

AVP Stoke Financial Reserves Policy and Procedure

1. Policy Statement

AVP Stoke is committed to ensuring its financial stability and sustainability, allowing it to continue providing services to its beneficiaries in the long term. This policy outlines how AVP Stoke manages its financial reserves to ensure that sufficient funds are available to cover unforeseen events, ensure operational continuity, and meet any short-term cash flow needs.

2. Purpose of the Policy

The purpose of this policy is to:

- Establish the amount of reserves AVP Stoke should maintain.
 - Provide guidance on how reserves will be managed and used.
 - Ensure that AVP Stoke can continue to operate effectively in times of financial difficulty or uncertainty.
 - Enable trustees and stakeholders to understand and monitor the charity's reserves.
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3. Scope of the Policy

This policy applies to:

- Trustees of AVP Stoke
- Finance staff and relevant personnel involved in financial planning and reporting

The policy covers:

- The **level of reserves** required.
- How reserves will be **managed** and **allocated**.
- **Use of reserves** in times of financial stress.

4. Definition of Reserves

Reserves refer to funds that are not required for immediate operational needs and are set aside for:

- **Contingency:** Unforeseen financial difficulties or emergencies.
- **Strategic Planning:** Funds required for future development or investment in services.

AVP Stoke's reserves will consist of:

- **General Reserves:** Unrestricted funds available for general use.
- **Designated Reserves:** Funds set aside for specific purposes, such as future projects or capital expenditure.
- **Restricted Reserves:** Funds that must be used for a specific purpose as per donor restrictions (not typically included in the reserves policy, unless they are unspent funds).

5. Reserves Level

AVP Stoke will maintain a minimum level of **reserves equivalent to 3 to 6 months of operating costs**. This amount will provide sufficient buffer to cover the following:

- Temporary disruption in funding or cash flow.
- Emergencies or unexpected operational costs.
- Unexpected short-term financial challenges.

Operating costs will be calculated as total annual expenditure, excluding restricted funds, capital items, or non-recurring grants.

The trustees will review the reserve level annually as part of the budgeting process and may adjust the level based on:

- Changes in income or expenditure.
- Risk assessment outcomes.
- Strategic plans or future uncertainties.

6. Managing and Allocating Reserves

The management of reserves will be as follows:

- **Investment of Reserves:** Reserves will be held in interest-bearing accounts or low-risk investments to ensure their growth while maintaining liquidity. Trustees will review the investment strategy annually to ensure it aligns with the charity's needs and risk profile.
- **Segregation of Reserves:** Reserves will be classified into general and designated reserves in the charity's accounts. Designated reserves will be allocated for specific, approved purposes only, while general reserves will be kept for general contingency use.

7. Use of Reserves

Reserves may only be used for the following purposes:

- To cover unexpected operational costs due to unforeseen financial circumstances (e.g., sudden loss of funding or an emergency).
- To fund specific planned projects if the designated reserves are insufficient.
- To cover temporary cash flow shortfalls if income is delayed.

Use of reserves must be approved by the Board of Trustees. In the event of using reserves, a detailed report will be prepared and presented at the next trustee meeting, explaining the reasons for the drawdown, the amount used, and the expected timeline for replenishing the reserves.

8. Reporting and Monitoring of Reserves

AVP Stoke will include a summary of reserves in the following financial reports:

- **Quarterly financial reports** to the Board of Trustees.

- **Annual accounts**, including an explanation of reserves held and the policy's application.

Trustees will review the reserves position **at least twice a year** (during the mid-year financial review and the annual budgeting process).

The reserves will be clearly identified in the charity's financial statements as part of the **balance sheet** under "funds held".

9. Review and Update of the Policy

This policy will be reviewed annually by the Board of Trustees to ensure it remains relevant and effective. Any changes to the level of reserves, management strategies, or investment approaches will be documented and approved by the Board.

The policy will be updated if:

- Changes to the charity's financial situation or operational needs arise.
- New risks or opportunities for growth are identified.
- There are changes in external regulations or best practices relating to charity finances.

Last reviewed: 1st January 2025

10. Governance and Compliance

The Board of Trustees is ultimately responsible for ensuring that AVP Stoke adheres to this policy. Trustees will ensure that the charity complies with the **Charity Commission's guidance** on reserves and financial management. The charity will also ensure that reserves are maintained in accordance with **UK charity law** and any other relevant financial regulations.