



## Reserves Policy

*Given our mission is to help those in crisis, our reserves policy aims to ensure our work is protected from the risk of disruption at short notice due to a lack of funds, whilst at the same time ensuring we do not retain income for longer than required.*

<b>Policy owner</b>	Chief Finance Officer
<b>Policy lead</b>	Head of Financial Accounting & Financial Information Systems
<b>Audience</b>	All of our people
<b>Legislation and regulation</b>	Charity Commission guidance ‘Charities reserves: building resilience’ (CC19)
<b>Formally endorsed by</b>	Board of Trustees
<b>Last update</b>	August 2022
<b>Next review</b>	June 2023

### 1 Introduction

1.1 This policy sets out our need for the financial reserves, and the target range.

### 2 Policy statement

2.1 The British Red Cross aim to put people in crisis at the heart of all that we do. Our vision is of a world where everyone gets the help they need in a crisis. Our mission is to mobilise the power of humanity so that individuals and communities can prepare for, deal with, and recover from crises.

2.2 Providing targeted, effective support when it is needed is therefore core to our mission at the British Red Cross, and to the reserves policy we have set to ensure we are able to deliver on our vision and mission. The policy ensures our work is protected from the risk of disruption at short notice due to a lack of funds, whilst at the same time ensuring we do not retain income for longer than required.

- 2.3 We have calculated an appropriate reserves range for our organisation of £40m to £50m, which is broken down as:

Reserves range	£m
Financial impact of risk (see section 4)	17.5
Working capital (see section 5)	22.5
Commitments and long-term plans (see section 6)	-
<b>Minimum level</b>	<b>40.0</b>
Range	10.0
<b>Maximum level</b>	<b>50.0</b>

### 3 Reserves

- 3.1 The Charity Commission's **CC19 guidance** states: *"There is no single level or even a range of reserves that is right for all charities. Any target set by trustees for the level of reserves to be held should reflect the particular circumstances of the individual charity. To do this, trustees need to know why the charity should hold reserves and, having identified those needs, the trustees should consider how much should be held to meet them."*
- 3.2 This policy sets out our free reserves, which are defined as unrestricted funds excluding fixed assets and defined benefit pensions. These free reserves include short-term investment balances, cash, and other working capital balances.
- 3.3 As part of effective financial management, we hold reserves to ensure we can manage:
- > **Financial impact of risk.** There are a range of risks we face, including the risk of an unforeseen drop in income or unbudgeted increases in expenditure.
  - > **Working capital.** A significant proportion of our reserves are represented by non-cash assets and liabilities, such as accrued legacy income, other debtors, and stock. These reserves are not readily available.

### 4 Financial impact of risk

- 4.1 To ensure that there is no significant disruption to our charitable activities, holding appropriate reserves will enable the organisation to respond to any unforeseen reduction in income (for example when income does not reach expected levels); or additional expenditure (for example when projects overrun, or unplanned events occur).
- 4.2 We have based our projections for the appropriate amount of reserves we require on the basis that the reserves in our target range would provide short-term until long-term solutions can be established.

4.3 A detailed review of the financial risks we face is monitored on an ongoing basis, and our assessments on the possible financial impact of those risks have been incorporated into the reserves range we have calculated.

4.4 As part of our annual Trustees' Report and Accounts and as part of our commitment to transparency, we publish the principal risks and uncertainties facing our organisation; and the mitigations we have put in place to manage them as far as reasonably possible.

## 5 Working capital

5.1 Free reserves include both cash and investments, which are immediately available, and other working capital balances (including accrued legacy income, other debtors, and stock). Working capital represents a significant element of our reserves, but not all of these balances are immediately available. For example, it takes on average 40 days to collect cash from trade debtors.

5.2 Levels of working capital do not normally vary materially from year to year and are regularly reviewed and monitored in order to determine the level to be incorporated in the reserves range.

## 6 Commitments and long-term plans

6.1 Commitments and long-term plans not already reflected in plans and budgets are also evaluated on an ongoing basis. We do not believe there is any need to make further provision for such items.

### Pensions liabilities

6.2 We do not have any future liabilities from the defined contribution schemes currently offered to staff. We do have future obligations in relation to defined benefit schemes which are closed to new members.

6.3 The assets and liabilities of the defined benefit pension schemes are excluded from the reserves calculation as they are not expected to lead to any short- or medium-term cash outflows which cannot be covered from projected cash inflows. This is consistent with the Charity Commission's guidance.

6.4 Budgets include provision for any obligations arising from defined benefit pension scheme deficit reduction plans and no further allocation is considered necessary at this time.

### International commitments

6.5 As part of the International Red Cross and Red Crescent Movement, the world's largest independent humanitarian network, we regularly provide support to relief and programming initiatives led by the International Federation of Red Cross and Red Crescent (IFRC), International Committee of the Red Cross (ICRC) or other National Societies. These commitments are included within existing budgets and are mostly commitments against restricted funds. Therefore, no additional allowance within reserves is required.

## Long-term commitments

- 6.6 There is no current requirement to make allowance within the reserves range for future plans and commitments.
- 6.7 Although we have long-term financial commitments with our staff and leasehold properties, these commitments will be funded exclusively through future cash inflows.
- 6.8 Future expenditure will be set in line with future income, and therefore specific long-term funds have not been set aside within reserves.

## 7 Target range for reserves

- 7.1 The target range is set at £10 million above the minimum level and equates to approximately 5% of general funds expenditure.
- 7.2 The Board of Trustees consider that this target range provides sufficient flexibility in the context of operational requirements, and for an organisation of our size and complexity.

## 8 Responsibilities

- 8.1 The **Board of Trustees** are responsible for ensuring that we manage our resources responsibly, and that we act in the best interests of the organisation and the people we serve. The Board has responsibility for approving and monitoring the implementation of this policy.
- 8.2 The **Finance and Audit Committee** are responsible for monitoring and supervision of the current and future financial situation and associated risks to the organisation. The committee has responsibility for reviewing this policy and making recommendation for approval to the Board.
- 8.3 The **Executive Leadership Team** is responsible for providing clear and focused leadership of the organisation, and to ensure our financial stability.
- 8.4 The **Chief Finance Officer** is the policy owner and is responsible for managing our reserves level within the policy range, ensuring this policy is reviewed in line with corporate requirements.
- 8.5 The Head of Financial Accounting & Financial Information Systems is the policy lead and is responsible for developing and reviewing the policy; developing an organisational communications plan for the policy; and managing queries about the policy on a day-to-day basis.

## 9 Laws and regulations

- 9.1 As a registered charity, we are required to meet relevant legal and regulatory requirements. We have a duty to apply charitable funds within a reasonable period of time for the benefit of the people we serve.
- 9.2 This policy sets out the framework we have in place to confirm the level of reserves we have determined is appropriate for our organisation and draws upon guidance such as the Charity Commission's CC19.

## 10 **Monitoring and compliance**

- 10.1 Reserves levels and forecasts will be monitored as part of monthly corporate financial reporting, with regular reports provided to the Board of Trustees, Finance and Audit Committee and the Executive Leadership Team.

## 11 **Review and maintenance**

- 11.1 This policy was updated in August 2022 and will be reviewed by March 2023.

## 12 **Appendices**

- 12.1 Appendix 1: related documents
- 12.2 Appendix 2: document provenance
- 12.3 *Privacy, equality or environmental impact assessments are not required on this policy*

## Appendix 1: related documents

Document title	Relationship to this policy
Investment policy	Reserves policy informs the funds available for investment.
Restricted funds policy and procedure	The restricted funds policy sets out the policy on restricted funds and is closely related to this policy.
Risk management policy and procedure	The risk policy sets out our framework for effectively managing and mitigating key risks within the organisation
Trustees Report and Accounts	The annual report provides details of our reserves policy; principal risks and uncertainties, including mitigating actions; and confirms the organisation's financial position at the end of each financial year.

## Appendix 2: document provenance

Date endorsed	Category	Summarise changes made	Reason for changes	Consulted	Changes endorsed by
July-15	Scheduled review	Minimum reserves level increased from £22.5m to £30m. Target range introduced with maximum level of £35m introduced.	Minimum reserves level increased to reflect increased financial risk level. Range introduced to reflect that minimum is not a target.	ELT, FRAC, Board	Board
Dec-15	Interim update	Maximum level increased to £40m.	Maintain reserves range at originally proposed £10m.	ELT, FRAC, Board	Board
Dec-16	Scheduled review	Range increased from £30m-£40m to £40m-£50m.		ELT, FAC, Board	Board

Apr-18	Scheduled review	Formatting changes. Policy range maintained at £40m-£50m		FAC, Board	Board
August 2022	Interim update	Minor amends and updates to reflect organisational changes; extended review date to June 2023 due to capacity issues.	Interim update to ensure policy is fit for purpose until full review is completed in June 2023	CFO, Head of Financial Accounting & Financial Information Systems, Corporate Policy Manager	Chief Finance Officer