



## Reserves Policy – approved 11<sup>th</sup> March 2021

Malvern Hills Trust's (MHT's) free reserves are defined as those funds which the charity has available freely to spend on its charitable objectives.

The free reserves are calculated by starting from the total unrestricted funds value from the accounts. To comply with accounting rules the amount of the pension deficit is included as part of the unrestricted funds shown in the accounts, although it is a liability that will never crystallise. This deficit value is therefore added back when calculating the free reserves. The net book value of fixed assets (not available as cash) and the value of committed (designated) funds are then deducted, to come to the free reserve total. In summary, the calculation is as follows:

Total unrestricted funds\*  
Less:  
Committed designated funds  
Net book value of fixed assets funded from the general fund  
The defined benefit pension scheme surplus/(deficit)

The level of free reserves and cash balances are reviewed quarterly against the agreed policy. That policy is reassessed annually.

The level of free reserves required will vary from time to time depending on MHT's overall financial position, the economic climate, the security of income from grants and other sources (in particular from parking revenue), the expected levels of planned expenditure and the risks of unplanned costs.

In setting the policy, the trustees have ensured that the contributions required under the defined benefit pension scheme, including those to cover the actuarial deficit, can be met from projected cash flows.

MHT's trustees' policy is to aim to maintain the free reserves level above £300,000. This threshold has been set by the trustees taking into account the following factors:

- The need to hold funds to maintain the viability of MHT in case of unexpected events leading to uninsured costs,
- The need to provide protection against the risk of a significant drop in grant or other income or unexpected delays in receipts,
- To fund everyday essential expenditure in the event that income streams are unexpectedly interrupted,
- The need to provide working capital for MHT, both for day to day work and for future (possibly grant-funded) development,
- The need to provide a degree of protection against fluctuations in investment income.

\*Unrestricted funds comprise the general fund, designated funds and surplus/(deficit) on the defined benefit pension scheme