

# GUERNSEY CHAMBER OF COMMERCE LBG (the "Chamber")

## Draft Financial Reserves Policy

### 1. Purpose

1.1 The purpose of the Financial Reserves Policy is to:

- 1.1.1 ensure the financial probity and transparent governance of the Chamber;
- 1.1.2 ensure the stability of the ongoing operations of the Chamber; and,
- 1.1.3 provide a source of internal funds for organisational priorities identified by the Chamber, such as asset or building repairs or maintenance, service innovation, and/or capacity building.

1.2 There is a difference between the annual budget and this Financial Reserves Policy. When setting the annual budget and in monitoring periodic income and expenditure, the Board considers the shorter term cashflow and funding needs of the Chamber.

1.3 In contrast the Financial Reserves Policy takes a longer term view of the financial resources available. This allows the Board to balance the need for sufficient reserves to be held (so as to enable the Chamber to navigate volatility in the flow of income and expenses) against the ability of the Chamber to deliver membership services.

### 2. Background

2.1 The Chamber is a not-for-profit organisation. In the absence of local regulatory or legislative definitions regarding a charity/NFP, the Board has taken guidance from the UK Charities Commission which states that:

*"Reserves are that part of a charity's unrestricted funds that is 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. Reserves will also 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".*

2.2 Accordingly, the reserves of the Chamber are represented by the net assets shown on its balance sheet, excluding fixed assets and any amounts representing restricted funds that have been designated for specific purposes.

### 3 Definitions

### 3.1 *Operating Reserve*

The Operating Reserve is intended to provide an internal source of funds for situations such as a sudden increase in expenses or inability to operate, one-time unbudgeted expenses, unanticipated loss in funding, or uninsured income or sponsorship. The Operating Reserve is not intended to replace a permanent loss of funds or eliminate an ongoing budget gap. The Operating Reserves is a designated fund set aside by the Board and should be used and replenished within a reasonably short period of time. When the decision to withdraw funds is taken the decision should also specify the time period within which the funds are to be replenished.

### 3.2 *Building and Capital Asset Reserve*

The Building and Capital Asset Reserve is intended to provide a ready source of funds for repair or acquisition of buildings, leaseholds, furniture, fixtures, and equipment necessary for the effective operation of the organisation and services.

### 3.3 *Opportunity Reserve*

The Opportunity Reserve is intended to provide funds to meet special targets of opportunity or need that further the mission of the organisation which may or may not have specific expectation of incremental or long-term increased income. The Opportunity Reserve is also intended as a source of internal funds for organisational capacity building such as staff development, research and development, or investment in infrastructure that will build long-term capacity.

### 3.4 *Restricted Funds*

Restricted funds are amounts which have been received by the Chamber to provide specific services or which have which have been designated for specific purposes.

## 4 **Target reserve levels**

### 4.1 The minimum amount of the each reserve fund target will be calculated each year after approval of the annual budget by the Board.

### 4.2 *Operating Reserve*

The (target) minimum amount to be designated as the Operating Reserve will be based on the costs of running the services during a period of interruption of income or funding plus an assessment of the liabilities that would be incurred should the organisation cease to trade. The Operating Reserve will be reviewed and adjusted in response to both internal and external changes.

### 4.3 Based on the budgets for 2021 the minimum Operating Reserve is calculated at: £[INSERT AMOUNT].

### 4.4 *Building and Capital Asset Reserve*

The target amount of the Building and Capital Asset Reserve is set at £[INSERT AMOUNT] in 2021.

### 4.5 *Opportunity Reserve*

The target amount of the Opportunity Reserve will be determined by the Board once the Operating Reserves and Building and Capital Asset Reserve targets have been met and should take account of identified needs for capability or service enhancements. No amount has been set aside for the Opportunity Reserve in 2021.

## **5 Funding of reserves**

- 5.1 The Operating Reserve will be funded with unspent and unrestricted operating funds. The Board may direct that a specific source of revenue shall be set aside for the Operating Reserve. Examples could include one-off gifts or bequests, special grants or special fundraising appeals. Where such gifts, grants or funding appeals are for a specific purpose, the Operating Reserve will be appropriately ring-fenced for such purpose.
- 5.2 The Opportunity Reserve will be funded with occasional special designations made by the Board.

## **6 Use of reserves**

- 6.1 Use of the Reserves requires three steps:
- 6.2 *Identification of appropriate use of reserve funds.*

The President/Executive Director will identify the need for access to reserve funds and confirm that the use is consistent with the purpose of the reserves as described in this Policy. This step requires analysis of the reason for the shortfall, the availability of any other sources of funds before using reserves, and evaluation of the time period over which the funds will be needed and replenished.
- 6.3 *Authority to use reserves.*

The President/Executive Director will submit a request to use Reserves to the Board. The request will include the analysis and determination of the use of funds and plans for replenishment. Chamber's goal is to replenish the funds used within twelve months to restore the Reserve Fund to the target minimum amount. The Board will consider the request and decide accordingly.
- 6.4 *Reporting and monitoring.*

The President/Executive Director is responsible for ensuring that the Reserve Funds are maintained and used only as described in this Policy. Upon approval for the use of Reserve Funds, the President/Executive Director will maintain records of the use of funds and plan for replenishment, if required.