
1 Introduction

- 1.1 Foundation Scotland [FS] wishes to ensure that it achieves a position of financial strength so that, in turn, it can fulfil its purpose of growing long-term independent funding, providing social investment and building financial capital to strengthen Scottish communities.
- 1.2 In order to achieve this, FS reviews its reserves policy to ensure that a reserve levels are set so that risks and liabilities are covered but equally that reserves work hard, and investments and developments are undertaken in line with the strategic plan.

2 Scope

- 2.1 This Policy applies to the Unrestricted and Designated Funds of FS.

3 Abbreviations and Definitions

Abbreviations

- FC – Finance Committee

Definitions

- Designated Funds/ Reserves – Unrestricted funds which have been set aside by trustees for an essential or future purpose. They are effectively ring-fenced and no longer part of unrestricted general funds.
- Unrestricted or General Funds/Reserves or Free Reserves – funds received without restriction which can be used for any charitable purpose and as deemed fit by the trustees.

4 Policy

- 4.1 The level of reserves and designated funds is set by the Board, with advice from the Finance Committee and is based on identified risks and the strategic plan.
- 4.2 The main areas with the potential to impact or requiring use of reserves have been identified and are noted below:-
 - FS's operating income arises throughout the year however there are two peaks in the year – April and October. In order to provide for lags in income and to ensure positive cash flow three months of operating costs will be held – in liquid form – in unrestricted reserves. The sum required to cover this is £334k.
 - As FS undertakes investment in its infrastructure and operating systems and in line with the strategic plan it will be operating in-year deficit budgets in 2020-21 and 2021-22. The unrestricted reserves necessary to support these deficits have been calculated as £260k.

- 4.3 In order that developments are undertaken in line with the strategic plan the Board has designated the following unrestricted funds:-
- Investments in new finance and HR software have been made recently and IT was upgraded in 2019-20. Further investment in new technologies, improving the website and adapting systems to accommodate new financial products has been identified as critical in the next phase of the strategic plan. The reserves necessary to support this activity have been calculated as £150k which will be held in a designated fund. In accordance with its objective of increasing its endowment funds to support communities, FS is extending its successful pilot programme and committing £280k to match fund endowment building activity over the next two years which will be held in a designated fund
- 4.4 FS participates in a multi-employer defined benefit pension scheme which has been frozen to new entrants since 2010. The scheme is currently in deficit and the scheme actuary has estimated that if FS ceased to participate the crystallised liability would be £1.82m. It is not the trustees' intention to crystallise this liability, but they wish to ensure that should the liability arise that this could be discharged. FS own their office building in Edinburgh which was funded by unrestricted funds and the value is designated to discharge the majority of the pension fund liability.
- 4.5 The current business model requires dividend income from an invested fund to contribute to FS's operating income each year. The investment amount currently required to generate this annual income is £1.4m. The long-term aim is to increase operating income and hence negate the requirement to hold this capital sum as a designated reserve.
- 4.6 The FIC reviews the level of reserves held against this policy at quarterly intervals throughout the year and reports on reserves coverage to the Board. As of 31 March 2020 the required level of reserves is £4.244m and the actual level of reserves held is £4.609m. The Board has agreed that the excess sum will be used to accelerate the investments arising from the 2020-2030 Strategic Plan.

5 Roles and Responsibilities

- The FC are responsible for reviewing the Policy
- The Board are responsible for approving the Policy
- The CFOO is responsible for adhering, monitoring and reporting against the Policy

6 Training

- There is no training associated with this Policy

7 References

- [SV reserves 03 \(sayervincent.co.uk\)](http://sayervincent.co.uk)

8 Review

- 8.1 This policy is reviewed, approved, and endorsed by the Board of trustees. It is updated when required by legislation, to ensure that it reflects statutory responsibilities, government guidance and best practice for FS or every 12 months, at year end, whichever is the soonest.