



## Leap Buckinghamshire & Milton Keynes Sport and Activity Partnership

### RESERVES POLICY

#### Introduction

As an organisation primarily dependent upon grant aid, the Buckinghamshire & Milton Keynes Sport and Activity Partnership (Leap) needs to secure its viability beyond the immediate future. To be resilient and 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, Leap needs a certain level of financial reserves.

Leap has held a level of reserves over two decades, and has maintained a position of generating surpluses in every year since its formation. In 2012 the Board updated the reserves policy and set out how any further un-restricted funds might be allocated.

#### Definition of Reserves

For the purposes of setting a reserves policy, financial reserves will be defined as cash plus assets that are easily converted into cash, less any liabilities. These reserves are the resources that Leap has or can make available to spend for any or all of its purposes once it has met its commitments. Any commitments must include the unspent element of any grant funding. For Leap, the designated reserves, these are funds that are ring-fenced to cover the costs of staff redundancy, the free reserves are funds to cover 3 months operation at full cost should Leap be required to dissolve and cease its activities, un-restricted reserves hold the remaining unallocated reserves.

#### Why hold Reserves?

Like any business we are committed to certain expenditure throughout the year through the agreement to deliver services, the employment of staff, rent 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. 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. Mitigation against winding up is the responsibility of the Leap Board and is considered at every Board meeting through the presentation of Leap's Risk Management Plan and Financial Report. Against this background it is considered to be good practice to build some reserves which will allow Leap 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 reserves 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 Leap had to close, how long would it take;
- What costs would be involved in winding up;

An acceptable level of free reserves we would consider to be a minimum of 3 months of core operating expenditure (i.e. excluding specific short term project grants), excluding known redundancy liabilities.

## Reserves Policy

### 1. Reliability of income

Leap as a not for profit organisation is very reliant on grants, in particular 'core funding' from Sport England and partnership funding from the two Local Authority, to meet its core staffing costs, with additional income streams (e.g. other grants) being for specific additional activities, although in some cases there may be scope for those activities to contribute to core overheads i.e. through 'full cost recovery'.

The Sport England Core funding grant is currently confirmed for the coming year with a commitment at the same level to March 2022, with a further 4 year agreement to be in place by December 2021. Without Sport England funding Leap, could not meet its core overhead costs at current levels. However, the likelihood of this occurring is low.

Whilst processes are in place to ensure timely payment of grants from Sport England to Leap, track record suggests delays can materialise. Whilst the 'hosting arrangement' with Buckinghamshire Council means that cash flow does not currently present an issue, possible future incorporation and best practice suggests the need to hold sufficient reserves to manage cash flows accordingly.

Given the current public sector financial climate, whilst current reductions are small, it is possible we will face a more significant reduction in income from Local Authority partners in the future.

In recent years, surpluses generated have also been used to meet core costs in the following year and allow consideration for expansion.

Leap wishes to increase over time the extent to which its reliable and sustainable income sources cover its core overhead costs, and otherwise broaden its sources of income, such that it becomes less reliant on the grant from Sport England.

In order to develop activities that generate other primary sources of income, investment may be needed to initiate or develop them, which might require the use of reserves or surpluses.

### 2. Maintenance of Assets

Leap does not currently have any significant assets (e.g. buildings) so doesn't need to provide for maintenance and upkeep of a general or unexpected nature.

### 3. Unforeseen liabilities

These by their very nature are always difficult to predict. In determining what unforeseen liabilities may arise, the Board will refer to its risk register and assess the likelihood of any financial impact on the organisation.

### 4. Costs involved on a winding up

Such costs will, amongst other items, include redundancy costs, legal and accountancy costs and costs incurred in respect of the early termination on leases and other contractual agreements.

Specifically, Leap holds a potential redundancy liability of £154,470 as at April 2021. It may be possible to curtail programmes early to fund these, it would be appropriate to budget provision for these costs. Furthermore, part of this redundancy liability would be incurred if income was reduced such that it could no longer afford specific roles, which could be ahead of the point of winding up, and is a much more likely scenario.

Given the above, it would seem that a reserves policy that aims for free reserves to be **a minimum of 3 months of expenditure on core activity (i.e. excluding specific short term project grants), in addition to funds held to cover known redundancy liabilities**, would be appropriate. This is based on the fact that part of Leap income is fairly reliable, but other elements are at greater risk, and that the reserves level is needed to help manage cash flows, meet the potential redundancy costs, and other legal, accountancy and other winding up costs.

A target therefore for free reserves would be a minimum of £138,339 based on current projected levels of core expenditure at around £554,000, in addition to designated reserves of £154,470 held in respect of current potential redundancy liability. Total £292,809 minimum reserves.

In setting a target for reserves, it will also be necessary to review the cyclical nature of the Leap's cash flows and future planned expenditure on core activity, as well as changes to redundancy liability. It is also important that good control remains in place with regard to debtors, stock and creditors, to ensure that actual cash exists to meet operational costs as they fall due, and particularly that action is taken to ensure prompt receipt of grants.

### **Action & Recommendations**

To update the formal reserves policy, based on the potential redundancy liabilities or other unforeseen costs/opportunities.

Leap will continue to develop strategies to reduce costs, diversify funding and make surpluses in the coming years in order to maintain the reserves level whilst also ensuring we can maintain current expenditure levels beyond 2021 (also being mindful that core income and expenditure could grow over that time).

### **Board Role and Involvement**

The quantum of the Designated reserves for redundancy and the minimum level of free reserves will be rebased each year based on this policy and costs set out in the annual budgets

The minimum level of Designated reserves held for redundancy should not be breached without specific advance board approval.

The minimum level of free reserves may be breached operationally but should be reported to the Board as soon as practically possible together with recommendations on how this is rectified. Access to the Free Reserves is with approval of the Chair of the Finance Committee.

The Board should review the above policy every 2 years or if there is a significant change to the method of operation or funding of Leap.

