

# **Tyne & Wear Archives & Museums**



## **Reserves Strategy**

Version: January 2022

Next Review: January 2025

## Introduction

- **Purpose of the Strategy**

Tyne & Wear Archives & Museums (TWAM) maintains adequate financial reserves to meet the needs of the organisation and to deliver services in the future. The purpose of this strategy is to set out TWAM's overall approach to reserves which will be defined by the system of internal control. TWAM recognises that a reserves policy gives confidence to funders by demonstrating good stewardship and active financial management and manages the risk to TWAM's reputation from holding substantial unspent funds at the year-end without explanation
- **The Strategy's Role in TWAM's Control Environment**

The system of internal control is set out, and its effectiveness reviewed, in the Governance and Assurance Statement. Key elements of the internal control environment are objective setting and monitoring, policy and decision-making, compliance with statute and procedure rules, risk management, achieving value for money, financial management, and performance management.
- **TWAM's Joint Agreement**

TWAM is not a separate legal entity, nor does it have a separate bank account, and therefore does not need to maintain reserves to meet running costs in the event of unforeseen financial difficulties. The Joint Agreement, signed by the four council partners, sets out the terms and conditions of the relationship and how financial commitments will be met in the event of the termination of the Agreement. TWAM does, however, maintain voluntary reserves to allow it to operate effectively from year to year.

## Types of reserves

As TWAM uses the Charity SORP as its accounting standard it defines its reserves in line with that SORP and the TWAM reserves therefore comprise General Funds, Designated Funds and Restricted Funds.

- **General funds** are that part of TWAM's unrestricted funds that are freely available to spend on any of TWAM's purposes.
- **Designated Funds:** The Strategic Board sets aside specific amounts as designated reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts from General Funds.
- **Restricted Funds** are funds which are to be used in accordance with specific restrictions imposed by donors or which have been raised by the entity for particular purposes. The aim and use of each restricted fund is set out in the notes to the financial statements.

## Objectives of the strategy

The objectives of TWAM's risk-based reserves strategy are to:

- **Be Forward Looking:** Hold Designated Funds for specific, known strategic initiatives.
- **Deliver funder objectives:** TWAM holds Restricted Funds where funders have placed conditions on how TWAM uses the funds.
- **Provide Financial Resilience:** ensure an adequate level of reserves to cover the financial risks faced by TWAM (e.g. mitigate the impact on the revenue budget of unexpected events or emergencies or uneven cash flows), and provide an element of temporary cover and flexibility which may be used during the year to deliver business as usual.

## Overarching Principles

The primary purpose is to manage financial risk and promote financial sustainability. Subject to meeting this requirement TWAM will:

- Maximise the ability to use reserves flexibly to deliver the organisation's priorities; and
- Control the amount of scarce resources held in reserves.

The Strategy also needs to be considered in the context of:

- **The Joint Agreement:** The Joint Agreement, signed by the four council partners, sets out the terms and conditions of the relationship and how financial commitments will be met in the event of the termination of the Agreement.
- **Adequacy of the level of General Reserves:** As Local Authorities set their budgets annually, during the budget setting process, a risk assessment will be undertaken by the Head of Finance, Governance & Resources to consider whether the planned level of reserves and balances is adequate, covering the following areas:
  - Is performance against the current year's budget reflected fully?
  - Have realistic income targets been set?
  - Has 'at risk' external funding been identified?
  - Has a reasonable estimate of cost pressures been made?
  - Have one-off cost pressures been identified?
  - Are arrangements for monitoring and reporting performance against the budget robust?
  - Is there a reasonable contingency available to cover the financial risks faced by TWAM?
  - Is there a reasonable level of reserves, which could be used to mitigate any issues arising?

The assessment will be scored using a 'traffic light' system, where each item is marked as Red, Amber or Green (RAG), using the Risk Tolerance Table from TWAM's Risk Management Framework.

- **Good Financial Stewardship**

TWAM is not a separate legal entity, nor does it have a separate bank account, and therefore does not need to maintain reserves to meet running costs in the event of unforeseen financial difficulties.

- **Transparency**

The Statements of Accounts includes a section on the level of reserves held at the end of the accounting period and compares with the amounts recommended by this Strategy, and where relevant the proposals for bringing reserves back in line with the Strategy.

- **Opportunity Cost of 'Excess' Reserves**

In addition to allowing TWAM to manage unforeseen financial pressures and plan for known or predicted liabilities, there is a benefit to holding reserves in terms of the interest earned on funds which are not utilised. This investment income is fed into the budget strategy.

However, there is an "opportunity cost" of holding funds in reserves, in that these funds cannot then be spent on anything else. As an example, if these funds were used to repay debt the opportunity cost would equate to the saving on the payment of interest and the minimum revenue provision, offset by the loss of investment income on the funds. However, using reserves to pay off debt in this way would leave TWAM with inadequate funds to manage unexpected risks and would not provide a mechanism to fund the planned expenditure for which the reserves were earmarked.

Given the opportunity costs of holding reserves, it is critical that reserves continue to be reviewed each year as part of the budget process to confirm that they are still required and that the level is still appropriate.

### **Designated Funds:**

- **Utilisation of and adequacy of Reserves**

TWAM makes transfers to reserves from general funds in line with the underlying purpose of the reserve.

Expenditure from reserves can only be authorised by the Director in conjunction with the Head of Finance, Governance & Resources.

Designated Funds are held for specific purposes and generally would not need to be replenished, having served the purpose for which they were originally established.

All designated funds will be subject to a year-end review by the Director in conjunction with the Head of Finance, Governance & Resources

At the end of each financial year for each reserve a delivery plan will be prepared that sets out:

- Plans for use of the reserve including sunset clauses/closure dates
- Benefits to be delivered from the investment
- If a decision is made to continue holding a Designated Funds after the current balances are utilised, that decision will also include plans for topping up the reserve.

### **Restricted Funds:**

- **Utilisation of Reserves**

TWAM makes transfers to restricted reserves from general funds in line with the conditions imposed by the funder, or for purposes relevant to the stakeholder where the 'surplus' was generated.

Expenditure from restricted reserves can only be authorised by the Director in conjunction with the Head of Finance, Governance & Resources.

As Restricted Funds are reserves of money that can only be used for specific purposes, no separate assessment is needed.

### **General Reserves:**

General Reserves are the part of TWAM Reserves which are the funds TWAM can freely spend on any of its objectives and aims.

- **Utilisation of General Reserves**

TWAM makes transfers to reserves from general funds in line with the underlying purpose of the reserve.

Expenditure from reserves can only be authorised by the Director in conjunction with the Head of Finance, Governance & Resources.

- **Adequacy of the level of General Reserves:**

An annual risk assessment will be undertaken by the Head of Finance, Governance & Resources using the questions set out above to consider whether the planned level of General Reserves is adequate.

The level of general reserves or working balances is a matter of judgement and so this policy does not attempt to prescribe a blanket level. The primary means of building working balances will be through an allocation from the annual budget. This will be in addition to any amounts needed to replenish reserves that have been consumed in the previous year. In the present financial climate it is unlikely that regular contributions to reserves can be made.

## Governance of the Strategy

- **Role of TWAM Strategic Board**

Is responsible for ensuring TWAM's continuing financial viability and long term sustainability. This includes making sure that their reserves policy is put in place and operating effectively.

On an annual basis as part of the budget setting process, the Strategic Board will review the amount of reserves that are required to ensure that they are adequate to fulfil TWAM's continuing obligations.

- **Role of Audit Committee**

Is responsible for regularly monitoring and reviewing the effectiveness of the policy in the light of the changing funding and financial climate and other risks.

- **Role of TWAM Development Trust**

The Trust fulfils its objectives and supports TWAM to deliver its strategic vision by raising funds from individual donors, trust and foundations and accepting gifts to support a wide variety of museum and archive activities.

As TWAMDT is a separate legal body, it is required to maintain its own Reserves Strategy.

- **Role of TWAM Enterprises Board**

TWAME supports TWAM to deliver its strategic vision by undertaking commercial and enterprise activity to increase self-generated income and gifting its profits to the TWAM Development Trust.

- **Role of Exhibitions by TWAM**

Exhibitions by TWAM supports TWAM by managing all exhibition production activities, and enabling TWAM to benefit from Museums & Galleries Exhibition Tax Relief. All tax relief will be gifted to the TWAM Development Trust.

- **Role of TWAM Leadership**

Undertake an annual assessment of the adequacy of reserves held by TWAM, using the risk assessment outlines above and report on the findings to Audit Committee and each Board.

The level of the reserves will be a matter of judgement which will take account of the specific risks identified through the various corporate processes, in particular any predicted or predictable variations in income or expenditure. TWAM will work to build and maintain sufficient working balances to cover the key risks it faces, as expressed in its strategic risk register.

In the event that the annual risk assessment concludes that the planned level of reserves and balances is insufficient a report on options will be presented to Strategic Board.