

Reserves Policy

Document Control

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1.0 Purpose and Legal Basis

A reserves policy is a critical instrument of financial stewardship and governance, essential for ensuring a charity's long-term resilience and its ability to fulfil its mission consistently. As a foundational document in the charity's governance framework, this Reserves Policy addresses a key finding from our recent compliance review.

1.1 Purpose The core purpose of this policy is to establish a transparent framework for the Board of Trustees to determine, manage, and monitor an appropriate level of financial reserves. The policy ensures the charity has the financial resilience required to consistently fulfil its mission, as mandated by its Constitution.

The specific objectives of this policy, which are directly aligned with the charity's objects as defined in Clause 3 of its Constitution, are:

- To ensure the continuity of support activities for beneficiaries in the event of unforeseen drops in income.
- To provide the financial capacity to respond to new needs or opportunities that align with the charity's objects, such as new research or support initiatives.
- To cover unforeseen emergency expenditures and manage unexpected operational risks.
- To provide for the orderly winding-up of the charity if necessary, as outlined in the Constitution (Clause 29), ensuring all liabilities are met.

1.2 Legal Basis This policy has been developed in full compliance with the charity's legal and regulatory obligations. Its foundations are established under the following framework:

- The Charities Act 2011
- Charity Commission for England and Wales guidance, particularly 'Charities and Reserves (CC19)'.

2.0 Scope

A clearly defined scope is strategically important for a financial policy, as it ensures consistent application and clarifies accountability for all individuals involved in the charity's financial management. This section delineates all individuals and entities who are bound by the principles and procedures outlined herein, ensuring a unified approach to the charity's financial stewardship.

This policy applies explicitly to:

- The Board of Trustees of the charity.
- Any future employees or volunteers involved in financial administration.
- Any contractors or consultants engaged to provide financial management or fund management services, as permitted under the Constitution (Clause 4.5).

3.0 Policy Statement

The Policy Statement represents the Board of Trustees' formal commitment to prudent financial management, balancing the need for current spending with the duty to ensure long-term sustainability. It articulates both the rationale and the specific methodology for establishing and maintaining a level of financial reserves sufficient to secure the charity's mission for the long term.

The Trustees aim to hold unrestricted reserves equivalent to three months of average operational and grant expenditure. This target will be formally reviewed and set by the Board of Trustees on an annual basis. This level is calculated to provide a necessary buffer

against unexpected income fluctuations, cover essential running costs, and fund key planned activities that are central to our mission.

Actions if Reserves Deviate from Target Level

Reserves Below Target

If the level of free reserves falls below the target, the Trustees will conduct a formal review of the charity's financial position. This review will include an assessment of current expenditure and an exploration of new income generation opportunities. The Board will develop and approve a formal plan to rebuild the reserves to the target level over a defined and realistic period, typically within 12-24 months.

Reserves Above Target

If free reserves significantly exceed the target level for a sustained period, the Trustees will conduct a review to determine the most effective use of the surplus funds. Options will be assessed based on their potential to further the charity's objects as defined in Clause 3 of the Constitution, such as by expanding beneficiary support programs, funding specific new research projects, or investing in strategic development.

4.0 Definitions

Clear, shared definitions are foundational to the consistent and accurate implementation of a financial policy. The following terms are defined in line with standard charity accounting practice and the charity's governing document to ensure a common understanding among all relevant parties.

Term	Definition
Reserves	The portion of a charity's unrestricted funds that is freely available to spend on any of the charity's purposes. This policy focuses on these funds.
Unrestricted Funds	Funds that the charity can use for any of its charitable purposes, as set out in its Constitution (Clause 3). These form the basis of the reserves.
Restricted Funds	Funds that can only be used for a specific purpose, as designated by the donor. These funds do not form part of the general reserves.

Designated Funds	Unrestricted funds that the Board of Trustees has set aside for a specific future purpose. While not part of the free reserves, their level and purpose will be reviewed alongside this policy.
Charity Trustees	The individuals who are responsible for the overall governance and management of the charity, as defined in the Constitution (Clause 9).

5.0 Procedures

These procedures provide the mandatory, step-by-step guidance for the Trustees to translate the policy into consistent and auditable actions. They ensure that the calculation, management, and review of the charity's reserves are conducted effectively and in line with its governance responsibilities.

1. **Calculating the Target Reserve Level:** On an annual basis, as part of the budget-setting process, the Board of Trustees will calculate the target reserve level. The target will be based on the average of the previous twelve months' operational and grant expenditure. This calculation will be formally documented and approved by the Board.
2. **Managing and Investing Reserves:** Reserve funds will be held in secure, accessible bank accounts. In line with the charity's power under the Constitution (Clause 4.5) to "deposit or invest funds" and "employ a professional fund-manager," any investment of reserve funds will be governed by the separate Charity Investment Policy to ensure an appropriate balance of risk, return, and liquidity.
3. **Authorising Use of Reserves:** Any decision to draw upon the reserves to fund a deficit or for a specific, unbudgeted purpose must be a formal resolution of the Board of Trustees. The decision must be taken at a quorate meeting and be clearly recorded in the minutes, in accordance with the decision-making procedures outlined in the Constitution (Clauses 13 and 15).
4. **Reporting on Reserves:** The level of reserves held at the end of the financial year, the target reserve level, and the reasons for holding them will be clearly explained in the Trustees' Annual Report and Accounts. This reporting will be fully compliant with the requirements of the Charities Act 2011 (as noted in Constitution Clause 25) and Charity Commission guidance (CC19).

6.0 Roles and Responsibilities

Assigning clear responsibilities is critical for ensuring effective governance and accountability in the management of the charity's financial reserves. This framework ensures transparency and successful implementation of the policy.

- **The Board of Trustees:** Holds ultimate responsibility for the Reserves Policy. This includes approving the policy, setting the target reserve level annually as part of the budget-setting process, monitoring the level of reserves throughout the year, and approving any use of reserve funds. This responsibility is derived directly from the Trustees' duty to manage the affairs of the CIO under Clause 9 of the Constitution.
- **Designated Trustee/Financial Lead:** A designated trustee (or committee, as permitted under Clause 14 of the Constitution) will be responsible for preparing financial reports for the Board. These reports will explicitly highlight the current reserves position against the target and will include initial recommendations for the annual review of the target level.
- **External Contractors/Advisors:** Any appointed financial contractors are responsible for providing accurate and timely financial data to the Trustees to enable effective monitoring. Where fund managers are engaged, they are responsible for managing any invested funds in strict accordance with the Charity Investment Policy and this policy.

7.0 Implementation

A practical implementation plan is essential for embedding a policy into the charity's annual governance cycle, ensuring it functions as a dynamic management tool rather than a static document.

Adoption and Timeline: This policy is effective from the date of its formal adoption by a resolution of the Board of Trustees. The first formal review to set the initial target reserve level will be scheduled for the next Board of Trustees meeting following the policy's adoption.

Training and Communication: All Trustees will be briefed on their responsibilities under this policy upon its adoption. A copy of the approved policy will be held in the charity's central policy register and will be accessible to all Trustees.

Resource Requirements The implementation of this policy primarily requires Trustee time for review, discussion, and decision-making during board meetings. It may also require professional advice from financial managers or accountants, as permitted by the Constitution (Clause 4.5), to support the Trustees in their decision-making.

8.0 Monitoring, Review, and Reporting

Continuous monitoring and periodic review are vital governance functions that ensure the policy remains relevant, effective, and compliant with the charity's evolving needs and regulatory expectations. This structured process ensures the policy is a living document that actively supports good governance.

The level of free reserves against the target will be a standing agenda item at every Board of Trustees meeting as part of the standard financial reporting pack.

Key Performance Indicators (KPIs)

The primary KPI for this policy is: The actual level of unrestricted reserves measured against the Board-approved target level. Any significant deviation will be recorded in the minutes, along with the reason for the deviation and a reference to the corrective action plan being implemented as detailed in Section 3.0.

Annual Review

The Board of Trustees will formally review this entire policy and the calculated target reserve level at least once every financial year. This review will ensure the policy remains appropriate to the charity's changing strategic plans, operational activities, and risk profile.

Reporting

As stated in the procedures, the charity's reserves position and policy will be transparently disclosed and explained in the Trustees' Annual Report and Accounts, as required by the Charity Statement of Recommended Practice (SORP) and guidance from 'Charities and Reserves (CC19)'.

9.0 Related Policies and Documents

This policy operates as part of an integrated governance framework and must be read in conjunction with other key documents to ensure a cohesive and comprehensive approach to the charity's financial management and strategic planning.

These documents include:

- Charity Constitution
- Charity Investment Policy
- Risk Management Policy (to be created)
- Internal Financial Controls Policy (to be created)

The Board of Trustees will use this policy as a key strategic tool to ensure the long-term financial health and mission effectiveness of the charity, thereby securing its vital work for beneficiaries now and in the future.