

### Reserves Policy

In common with other charities, The Macfarlane Trust is required by the Charity Commission and by SORP 2000 to publish its policy on holding a financial reserve.

Unlike most other charities, the Trust does not have fund-raising operations, being wholly financed by Her Majesty's Government through the Department of Health ("the Department"). This might be thought a sufficient reason for being exempt from the requirement for a reserves policy.

The Trust has, however, for some years, had a policy of maintaining a minimum level of reserves of £4 million. This policy was first set, and agreed with the Department, at a time when top-up funding by the Department was unpredictable and irregular both in timing and in amount. The Trustees had established the Trust's prime means of meeting the needs of those registered with it, and of their families and dependents, through regular monthly income supplements designed to assist with the additional costs of living with haemophilia and infection with HIV and hepatitis C.

Appreciating the reliance by its beneficiaries on the security of these payments from the Trust, the Trustees determined that, at the then rate of depletion of the Trust Fund of about £2 million annually, a fall in the level of the Trust Fund to £4 million, in the absence of further funding from the Department, should trigger the giving of notice to the Trust's beneficiaries of the imminent need to reduce monthly payments to a level at which value of the Trust Fund could be preserved by investment activities. This notice period would itself be six months in duration, resulting in a further depletion of the Trust Fund to £3 million. At the end of this period of notice, the Trust would reduce its outgoings to concentrate solely on the most acute needs, immediately before and after the death of registrants, relying on investment proceeds to fund these operations.

The Trustees are greatly encouraged by two recent changes in the Department's funding policy towards the Trust:

- a commitment has been given to increase the rate of funding to a level that would enable the Trustees to continue providing a level of financial assistance of £3 million annually, which was decided upon after the 1998 Strategic Review, without drawing upon the capital of the Trust Fund or relying on investment returns
- a commitment has also been given to make such contributions to the Trust Fund on a regular annual basis.

In addition, the greatly-reduced mortality rate has reduced the minimum rate of outgoings as defined above.

The Trustees have considered the possibility that these commitments would permit the minimum reserves level to be reduced or even eliminated. However, in their analysis and evaluation of the risks to which the Trust is exposed, the Trustees consider that they must still allow for investment risk that might result in a depletion of the Trust Fund at a rate faster than that caused by disbursements to beneficiaries. In addition, the Trustees believe that the political risk of a change in the Government's funding policy cannot be totally ignored.

In addition, as noted elsewhere in this Report, the Trustees are currently engaged in a further review of the long-term needs of the Trust's beneficiaries.

The combination of these risks and of the review of needs have led the Trustees to conclude that maintenance of a prudent minimum level of financial reserves should continue, in recognition of "the need to secure the Trust's viability beyond the immediate future and to provide reliable services over the longer term" (quoted from the guidance booklet on reserves published by the Charity Commission).

In these circumstances, and taking into account the unknown outcome of the needs review, the Trustees have agreed for the time being to adhere to the reserves policy of holding a minimum level of £[4] million.

PRS  
7 May 2003