ROCHESTER
BRIDGE TRUST

Reserves Policy

Context

The Reserves Policy is intended to give confidence that finances are being properly managed; to indicate understanding of future funding needs; and confirm the Trust's overall resilience.

The Reserves Policy meets the expectations of Charity Commission Guidance CC19, which requires that charities:

- have a Reserves Policy that:
  - ❖ fully justifies and clearly explains keeping reserves;
  - ❖ identifies and plans for the maintenance of essential services for beneficiaries;
  - ❖ reflects the risk of unplanned closure associated with the charity's business model, spending commitments, potential liabilities and financial forecasts;
  - ❖ addresses the risk of unplanned closure on beneficiaries and staff;
- ensure the Reserves Policy is tailored to the charity's specific circumstances and explains what reserves are kept for and when they will be used;
- regularly monitor and review the Reserves Policy in the light of the changing financial climate and other risks; and
- publish the Reserves Policy.

The Reserves Policy seeks to ensure a level of reserves which is neither too high, tying up money unnecessarily and limiting the public benefit delivered; nor too low, increasing the risk of being unable to deliver the services and leading to unplanned closure and insolvency. The Policy is an important part of the internal financial management of the Trust, setting the context for strategic planning and the consideration of how new projects and activities are funded.

Objectives

The primary reason for holding reserves is to meet the long-term costs of maintaining Rochester Bridge, including the replacement of structures where appropriate. Such major expenditure cannot be met from income alone and it is necessary to accumulate reserves to meet the substantial future costs.

The Trust prepares a very long-term financial model, produced with the assistance of qualified actuaries and engineers, to compare the present value of its assets with the present value of its liabilities. The most recent modelling assessed the situation at 31 March 2021. The model takes proper account of the very long-term nature obligations and identifies the reserves required so that these obligations may be met in perpetuity without recourse to public funds. Detailed modelling over the immediate future also informs the Trust's investment strategy.

Very substantial costs arise in years when major repairs are carried out or a bridge replacement is required. The model assumes that the New Bridge and Service Bridge will not need to be replaced until 2140, provided the high standard of maintenance continues. Refurbishment of both structures has ensured that they are in excellent condition.

Due to the listed nature of the Old Bridge, replacement is not assumed. Like the other bridges, refurbishment has ensured the bridge is in excellent condition. Continuing inspection and maintenance will be required to retain and preserve the structure as a serviceable crossing for as long as possible. Provision is made in the reserves not only for the next bridge replacements but also future replacements thereafter, with the subsequent replacement being anticipated in 2280.

Structure of the Funds

There is no permanent endowment. Within its governing document, the Trust has the powers to invest funds not immediately required for the purposes of the charity.

Sufficient resources are allocated to the **General Fund** to meet the cost of core activities and day to day running costs, including routine maintenance of the bridges. The sum allocated each year is based on the biennial budget set by the Court of Wardens and Assistants. Assets are generally held in cash or other easily liquidated assets. The revenue income from financial and property investments is received by the General Fund, which also holds the operational buildings, other fixed and heritage assets and the bridges themselves.

The **River Medway Fund** is a Designated Fund established in 2013 following a donation, and the intention is to spend the fund out on specific purposes related to the use and history of the River Medway. The assets are held in cash and any income arising from the balance in the fund is allocated to the General Fund.

The rest of the Trust's assets are held in the **Bridges Reserve Fund,** which is a designated fund with the primary purpose of funding maintenance and replacement work for the bridges and also for the major maintenance of operational assets. The assets held within this fund include financial investments and the Trust's property estate excluding operational buildings and the bridges.

The Bridges Reserve Fund is invested for longer-term growth with the Trust's Investment Manager; in other financial investment vehicles; and in direct property holdings as determined under the Investment Policy from time to time. Attention is given to maintaining sufficient income-generating assets to provide income to the General Fund for normal day to day expenditure.

Size of the Bridges Reserve Fund

The Trust ensures that sufficient funds are available within the Bridges Reserve Fund:

- primarily to fund works to and replacement of the bridges and other operational assets, obviating the need for borrowing, avoiding any requirement for public funds and ensuring the survival and effectiveness of the Trust; but in addition
- to provide income to the General Fund from property and financial investment assets;

- to ensure that funds are available to meet any unexpected requirement for emergency maintenance or upgrades so that the bridges remain available to the travelling public and statutory undertakers with minimal disruption;
- to respond to any emergencies or new statutory requirements on the property estate, and bring newly acquired property assets into good order where necessary.

Timing of Expenditure from the Bridges Reserve Fund

The long-term bridge maintenance plan is included in the financial model and shows when reserve-funded expenditure will be required for major works.

The Strategic Plan sets out the planned programme of expenditure on all significant activities and identifies those projects to be funded from reserves.

Performance of Funds

In order to be confident of meeting future liabilities, the total value of the Trust's net assets needs to grow by 5.3% per annum after investment management costs (based on financial modelling 2021). The total growth in the value of the Trust's assets is made up of:

- underlying growth in the capital value of the property portfolio;
- net returns from the investment property portfolio taking account of rental income, sales, purchases and management costs;
- total investment returns achieved by the Investment Manager;
- any growth in the value of fixed and heritage assets; plus
- returns achieved from other investments made by the Trust of the remaining balance of the Bridges Reserve Fund and short term returns on the General Fund.

The balances to be allocated to the General Fund and held in the Bridges Reserve Fund, and the target returns from each asset class, are reviewed biennially as part of the budget setting process and in response to each actuarial valuation for financial modelling, usually carried out at six-yearly intervals.

Application of the Surplus

When the balance of the Bridges Reserve Fund is shown by the financial model to exceed the sum needed for the primary purpose and sustainability of the Trust, any surplus in the Fund will be applied to support any new projects to facilitate crossing of the River Medway, in accordance with the second charitable object; and to fund other charitable projects in accordance with the third charitable object.

The surplus may increase where investment returns exceed the assumptions of the financial model at the same time as expenditure remains at or below expectation and the economic factors are favourable compared to the assumptions in the model. The financial model is monitored annually and reviewed comprehensively at six-yearly intervals to ensure the opposite is not true.

The financial model is conservative with respect to the total return achievable from the direct property investments, and takes no account of uplift on achieving vacant possession or development receipts. The trustees have a fiduciary duty to maximise the return from those investments and any excess returns not assumed by the model will be set aside for distribution on projects for public benefit in accordance with the second and third charitable objects and policy, including aspirational projects identified in the Strategic Plan.

Risk Management

The risk of an unplanned closure of the Trust because of lack of funds is extremely low. As at 31 March 2022, the total assets represented over 26 years' of average expenditure over the past 10 years.

The Court has assurance from the very long-term financial model that the Trust will be able to meet its objectives for the very long-term. Taking an appropriately prudent approach, funds are distributed from the reserves for other charitable purposes only when a surplus has been identified based on the model results.

Modelling is dependent on the reliability of cost estimates and economic assumptions, including inflation. Conservative values are assumed and kept under regular review.

Decisions are taken for the long term in accordance with the Trust's values, and not in reaction to short-term market fluctuations.

Measuring and reporting impact

A statement of the Reserves Policy is included in the annual report, together with a summary of Major Risks. The Reserves Policy is published on the Trust's website.

Each committee, and the Court, receives a budget monitoring report at least biannually which sets out General Fund and Reserve Fund income and expenditure against budget.

The Court receives an annual report on financial performance compared to financial model assumptions.

Related Policies & Procedures
Investment Policy