



CATHEDRAL RESERVES

GUIDANCE NOTE

to the

Accounting and Reporting

Regulations

for English Anglican Cathedrals

CAFA Guidance Note 1

issued by CAFA

June 2016

Cathedral Reserves

What are reserves?

1. Reserves are that part of a cathedral's unrestricted funds that are freely available to spend on the cathedral's purposes (free funds). Reserves tend to be resources that may be needed in the short to medium term so should be held either as cash or investments that can be readily realised as cash. Restricted funds fall outside the definition of reserves but the nature and amount of such funds may impact on a cathedral's reserves policy. Where significant amounts are held as restricted funds the nature of the restriction should be considered, as such funds may reduce the need for reserves in particular areas of the cathedral's work.

Why does a cathedral need reserves?

2. Chapter members are expected to act prudently in conducting the affairs of the cathedral, just as they would in their own business or household. Reserves provide a comfort factor to the cathedral and ensure that day to day activities can continue. There are a number of reasons why cathedrals may hold reserves including:
 - a. To fund working capital- to meet any shortfall between the anticipated income and budgeted outgoings; and
 - b. To provide a financial cushion in the event of fluctuations in income or unplanned costs.

Why is a reserves policy important?

3. A reserves policy is part of the overall governance process: it explains to existing and potential funders, donors, beneficiaries and other stakeholders why a cathedral is holding a particular amount of reserves. A good reserves policy gives confidence to stakeholders that the cathedral's finances are being properly managed and will also provide an indicator of future funding needs and its overall resilience. Failure to develop a reserves policy may result in reserve levels that are higher than necessary or too low which would increase the risk to the cathedral's ability to carry out its activities in the future.
4. The Accounting and Reporting Regulations for Cathedrals requires a statement of a cathedral's reserves policy within its annual report.

How should a reserves policy be developed?

5. There is no single method or approach to setting a reserves policy. The approach adopted will vary with the size of the cathedral, complexity of activities and the nature of funds received and held by a cathedral. However, the setting of a reserves policy will involve:
 - a. Consideration of the nature of funds received and held by the cathedral - are the funds unrestricted or restricted income? Is an endowment an expendable endowment or permanent endowment? How reliable are the budgeted income streams and what is the timing of the income? What is the future committed expenditure and does it match forecast income streams?
 - b. Cathedrals need to think about uncertainties they may face in the future; they should therefore consider the need to hold reserves to meet an unexpected call on funds or opportunities that may present themselves.
6. All cathedrals need to think about their future budgets and future projects or spending plans that cannot be met from the income of a single year.
7. Once a reserves policy is set, it should not be regarded as a static policy.

What level of reserves is required?

8. There is no single level, or even a range of, reserves that is right for all cathedrals. Any target set by the Chapter for the level of reserves to be held should reflect the particular circumstances of the cathedral. To do this, Chapters need to know why the cathedral should hold reserves and, having identified those needs, the Chapter should consider how much should be held to meet them. A risk management exercise to identify key risks will allow the Chapter to identify reasonable reserve levels. This must be subject to regular review.

What steps should Chapters take to maintain and monitor reserves at the target level?

9. Reserves are held to help the cathedral operate effectively; Chapters should also monitor the level of reserves held throughout the year. In this way Chapters will be aware of the build-up of excess reserves or of reserves being unexpectedly or rapidly depleted.

Explaining reserves in the annual report

10. The Accounting and Reporting Regulations require Chapters to include in their annual report:

- a. A statement of the cathedral's policies in relation to its reserves held in its unrestricted funds and their purposes (i.e. how they came into existence and what they are now for);
- b. A comparison of the level of reserves compared to the policy and an explanation of the steps being taken to bring the reserves into line;
- c. Where funds are in deficit an explanation as to why they are in deficit and the steps being taken to eliminate the deficit;
- d. If relevant, an explanation of the financial effects of significant events; and
- e. An explanation of any material designated funds and when it is expected they will be spent.

A simple approach to developing a reserves policy

Why might you need reserves for the cathedral to be effective?

11. These reasons might include:

- a. The risk of an unforeseen emergency or other unexpected need for funds, e.g. an unexpected large repair bill or finding 'seed-funding' for an urgent project.
- b. Covering unforeseen day-to-day operational costs, e.g. employing temporary staff to cover long-term sickness absence.
- c. A source of income, e.g. a grant, not being renewed. Funds might be needed to give Chapters time to take action if income falls below expectations.
- d. Planned commitments, or designations, that cannot be met by future income alone, e.g. plans for a major asset purchase.
- e. The need to fund short-term deficits in a cash budget, e.g. money may need to be spent before a funding grant is received.

12. If, after considering the above, you think that reserves are needed please see below. If you conclude that your cathedral does not need to hold any reserves then you must explain that in your annual report.

How much do you need in reserve?

13. The reserves level may be a target amount or a target range. For example, for each reason set out above:

- a. An amount might be needed to meet an unforeseen emergency or other unexpected need - consider risks and how much might be needed for such contingencies; this will involve judgement of events that may occur and their likelihood.
- b. Look at your expenditure budget - do you need a small contingency to meet unforeseen operational costs?
- c. Uncertainty over future income might mean having reserves equivalent to a number of weeks of income equivalent to a range of £x to £y, to allow time to develop new sources of income or to cut-back on related expenditure.
- d. A planned spending commitment which cannot be met from future income would imply a need for a specific sum to be set aside - often this amount will be included within designations in accounts.
- e. An amount might be needed to cover 'troughs' in the cash budget - review budgets to ascertain how much might be needed.

14. In summary, the financial risks you identify should influence the amount of reserves you target to hold and be explained in your reserves policy.

Have you got any funds in reserve at the end of the year?

15. The final step is to compare what you might need in reserve with what you actually hold. You should:

- a. Calculate the amount of reserves held;
- b. State the amount of reserves held and compare with the target amount or target range set for reserves;
- c. Explain any shortfall or excess in reserves against target set; and
- d. Explain any action being taken or planned to bring reserves into line with your target.

References:

Charity reserves: building resilience (updated January 2016) Charity Commission
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/508800/CC19.pdf

Reserves policies made simple - Sayer Vincent
<http://www.sayervincent.co.uk/wp-content/uploads/2015/07/ReservesPoliciesMadeSimple-SayerVincent-July2015.pdf>