

## Reserves Policy

### A Transparent Approach

The Seafarers' Charity aims to be a transparent grant funder. Our grant awards are published on our website, where we have a search facility, as well as in an open, standardised way using the 360Giving standard for open data<sup>1</sup>. Similarly, we wish to be open about the information used and the approach taken when we consider making a grant award. It is hoped that this transparent approach will better help inform and guide your grant application to The Seafarers' Charity.

### Purpose of Paper

The purpose of this paper is to inform potential grant applicants of The Seafarers' Charity's approach to reserves.

### Financial Reserves in the Maritime Sector

Recent sector-wide research by the Maritime Charities Group<sup>2</sup> included a section on the sector's financial reserves. The research adopted the Charity Commission's definition in order to measure and review the level of reserves within the sector.

The Charity Commission's definition of reserves is contained within '[CC19: Charity Reserves – Building Resilience](#)' which was published on 29 January 2016. The definition reads as follows:

*“Reserves are that part of a charity's unrestricted funds that is freely available to spend on any of the charity's purposes. This definition excludes restricted income funds and endowment funds, although holding such funds may influence a charity's reserves policy. Reserves will also normally exclude tangible fixed assets such as land, buildings and other assets held for the charity's use. It also excludes amounts designated for essential future spending.”*

The research analysis identified that:

*“Nearly eight in ten (78%) of the maritime charities completing the online survey hold financial investments from which they generate interest and receive an income. Amongst those that do hold investments, over three-quarters agree that they are an 'important source of independent income which we try to preserve at all costs'.”*

### The Use of Investments as an Income Stream

As a general principle, income received by charities from public donations should be spent within a reasonable period of time. However, this approach to investments as an income stream is similar to many charities within the wider third sector.

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<sup>1</sup> <http://www.threesixtygiving.org/support/standard/>

<sup>2</sup> Navigating Change. A Review of the UK Maritime Welfare Charity Sector, October 2017

The Seafarers' Charity acknowledges that the use of investments to generate a specific expected financial return offers a known, planned and sustainable income source for a charity. In effect a charity utilises its own funds to generate income for itself. This approach not only supports a diversification of income sources, it also helps to avoid an over reliance on other more unreliable, unpredictable and fluctuating sources of income; such as project grants or legacy income.

As such, the use of investments to generate income to spend on charitable activities can effectively support the longer term financial sustainability of the charity. And thereby help to reduce its level of grant dependency.

### **Financial Analysis**

Our grant assessment includes a financial analysis of an applicant's latest financial accounts. Items such as diversification of income streams, expenditure levels, fundraising ratios and approach to risk management are all considered. The level of "free" or "unrestricted" reserves held by a charity is also calculated and reported as this can be an important indicator of the fragility or long term strength of the charity. It also indicates whether grant help is required to help support an initiative or whether a charity can afford the cost from its own resources.

### **Definition of Free or Unrestricted Reserves**

To ensure a consistent approach to analysing applicants' reserves, The Seafarers' Charity has adopted the Charity Commission's definition of reserves.

This means the following funds will be excluded from any calculation of free reserves:

- **Restricted income funds:** This is income from a grant or donation that may only be spent on a specified purpose as restricted by the donor. A common example may be a donation to purchase a specified item of equipment or a restricted grant to deliver a specific project. Such a restricted grant could not be used more generally to fund other staff salaries and running costs, for example, and therefore could never be utilised to cover general and ongoing expenditure costs.
- **Endowed funds:** In most cases this will be a large lump sum investment on which interest earned can be spent but spending of the principle investment is prohibited. (NB: On occasion an endowed fund may have terms and conditions attached to it which allows the endowment to be spent. This will be documented within the notes attached to the financial accounts).
- **Tangible fixed assets:** Relevant fixed assets will be excluded in cases where a fixed property asset is fundamental to the operation of a charity's activities. An obvious example would be a property used for accommodation. This is because a fixed asset (such as a hostel, a care home or an office) is not easily realisable and its loss would fundamentally disrupt operations.

### Approach to Designated Reserves

The Charity Commission guidance allows “designated reserves” to be included or excluded from the free reserve calculation depending on whether they have been designated for “essential future spending”. The Charity Commission guidance for excluding designated reserves reads:

*“Where unrestricted funds are earmarked or designated for essential future spending, for example, to fund a project that could not be met from future income alone they can be excluded from reserves - in such cases the reserves policy should explain the nature and amount of the designation and when the funds set aside are likely to be spent; it is never acceptable to set up designations simply to reduce the stated level of reserves.”*

Therefore, the inclusion or not of the “designated fund” within the calculation of free reserves will be dependent upon the purpose, size and significance of the designated amount to the overall operation of the charity’s activities.

Examples of whether designated reserves will be excluded include: an amount designated as future expenditure on planned refurbishment work, or to make a large exceptional purchase such as a new IT system. It would also be reasonable to exclude reserves that have been designated to meet a known liability such as an identified provision for a deficit in a pension scheme or a commitment to pay regular grants to beneficiaries.

### Importance of the Reserves Policy

It is apparent from the Charity Commission guidance that the Reserves Policy included within the Annual Report and Accounts should state a charity’s approach to the management of their reserves.

Therefore, The Seafarers’ Charity do not operate a fixed rule on a maximum or minimum level of reserves that should be held. Instead, it is important that a charity’s trustees are able to justify their reserves policy as being in the best interest of the charity and consistent with the charity’s income and spending commitments.

### The Reserves Policy

In summary, when reviewing a grant application, the Impact Team will review the Annual Report and Accounts and consider whether the reserves policy demonstrates that the charity’s trustees are actively aware of the need for reserves, regularly review their reserves policy to ensure it is fit for purpose, that the level of reserve is appropriate to meet need and if there are large reserves there are good reasons for holding on to funds. There should also be an explanation of the circumstances in which reserves will be used.

### Further Information

Charity Commission Guidance on Reserves:

<https://www.gov.uk/government/publications/charities-and-reserves-cc19>

Sayer Vincent Accountants: 'Beyond Reserves – How Charities Can Make the Reserves Work Harder'

<http://www.sayervincent.co.uk/wp-content/uploads/2015/07/BeyondReserves.pdf>

Maritime Charities Group: 'Navigating Change – A Review of the Maritime Welfare Charity Sector'

<http://www.seafarers.uk/news/navigating-change-a-review-of-the-uk-maritime-welfare-charity-sector/>

### Get in touch

If you have any questions or feedback on this guidance, please contact the Impact Team by emailing: [impact@theseafarerscharity.org](mailto:impact@theseafarerscharity.org).

