

## RESERVES AND INVESTMENTS

We all try to keep something by for a rainy day - whether a millionaire playing the stock market or an old-age pensioner with a few hundred pounds in a co-operative society account.

Charities are no different in their needs - but they have to justify why they are holding reserves. That is the purpose of this page, which also explains how the money is invested. It can only provide a brief outline: please don't hesitate to contact us if you want to know more.

Here are the reasons why charities may need reserves:

- ✚ To ensure there is enough money to meet obligations in the event of being closed down. We can assure you this is not a likely outcome as far as TBF is concerned but it is obviously essential to have enough money put by to meet outstanding bills, redundancy costs and paying-up contracts and leases. Not nice things to contemplate, but facts of life.
- ✚ To undertake special projects. TBF aims to provide a continuing range of benefits which members and their dependants may call on in times of need and has no special projects in mind at present.
- ✚ To reduce its needs for future funding. For instance a charity which could accumulate sufficient reserves to enable it to pay for all its work out of the income from them could dispense with the need to raise funds. However desirable this may be, TBF is nowhere near achieving it and does not aim to.
- ✚ To ensure there is money available to meet any compensation awards.
- ✚ To provide cover for fluctuations in future income or expenditure.

It is mainly this last category which causes TBF to hold reserves, but we need to explain why.

The public transport industry has been subject to continued fundamental change since the mid-1980s. Our own membership fell significantly for some years and now fewer than a quarter of our members work for the undertaking which - fifteen years ago - covered 95% of them. We enjoy good relations with many companies which help us recruit and deduct contributions for us - but the possibility must be faced that we might lose the goodwill of a major employer at some time. It's a remote chance, but a real one. Or a major employer may go out of business - sadly a less remote chance.

To reduce our dependency on a small number of employers and to bring the benefits of membership to others in the industry we are expanding into companies large and small throughout England, Scotland and Wales. We have no means of knowing what demands may be placed on the charity by new members and their dependants in those areas. Again we need to make provision.

Finally we are very unusual in providing free membership to many of those retiring from the industry and their partners (more details in the 'When you leave service' document). We have no means of knowing how many of these there are, but our best guess is 60,000. Added to contributing members and their dependants this may mean we have 80,000 people able to call on us for help. Even with our reserves currently standing at around £1.2 million, we could help each just once with £15 were we to have no further income. To put this sum in context, a fortnight's convalescence for one person, plus help towards incidentals, costs about £600.

For all these reasons the Trustees have decided that substantial reserves should be established to provide a cushion in uncertain times and following the difficulties encountered by the TBF's predecessor.

We have decided that reserves should represent three years' expenditure cover. This implies a need to increase these by around another £800,000, to £2 million. If and when this level is achieved the matter will be re-considered to see whether any further increase is justified.

Given this policy it is not intended that income from the reserves should normally be used to finance day-to-day expenditure. We aim to return all (or certainly most) of the income to the investment pot so it can continue to grow towards our objective of three years' cover. Working capital is kept to the bare minimum to ensure free banking and adequate cash flow.

We employ a professional investment management firm (Singer & Friedlander Investment Management Ltd) which agrees with us strategy and the way in which risk is reduced by spreading our investments into a mix of UK and overseas companies, fixed-interest investments and cash holdings. Inevitably these will not all perform at the same rate but overall we hope to see our reserves grow by at least the rate generally achieved in the market, towards our target.

We regularly review the performance of our investment manager and ensure that the custodian who holds our stocks continues to operate to the highest standards.