

HEA Financial Reserves Policy

This financial Reserves policy has been developed and approved by trustees at the 14th June 2024 trustees meeting.

RATIONALE

Relevant Trustee Objectives:

- The trustees have a duty to balance the ongoing needs of the Association along with its future needs and commitments.
- The Association needs to ensure that it has the Reserves sufficient to permit it to cover known liabilities, manage contingencies, absorb any setbacks and take advantage of any non-planned opportunities.

The purpose of keeping financial Reserves is threefold:

1. To fund shortfalls in income for a predetermined period agreed by the Trustees.
2. To cover unexpected expenditure and unplanned events.
3. A key element of the Associations' strategic plan which inputs and drives budgeting and decision making.

PROCESS

Process used for determining levels of Reserves:

- I. The trustees have assessed all income types according to their levels of fixed costs, which are potentially a higher risk, which can then be balanced against the extent to which the expenditure is committed to the day-to-day operating costs of the Association (as a bi-product, this will drive fundraising targets).

Assessment of income sources:

- Grants – categorised as restricted funds/may be multi-year commitments.
- Patrons – stable but need more (ongoing plan in place to address this).
- Courses – stable and could potentially expand on-line offering.
- Membership – stable.
- Donations – variable.

- II. The trustees have created a stress test of their assumptions based on the reliability of creating income across each income stream based on historical data. They have then assessed the reliability of future income and the risks to that income ceasing or dramatically reducing.
- III. The trustees have determined the level of working capital required by creating the formula in Appendices A, B & C.

- IV. Define the major income streams and rank in order of the percentage of total historical income. The more secure the income stream category, the less need for Reserves to continue the work of the Association.
- V. Assessment of the likelihood of the income streams continuing.

Review of Expenditure Patterns

- The major expenditure for the Association is the monthly admin costs which can be reduced on 30 day's notice.
- Decision to continue to support these costs as the Director and the Admin Manager are seen as vital to the day to day working of the Association as well as their ongoing contribution to projects, setting up courses, applying for grants and apprenticeship funding which generate most of the Associations' income.

POLICY RESULT

- The trustees understand the reason why we need Reserves.
- The trustees have agreed the policy and rationale.
- The trustees have taken steps to establish a formula.
- The trustees have decided where and how the Reserves will be held:
 - It has been agreed at the Trustees Meeting/AGM on 14th June 2024 to hold the Reserves not only in a separate account to the day-to-day operating account but an account at an alternative institution. This decision provides resilience for future operations after the issues (now resolved) in 2023 with Metro Bank and in light of the estimated time to open charity bank accounts in general.
- The trustees have made arrangements to monitor and review the policy and formula regularly:
 - Quarterly meetings.
 - Annual report to review and create Reserve formula for the coming year.

APPENDIX A
Previous Year 2023 ACTUALS

Category	Multiplier	Total
Director & Admin actual costs £23,074 per annum	X 6 months	£11,537
Director & Admin reduced costs by 50% hours per month	X 9 months	N/A
Course profits	50%	£30
Income from Patrons plus donations	25%	£750
Membership fees	10%	£702
Sub Total		£13,019
Average		/5
Grand Total		£2,603

APPENDIX B
Current Year 2024 BUDGET

Category	Multiplier	Total
Director & Admin actual costs £20,500 per annum	X 6 months	£10,250
Director & Admin reduced costs by x hours per month	X 9 months	N/A
Course profits target	50%	£1,750
Income from Patrons plus donations	25%	£1,875
Membership fees £5,500 per annum	10%	£550
Sub Total		£14,425
Average		/5
Grand Total		£2,885

APPENDIX C
Future Year 2025 FORECAST

Category	Multiplier	Total
Director & Admin actual costs	X 6 months	£11,000
Director & Admin reduced costs by x hours per month	X 9 months	N/A
Course profits	50%	£2,000
Income from Patrons plus donations	25%	£2,500
Membership fees	10%	£600
Sub Total		£16,100
Average		/5
Grand Total		£3,220