RESERVES POLICY

Introduction
As a business with diverse income streams including significant levels of grant aid, Active Surrey needs to secure its viability beyond the immediate future. To be able to provide reliable services to its communities and stakeholders over the longer term, the organisation must be able to absorb any setbacks and take advantage of opportunities that may be presented. In order to do this, Active Surrey needs a certain level of financial reserves.

To demonstrate best practice and comply with Sport England funding conditions, the Board agreed the need for a formal Reserves Policy to be set in August 2013. This document is an updated version, reviewed in April 2018.

Definition of Reserves
For the purposes of setting a policy, financial reserves are defined as cash plus assets that are easily converted into cash; these will be further defined as Restricted Reserves (operational), Restricted Reserves (non-operational) and Unrestricted Reserves.

- **Restricted Reserves (operational)** are reserves that are conditionally ring fenced for specific projects or other operational expenditure. These are usually unspent elements of grant funding that “roll-over” into, or are committed to, future financial years.
- **Restricted Reserves (non-operational)** are ring fenced for specific purposes e.g. pension and redundancy liabilities. This Policy is primarily concerned with setting a level for this type of reserves.
- **Unrestricted Reserves** are unallocated resources that Active Surrey has or can make available to spend for any or all of its purposes once it has met its commitments. The Board has the ability to designate the funding or retain on the balance sheet.

Why hold Restricted Reserves (non-operational)?
Like any business we are committed to certain expenditure throughout the year through the agreement to deliver services, the employment of staff, rental of equipment or publishing. It is important that the organisation has reserves to meet these commitments for the foreseeable future, and to meet any liabilities that may arise in the event of a winding up of the business. Even when an organisation operates in the most stable of environments, where future income streams and expenditure requirements can be identified, there will remain an element of uncertainty such as the timing of receipts and the possibility that unforeseen expenditure may arise. Against this background it is considered to be good practice to build some reserves which will allow Active Surrey to meet its commitments and unforeseen expenditure without a negative impact on its ability to deliver services to its communities and stakeholders, and take advantage of any opportunity that may arise.

Reserve Level
There is no absolute level of Restricted Reserves (non-operational) that any business should hold, but when looking at the level of reserves, consideration has been given to the following:

- How secure are the present income streams;
- How reliable and important is cash flow;
- What reserves may be required to meet unforeseen liabilities or significant items of expenditure to maintain our assets and continue to trade in the short term;
- If Active Surrey had to close, how long would it take;
- What costs would be involved in winding up the business.

The Active Surrey Board consider an acceptable level of Restricted Reserves (non-operational) to be a minimum of 3 months of staffing expenditure (to ensure adequate notice periods can be financed should funding suddenly cease unexpectedly), plus known redundancy liabilities.

This policy was agreed at the Active Surrey Board meeting on 10 April 2018.