

# ❖ Every Penny Counts ❖

Issue 38

June 2007

The Newsletter from....



*"...enabling good management in voluntary organisations"*



*"I'm going to complain to channel 4. I wanted my mum to read this newsletter to me last night, but she watched Big Brother instead. Can you believe it!"*

**November 21st, 2007**

Once again we are hosting a major conference on good management for voluntary & community organisations.

This is a great opportunity to pick up useful ideas and information. You can also see that you are not alone - many people have the same questions. And the food will be first class of course.

See the back page for details - and book early!

*CA Plus offers support to groups across Nottinghamshire (and occasionally beyond). We also chair the national network for Community Accountancy Services (CAS)*

*You can visit the national website to find out more about CAS and services in your own area*  
[www.communityaccounting.org](http://www.communityaccounting.org)

At CA Plus, we offer a wide range of support and services, from annual accounts to payroll, from employment advice to finance training and more.

If you think you might benefit from talking to us, you can call us :

**0115 - 9470839**

or write to us:

**Community Accounting Plus.  
1st Floor, Ormiston House,  
32-36 Pelham Street.  
Nottingham NG1 2EG**

or e-mail us:

**[caplus@communityaccounting.co.uk](mailto:caplus@communityaccounting.co.uk)**

or visit the website:

**[www.communityaccounting.co.uk](http://www.communityaccounting.co.uk)**

## Reserves - a simple guide...

A good reserves policy is one of the key elements forming the bedrock of good financial management. You should always have reserves in mind when thinking about your financial strategy and planning ahead. Having a nice policy on the shelf isn't the point. The Charity Commission as well as most funders expect to see a policy on reserves, but even without their concern, good management of reserves is important in itself.

### Why do we need reserves?

We all know that we feel more comfortable when we have some savings – money in the bank, under the mattress or a couple of gold bars buried in the garden. It's just the same when you

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are responsible for an organisation.

What would you do if the grant cheque was late and it was pay day for the staff? What would you do if the minibus packed up? What would you do if someone went off on long term sick leave? What would you do if your grant aid was suddenly withdrawn? Reserves can keep you going through troubled times.

**How much?**

As you may expect, there is no single answer apart from 'whatever you consider reasonable'. What you should do is discuss it at Committee and agree a level of reserves that you should keep as a target. In CA Plus, for example, we have always had the target of having reserves equal to between 3 and 4 months running costs. A group relying heavily on donations and providing long term care may feel they need more. A small group with no paid staff and fairly steady finances may be OK with less.

The key is to be clear about it and be able to defend your position. No voluntary organisation exists to make profits. So, if you do not need the money, spend it on delivering more services – or even give it back so that it can be given to a group that does need it!

Some years ago, we found ourselves in the position of having more than we needed. So, we decided to employ an

extra member of staff for a year to deliver support to County groups. This post was funded entirely out of our own reserves for one year with no grant aid support.

**How do you get to your target?**

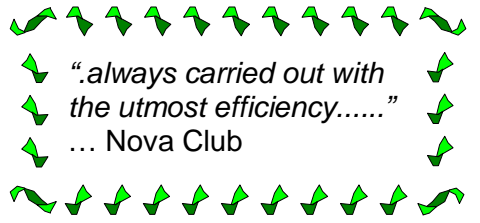
Let's assume that your agreed target level of reserves is £20,000, and at the moment you have about £5,000. You may decide that you should try and move to having the £20,000 level in say 5 years. That would mean that for each of the next 5 years you should aim – through careful budgeting and management of the finances – to make a surplus of about £3,000.

Under full cost recovery principles - very popular at the moment – this 'contribution to reserves' is a real cost item that should be included in your financial planning. You're not actually going to spend this cash, but you need to earn it. All your activities, whether financed through grants or fees, should contribute to this 'cost'.

Once you get there, you don't need to make surpluses any more so you can have a more 'balanced' budget.

**What about other types of reserves?**

You may have come across the idea of 'designated' funds or reserves. This is where a group itself decides to set aside money for particular purposes. Examples may be a building fund or a vehicle



*"always carried out with the utmost efficiency....."*  
... Nova Club

replacement fund. Any such decision should be well researched and properly minuted. What's more, you must have a genuine reason for the 'designation'. You should not create a building fund if you do not need it!

On the other hand 'restricted' reserves would be money given by someone who has imposed a specific restriction as to how the money may be spent. You cannot use this money to help you on the rainy day so it should be set aside and clearly identified in your accounts. It would NOT form part of your general (free) reserves.

**What do funders think?**

Any funder with any sense will appreciate that in order to function properly an organisation must have some level of reserves. They may well ask to see your policy on reserves. They may well look in your annual report for anything you have to say about your reserves.

Most potential funders will ask questions if it appears that you have lots of cash. The obvious concern is: why ask for our grant when you may as well spend your own cash? However, if your grant is likely to be cut due to excess reserves, you may as well

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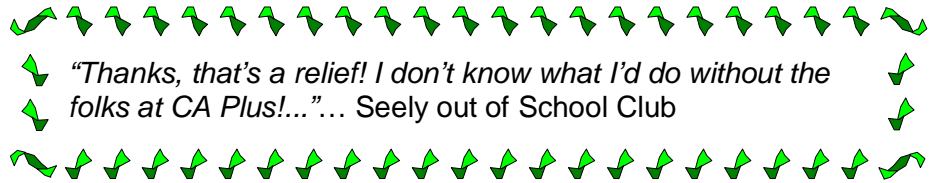
spend the money quick. If our committee was a bit worried that we looked a bit wealthy, they could always decide to give me a one of bonus of say £25,000 just before the year end. That would increase our expenditure and certainly reduce our reserves. It would also be buried within the overall salaries figure so who would notice? *(If any of my committee are actually reading this I am joking of course.)*

The basic problem for funders is that if they are going to look at your reserves, they really have to consider your expenditure to see if that is 'reasonable'. You could keep your reserves low by travelling first class everywhere or always using first class post. We would say that they should really focus on getting value for money, and look at what services are delivered in return for the grant.

### So what to do now.

We say you should forget about what others may think and concentrate on your own needs. Aim to have a policy on reserves that is clearly thought out and reasonable, agreed by the committee and write it down.

If you combine this with good financial management and control, you shouldn't have to worry about what funders may think, or about that rain-cloud up ahead.



### Managing your policies.

After a while, most organisations end up with a vast range of policies and procedures gathering dust and somewhat out of date. A simple idea is to have an agreed schedule and procedure for review of all policies. The review schedule will set out, for each policy, the date of the last review, the date of the next review, and the person who will lead the review.

For example, in CA Plus, our policy on Equal Opportunities was last reviewed in the 3<sup>rd</sup> quarter of 2005 and is due for review this Autumn. As a major policy, it is reviewed every 2 years, and it will be considered by the full trustees meeting. Our reserves policy on the other hand, is reviewed every 3 years, by our Finance sub committee.

Clearly, a review may be required urgently if weaknesses are found in an existing policy or if legislation changes, but at least this way, there is a clear system for checking all policies on a regular basis.

### Pension strain—a nasty surprise...

If you are an employer who is an admitted member of a Local Authority Pension Scheme, if you make an employee redundant (who is aged 50 years or over), the scheme rules require that the benefits to which that employee is entitled are released immediately. As a consequence the Local Authority will then “recharge” those costs back to the employer as “pension strain”. As an example a local group, a member of the Notts. County Council Pension Scheme, faced with making two employees redundant (both aged 50+) were told that their “pension strain” payments would be approx. £9,000 and £14,000. These would be on top of any statutory redundancy payments the group would also have to make!!!! As you might imagine, this came as a **bit of a shock** to them.

We would advise that if you are an admitted member of a Local Authority Pension Scheme and are unaware of what “pension strain” is or how it might affect you, that you contact the pension dept. immediately to get further details.

This comes from our latest free monthly update, to receive this, email: [amonroe@communityaccounting.co.uk](mailto:amonroe@communityaccounting.co.uk)

## COMMUNITY ACCOUNTING PLUS CONFERENCE & AGM 2007

**9.15am - 4.30pm Wednesday 21 November 2007**

**An informative day of workshops aimed at committee members, staff & volunteers from voluntary & community organisations**

**VENUE: The Gateway Hotel, Nuthall Road, Nottingham.**

### **PLANNED WORKSHOPS & PRESENTATIONS**

Charity Commission, Current priority issues for charities; Insurance, Getting the right cover for your organisation; Health & Safety – tips from Peninsular; Banking issues - Unity Trust Bank plc; Using IT efficiently – practical ideas from Purple Zebra; Fund-raising from a funder's perspective; Payroll issues - HMRC; Full Cost Recovery techniques; Issues in employment; QuickBooks computerised accounts package

Name \_\_\_\_\_

Organisation \_\_\_\_\_

Address \_\_\_\_\_

Telephone \_\_\_\_\_

E-mail \_\_\_\_\_

Although the precise programme may vary, to help with planning the workshops, please tick your **THREE** preferred choices from the following options:

Full cost recovery	Health & safety	IT tips	QuickBooks
Insurance	Funding issues	Payroll	Employment

Dietary requirements - please indicate any particular requirements you have:

\_\_\_\_\_

Practical assistance - please indicate any particular assistance you require: For example, loop system, wheel chair access, disabled parking space, large print

\_\_\_\_\_

Rate per person £50. I enclose a cheque for £\_\_\_\_\_

**PLEASE MAKE ALL CHEQUES PAYABLE TO: Community Accounting Plus**

**Please return this form & payment to:**

Community Accounting Plus, 1st floor, Ormiston House, 32-36 Pelham Street,  
Nottingham NG1 2EG