



POLICY & PROCEDURE DOCUMENT

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1. INTRODUCTION

1.1 This policy sets out Key's need for financial reserves and the target range set.

1.2 Key's mission is to help people build better lives, our Reserves Policy aims to ensure that our work is protected from the risk of disruption at short notice due to a lack of funds, whilst at the same time ensuring that we do not retain reserves at a higher level than is required.

2. POLICY

2.1 The Charity Commission's Charity Reserves: Building Resilience (CC19) guidance states: "It is important for charities to have a policy explaining their approach to reserves. 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, or decision that there is no need for reserves, should reflect the particular circumstances of the individual charity and be explained in the policy.

2.2 The purpose of this policy is to explain to Key funders, beneficiaries, the public and the Charity Commission what these reserves are kept and not kept for and when they are to be used.

2.3 There is no single level, or even a range of, reserves that is right for all charities. Any target set by the Board for the level of reserves to be held should reflect the particular circumstances of Key. To do this, Key should know the why it should hold reserves and, having identified those needs, consider how much should be held to meet them.

3. DEFINITIONS

3.1 Reserves are that part of a charity's unrestricted funds that is freely available to spend on any of the charity's purposes. These free reserves include short-term investment balances, cash and other working capital balances.

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3.2 The items that should be **excluded** from reserves are:

- tangible fixed assets used to carry out the Key's activities, such as land and buildings
- social investments
- designated funds set aside to meet essential future spending, such as funding a project that could not be met from future income
- commitments that have not been provided for as a liability in the accounts

4. RESERVE PRINCIPLES

4.1 As part of effective financial management, Key hold reserves to ensure Key can manage:

4.2 Financial Impact of Risks

4.2.1 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).

4.2.2 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.

4.2.3 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.

4.3 Working capital.

4.3.1 Free reserves include both cash and investments, which are immediately available. Working capital represents a significant element of our reserves. Key's income includes contracts with payment by results elements which necessitates a significant working capital requirements. This requirement may increase should funding be secured that is paid in arrears.

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4.4 Target level of reserves

4.4.1 To cover redundancy, sickness and running costs at a level between three and six months. The Board consider that this target range provides sufficient flexibility in the context of operational requirements, and for an organisation of our size.

4.5 High level of reserves

4.5.1 The Charity Commission states that a charity's level of reserves or unspent funds can appear to donors, beneficiaries or the Charity Commission to be too high and this is generally for two reasons.

- First, because the trustees have not explained fully the reasons why they are keeping the level of reserves that they are.
- Second, because they are having difficulty in using their funds. A charity with excess reserves or unspent funds should explore the reasons for this, for example whether they could do more to increase the number of beneficiaries entitled to use the charity's service doing so.

4.5.2 If ultimately a charity has more resources than it needs to fulfil all of its purposes then the trustees must consider whether the purposes of the charity should be amended to enable the charity to operate more effectively.

4.5.3 The review of this policy and the reserves position included within financial reporting for Key will ensure an appropriate reserves level is maintained.

5. IMPLEMENTATION

5.1 The level of reserves will be monitored throughout the year and will be reported to Board on a quarterly basis as part of financial reporting.

5.2 Key will include in the annual report details of this policy on reserves, stating the level of reserves held and why they are held.

5.3 Key will publish this policy on its website.

5.4 Key will follow the Charities SORP (FRS 102) as it comes under the larger charity requirements with an income of £500,000 or more. Larger charities are encouraged to include additional information in their review of the charity's reserves.

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6. CONSULTATION

6.1 This policy and procedure has been approved by Key Board.

7. LEGISLATION AND REGULATION

7.1 Charity Commission guidance 'Charities reserves: building resilience' (CC19)

8. REVIEW

8.1 This policy will be reviewed annually as part of Key's financial planning processes or sooner where required.