Millennium Farm Trust

F6 Reserves Policy V01

Next review date March 2025

Version Control

Version number	Date of changes	Who	Review summary
01	-	TF	Drafted in response to finance committee discussion 3.12.20

Introduction

Millennium Farm Trust is a registered charity and a company limited by guarantee. It uses a range of income sources including earned income, grants and donations to deliver its charitable activities. A reduction in income would reduce its activities and in the worst case, may force it to close down.

In order to mitigate the impact of a reduction in income, the Trustees have agreed to this reserves policy drawing on recommendations by the Charities Commission.

MFT is small charity with a relatively simple structure and uncomplicated activities. In these circumstances the Charity Commission suggest a set of questions to consider when setting a reserves policy to aid thinking about why we might need to hold back some funds as reserves and at what level those reserves should be held. The analysis of our reserves need prompted by Charity Commission questions is at appendix 1.

Reserves

MFT will maintain financial reserves which reflect a realistic understanding of the business risks and prudent management to maintain cash flow.

1. We will operate with a financial reserve of between £20,000 and £30,000.
2. Reserves can be held as a mix of cash and debtors, providing that cash needs are prioritised.
3. From time to time we may set aside (allocate) funds for specific projects which ideally should be in addition to the cash reserve. However, the Trustees recognise that occasionally there may be a good business case for dipping into reserves for a limited and predictable time.

In order to maintain reserves Millennium Farm Trust will that:

- Income generation is optimised through efficient operation, sound management and fair and reasonable charging policy.
- Funding bids adequately cover a contribution towards company overheads as well as direct costs, where possible.

- Trading activity (sales of services, produce and woodwork) are focussed on maximising profits.

The level of reserves will be monitored by the finance subgroup and reported to the Board at every meeting. It will be reviewed annually by the finance subgroup in advance of budget setting.

Appendix 1

A Reserve Policy for MFT.

1. As we've been working through the implications of the coronavirus pandemic and our capital investment programme, it has become apparent that revisiting our reserves policy would be helpful. The finance subgroup did this at its meeting on 3rd December 2020.

2. MFT is small charity with a relatively simple structure and uncomplicated activities. In these circumstances the Charity Commission suggest a set of questions to consider when setting a reserves policy to aid thinking about why we might need to hold back some funds as reserves and at what level those reserves should be held.

3. A summary table of our discussion is presented below:

Reason for reserve	Issues we considered	Conclusion
We need to keep a cash reserve to maintain cashflow and pay bills as we invoice in arrears.	It can take up to 6-8 weeks for payment to reach our account from date of invoice. Monthly costs (excluding DCF profit share) are around £14k We have very few bad debts and the money does come in eventually, but there is often £20k worth of debts due.	This is essential. Set a minimum reserve £20k max £30k to maintain cashflow. Can be held as a mix of cash and debtors. Most of this should be held as cash when possible.
The risk of unforeseen emergency or other unexpected need for funds, eg an unexpected large repair bill or finding 'seed-funding' for an urgent project.	We hold few assets and it has hard to imagine a scenario where a repair of assets would close the business. A catastrophic event to HQ (eg fire, flood, wind damage) would be covered by insurance and our business continuity plan. Should we be subject to a DEFRA restriction due to notifiable animal disease (eg foot and mouth) we have an arrangement in place with Nowton Park to move operations there.	This is not essential and we judge that any temporary requirement for additional funds could covered by cash reserves.

Covering unforeseen day-to-day operational costs, eg employing temporary staff to cover a long-term sick absence	As a mature business our operational income is reasonably predictable. Our biggest cost is staff and they are on flexible contracts. Long term sickness by staff in the past has been covered by the Director and not required significant additional funding. Long term sickness of the Director may require significant additional expenditure, but this would be above the line and the risk shared with Depden Care Farm Services.	Unforeseen operational costs carry a low risk of materialising and can be covered by operational funds should they be required. No reserve necessary.
A source of income, eg a grant, not being renewed. Funds might be needed to give the trustees time to take action if income falls below expectations.	All our operational costs are met from earned income. Grant funding is used for projects only. Change in government funding priorities are a significant risk, that would require a change in our business model. But this would be signalled in advance, to enable us to manage the change in the market.	There is a risk that the market will change and we need to be alert and vigilant to that and evolve the business model accordingly. Holding reserves in addition to the cash reserves above was judged unnecessary.
Planned commitments, or designations, that cannot be met by future income alone, eg plans for a major asset purchase or to a significant project that requires the charity to provide 'matched funding'.	We are saving up for our New HQ currently. Our business model allows us to put savings aside for contributions to project expenses and for match funding.	We may on occasions set sums aside as designated funds for specific purposes. Eg to provide match funding for grant applications. There no need to set an amount for this at this time.

4. Recommendations
    a. That reserve level should be set at a minimum of £20,000 and a maximum of £30,000.
    b. The funds can be held as a mix of cash and debtors, providing that cash needs are prioritised.
    c. The reserve policy should be regularly reviewed (at budget setting?).
    d. Tim to draft policy based on Lou's draft and these discussions.