



Reserves Policy

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Policy Reference Information

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Related Policies

Policy Title
Investment Policy
Risk Management Policy

1. Introduction

- 1.1 A charity needs to have sufficient reserves to allow it to cover known liabilities and contingencies, absorb setbacks and take advantage of change and opportunity. Setting and keeping under review a reserves policy is a key part of effective governance.
- 1.2 The Trustees acknowledges its responsibility for ensuring the Charity has identified an appropriate level of reserves and for taking steps to achieve and maintain that level, and for keeping the level under review. This Reserves Policy sets the framework within which the Trustees will fulfil its responsibilities.

2. Background

- 2.1 Reserves are that part of the Charity's unrestricted income funds that are freely available to spend on any of the Charity's purposes.
- 2.2 The Trustees recognises the importance of deciding an appropriate level of reserves as part of active financial management and forward financial planning for sustainability. Failure to do this may result in reserves which are either:
 - Higher than necessary which would limit the amount that could be spent on charitable activities and therefore potential benefits the Charity can provide to patients; or
 - Too low, creating a risk to the Charity's ability to carry on activities in the future, especially in the event of financial difficulties or unforeseen events.

The Trustees seek to establish a level of reserves that is right for the Charity's circumstances and to clearly explain why holding these reserves is necessary; how they are used to manage uncertainty and, where they are held to fund future purchases or activities, how and when they will be spent.

- 2.3 This Reserves Policy aims to:
 - fully justify and clearly explain why the Charity needs to keep a level of reserves;
 - demonstrate resilience and capacity to manage unforeseen financial requirements and give assurance the Charity can meet its financial commitments;

- identify and plan for the ongoing effective, responsive and valuable support to NHS Lothian for the benefit of its patients, carers and staff;
- reflect and help to address the risks of unforeseen events;
- give funders and donors an understanding of why their support is needed to undertake a particular project or activity;
- manage the risk to the Charity's reputation from holding substantial unspent funds without explanation;
- explain to funders, beneficiaries, the public and the Office of the Scottish Charity Regulator (OSCR) exactly what reserves are kept (or not kept) for and when they are to be used.

2.4 In setting the level of reserves the Trustees has considered guidance from the Charity Commission including CC19: Charity Reserves: building resilience¹ and the OSCR Charity Reserves Factsheet².

3. Definitions

Reserves are that part of the Charity's unrestricted income funds that are freely available to spend on any of the Charity's purposes

Restricted funds arise where donors have specifically required that their donations are used for a particular purpose or they have responded to an appeal for donations to a specific project.

Unrestricted funds arise where no restrictions have been placed by the donor.

Designated funds are funds set aside out of unrestricted funds by the Trustees for specific purposes without restricting or committing the funds legally. The designation may be cancelled by the Trustee Board if it later decides that the Charity should not proceed or continue with the use or project for which the funds were designated.

Free reserves are those unrestricted funds not already committed or designated.

¹ <https://www.gov.uk/government/publications/charities-and-reserves-cc19>

² https://www.oscr.org.uk/media/2681/v10-charity-reserves-factsheet_pdf.pdf

Endowment Funds are funds consisting of property, including cash, which are held for the benefit of the charity, with the objective of providing an income. A **permanent endowment** consists of property that has been gifted to the charity with specific conditions attached and where the capital cannot be spent in any circumstances; An **expendable endowment** consists of property that has been gifted to the charity with specific conditions attached and which cannot be except in those circumstances specified in the terms of the endowment **document**. NB NHS Lothian holds no Endowment Funds

4. The Law

- 4.1 Charity law requires any income received by the Charity to be spent within a reasonable period of receipt. The Board of Trustees must be able to justify the holding of income as reserves.
- 4.2 Charities holding reserves that are greater than their needs may be subject to scrutiny and possible investigation by OSCR. The Trustees are justified in exercising their power to hold reserves only if they believe it is necessary to do so in the Charity's best interests. If their power is used without justification, then the holding of income in reserve might amount to a breach of trust.
- 4.3 OSCR expects trustees to decide, publish, implement and monitor their charity's reserves policy so that they can comply with their legal duties to:
- act in the interest of their charity and its beneficiaries
 - protect and safeguard the assets of their charity
 - act with reasonable care and skill
 - ensure their charity is accountable
- 4.4 The Charities SORP requires Trustees to include in its Annual Report and Accounts:
- a statement of its policy on reserves
 - the level of reserves held and an explanation of why they are held
 - where material funds have been designated, the amount and the purpose of the designation explained
 - where designated funds are set aside for future expenditure, the likely timing of that expenditure.

5. Statement of Principles

5.1 There is no single level or range of reserves that is right for all charities. In setting an appropriate level of reserves for the Charity the Trustees should take into account the Charity's financial circumstances and other relevant factors. These include the need to:

- fund working capital – including fundraising, support and governance costs
- fund unexpected expenditure, for example when projects overrun, or unplanned events occur
- fund shortfalls in income, when income does not reach expected levels
- optimise the balance between short-term spending and longer-term sustainability

5.2 The Trustees should have an understanding of:

- the nature and amounts of all types of funds held by the Charity, including the availability and potential uses of any restricted funds.
- the reliability, sustainability and diversity of current and expected future income streams
- current and expected future expenditure patterns and the degree to which the Charity is committed to this expenditure
- any future needs, opportunities, commitments or risks, where future income alone is unlikely to be able to meet anticipated costs
- the potential consequences for the Charity of not being able to meet any future needs, opportunities or commitments

5.3 Designated funds will only be created and held for appropriate and clearly defined purposes and will be monitored to ensure spending takes place within reasonable timescales.

6. Monitoring and Review

- 6.1 Monitoring of reserves by the Trustees should not just be a year-end procedure. How the level of reserves changes during the year can be a good indicator of the underlying financial health of the Charity and can be an indicator of potential problems. The level of reserves should therefore be monitored throughout the year as part of the normal monitoring and budgetary reporting processes.
- 6.2 Any significant variances of reserves from the target level or range, and the reasons for them, will be reported to the Trustees by the Head of Finance and/or Charity Director.
- 6.3 Trustees will consider whether significant differences are due to a short-term situation or a longer-term issue. In particular they will:
- be advised when reserves are drawn on so that they understand the reasons and can consider the corrective action, if any, that needs to be taken
 - be advised when reserve levels rise significantly above target so that they understand the reasons and can consider whether this is due to a short-term circumstance or longer-term reasons which might trigger a broader review of finances and reserves.
- 6.4 Any designated funds where expenditure has not taken place as planned or expected will be reviewed to establish if the designation is still required.
- 6.5 This policy will be reviewed on a biannual basis as part of the strategic planning, budgeting and risk management processes of the Charity.

7. Approved Statement of Policy on Reserves

- 7.1 The Trustees have adopted a formal reserves policy in relation to unrestricted general funds driven by the investment objectives to achieve a balance between capital growth and the generation of income.
- 7.2 The reserves policy stipulates that investment reserves of 20% of the valuation of the investment portfolio should be held to manage the impact of valuation changes on the capacity of the Charity to support expenditure on grants and operating costs.
- 7.3 Where investment reserves exceed 20%, a proposal will be taken through the Investment Committee to Trustees to agree a distribution.

- 7.4 The investment property fund represents the net book value of the Charity's investment properties. These funds have been set aside because the investment properties are held as part of an investment strategy to produce income for the Charity and could not easily be sold to produce funds for use in other Charity activities. The Trustees expect this to remain the case for the foreseeable future.
- 7.5 Where the Trustees have approved projects as suitable for fundraising and fundraising occurs towards those projects, donations received are placed in the appropriate designated fund pending the formal grant of monies once sufficient fundraising has taken place to enable the project to proceed.
- 7.6 Where the Trustees approve the allocation of free reserves towards the funding of future capital programmes/projects/schemes which have been identified by the beneficiary NHS Body as required within the next 3-5 years, a designated fund is set up for the amount the Trustees expect to contribute, and the expected time frame is agreed and recorded. The designation, timeframe and specific proposals are then reviewed by Trustees as requirements are updated and the fund is closed either when a specific commitment is made or if the proposals are withdrawn.