

## **APPENDIX 1 - Reserves Policy Financial Year 2024/25**

### **1 Our Beneficiaries:**

Musical Connections delivers a range of regular participatory music sessions to benefit older people in York - particularly those who are vulnerable, socially isolated or at risk of isolation and/or living with a physical/mental health condition such as dementia. The charity also benefits adults of all ages with learning disabilities. These sessions are offered to beneficiaries in various care and community settings across the wider York area.

### **2 Brief Statement of Musical Connection's Policy on Reserves:**

Musical Connections used the following definition of reserves when developing this policy:

"The amount of money that a charity holds unspent as a buffer against those "rainy days" where, for a variety of reasons, the charity finds that its payments are outstripping its receipts in a way that, without reserves, the charity would be unable to pay its bills on time."

The Trustees have considered the need for reserves based on the following four areas:

- Cash-flow – situations where a bill must be paid before the money to cover it has been received;
- Contingency – unexpected expenditure in the event of an emergency;
- Commitment – a commitment to expenditure that the annual income cannot cover; and
- Closure – the charity becomes financially unsustainable and must be wound up.

After carefully considering all the above, the preferred policy is to maintain sufficient reserves to ensure a sustainable closure of Musical Connections. These reserves are estimated as six months of running costs plus a 10% fee to cover any required professional services. At the projected level of operation for 2024/25, this is estimated at £52.6K. These reserves would provide financial stability and the means for developing principal activities.

### **3 Levels of Reserves:**

Musical Connections is a young charity established in March 2016. The table below shows how the reserves have grown over the last eight financial years to £37,318 at the end of 23/24, which equated to 84% of the maximum level of reserves (£44.44k) agreed upon as necessary by the charity trustees.

**Table – Current Reserves Position**

	<b>2023/24</b>	<b>2022/23</b>	<b>2021/22</b>	<b>2020/21</b>	<b>2019/20</b>	<b>2018/19</b>	<b>2017/18</b>	<b>2016/17</b>
<b>Unrestricted funds (RESERVES)</b>	£37,318	£39,438	£36,517	£27,539	£22,317	£22,410	£20,142	£10,660
<b>Restricted funds</b>	£51,423	£37,816	£43,688	£24,745	£40,917	£57,587	£28,223	£15,027
<b>The ratio of Reserves to Annual Expenditure</b>	42:58	51:49	46:54	53:47	35:65	27:73	42:58	41:59
<b>Level of Reserves agreed in Policy</b>	£44.44k	£42.7k	£40k	£40k	£35.5k	£35k	£37k	£15k
<b>Reserves held as % of Policy</b>	84%	89%	91%	68%	63%	64%	54%	71%

The Board of Trustees regularly reviews the amount of reserves held at their meetings six times a year to ensure they are adequate to fulfil continuing obligations and managed accordingly.

This reserves policy will be reviewed annually at the May meeting of the trustees.

#### **4 Cash Flow:**

Musical Connections is heavily dependent on grant funding for its income. Indeed 71% of its income profile is associated with external grants. However, the unpredictable nature of applying for grants could lead to a funding gap, thereby requiring the charity to use its reserves to continue delivering to its beneficiaries.

The annual operating costs of Musical Connections were £86,075 in 2023/24, with an average monthly spend of approximately £7,207 ranging from as low as £1,402 to a peak of £14,386. The average monthly income was £8,156, ranging between £917 and £23,350. The average monthly surplus/deficit was £949 with a range of £20,047 and -£10,264.

#### **5 Contingencies:**

The risk analysis of Musical Connections highlights several scenarios that would have a potential financial risk to the charity's future.

Some of these are negligible, such as the loss or damage to critical musical equipment. Others are more major and may involve injury to a participant or musician during a session or event. The contracted musician's, Musical Connection's or venue's public liability insurance policy would cover this latter one. The funding gap risk has been covered above in Point 4 Cash Flow.

It would be highly unusual for all financial risks to occur at once, but if there were a few mitigating situations that adversely affected Musical Connection's long-term sustainability such that it leaves the charity to be no longer viable, e.g. loss of quality musicians, a significant grant or trustee support, the costs of an enforced closure would need to be considered (see Pt 7 below).

#### **6 Commitments:**

The cost of providing the budgeted activities for the charity's beneficiaries, is projected at approximately £95,673 for 2024/25. Participants pay regular, voluntary contributions to these sessions, and it is estimated that these, along with the fees paid by care homes, would be about £18k for 2024/25. The charity would also expect to raise about £7k from community fundraising. Therefore, the net commitment Musical Connections would need to ensure it could provide these budgeted activities would be £70,673. The restricted income secured to date for 2024/25 is £60,623; therefore, at the start of the year, there is an underfunding of £10,050. If no additional funding was secured from grants, this amount would need to be drawn down from the charity's reserves.

#### **7 Closure:**

In the unfortunate circumstances that Musical Connections had to wind up its activities unexpectedly, there would be several costs to the Charity. Whilst no premises are owned or staff employed by Musical Connections, there is a commitment to its beneficiaries. These are, in the most, socially isolated and vulnerable adults to whom services must be wound down sustainably rather than abruptly withdrawn. Also, a few of the grants received by Musical Connections are time-limited and carry a commitment to deliver

services for a specific period. Therefore, it would be necessary to be able to fund the relative core costs not covered by the grant fund to enable the service to be delivered.

Therefore, it is prudent for Musical Connections to hold in reserve six months of its operating costs plus additional funds (10%) to cover any professional services, e.g. legal or financial, required to aid the closure. In the worst-case scenario, where no income was forthcoming as the closure was imminent, the cost of delivering six months of activities would be £47,837. With the addition of 10% to cover professional fees, the total call on reserves could be £52.6k.

**Approval & Record of Changes Made by Trustees:**

<b>Date of Approval</b>	<b>Approved by</b>
8 <sup>th</sup> May 2019	Trustee Meeting
6 <sup>th</sup> May 2020	Trustee Meeting
17 <sup>th</sup> August 2021	Trustees via email
11 <sup>th</sup> May 2022	Trustees Meeting
2 <sup>nd</sup> May 2023	Trustees Meeting
12 <sup>th</sup> June 2024	Trustees Meeting