



## SLINFOLD VILLAGE HALL

The Street, Slinfold, West Sussex RH13 0RP

Registered Charity: 305256 – The Child Memorial Village Hall  
Horsham District Council – Premises Licence No. LI/05/0928/PREM

e-mail: [admin@slinfoldvillagehall.co.uk](mailto:admin@slinfoldvillagehall.co.uk)

website: [SlinfoldVillageHall.co.uk](http://SlinfoldVillageHall.co.uk)

**Chairman of the Trustees:** J.N.Peachey  
'Amberley', Hayes Lane, Slinfold, West Sussex RH13 0SQ  
tel: 01403-791554 mobile: 07850-526055  
e-mail: [chairman@slinfoldvillagehall.co.uk](mailto:chairman@slinfoldvillagehall.co.uk)

### ABOUT THE CHARITY'S RESERVES POLICY

Note: This document is explanatory, not definitive.

#### SUMMARY

- Slinfold Village Hall maintains two types of financial **Reserves**:
  - **Contingency Reserves** [policy originally agreed AGM 2006]
  - **Capital Reserves** [policy agreed AGM 2009]
- The two types of reserves are pooled (not added together). They are kept in the same account and are treated as a single 'pot' of **Reserves** for accounting purposes. [Policy agreed AGM 2009.]
- The amount required for **Contingency Reserves** is approximately one year's operational expenditure.
- The amount required for **Capital Reserves** is based on an assessment of the lifetime and the maintenance and/or replacement costs of the charity's assets.
- An amount will be allocated to **Capital Reserves** each year, usually an annualised average of the long-term maintenance and replacement costs.
- When maintenance or replacement of an asset becomes necessary, then those costs are taken from **Reserves**.
- The net projected **total** of **Reserves** should not be lower than the amount required for **Contingency Reserves**.
- Over the long term, the average amount of the **Capital Reserves** element of the **Reserves** should theoretically be zero (subject to inflation and other issues discussed below); it is not intended to build up **Capital Reserves** beyond the sum necessary to maintain or replace the then-current assets.
- The amount to be allocated to **Capital Reserves** each year, and the projected draw-down from the **Reserves** for maintenance and replacement during the year, will be agreed at each AGM as part of the proposed **Annual Budget** for the year.

## TYPES OF RESERVES HELD

### CONTINGENCY RESERVES

**Contingency Reserves** are maintained in order that the charity can continue to operate and pay essential outgoings in the event of substantial loss of income resulting from, for example:

- the hall building becoming unusable for hiring out for a prolonged period;
- substantial legal costs – although we are insured for these, we might have to pay out before claiming back; or
- loss of one or more major regular hirers.

The policy of maintaining a sum for **Contingency Reserves** was instituted for a number of reasons, particularly:

- Charity Commission requirements
- Operational best practice

### CAPITAL RESERVES

**Capital Reserves** are maintained in order to average out longer-term maintenance and replacement costs of the charity's assets, including the hall building, fixtures and fittings, and contents.

The policy of maintaining a sum for **Capital Reserves** was instituted for a number of reasons, the main driving factors being as follows:

- Charity Commission requirements
- Operational best practice
- Assets will fail and third-party grants are not usually available for maintenance or replacement of existing assets (but only for improvements and acquisition of new assets).
- Some grant-awarding bodies (including West Sussex County Council) will not countenance giving a capital/improvement grant if the charity does not have a forward financial plan and reserves policy in place: they consider that, in the absence of such policies, they could unintentionally be subsidising operational expenditure.
- Because the hall refurbishment and enlargement was carried out in one major operation, there is a risk of several assets 'failing' or 'expiring' over a short period.

Additional factors making it desirable to maintain a reserve sum for future repairs and maintenance are:

- It is the Trustees' policy to maintain the hall in good condition and decorative order. To that end they need to be able to effect repair and maintenance when desirable, and not wait until it is essential or until funds can be found.
- Delaying maintenance for lack of available funds can entail greater expense in the longer term.
- Without reserves to call upon, sudden necessary major expenses might be unaffordable, at least without substantially increasing hire rates, which could prove self-defeating.
- It is becoming increasingly difficult to find volunteers to carry out caretaking and maintenance duties, with the consequent need to pay for such services.
- If hire charges need to rise to accommodate future maintenance costs, it is clearly desirable to raise them gradually over a longer period than to maintain them artificially low and then apply a sudden significant increase.

## ADOPTION OF POLICIES

### CONTINGENCY RESERVES

In 2006, the Trustees recommended that the Hall maintain a sum of Contingency Reserves approximating to one year's operational expenditure.

This recommendation was explained to, and subsequently endorsed by, those present at the 2006 AGM.

### CAPITAL RESERVES

In 2009, for the reasons given above — and in the light of the calculations and projections discussed below — the Trustees recommended that in order:

- to ensure that sudden significant capital expenses can be met when they arise; and
- to even out the effect of inevitable significant fluctuation in capital expenditure from year to year;

it would be appropriate to adopt the policy of allocating an annual sum to **Capital Reserves**, and then to use to monies in the **Reserves** to meet necessary capital expenses as they arise.

In making that recommendation the Trustees considered — but rejected — other options, including:

- allowing assets to deteriorate or fail and replacing them only when absolutely essential;
- replacing assets only when there is sufficient surplus in the year's accounts;
- increasing hire rates to cover capital expenses as and when they arise;
- local fund-raising for significant capital expenses when needed (some items, e.g. boiler replacement in mid-winter, cannot be delayed pending fund-raising).

That recommendation was explained to, and subsequently endorsed by, those present at the 2009 AGM.

### OVERALL RESERVES

The Trustees recommended, at the 2009 AGM, that the two types of reserves should be pooled (not added together): that they should be kept in the same account and be treated as a single **Reserves** 'pot' for accounting purposes.

That recommendation was also accepted by those present at the 2009 AGM.

## CALCULATION OF REQUIRED RESERVES

### CONTINGENCY RESERVES

**Contingency Reserves** are maintained at the level of approximately one year's operational expenditure.

The **combined total** of **Contingency Reserves** and **Capital Reserves** should not normally (except when being called upon for contingency purposes) be allowed to fall below the specified level of approximately one year's operational expenditure. If it should fall below that level, then steps should be taken to return it to that minimum level at the earliest appropriate opportunity.

### CAPITAL RESERVES

Unlike the **Contingency Reserves** which constitute a relatively 'static' sum (plus inflation) to be set aside, the total sum needed for **Capital Reserves** depends on future expenses and will vary from year to year.

In order to determine the amount needed for **Capital Reserves**, the trustees maintain a thorough **Inventory of Assets** (which was initially compiled in 2009). This includes the building itself, its fixtures and fittings, and the contents. The following details (noted or estimated) are recorded as appropriate for each particular asset:

- the nature of the asset: whether requiring periodic maintenance and/or eventual replacement;
- the year of acquisition or last maintenance of the asset;

- the cost of acquiring, maintaining and/or replacing the asset, including labour costs where necessary;
- the required frequency of maintenance or estimated lifespan before replacement.

The figures thus obtained are used to calculate an average annual cost of each asset over its lifetime or maintenance period. The individual annual costs are totalled to provide an estimated overall annual sum for the *capital* expenses required to maintain the hall in the long term.

**The estimated overall annual amount is then used as the basis for determining the amount to be allocated to Capital Reserves in each financial year.**

The following points should be noted:

- All maintenance and other costs generally incurred annually or more frequently (e.g. annual servicing and testing of appliances, etc.) are treated as **Operational Expenses** and are excluded from the calculations described above.
- On the other hand, eventual replacement costs of the same appliances or equipment are included. For example, the annual servicing of the boiler is treated as an operational expense, but the eventual replacement of the boiler, as well as possible replacement of associated items such as the pump and motorised valves, are included in the calculations as future **Capital Expenses**.
- All figures are based solely on maintenance and replacement costs, and do not include any element of improvement or upgrading except as may be inherent in 'like-for-like' replacement.
- All figures used are estimated or actual costs at the time of assessment, with no allowance made for inflation.
- All property stored in the hall but actually belonging to groups that use the hall regularly, and not to the charity itself, is excluded from the calculations.

## RESERVES PLANNING

### FUTURE PROJECTIONS

The information gleaned from the inventory of assets and subsequent estimates and calculations is also used:

- to project the year in which an asset might need maintenance or replacement; and
- to project the possible capital expenses per year for each of the next few years.

As regards projecting the time scale:

- for some assets the projection can be reasonably accurate (e.g. internal and external redecoration; re-lamping of the main hall);
- for others it can be no more than a 'guesstimate' (e.g. boiler replacement); and
- for yet others, it can be a useful reminder for the trustees to consider whether it is time to consider renewal of items that may have exceeded their useful life (e.g. notice boards, vacuum cleaner, computers).

The projection of possible **Capital Expenses** per year for each of the next few years can obviously be only as accurate as the time-scale projections: reasonably accurate for some and no more than a 'guesstimate' for others. Nevertheless, such projection show what **Capital Expenses** need to be provided for in the shorter term, even if the exact timetable is unknown.

These projections also show that the total **Capital Expenses** required in any one year can vary widely from year to year (e.g. from £0 in one year to £16k in another, without allowing for inflation). While some such expenses could clearly be rescheduled to even out annual fluctuations, other significant expenses (e.g. boiler failure, roof repairs) will have to be incurred promptly when they arise.

## LONG-TERM CAPITAL EXPENSES

Although some items have estimated lifetimes of, say, 5 – 10 years, others have estimated lifetimes of 20 – 25 years or more. It is, however, often the items with the longer lifetimes that also have the larger replacement or repair costs.

The current policy spreads those large costs over the remaining lifespan of the assets, and allows the gradual build-up of funds to cover their eventual replacement or repair.

## SPENDING FROM CAPITAL RESERVES

When the maintenance or replacement of items included in the **Capital Reserve** calculations becomes necessary, then those costs are taken *from* the **Capital Reserves**. This means that in some years, the amount spent *from* **Capital Reserves** will *exceed* the **Annual Allocation** added *to* the **Reserves**, whereas in other years the **Annual Allocation** will exceed the amount spent.

Over the long term, the amounts allocated annually *to* the **Capital Reserves** should approximate to the amounts spent *from* the **Capital Reserves**.

## GROWTH IN CAPITAL RESERVES

Because the amounts allocated annually to the **Capital Reserves** will eventually be spent on maintenance and replacement of the corresponding assets, the net amount held for **Capital Reserves** over the longer term should theoretically average out at zero: the reserve allocations are merely being used to spread expected essential expenditure over the asset's lifetime.

Although it is not intended that there should be any significant long-term growth in the net amount held for **Capital Reserves**, it is nevertheless envisaged that there *could* be slight growth in the net amount held for two reasons:

1. The sum required will, of course, need to change — and most likely increase:
  - a. with inflation;
  - b. with changes in labour and material costs; and
  - c. with any improvements in hall facilities and any additional assets acquired.
2. In order to accommodate assets that have very long lifespans (see section **LONG-TERM CAPITAL EXPENSES** above) and their large replacement costs, the total held for **Capital Reserves** should be gradually increase over time to accommodate those costs until they are eventually incurred.

## ANNUAL REASSESSMENT

### ANNUAL UPDATING

The **Capital Reserve** calculations are in a continual state of flux, as:

- new assets are purchased;
- replacement assets are purchased and the assets' lifetimes and values are reset;
- maintenance is carried out and the respective item's cycle is reset and cost updated;
- assets do not need replacement as soon as projected or, conversely, need replacement sooner than projected;
- assets become redundant.

Accordingly, the **Inventory of Assets** is updated annually, with automatic recalculation of the overall annualised cost of projected long-term **Capital Expenses**.

### ANNUAL ALLOCATION TO CAPITAL RESERVES

The updated figures are then used as the basis for a recommendation by the Trustees of the amount to be allocated to **Capital Reserves** as part of each year's proposed **Budget** to be put to the **AGM**.

In addition to taking account of changes in the calculated annualised costs, in making their recommendation the Trustees will obviously consider other factors, such as the current amounts held in **Reserves**, the overall financial position of the charity, and any potential effect on hire charges.

The **Annual Allocation to Reserves** necessarily comes out of **Operational Income**.

### PROPOSED CAPITAL EXPENDITURE

At the same time, the Trustees will also review any potential maintenance and replacement items projected from the inventory for the forthcoming year.

Where there may be an option in the scheduling of the maintenance or replacement, the Trustees will consider whether to recommend that it be carried out during the year or be delayed. For other items, the Trustees will only be able to note that failure of particular items may occur and to ensure that any consequent costs can be met if necessary.

In any event, all **Capital Expenses** incurred — whether expected or not — will be taken from the **Capital Reserves**.

### NET MOVEMENT IN CAPITAL RESERVES

In some years the **Capital Expenditure** — whether planned or unexpected — will exceed the **Annual Allocation**, resulting in an overall reduction in the total **Capital Reserves**. In other years, the **Annual Allocation** will be the greater amount, resulting in an overall increase in the total **Capital Reserves**.

### BALANCE OF OVERALL RESERVES

Additionally — and particularly if there is a projected or anticipated net reduction in total **Capital Reserves** — the Trustees will also need to ensure that the projected balance of **Overall Reserves** will be sufficient to meet the **Contingency Reserves** requirements.

## ANNUAL BUDGET

A proposed **Budget** for the forthcoming year is put together taking account of:

- the projections and recommendations on **Overall Reserves** thus formulated by the Trustees, specifically:
  - the proposed **Allocation to Reserves**;
  - the proposed **Maintenance and Replacement Programme** for the forthcoming year; and
  - the consequent proposed **Expenditure from Reserves**;
- **Operational Income and Expenditure** predictions; and
- any possible **Grant Income** and **Capital Improvements**.

The proposed **Budget** and the details behind it are explained to those present at the **AGM** (which is open to all local residents). Ultimately it is for the **AGM** to approve or change the proposals put forward by the Trustees.

In making decisions on the proposed **Budget**, the Trustees and those voting at the **AGM** need to bear in mind that the **Reserves Policy** is a long-term policy to ensure the future financial stability of the charity and the future maintenance and status of the charity's assets, and that it should not therefore be unduly influenced by short-term considerations.