board of Trustees for specific purposes or activities.
 - Designated funds which have been set aside for an essential spend or future purpose, such as funding a project that might not be met from future income.
 - Fixed assets such as land and buildings, as these are not readily available to contribute towards working capital requirements.



2. Why do we have a financial reserves policy?

Trustees have a duty to balance the needs of Lee Hub's current and future financial commitments. Lee Hub needs to have sufficient reserves to allow it to cover known liabilities and contingencies, absorb setbacks and take advantage of change and opportunity.

There is no single level, or even a range of, reserves that is right for all charities. However, the amount set by the Lee Hub trustees for the level of reserves reflects Lee Hub's particular circumstances.

- If reserves are too low, it could put Lee Hub's future at risk and, if too high, funders may be unwilling to support with grants or donations.
- Careful management of reserves avoids the risk to Lee Hub's reputation from holding substantial unspent funds at the year-end without explanation.
- A financial reserves policy helps inform the way in which Lee Hub budgets and manages its cash, liquid assets and any debts.
- It gives assurances to lenders and creditors that Lee Hub can meet its financial commitments.
- It assists the trustees when planning and explaining Lee Hub's financial approach to stakeholders and potential funders / grant-makers.
- It contributes significantly to the trustees ability to balance the needs of current and future beneficiaries.
- It provides stakeholders and potential funders with assurances that Lee Hub is well managed and that we have, where appropriate, a strategy for managing unforeseen financial difficulties and building up future reserves demonstrating financial resilience.
- Without a reserves policy, the Board of Trustees cannot be confident that the reserves level matches Lee Hub's future needs.

3. What does the financial reserves policy cover?

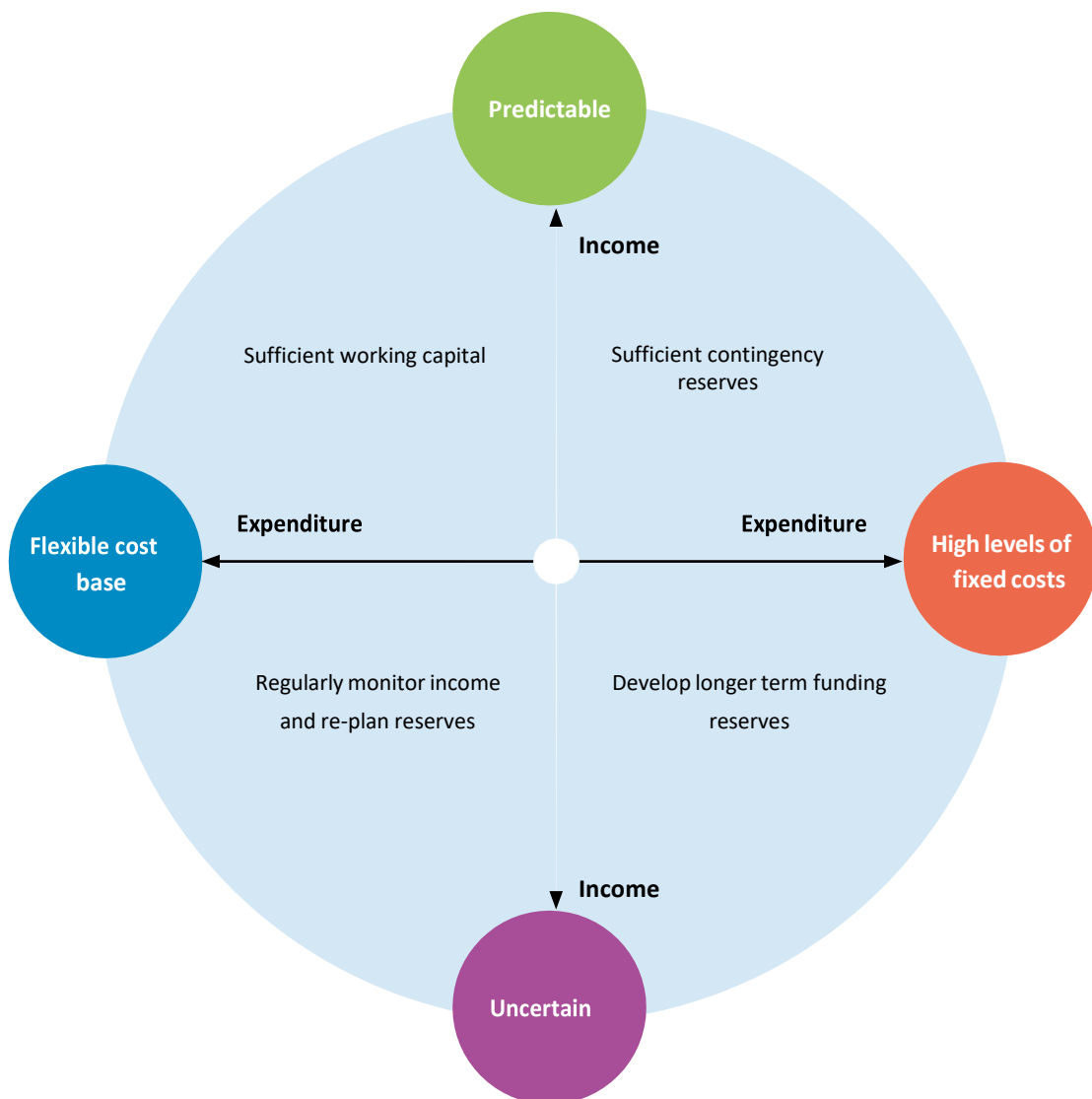
There is no single method or approach to setting what a financial reserves policy should cover. The approach will vary with the size, complexity of activities and nature of funds received and held by a charity. Having considered the reliability of income and the extent to which expenditure is committed, as well as the major risks to which Lee Hub might be exposed, the trustees have a significant amount of information on which to base the Financial Reserves Policy.

Careful judgement is required by the board of trustees to consider the following:

- The amount Lee Hub should hold as working capital. A cashflow forecast is required to establish the level of funds needed to cover the natural pattern of activity. Ensuring Lee Hub can continue to provide stable and quality service to Lee Hub Library members and the local community, fulfilling Lee Hub's objects.
- How much is needed for contingency. For Example:

- The Library's building infrastructure requires ongoing maintenance and repair. Lee Hub is responsible for 55% of the upkeep of the building, the remainder falling to the two tenants in the flats above.
- The fuel crisis means Lee Hub will need to make provision for rising costs in the future. However, a fixed 5 year contract is in place until 2026.
- Replace assets / equipment due to depreciation or damage.
- Adhering to any funding restrictions / terms. Funders and grant givers may impose specific requirements and such funds must be held in restricted reserves until it is spent in line with the funding agreement.
- Meet any contractual liabilities, outstanding expenses and funds owed to creditors, should Lee Hub be dissolved by resolution of it's members.

The interaction between the reliability of income and the extent to which expenditure is committed determines the level and type of financial reserves required.



4. Managing income and expenditure

Lee Hub was funded in 2021 by an initial setup grant from Hampshire County Council and has since been awarded further grants. Lee Hub is also in receipt of income from private donations, Lee Hub Library membership, fundraising events, raffles, lettings and sale of books, jigsaws, craft materials and refreshments.

Lee Hub plans its ongoing fund-raising requirements in advance having a twelve-month view of cash flow as it can take time to secure a new funder / grant giver and receive the agreed funds. In recent years, small grants (restricted funds) have funded activities such as; the Over 60s Lunch and Veteran's Group until these groups, through regular donations, become self-funding. In addition, fixed grants such as the Cultural Heritage grant, and funds to purchase a defibrillator are set aside for specific purposes.

Example of Restricted Funds (Grants) 2022/23	
Gosport Borough Council (GBC)	£2,667
Over 60s Lunch: Hampshire County Council - £1,000 Earl of Southampton - £2,000	£3,000
Veterans Group	£1,200
GBC - Defibrillator	£1,000
Warm Hub	£3,000

5. A Prudent level of reserves

Lee Hub might experience unplanned financial expenditure during the year that is not budgeted, which would typically be funded from reserves. For example:

Essential costly building repairs and maintenance, designated reserves have been set aside at a higher level of £10,000, together with a reserve of £5,000 in anticipation of a rise in future energy costs. However, the Lee Hub trustees will actively seek and apply for specific grants to support larger capital expenditure.

Reserve funds are held in a separate savings account.

Designated Funds (Potential future expenditure)	
Building / Maintenance Repairs	£10,000
Energy cost rises	£5,000

Furthermore, based on annual expenditure, the trustees of Lee Hub consider an ongoing prudent level of designated reserves to fund unexpected costs such as the replacement of equipment and or unexpected repairs to internal decoration, to be in the region of 10% of the yearly forecast expenditure, approximately £2,500 per annum.

Income	2021	2022	2023
Income (including grants)	£49,396*	£37,422	£40,681
Income (excluding grants)		£31,965	£29,814
Expenditure	£25,153	£23,875	£21,632

*Includes setup grants before 2021

Should an extraordinary event arise, such as a public health crisis or Lee Hub is dissolved by resolution of its members, it is understood that any associated costs would be met from unrestricted funds.

Lee Hub has also made provision for additional designated funds. These funds have been set aside for a specific purpose / groups which are largely self-funding. Regular donations are earmarked to meet ongoing costs and / or set aside to reinvest in future activities / events of a similar nature.

Examples of Designated Funds	
Donations: Over 60s Lunch	£2500
Donations: Veterans Group	£570
Donations / Profits: Guest author / Writers events	£400

6. Maintaining a prudent level of reserves

In the event reserve funds dip 10% below yearly forecast expenditure Lee Hub will aim to restore reserves by at least 4% of expenditure per year over the following five years. This could be achieved by increased fund raising, earned income and / or reducing expenditure.

Furthermore, should unrestricted reserves exceed 20% of annual turnover, Lee Hub will review the likely expenditure over the next two years with a view to reducing unrestricted reserves to less than 20% of turnover by the end of two years. This could be achieved by reducing membership fees, reducing prices, or increasing “free” activities.

The Trustees, throughout the year, will consider current costs and expenditure, together with any economic factors to examine and determine the level of reserves when setting the following year’s budget.

The reserves policy will be reviewed every year.

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