

RESERVES POLICY

1. PURPOSE OF THE RESERVES POLICY

The purpose of the Reserves Policy is to ensure the stability of the vision, financial resilience, employment, and ongoing operations of the Chamber and to provide a source of accessible funds for key priorities such as investment, business development, asset optimisation, programme and project opportunity and capacity building.

The Reserves Policy will be implemented in concert with other governance and financial policies of the Chamber and is intended to support the goals and strategies contained in related policies and the 2020/21 Business Plan.

2. POLICY AIMS

The aim of this policy is to identify the process of regularly reviewing the level of reserves required to manage both current and future business developments and risks.

Annually, as part of the business planning cycle, the Risk and Audit Committee and the Board of Directors shall consider recommendations from the Senior Leadership Team in relation to the level and scope of reserves. This will provide target levels for any specific reserves and include financial planning scenarios designed to meet those target levels.

3. OPERATING RESERVE

The Operating Reserve is intended to provide an internal source of funds for situations such as a sudden increase in expenses, exceptional items of expenditure such as significant restructuring and unanticipated loss in funding or uninsured losses. Operating Reserves are not intended to replace a permanent loss of funds or eliminate an ongoing budget gap. It is the intention of the Chamber for Operating Reserves to be used and replenished within a reasonably short period of time.

The Operating Reserve is defined as a designated fund set aside by action of the Board of Directors. The minimum amount to be designated as Operating Reserve will be established in an amount sufficient to maintain ongoing operations and programs measured for a set period of time, measured in months. The Operating Reserve serves a dynamic role and will be reviewed and adjusted in response to both internal and external market forces.

The target minimum Operating Reserve is equal to three months of average operating costs. The calculation of average monthly operating costs includes all recurring, predictable expenses such as salaries and benefits, occupancy, office, travel, and ongoing professional services. Depreciation, in-kind, and other non-cash expenses are not included in the calculation. The calculation of average monthly expenses also excludes some expenses (examples are pass-through programs, one-time or unusual capital purchases).

The amount of the Operating Reserve minimum will be calculated each year after approval of the annual budget, reported to the Risk and Audit Committee and the Board of Directors and included in the regular financial reports.

3.1 CURRENT RESERVES

The Chamber's current reserve levels at 30 November 2020 are defined as:

- Money on Deposit £25,228
- Cash £3,419,270
- Total current reserves £3,444,498

3.2 FINANCIAL RISK ASSESSMENT

The table below identifies the risks and the baseline of reserves required as a contingency against the various identified scenarios:

	Nature of Risk	Current Risk at 30 November 2020
Working Capital	A trading reserve to cover the working capital for three months of operating costs	£2,530,000
Total Business close down	100% Redundancy Liability	£893,000
	Long term lease outstanding commitments	£117,493

A consideration should be made regarding a trading reserve to cover unexpected clawback of public funded contracts following a Contract Irregularity identified at a formal Audit completed by, or on behalf of the European Commission or the Department for Works and Pensions. Dependent on the severity of the irregularity, which mainly audits Financial Transactions, Procurement Procedures, this could result in clawback of up to 100% of the full ESIF or DWP claim value which currently equates to c£10 million. Projects open to audit include:

- 1) Transformational ICT
- 2) Business Gateway
- 3) D2N2 Digital Growth Programme
- 4) D2N2 Growth Hub phase 1
- 5) Collaborate for Growth
- 6) D2N2 Growth Hub phase 2 (live project)
- 7) LLEP Digital Growth Programme (live project)
- 8) Leicestershire Growth Hub (live project)
- 9) D2N2 Upscaler (live project)
- 10) Digital Upscaler (live project)
- 11) Work and Health Programme: Better Working Futures
- 12) Work and Health Programme: Job Entry Targeted Support

During the lifetime of the projects the Managing Authority has completed various audits resulting in 100% compliance with no recommendations to improve processes identified. The risk is therefore considered low.

4. BUILDING AND CAPITAL ASSET RESERVE

The Building and Capital Asset Reserve is intended to provide a ready source of funds for repair or acquisition of buildings, leaseholds, furniture, fixtures, and equipment necessary for the effective operation of the organisation and programs. The target

amount of the Building and Capital Asset Reserve will be determined by the Risk and Audit Committee.

5. OPPORTUNITY RESERVE

The Opportunity Reserve is intended to provide funds to meet special targets of opportunity or need that further the vision/Business Plan of the Chamber which may or may not have specific expectation of incremental or long-term increased income. The Opportunity Reserve is also intended as a source of internal funds for organisational capacity building such as staff development, research and development, or investment in infrastructure that will build long-term capacity. The target amount of the Opportunity Reserve will be determined by the Risk and Audit Committee and authorised by the Board of Directors.

6. ACCOUNTING FOR RESERVES

The Reserve Funds will be recorded in the financial records as the Operating Reserve. The Funds will be available in cash or cash equivalent funds. Reserves will be maintained in a segregated bank account or investment fund, in accordance with investment policies or will be included with the general cash and investment accounts of the Chamber.

7. FUNDING OF RESERVES

The Operating Reserve will be funded with surplus unrestricted operating funds. The Board of Directors may from time to time direct that a specific source of revenue be set aside for Operating Reserves. Examples could include one-time gifts or bequests, special grants, or special appeals.

8. CHAMBER GROUP RESERVES

As the Chamber is the legal accountable body for D2N2 LEP, Destination Chesterfield and Visit Peak District and Derbyshire, it will ensure that wind up reserves are maintained by each subsidiary to cover any liabilities should the organisation cease, and will accrue on people, supplier contracts and run-off costs.

9. USE OF RESERVES

The mechanism for Use of the Reserves requires three steps which are outlined below:

9.1 IDENTIFICATION OF APPROPRIATE USE OF RESERVE FUNDS

The Senior Leadership Team will identify the need for access to reserve funds and confirm that the use is consistent with the purpose of the reserves as described in this Policy. This step requires analysis of the reason for the shortfall, the availability of any other sources of funds before using reserves, and evaluation of the time period that the funds will be needed and replenished.

9.2 AUTHORITY TO USE RESERVES

Approach A:

The Senior Leadership Team will submit a request to use Reserves to the Risk and Audit Committee and/or the Board of Directors. The request will include the analysis and determination of the use of funds and plans for replenishment. The Chamber's goal is to replenish the funds used within 12 months to restore the Reserve Fund to the target minimum amount. If the use of Reserves will take longer than 12 months to replenish, the request will be scrutinised more carefully. The Risk and Audit Committee will approve

or modify the request and authorise transfer from the fund (or the Risk and Audit Committee will recommend the request to the Board of Directors).

Approach B:

Authority for use of up to £40,000 of Reserves is delegated to the Chief Executive in consultation with the Chair of the Board. The use of Reserves will be reported to the Board of Directors at the next scheduled meeting, accompanied by a description of the analysis and determination of the use of funds and plans for replenishment to restore the Reserve Fund to the target minimum amount. The Chief Executive must receive prior approval from the full Board of Directors for use of Reserves in excess of £40,000.

The Chief Executive is responsible for ensuring that the Reserve Funds are maintained and used only as described in this Policy. Upon approval for the use of Reserve Funds, the Chief Executive will maintain records of the use of funds and plan for replenishment, if required. They will provide regular reports to the Finance Committee/Board of Directors of progress to restore the Fund to the target minimum amount, if required.

10. REVIEW OF POLICY

This Policy will be reviewed annually by the Risk and Audit Committee, or sooner if warranted by internal or external events or changes. Changes to this Policy will be recommended by the Risk and Audit Committee to the Board of Directors.

Kathryn Edwards
HEAD OF FINANCE

Scott Knowles
CHIEF EXECUTIVE

17 December 2020