

**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 that the annual income cannot cover; and
- Closure – the charity becomes financially unsustainable and must be wound up.

After carefully considering all the above, the preferred policy is to maintain a sufficient level of reserves to ensure a sustainable closure of Musical Connections, estimated as six months of running costs plus a 10% fee to cover any professional services required. At the projected level of operation for 2022/23, this is estimated as £42.7k. These reserves would provide financial stability and the means for developing principal activities.

**3 Level of Reserves:**

Musical Connections is a young charity; having been established in March 2016 financial year. The table below shows how the reserves have grown over the last six financial years to £36,517 at the end of 21/22, which equated to 91% of the maximum level of reserves (£40.15k) agreed upon as necessary by the charity trustees.

**Table – Current Reserves Position**

	<b>2021/22</b>	<b>2020/21</b>	<b>2019/20</b>	<b>2018/19</b>	<b>2017/18</b>	<b>2016/17</b>
<b>Unrestricted funds (RESERVES)</b>	£36,517	£27,539	£22,317	£22,410	£20,142	£10,660
<b>Restricted funds</b>	£43,688	£24,745	£40,917	£57,587	£28,223	£15,027
<b>Ratio of Reserves to Annual Operating Expenditure</b>	46:54	53:47	35:65	27:73	42:58	41:59
<b>Level of Reserves agreed in Policy</b>	£40k	£40k	£35.5k	£35k	£37k	£15k
<b>Reserves held as % of Policy</b>	91%	68%	63%	64%	54%	71%

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

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

#### **4 Cash Flow:**

Musical Connections is heavily dependent on grant funding for its income. Indeed 79% of its income profile is associated with external grants. The unpredictable nature of applying for grants could lead to a funding gap, thereby needing the charity to use its reserves to continue delivering to its beneficiaries.

The annual operating costs of Musical Connections were £72.9k in 2021/22, with an average monthly spend of approximately £6,039 ranging from as low as £76 to a peak of £11,741. The average monthly income was £8,398, ranging between £272 and £34,730. The average monthly surplus/deficit was £2,359 with a range of -£7,681 and £28,494.

#### **5 Contingencies:**

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

Some of these are negligible, such as the loss or damage to critical musical equipment. Others 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 funding gap risk has been covered above in Point 3 Cash Flow.

It would be highly unusual for all financial risks to occur at once, but if there were a few 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 significant grant or trustee support, the costs of an enforced closure would need to be considered (see Pt 6 below).

#### **6 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 £77.7k for 2022/23. Participants have regular, voluntary contributions to these sessions, and it is estimated that these would be about £12.5k for 2022/23. The charity would also expect to raise about £5k from community fundraising. Therefore, the net commitment Musical Connections would need to ensure it could provide these "must-do" activities would be £60.2k. The restricted income secured to date for 2022/23 is £64.4k and, therefore, more than covers the cost of the essential activities.

The additional activities that Musical Connections would like to provide but are not critical to its operation would cost an additional £4k and include providing opportunities for groups to come together at intergenerational events such as the Big and Little Sings, amongst other initiatives and operational/running costs. If these activities were to be provided, and the level of grant funding was as mentioned above, the annual cost of running Musical Connections would be £81.7k.

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 (£81.7k);
- the level of income from community fundraising, session fees and contributions was £17.5k; and
- the level of restricted funding eligible to be spent in 21/22 (£64.4k)

there would be no need to draw on reserves for 2022/23, as the grants secured to date would cover all the budgeted activities of the charity for the financial year 2022/23.

## 7 **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 services must be wound down sustainably rather than abruptly withdrawn. Also, a few of the grants received by Musical Connections are time-limited and carry a commitment to deliver services for a specific 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.

Therefore, it is prudent for Musical Connections to hold in reserves six 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 (£77.7k) and regular income streams (£12.5k) for 22/23, i.e. a net operational budget of £65.2k for core activities, this would equate to £32.6k plus £3.26K for professional advice, totalling £35.86k. In the worst-case scenario, where no income was forthcoming as the closure was imminent, the cost of delivering six months of must-do activities would be £38.85k. With the addition of 10% to cover professional fees, the total call on reserves could be £42.7k.

### **Approval & Record of Changes Made by Trustees:**

Date of Approval	Date of Change	Changed / Approved by	Comments
8 <sup>th</sup> May 2019	NA	Trustee Mtg	
	6 <sup>th</sup> May 2020	Trustee Mtg	
	17 <sup>th</sup> August 2021	Trustees via email	
11 <sup>th</sup> May 2022	4 <sup>th</sup> May 2022	Trustees Mtg	

