**Reserves and Distribution Policy Guidance**

A reserves policy helps the Management Committee to justify holding appropriate levels of financial reserves to protect against future uncertainties. It will also enable the Management Committee to explain to members, funders, staff, volunteers and the public the reasons behind the level of reserves held, and demonstrates good financial management.

In addition to this, when you are considering your share withdrawals policy, your reserves policy along with trading profits and new share capital, will help you to ascertain the level of withdrawals your society can accommodate per year.

**Your reserves policy should set out:**

* **How much your Community Business needs to hold in reserve and why**

Reserves should be set by considering (where appropriate) the following:

* Cash flow (and forecasts)
* A review of your existing funds and reserves
* A review of restricted or unrestricted funds
* A review of future income streams
* A review of likely future expenditure based on your plans for the year ahead
* A review of past operational and other trends
* The likely effects of changes on the membership
* A review of the major risks facing the society
* A review of the Member register and impact of possible share withdrawals
* An analysis of future needs and risks with the potential consequences if you do not have sufficient funds. This should refer to your Risk Register or SWAT analysis

Excessive reserves can be as damaging for your business as not having enough. For example, if you have large reserves that you do not have specific plans for this may count against you if you are applying for grants. Retaining funds may not allow you to provide the benefits to the community that you originally intended to.

A successful community business that does not have high levels of share capital that need to be paid back, and has relatively new fixtures and fittings and no planned major expenditure, may decide to base their reserve policy on always having three to six months average income as their reserves level.

* **How and when your societies reserves can be spent**

You can set aside enough money to meet a potential need, such as an unexpected drop in income or full closure of the business. If you set aside money for a specific purpose, such as building works, make it clear that this is separate from the your general reserves. Reserves should not be relied upon for the long-term sustainability of a Community Business.

* **How often the reserves policy will be reviewed**

As best practice, the reserves policy should be signed off annually; this could be after your AGM. You may wish to timetable a strategic review ahead of the AGM so that you can consider the business need for the year to come and review the policy.

* **How the business intends to establish / maintain reserves at the amount determined**

This may be through trading, fundraising or funding applications, cutting costs through better procurement, investing funds or launching a new share offer/increasing membership. As outlined in the Model Rules, the Management Committee may decide to stop allowing funds to be withdrawn to ensure reserves are maintained at the level required.

**Further Guidance**

* Government - [www.gov.uk/guidance/charity-financial-reserves](http://www.gov.uk/guidance/charity-financial-reserves)
* NVCO – [www.knowhow.ncvo.org.uk/tools-resources/financial-procedures-manual/writing-the-financial-procedures-manual/financial-responsibilities-1/reserves-policy](http://www.knowhow.ncvo.org.uk/tools-resources/financial-procedures-manual/writing-the-financial-procedures-manual/financial-responsibilities-1/reserves-policy)

**Support Available**

Please remember that Plunkett support is available for all community businesses, do contact us if you are experiencing any financial difficulties or have queries about managing your reserves: info@plunkett.co.uk, or online via our [enquiry form](https://plunkett.co.uk/form-general-contact/).