

BSG Reserves Policy (January 2017)

This reserves policy was prepared by the BSG Finance Sub-Committee and then endorsed by the Executive Committee in September 2016.

In setting out its Reserves Policy, and in line with guidance from the Charity Commission, the Executive Committee considered what level of free reserves¹ is appropriate to hold in order to support (i) the Society's existing strategic objectives (available on the BSG website at <http://www.geomorphology.org.uk/bsg-finance-and-constitution>), (ii) its long-term development and sustainability, and (iii) its financial resilience in the event of any unexpected and significant shortfall in income, with due consideration to the Society's risk register. In particular, the Executive Committee considered the balance of risks and rewards involved in holding free reserves for these different purposes, and the potential tensions between them. For example, accruing a large reserve provides very strong financial resilience but limits expenditure and thus hinders the Society's ability to deliver its strategic objectives. Furthermore, as a Society with a small turnover, the Society does not foresee the need to accrue the large reserves necessary to invest in large-scale strategic initiatives (in the way that charities with a much larger turnover might wish to invest in capital programmes, for example).

Consequently, the Executive Committee determined that the over-arching concern of this policy should be to set a target level for free reserves that does not adversely affect the Society's delivery of the Society's current mission, but which offers financial resilience in the event of a significant shortfall in income. Specifically, the Executive Committee identifies three specific categories of spend that would be necessary to assure financial resilience in such a circumstance:

- **Category 1: Annual Fixed Liabilities.** Defined as the essential costs required to keep the Society in existence, the Executive Committee has agreed that AFL comprise the costs of hiring the Society's Administrative Assistant, hosting and maintaining its website, a modest allowance to support committee meetings, as well as required insurance and accountancy fees. The target reserves to cover expenditure against these items together amounts to a total of **£34,500** (i.e. £11,500 per year for a three year period as detailed in Appendix 1).
- **Category 2: Optional Liabilities for Continued Delivery of the Society's Mission.** The Executive Committee agreed that, in the event of a significant loss of income, it would be necessary to continue to try to support delivery of the Society's strategic mission, albeit at a reduced level, and at a rate that declines over time. This decision is based on the recognition that removing all the benefits of membership in response to a

financial shock may compound any crisis in that there would be little incentive for members to renew their subscriptions if the benefits of membership were reduced too quickly. The target reserves needed to cover expenditure against the optional liabilities agreed by the Executive Committee amounts to a total of **£13,725** over a three year period (see Appendix 2 for breakdown).

- **Category 3: Enabling Crisis Recovery.** To build-in resilience in the event of a significant loss of income, the Executive Committee has agreed to allocate reserves of **£10,000** to be invested in 'one off' costs (e.g. legal advice) associated with efforts to acquire alternative sources of income.

The sum of the funds allocated to Categories 1, 2 and 3, which the Executive Committee therefore considers to be an appropriate free reserves target, amounts to **£58,225**, which is approximately 75% of the Society's projected annual income in 2017. Budget projections indicate that the Society is likely to hold approximately £68,500 as free reserves at the end of the calendar year 2016. Consequently the Society will operate a budget deficit to complete its planned reserves drawdown strategy in 2017.

In the Executive Committee's view, the above target level of free reserves should provide the Society with adequate financial stability and the means for it to meet its charitable objectives for the foreseeable future.

The Executive Committee therefore propose to maintain the charity's reserves at a level which is commensurate with the principles outlined above and have done so having regards to its manner of operation of likely funding streams.

The Executive Committee will review the amount of reserves that are required to ensure that they are adequate to fulfil the charity's continuing obligations, on an annual basis at the May/June meeting of the Society's Finance Sub-Committee, with exceptional reviews also occurring in the event of significant changes in the Society's income (for example, exceptional reviews would be held at the point of each renegotiation of its contract with Wiley or if there are significant changes of membership numbers). All such reviews will ensure that the reserves policy remains aligned with the Society's mission.

Notes

¹ Free reserves are defined as easily accessible liquid assets. These are distinct from the reserves reported by our accountants to the Charity Commission (which are inflated due to the timing of income from Wiley) and are held as cash in an easy access account.

Appendices

Appendix 1: Definition and Breakdown of Annual Fixed Liabilities (Budgets based on 2017 estimates)

Item	Budget (£)
Administrative Assistant's Salary	4,500
Website	2,500
Committee Expenditure (enables EC to continue to meet, albeit at reduced cost relative to current accounts)	1,000
Insurance	1,500
Accounting Fees	2,000
TOTAL AFL	11,500

Note that the Executive Committee considers that sufficient reserves are needed to cover the annual fixed liabilities for a period of 3 years. This time frame is sufficient to enable recovery following a significant economic shock. Alternatively, if recovery were not possible within that timeframe then it may be necessary to wind the Society up, or restructure it significantly following discussion with members at an AGM or EGM.

Appendix 2: Definition and Breakdown of Optional Liabilities (Budgets based on 2017 estimates)

Item	Year 1 (£)	Year 2 (£)	Year 3 (£)	Notes
Research SC	10,000	5,000	0	Currently £34k pa
Outreach SC	1,250	625	0	Currently £5.1k pa
Publications SC	0	0	0	Currently £3.5k pa*
PG Forum	300	300	0	Currently £600 pa
Windsor workshop	2,500	1,250	0	Currently £5.5k pa
AGM subsidy	5,000	2,500	0	Currently £10k pa
IAG Membership	0	0	0	
Sub-total	19,050	9,675	0	
Anticipated subscription income	10,000	5,000	0	
REQUIRED DRAWDOWN FROM RESERVES	9,050	4,675	0	

*A zero budget for publications reflects the most likely risk of a catastrophic loss of income is associated with the loss of the Wiley contract

The Executive Committee considers that it is not appropriate to allocate reserves for optional liabilities in year 3 of financial recovery because by that time either new income streams would be established or about to be established or it would have become evident that it would be necessary either to wind the Society up, or to restructure it significantly (both possibilities following discussion with members at an AGM or EGM).