

Arboricultural Association

RESERVES POLICY

August 2022

1. Policy statement

- 1.1 The Arboricultural Association (the Association) will ensure that it retains sufficient cash reserves in order to be able to continue operating for at least twelve months in adverse trading conditions, such as a major economic downturn or pandemic.

2. Overview

- 2.1 The Association a registered charity and the leading professional organisation for arboriculture in the UK. It operates nationally and internationally and has approximately 3000 members working in all areas of arboriculture, including central and local government, consultancy, contracting, management, production, policymaking, research and education. It is increasingly recognised as an international, as well as a national, leader in arboriculture and is regarded by UK central government departments, local government and sector partners such as the Royal Horticultural Society as the focal point for best practice in tree care.
- 2.2 The Association is based in the Malthouse in Standish, Gloucestershire, where it employs a staff team who run the day to day operations. The Association is governed by a Board of Trustees and works in accordance with its published Articles of Association.
- 2.3 The main income streams of the Association are membership subscriptions, publication sales, training, accreditation schemes and events such as the annual Amenity Conference and the ARB Show. The trading arm of the Association is Arboricultural Association Trading Limited (AATL), a Limited Company which manages the Accreditation Schemes. All profits from AATL are donated annually to the Association.
- 2.4 The charitable objective of the Association is to advance the science of arboriculture for the public benefit. Its strategic vision is to inspire, support and promote the tree care community for a society that better appreciates and cares for trees.

3. Restricted and Unrestricted funds

- 3.1 In order to ensure that the Association is able to continue trading through adverse financial circumstances, such as a national or international economic downturn or due to a pandemic, it is essential that enough funds are held in reserve. Reserve funds are also critical to ensure that the Association is able to invest in any business opportunity

which might present itself, such as investments in the land and property owned by the organisation.

- 3.2 Charity reserves are typically divided into two categories: restricted and unrestricted funds. The Charity Commission for England and Wales defines these as follows:

Restricted funds: funds subject to specific trusts, which may be declared by the donor(s) or with their authority (e.g. in a public appeal) or created through legal process, but still within the wider objects of the charity. Restricted funds may be restricted income funds, which are spent at the discretion of the trustees in furtherance of some particular aspect(s) of the objects of the charity, or they may be endowment funds, where the assets are required to be invested, or retained for actual use, rather than spent.

Unrestricted funds: income or income funds which can be spent at the discretion of the trustees in furtherance of any of the charity's objects. If part of an unrestricted income fund is earmarked for a particular project it may be designated as a separate fund, but the designation has an administrative purpose only, and does not legally restrict the trustees' discretion to spend the fund.

[Source: Charity reserves: Building resilience. Charity Commission for England and Wales (January 2016). <https://www.gov.uk/government/publications/charities-and-reserves-cc19/>]

- 3.3 The vast majority of funding held by the Association falls into the category of unrestricted funds. The only exception is a relatively small amount of money held on behalf of the National Tree Safety Group.

4. Risk and response

- 4.1 The Association responded quickly to the last major economic downturn, the Covid-19 pandemic of 2020/21. After an immediate detrimental impact to business in 2020, key income streams recovered in 2021. The nature of the next set of adverse financial conditions is not known, and the lessons learned from Covid-19 will not necessarily apply.
- 4.2 This Reserves Policy assumes a worst-case scenario of a 25% reduction in income over a twelve month period of adverse financial conditions.
- 4.3 In the event of a major economic downturn resulting in a 25% reduction in income, the Association would seek to reduce costs by approximately 20%. This would be challenging, but achievable. Approximately 65% of the Association's overheads is comprised of salary; the remainder includes many fixed costs.

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4.4 A series of measures would need to be put into place including delaying purchases, reducing replacement of equipment and reducing the level of stock held. Beyond this, a Management of Change process might be required in order to reduce the overall salary cost. Ultimately the Association could consider unlocking the value held in the Malthouse land and property.

5. Arboricultural Association reserves

5.1 The Association holds £6,000 in restricted funds which are held on behalf of the National Tree Safety Group. All other Association funds are to be considered as unrestricted.

5.2 Between 2016 and 2021 the average income of the Association was £1,311,960 and the average expenditure £1,273,070, giving an average surplus of £38,890. Please note that these figures were considerably affected by the financial results from 2020, when the onset of the Covid-19 pandemic led to a partial shutdown of the business with associated financial implications. In an ordinary year, therefore, it is expected that the income of the Association will exceed its expenditure.

5.3 Based on the risk of a 25% reduction in income, the Association should keep a minimum of £260,000 in reserve. This is broken down into three broad headings:

5.4 General reserves. Based on 2021 figures, a 25% reduction in income for the Association would result in a shortfall of £154,000. The Association should therefore retain a minimum of £165,000 in reserves in order to continue functionality in the event of sudden adverse trading conditions.

5.5 Loan. In 2020 the Association secured funding against the Malthouse with a £200,000 loan. As of August 2022 the outstanding balance on the loan is £157,000. If the Association was to default on the monthly repayments then

the bank would call in the loan. It is therefore essential that an additional £45,000 is set aside in reserves to meet the annual monthly costs.

5.6 Contingency reserves. The Association should retain an additional £50,000 reserve to account for unforeseen emergencies, projects or events. This might include legal or building costs not covered by insurance, catastrophic weather events or circumstances affecting Conference or ARB Show.

5.7 The lowest point in the annual cash flow cycle is traditionally December, and the projected cash flow figure for the Association in December 2022 is £230,000. It should be noted that the highest-income month is traditionally January, when the majority of members renew their subscriptions. If in December the Association's reserves were to drop below the amount recommended in this Reserves Policy then it is to be expected that the January income would immediately resolve this.

6. Review and monitoring

6.1 This Reserves Policy was formally adopted by the Board of Trustees on August 9th, 2022. It will be reviewed and ratified annually by the Board of Trustees.

6.2 Income and expenditure figures and cash flow will be reported to the Board of Trustees at each quarterly meeting. Annual figures will be published as part of the Association's Annual Report.

7. Document control

Written by: John Parker, CEO
Reviewed by: Finance Group
Approved by Board: August 9th, 2022
Next review date: August 9th, 2023

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