



1 Our Beneficiaries:

Musical Connections delivers a range of regular participatory music sessions provided for the benefit of older people in York - particularly those who are vulnerable, socially isolated or at risk of isolation and/or living with a physical / mental health condition such as dementia. The charity also benefits adults of all ages with learning disabilities. These sessions are offered to beneficiaries in a range of care and community settings across the wider York area.

2 Brief Statement of Musical Connection’s Policy on Reserves:

Musical Connections used the following definition of reserves when developing this policy:

“The amount of money that a charity holds unspent as a buffer against those “rainy days” where, for a variety of reasons, the charity finds that its payments are outstripping its receipts in a way that, without reserves, the charity would be unable to pay its bills on time.”

The Trustees have considered the need for reserves based on the following four areas:

- Cash-flow – situations where a bill must be paid before the money to cover it has been received;
- Contingency – unexpected expenditure in the event of an emergency;
- Commitment – a commitment to expenditure which cannot be covered by the annual income; and
- Closure – the charity becomes financially unsustainable and must be wound up.

After careful consideration of all the above, the preferred policy is to maintain a sufficient level of reserves to ensure a sustainable closure of Musical Connections, which has been estimated as 6 months running costs plus a 10% fee to cover any professional services required. At the projected level of operation for 2020/21 this is estimated as £35.5k. These reserves would provide financial stability and the means for the development of principal activities.

As Musical Connections is a very young charity, having been established mid-way through the 16/17 financial year, the reserves held are not yet at the level this policy outlines. The Table below shows how the reserves have grown over the last two financial years to £22,383 at the end of 19/20, which equates to 63% of the maximum level of reserves agreed as necessary by the charity trustees.

Table – Current Reserves Position

	Current Year (19/20)	2018/19	2017/18
Unrestricted funds (RESERVES)	£22,383	£22,712	£20,141
Restricted funds	£40,917	£57,587	£28,223
Ratio of Reserves to Annual Operating Expenditure	35:65	27:73	42:58

The Board of Trustees regularly review the amount of reserves held at their meetings six times a year, to ensure they are adequate to fulfil continuing obligations, and can be managed accordingly.

This reserves policy will be reviewed annually at the May meeting of the trustees.

3 Cash Flow:

Musical Connections is heavily dependent on grant funding for its income, indeed 65% of its income profile is associated with external grants. The unpredictable nature of applying for grants could potentially lead to a

funding gap, thereby needing the charity to use its reserves to be able to continue delivering to its beneficiaries.

The annual operating costs of Musical Connections were £75.3k in 2019/20, with an average monthly spend of approximately £6,278 ranging from as low as £100 to a peak of £13,974. If income from regular session fees and contributions are deducted at an average of £1276/month, this leaves a maximum potential gap in funding of just under £12.7k.

4 Contingencies:

The risk analysis of Musical Connections highlights several scenarios that would have a potential financial risk to the future of the charity.

Some of these are negligible, such as the loss or damage to key musical equipment others whilst are more major and may involve injury to a participant or musician during a session or event. This latter one should be covered by the contracted musician's, Musical Connection's or venue's public liability insurance policy. The risk of a funding gap has been covered above in Point 3 Cash Flow above.

It would be highly unusual for all financial risks to occur at once, but if there were a number of mitigating situations that adversely affected Musical Connection's long-term sustainability such that it leaves the charity to be no longer viable e.g. loss of quality musicians, a major grant or trustee support, the costs of an enforced closure would need to be considered (see Pt 6 below).

5 Commitments:

The cost of providing the "must do" activities for the charity's beneficiaries e.g. running the weekly participatory music sessions and the community choirs, plus core costs associated with these, is projected at approximately £66.5k for 2020/21. There are regular, voluntary contributions to these sessions from participants and it is estimated that these would be approximately £11k for 2020/21. Therefore, the net commitment Musical Connections would need to ensure it could provide these "must do" activities would be £55.5k. From analysing the actual payments and receipts from 19/20, £56k of grant funding was eligible to be spent last year. If the same level of annual grant funding is estimated for 20/21, as was received in 19/20 i.e. £56k, there would be no funding gap needing to be found from reserves.

The additional activities that Musical Connections would like to provide but are not critical to its operation cost approximately £9k and include providing opportunities for groups to come together at intergenerational events such as the Big and Little Sings amongst other initiatives. If these activities were to be provided, and the level of grant funding was as mentioned above, an additional £9k would need to be drawn down from the reserves.

Thereby based on the following assumptions, as detailed above:

- if both the above "must do" and "like to do" services were provided, and the necessary core costs needed to deliver these were incurred (£75k);
- the level of income from session fees and contributions was £11k; and
- the level of restricted funding eligible to be spent in a calendar year to date was the same as received in 19/20 (£56k),

then total funding of £8k would need to be designated from the charity reserves to ensure it could provide these services for beneficiaries.

6 **Closure:**

In the unfortunate circumstances that Musical Connections had to wind up its activities unexpectedly, there would be several costs to the Charity. Whilst there are no premises owned or staff employed by Musical Connections there is a commitment to its beneficiaries. These are, in the most, socially isolated and vulnerable adults to whom it is important that services are wound down in a sustainable way, rather than abruptly withdrawn. Also, a few the grants received by Musical Connections are time limited and carry a commitment to deliver services for a specific time period. Therefore, it would be necessary to be able to fund the relative core costs not covered by the grant fund to enable the service to be delivered.

It is therefore prudent for Musical Connections to hold in reserves 6 months of its operating costs plus additional funds (10%) to cover any professional services e.g. legal or financial, required to aid the closure. Based on the projected operating costs for “must-do” activities (£66.5k) and regular income streams (£11k) for 20/21 i.e. a net operational budget of £55.5k for core activities, this would equate to £27.75k plus £2.775K for professional advice, totalling £30.5k.

Approval & Record of Changes Made by Trustees:

Date of Approval	Date of Change	Changed / Approved by	Comments
8 th May 2019	NA	Trustee Mtg	
6 th May 2020	6 th May 2020	Trustee Mtg	