

RESERVES POLICY



Introduction

Triathlon Scotland is aware of the need to secure its viability beyond the immediate future. In order to be able to provide reliable services over the longer term, our organisation must be able to absorb setbacks and take advantage of change and opportunity. Many organisations provide for this by putting aside, when they can afford it, some of their current income as a reserve against future uncertainties.

The purpose of this guidance therefore is to provide best practice in respect of reserves and how the holding of reserves should be justified through the development and agreement of a Reserves Policy.

Definition of Free Cash Reserves

For the purposes of this definition the term “free cash reserves” is applied to that part of an organisation’s income that is freely available for its general purposes. Free Cash Reserves are the resources the organisation has or can make available to spend for any or all of its purposes once it has met its commitments and covered its other planned expenditure.

Holding Reserves

Any organisation which enters commitments - through the agreement to deliver services, the employment of staff, the rental of premises, the purchase of goods or services etc. - must ensure that it has sufficient resources. 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 as to the absolute timing of each individual transaction and also the possibility that unforeseen expenses or liabilities will emerge. Against this background it is considered good practice for organisations to seek to build some financial reserves which will allow them to meet future commitments or unforeseen expenses without a negative impact on their ability to deliver their services or develop their businesses in the manner planned.

Organisations that hold reserves are able:

- to absorb setbacks and to take advantage of change and opportunity;
- to demonstrate that they have thought through how they might secure their viability beyond the immediate future and provide reliable services over the longer term;
- to demonstrate to potential funders that they are effectively managing their resources, and have given consideration to their long-term plans and viability.

Organisations may find their decision to hold reserves is subject to scrutiny or comment in the public arena. Documentation, in the form of a Reserves Policy, provides the public with a clear explanation of the nature and purpose of any reserves held. For this reason Triathlon Scotland is committed to demonstrating publicly the reasons to retain a particular level of income as a reserve.

To justify the holding of reserves, the Triathlon Scotland's Reserve Policy is based on a realistic assessment of need and covers:

- i. the reasons why the organisation needs a reserve or does not;
- ii. what level (or range) of reserves the organisation believes it needs;
- iii. what steps the organisation is going to take to establish or maintain reserves at the agreed level (or range); and
- iv. arrangements for monitoring and reviewing the policy.

The development of the Reserves Policy has been informed by an analysis in respect of:

- i. forecasts for levels of income in future years, taking into account the reliability of each source of income and the prospects for opening up new sources;
- ii. forecasts for expenditure in future years on the basis of planned activity;
- iii. analysis of any future needs, opportunities, contingencies or risks that the organisation has demonstrated they would not be able to meet out of routine income;
- iv. assessment, on the best evidence reasonably available, of the likelihood of each of those liabilities arising and the potential consequences for the organisation of not being able to meet them;
- v. a general assessment of the financial position.

Reserves Impact on Funding

An organisation will normally require a minimum level of reserves to fund its working capital requirements and provide funding for contingencies identified in its management statement. Therefore the existence of reserves (money held in an account not currently being used for operational or project needs) can be a sign of good resource management.

Triathlon Scotland should not be penalised for exercising proper governance in the creation of reasonable reserves to meet organisation liabilities. As long as there is a clear documented policy and this is considered to reflect the organisational needs, then this should not adversely affect any funding application.

Where Triathlon Scotland is considered to hold reserves in excess of that justified by its Reserves Policy the Board may decide to provide a further justification of the level of funding held or adjust the timing of the funding awarded.

This should always be documented and explained in writing to the applicant organisation.

Setting a Reserve Level

There is no absolute level of free reserves that an organisation should hold but when looking at the level of free reserves Triathlon Scotland has considered the following:

- how secure is the organisation's present funding?
- how long would it take to find alternative sources of funding?
- if the organisation had to close, how long would it take to wind up in an orderly manner?
- what costs could be involved in winding up. Consider:
 - redundancy costs
 - legal and accountancy costs
 - the time to the expiry of leases on property and office equipment.

Triathlon Scotland believes that an acceptable level of free reserve might be considered to be:

- sufficient free reserves to provide cover for 6 months payroll and administration costs.

Reserves - Disclosure

Triathlon Scotland's annual report will state the level of reserves on the last day of the financial year and the future needs, opportunities, contingencies and risks relevant to the level of reserves.

Reserves Policy - Timing

Triathlon Scotland's Reserves Policy should be reviewed every two or three years but updated at the end of each financial year to take account of any change in circumstance and to recalculate the percentage free reserve based on the 31 March balance.

Reserves Policy

Triathlon Scotland agreed a formal policy on reserves at the February 2012 meeting of the directors.

It states:

The Directors have set a reserves policy which requires that 'free cash reserves' are built at a level which ensures that 3-6 months of the organisation's core activity could continue during a period of unforeseen difficulty.