



Reserves Policy

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Introduction

The reasons why charities generally have reserves can be summarised as follows:

- to fund working capital
- to fund unexpected expenditure, for example when projects overrun or unplanned events occur
- to fund shortfalls in income, when income does not reach expected levels.

A helpful way for charities to view reserves is to see them as the funds they will use to cover expenditure to “buy some time” in the event of reduced income or changes in circumstances.

A risk-based reserves policy seeks to have reserves based on the key income and expenditure risks that provides sufficient funds to run while taking appropriate action.

In other words, as and when and if the Alliance detects some of the above events the charity can continue to operate using the reserves while the implications of them is evaluated and steps to mitigate or manage them are put in place.

Below we assess the three main areas in turn in relation to the Alliance’s income and expenditure profile.

In developing this policy, we have due regard to [Charity Commission guidance](#), which states that a reserves policy and procedures should:

- fully justify and clearly explain keeping or not keeping reserves
- identify and plan for the maintenance of essential services for beneficiaries
- reflect the risks of unplanned closure associated with the charity’s business model, spending commitments, potential liabilities and financial forecasts
- help to address the risks of unplanned closure on their beneficiaries (in particular, vulnerable beneficiaries), staff and volunteers

- publish the reserves policy (even if not required to by law) and ensure it is tailored to the charity's circumstances
- make sure that their reserves policy is put in place and operated
- regularly monitor and review the effectiveness of the policy in the light of the changing funding and financial climate and other risks

Funding working capital

Given the cyclic nature of the Alliance's income with membership income usually being invoiced towards the start of the financial year and planned to cover the full year this shouldn't be necessary.

The reality has been however in recent years that some invoices to members haven't been paid, until a number of months into the financial year. Corporate support has often taken longer to be received.

To this end reserves are potentially required pending receipt of income. However even if some income doesn't come in at the start of the financial year, provided a proportion of it does there shouldn't be a need for large reserves to fund the operation.

To fund unexpected expenditure

Given the nature of the Alliance's work this is less of a risk.

The expenditure is largely staff costs. Other large costs, projects delivered by third parties, should be cost controlled through agreements on costs and change management. As such significant reserves to cover this is not considered important.

A reduction in income

A review of the Alliance's income identifies two main sources of income, membership income and corporate support.

Membership income

Approximately 60% of our income comes from just 6 members.

The associated risk therefore is that one or more of these members leave the Alliance or do not renew their membership.

Corporate supporters

Up to 49% of our unrestricted income comes from our corporate supporters.

Potential impact

It can be seen that the loss of one or two corporate supporters or large members can have a potentially significant impact. It is to be hoped we would have an idea that this was likely before it became critical. However, it seems prudent that reserves should be maintained in order to cover the loss of income from one third of the significant income sources.

This would equate to one third of corporate income and one third of the total of our six largest members subscription fee.

Should we lose one third of our major income sources these reserves would then, if needed, allow time to seek to mitigate the impact. Mitigation could be through reducing costs, seeking additional income, or a combination of the two.

Conclusion - reserves policy

The trustees have reviewed the Alliance's income sources and expenditure profile. The most significant financial risk to the Alliance is the loss of income from membership or corporate supporters. Accordingly, the trustees will seek to ensure a minimum reserve equating to one third of the income from the highest band members and one third of the income from corporate supporters to enable them to manage and mitigate such a loss over a reasonable time period.

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