
BibleLands reserves and investment policy

Purpose

The Charity Commission makes clear that trustees are under a general legal duty to apply charity funds within a reasonable time of receiving them. However, the Commission also recognises that charities may want to put aside, when they can afford it, some of their current income as a reserve against future uncertainties, to fund working capital or to underpin longer-term commitments.

The more precise definition of such reserves in the 2005 Statement of Recommended Practice for Charities (SORP) is "*that part of a charity's income funds that is freely available for its general purposes.*" This definition of reserves is therefore normally taken to exclude permanent and expendable endowment funds, restricted income funds and any part of unrestricted funds not readily available for spending (eg income funds which could only be realised by disposing of fixed assets held for charitable use).

Thus "reserves" is income which becomes available to the charity and is to be spent at the trustees' discretion in furtherance of any of the charity's objects but which is not yet spent, committed or designated (ie it is "free").

The SORP requires trustees to include a statement in their annual report about the level of reserves held and the reasons for this. To justify their holding of reserves, trustees should have a reserves policy based on a realistic assessment of their reserves needs. The policy should cover the reasons why the charity needs reserves, what level of reserves the trustees believe the charity needs, what steps the charity is going to take to establish or maintain reserves at the agreed level, and the arrangements for monitoring and reviewing the policy.

This document sets out a reserves policy for BibleLands which meets the requirements of SORP but which also:

- Sets out the particular issues involved in calculating our reserves
- Provides guidelines on how reserves will be managed and maintained, including the allocation between bank accounts and funds placed with investment managers
- Sets out in **Appendix A** a detailed investment policy

Why BibleLands need reserves

There are four key features of BibleLands which bear on its need for reserves:

- 95% of its income is derived from charitable donations and legacies, of which only 32% are from regular donations such as direct debits.
- It is a grant-making charity, providing a mixture of revenue and capital grants, with close and long-standing relationships with its overseas partners, and it would want to mitigate as far as possible the short-term impact on its partners of any unexpected and precipitous drop in the income of BibleLands.

- BibleLands' ownership of the Helen Keller Centre in Jerusalem and its provision of some two-thirds of Helen Keller's operating costs (with the balance coming from more uncertain sources) leaves the charity exposed to potentially uncertain liabilities at Helen Keller.
- There is an increasing focus at BibleLands on supporting one-off special projects, and BibleLands wants to hold sufficient reserves to allow it to invest when appropriate in strategic projects which are consistent with its charitable objectives, while recognising that in some years no such projects may materialise.

In addition to the factors above, prudence would suggest that BibleLands should keep some limited level of reserves for unforeseen contingencies, including upkeep of our (owned) premises.

How BibleLands calculates reserves

In the past BibleLands has calculated charity reserves (ie excluding any funds held in the trading subsidiary) by adding cash at bank and in hand to investments. The figures have been as follows:

£'000	30 Apr 2008	31 Dec 2008	31 Dec 2009	31 Dec 2010	31 Dec 2011
	Actual	Actual	Actual	Actual	Unaudited
Cash	1,199	1,329	1,047	1,539	816
Investments	2,852	2,374	2,636	2,752	2,803
Reserves	4,051	3,703	3,683	4,291	3,619

The increase in the unaudited position at 31 December 2010 was due to the net receipts from the move from Hazlemere to Amersham.

Going forward, it is proposed that reserves be calculated in a way that is more consistent with Charity Commission guidance, ie looking at genuinely "free" reserves which are not restricted, designated or committed.

- **"Committed"** for this purpose does not include our standard grants to overseas partners or the Helen Keller Centre, since such grants are effectively discretionary and dependent on a number of factors, including the provision of reports by partners and the ability of BibleLands to raise the funds.
- **"Restricted"** means any income where the donor has stipulated the recipient or purpose of the fund and therefore trustees do not have full discretion over its use.
- **"Designated"** means funds or reserves that are set aside to be used for specific purposes, either by decision of the trustees (which must be recorded formally as such) or because of the nature of the reserves; this will include funds which cannot be realised other than by the sale of the fixed assets of the charity.

However, if restricted funds not yet expensed and designated funds are deducted, then the free reserves figures are as follows (NB designations were not made prior to 2010):

£'000	30 Apr 2008	31 Dec 2008	31 Dec 2009	31 Dec 2010	31 Dec 2011
	Actual	Actual	Actual	Actual	Unaudited
Total Reserves	4,163	3,720	3,716	5,162	4,503
Designated funds (FAs)	(414)	(475)	(363)	(1,042)	1,035
Other desig'd funds				(365)	(200)
Restricted funds	(298)	(347)	(151)	79	(180)
Free reserves	3,451	2,898	3,202	3,676	3,088

From the 2011 accounts onwards, it is proposed that we show the designated (ie not truly 'free') reserves on the face of our balance sheet, so as to give a more accurate picture of the charity's liquid or near-liquid reserves.

Proposed level of reserves

Bearing in mind the reasons given above on why BibleLands needs reserves, it is proposed that our stated reserves policy (as expressed in our annual report) be changed along the following lines:

"The trustees are of the opinion that, to ensure the continuity of our wholly owned operations at the Helen Keller Centre in Jerusalem and the continuity in the short-term of grants to other overseas projects which we have supported for many years, general unrestricted funds should fall within a range of between 12 and 18 months of core grant expenditure (including support for the Helen Keller Centre) together with approximately six months of UK administrative expenditure. This being reserves of between £● and £● at 31 December 2011. If the level of free reserves falls below the minimum threshold or rises above the maximum threshold, then trustees will give priority to increasing or decreasing the level of free reserves as appropriate. The reserve policy will be reviewed on an annual basis"

Ranges are allowed by the Charity Commission. The advantage of ranges is that they are very transparent in providing explicit parameters within which trustees will act or not as the case may be. Ideally, reserves would be set with the following year's budget in mind, but since the budget is not a public document the only transparent point of reference is the annual report and accounts.

A target range of 12-18 months of grant expenditure is probably higher than the average amount of reserves held by large UK charities with income in excess of £1m (estimated by the Charity Commission in 2004 as being 10.2 months, down from 11.6 months in 2001) but this reflects the fact that:

- Many charities hold reserves significantly less than their stated targets
- The long-term nature of our partnerships, and our exposure to any shortfall in other income at Helen Keller, would suggest that a target or range in excess of the 'standard' 12 months of expenditure is indicated

The six months of budgeted administrative expenditure is an allowance for the administrative and other costs that would be incurred (staff salaries, redundancy etc) if BibleLands were wound up, whilst still enabling partners to receive sufficient income in order to allow them to source alternative funding or complete projects.

A number of charities publish a reserves policy with a target or maximum limit of 15-18 months of budgeted expenditure, including USPG, RNLI (which has an even wider range of 6-18 months) and Epilepsy Action (9-18 months).

Our auditors have advised that our published reserves policy should state in £ terms what level of reserves the trustees wish to hold – this needs to be based on budgeted figures for the forthcoming year. The reserves policy has been re-drafted to include a statement to this effect.

Maintaining reserves

Once the level or target range of reserves has been agreed, it is necessary to decide how reserves will be managed and/or invested. This involves the following decisions:

- To what extent reserves need to be held in a very liquid form (ie cash or near-cash, including notice accounts).
- Whether some part of reserves can be invested through a fund manager in non-cash instruments, eg equities or other securities, in order to achieve better investment returns.
- What authorisation levels apply to the withdrawal of funds from the investment portfolio.

Not all reserves which are ear-marked for grant payments (“available funds”) are required to be held in a very liquid form; for example, at the beginning of a commitment year funds held against commitments timed for the latter part of the year can be invested in notice accounts or other types of non-cash investments. However, since security of the funds is also an important consideration, investing such monies in equities or other securities would not be appropriate.

Accordingly, the charity will monitor projected cash flows and review actual holdings against plan. Based on this review a prudent investment plan will be devised, based on the following guidelines:

1. The total of funds held in very liquid form (cash or near-cash) should be held at a level at least equal to one quarterly payment of core grants, and six weeks of Helen Keller expenses and administrative expenses (for 2011 this equates to approximately £350,000).
2. An additional ‘buffer’ also equal to one quarterly payment of core grants and six weeks of Helen Keller expenses and administrative expenses may be held in notice accounts with notice periods of 30-60 days, if such accounts can be shown to offer a significantly higher rate of interest than the normal.

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3. The sum of (1) and (2) above should not normally fall below the level of restricted or designated funds (less funds designated to cover fixed assets) shown in the charity's accounts, since such funds, having been given or held for specific purposes, should not be exposed to undue risk.
 4. Free reserves in excess of these will be remitted to the investment manager on a monthly basis, to be managed on the basis of the Investment Policy appended at **Appendix A**, or disbursed as discretionary grants in accordance with the charity's objectives.
 5. Cash or near-cash funds may occasionally fall below the level indicated in (1) or (2) above, but this will be monitored on a weekly basis and where it is evident that the shortfall will be continuing for more than a few days, the investment manager will be consulted regarding making funds available at short notice.

Notwithstanding the authorisation limits contained in the charity's Financial Control policy, no changes (cash withdrawals or additions) shall be made to the investment portfolio without the written consent of both an authorised member of management (being the Chief Executive or the Finance Officer) and an authorised member of the Council (being one of the chair of trustees or the treasurer).

Monitoring

The day-to-day monitoring of this policy will be the responsibility of the Chief Executive who will be expected to bring any issues to the immediate attention of the Council. Reports on the reserves position, including a report on the performance of investments, will be submitted to each meeting of the Finance & Audit Committee and to each Council meeting. This reserves policy will be reviewed annually by the Council, on the basis of an initial review by the Finance & Audit Committee.

Policy prepared by:	Jeremy Moodey, CEO
Effective from:	1 February 2012
Policy approved by:	F&A Committee. 19 January 2012
Review date:	1 February 2013

INVESTMENT POLICY

Introduction

The Charity Commission recognises that many charities wish to invest some proportion of free reserves in order to generate extra income or capital growth to fund future activities. Investment for this purpose includes

- Shares or other securities issued by companies;
- Land rented or leased out by the charity to tenants;
- Interest-bearing loans by the charity, for example, government bonds, company loan stock, deposits at banks and building societies; and
- Units in collective investment schemes, such as unit trusts, open-ended investment companies or common investment funds.

The Charity Commission strongly recommends that trustees decide on an investment policy for their charity, record it clearly in writing, and keep it under regular review – if they have delegated their investment function to an investment manager these are legal requirements. In fact, regulation 7(4)(k)(ii) of the Charities (Accounts and Reports) Regulations 2000 requires trustees who have delegated their investment function to an investment manager to include in their annual report a statement of the charity's investment policy. Without an investment policy, trustees are likely to find it difficult to demonstrate that they are making good use of the charity's funds. The content of investment policies is not prescribed, but typically they cover:

- What the charity is trying to achieve through the investment of its funds
- The balance between capital growth and income return that is needed by the charity in order for it to meet its objects
- The parameters of the degree of risk the charity is willing to take in the investment of its funds
- Any special provisions, including (if appropriate) the charity's stance on ethical investment
- How often the charity's investment policy will be reviewed.

BibleLands investment policy

The amount available for investment is set out in the reserves policy above. BibleLands will delegate its investment function to an investment manager, currently Investec, on a managed advisory basis. In investing such sums, trustees are seeking to act prudently in the pursuit of two objectives:

- To provide an income to help the charity carry out its purposes effectively in the short term; and
- To maintain and, if possible, enhance the value of the invested funds, so as to enable the charity effectively to carry out its purposes in the longer term.

The trustees will determine the balance between income and capital growth, depending on the operational requirements at the time and the prevailing market conditions, but at the moment a balanced strategy aimed at income

and growth is preferred. The preferred risk profile is that the portfolio should be exposed to a moderate level of risk. The strategic allocation by asset class should be within the following bands, which should be reviewed by trustees on an annual basis:

Sector	Permitted range
	%
UK equities	30 – 60
Global equities excluding UK	10 – 30
Fixed interest	15 – 30
Alternative investments ¹	0 – 15
Cash	0 – 10

¹ Hedge funds, private equity, infrastructure, commercial property

No more than 10% of the portfolio should be held in a single stock.

The time horizon for the portfolio is to be regarded as long term, in that the charity plans to continue in operation indefinitely. Performance will be assessed yearly and measured by comparing performance against a bespoke benchmark, being a composite of indices based on the mid-points of the above ranges, ie 45% UK equities, 22.5% fixed interest, 20% global equities excluding UK, 7.5% alternative investments and 5% cash.

Ethical investment

BibleLands wishes to invest in companies which are concerned with the ethical aspects of their operations and in going about their business activities to conserve energy and natural resources, reduce waste and control pollution and provide products and services of long term benefit to the community and environment.

Accordingly, BibleLands will not consider investing, either directly or (to the extent that individual holdings can be determined) indirectly in companies which:

- are involved in the production, distribution or sale of pornographic material;
- are involved in the manufacture or sale of alcoholic drinks or which derive more than 10% of their reported turnover from these activities;
- are involved in the production of tobacco or tobacco related products or companies which derive more than 10% of their reported turnover from the sale of these products;
- derive more than 3% of their reported turnover from gambling;
- are involved in providing personal loans and credit facilities to vulnerable individuals at unscrupulous interest rates; and/or
- are involved in the manufacture or sale of armaments.

It is recognised that investment in collective investments (eg unit and investment trusts) should not be constrained by the ethical restrictions above, provided no identifiable “top holdings” or sectors held by the collective investment fall within the restricted areas. If it becomes known that a new “top holding” or sector focus breaches our ethical restrictions,

then the investment should be sold within a timescale to be agreed with the BibleLands Chief Executive.

Monitoring and review

This investment policy is an integral part of, and should be read in conjunction with, the Reserves Policy. It will be appended to any client agreement signed with our investment manager and will be reviewed on an annual basis by trustees at a meeting of the Finance & Audit Committee at which the charity's appointed investment adviser will be in attendance.