

Title: Reserve Requirement 2020/21

Agenda Item: 7a

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Date: 25 February 2020

Background

The Board agreed in December 2020 to move an intention to hold 3 months' costs as a Reserve, to a risk-based approach to calculating its Reserve Requirement. The Finance Sub Committee considered at its meeting of 10th February the key risks faced by HM in 2020/21. Members of the Committee are reviewing a proposal for the Reserves Requirement for 2020/21. The proposed Reserves Requirement will be tabled at Board, for discussion on 25th February.

Relevant information

- 1) The proposed reserve requirement for 2020/21 is £25k:
 - Our greatest risk at present is Safespace so we might attribute a 10% risk rating to that. This would mean setting aside 10% of £100k = £10k.
 - A much lesser risk would be redundancies as we have never had any. So we could use a 2% risk rating and apply it to our salary costs of £340k. This would mean an additional £7k of reserves.
 - Then to cover lease agreements and any other estates issues we could estimate a further £8k.

We already have £12,800 in the designated reserves account so we would need to move a further £12,200 from the unrestricted funds.

- 2) We seek advice and support from NCVO to assist us in maturing our approach to calculating our reserves requirement based on risk.
- 3) A more forensic analysis of all potential risks and costs could be undertaken, but the value of this may not be high. If, later with hindsight, it proves that a more forensic approach would add value, this can be our next step in improving e.g. for 2021/22 Reserve Requirement.
- 4) We should undertake a lessons learned exercise within Finance Sub Committee, and discuss the lessons learned at Board e.g. in September.

Recommendation

The Board is asked to approve the Reserves Requirement of £25k.