



RESERVES POLICY AND PROCEDURES

Purpose and Scope

This policy applies to all trustees, the CEO, senior leadership, and other KidsAid personnel involved in financial planning or reporting.

It sets out how KidsAid holds, manages, monitors, and reports its reserves, ensuring financial stability, good governance, and compliance with Charity Commission guidance CC19: *Charity reserves – building resilience* and Charities SORP.

Reserves support resilience, protects beneficiaries' interests, and enable strategic flexibility.

Trustee Duties

Trustees have a legal duty to:

- Act in the best interests of KidsAid and its beneficiaries.
- Protect and safeguard the charity's assets.
- Act with reasonable care and skill.
- Ensure transparency and accountability in financial matters.

Policy Statement

KidsAid is committed to maintaining an appropriate level of reserves to:

- Ensure continuity of essential services.
- Safeguard against financial risks.
- Enable the charity to respond to unforeseen opportunities.

Target Level: At least three months of running costs in unrestricted reserves, adjusted for risk and reviewed annually or sooner if circumstances change (see **Appendix A – Calculating Reserves**).

Reserves will be:

- Used responsibly, in line with strategic priorities and legal duties.
- Maintained in cash or easily liquidated assets.
- Monitored and reported transparently.

1. Purpose of Holding Reserves

Reserves enable KidsAid to:

- Withstand income fluctuations or unexpected expenditure.
- Protect essential services for vulnerable children and families.
- Provide confidence to beneficiaries, funders, and partners.
- Support strategic initiatives or planned growth.

2. Definition of Reserves

Reserves are unrestricted funds that are:

- Available in cash or easily convertible to cash.
- Not tied up in tangible fixed assets used for service delivery.

Excluded from reserves:

- Tangible fixed assets used for service delivery.
- Social investments.
- Restricted funds (donor-imposed conditions).
- Commitments not yet recognised as liabilities.

Designated funds: Trustees have designated specific reserves for redundancy liabilities and the contingency fund. These are set aside from unrestricted reserves to ensure the charity can meet these obligations if required. While still unrestricted, they are earmarked for these essential purposes and therefore excluded from the calculation of “free reserves.”

3. Target Reserves Level and Review

KidsAid aims to hold reserves equivalent to three months of running costs.

This target will be reviewed annually, considering:

- Predictability and diversity of income sources.
- Fixed versus variable costs.
- Risks identified in the charity’s risk register.
- The cost of an orderly closure if required.
- Strategic priorities.

Review Triggers (in addition to the annual review):

A reserves review will be triggered in the event of:

- A sudden loss of a major funder or contract.
- Significant unplanned expenditure.

- Regulatory or legal changes affecting service delivery.
- Strategic expansion or contraction, prior to implementation.
- Changes to the charity's risk register that indicate increased financial exposure or threats to service continuity.

4. Redundancy Scenarios

When assessing financial resilience, KidsAid considers two redundancy scenarios: statutory entitlement only, and a goodwill basis.

The goodwill basis is reflected in current reserves planning. See **Appendix B.2** for full details.

5. Calculating and Monitoring Reserves

Unrestricted Reserves Calculation

- $\text{Unrestricted Reserves} = \text{Unrestricted Funds} - \text{Designated Funds} - \text{Tangible Fixed Assets} \pm \text{Surplus/Deficit since year start.}$

Unless otherwise specified, reserves will be calculated by the CEO one month in arrears, and the Finance Subcommittee will base its work on either the year-end audited figures or the most recent quarterly management accounts.

Required Reserves Calculation

- $\text{Required Reserves} = \text{Monthly Essential Costs} \times \text{Target Months.}$

Months of Coverage Calculation

- $\text{Months of Coverage} = (\text{Actual Unrestricted Reserves}) \div (\text{Monthly Essential Costs})$

The detailed step-by-step procedure for calculating both unrestricted reserves and the reserves requirement is set out in **Appendix A**.

Agreed inputs for reserve requirement calculation is set out in **Appendix B**.

This ensures consistency and transparency in the calculation method and allows for independent verification by trustees or auditors.

Monitoring

- The CEO calculates reserves monthly and reports deviations outside target to the Finance Trustee and full Board if urgent.
- The Finance Subcommittee reviews the charity's reserves quarterly in line with risk register.

7. Use of Reserves

The Board may approve the use of reserves use for:

- Temporary income shortfalls.
- Unexpected but essential expenditure.
- Strategic initiatives not supported by current income.

Before using reserves, the Board must confirm:

1. The expenditure protects essential services or strategic aims.
2. The cause is temporary or planned.
3. There is a realistic replenishment plan.

Replenishment timeframe: Reserves below target should be restored within 12–18 months unless the Board approves a longer period with justification

Reserves will not be used to fund recurring operational deficits without a recovery plan. Any decision to use reserves outside the target range must be supported by a written rationale, approved by the Board, and minuted.

8. Insufficient or No Reserves

If reserves fall below target, trustees will:

- Assess the impact on beneficiaries and services.
- Identify and implement mitigation actions.
- Report the position and recovery plan in the Annual Report.

9. Excess Reserves

If reserves exceed the target, trustees will:

- Review the reason for retention.
- Develop a plan to utilise surplus funds to further charitable aims.
- Ensure fundraising messages accurately reflect the financial position.

10. Investment of Reserves

Reserves will be invested to ensure liquidity while generating an appropriate return within acceptable risk limits.

- Short-term reserves may be held in UK bank or building society interest-bearing accounts with same-day access.
- Larger sums may be invested in a diversified portfolio, balancing return, liquidity, and risk.
- Investments will be reviewed annually and disclosed in the Annual Report.

11. Transparency and Reporting

KidsAid will:

- Publish this policy on our website.
- Clearly explain our reserves position in funding applications.
- Disclose in the Annual Report:
 - Total funds (restricted and unrestricted).
 - Designated funds and their purpose/timing.
 - Funds tied up in tangible assets.
 - Calculated reserves.
 - Target range and actual reserves.
 - Plans to address any shortfall or surplus.

12. Roles and Responsibilities

- The Board of Trustees approves and reviews the policy annually.
- The CEO calculates reserves monthly. If reserves fall outside the target range, the CEO will notify the Finance Trustee immediately, and the matter will be escalated to the full Board at the next meeting (or sooner if urgent).
- The Finance Subcommittee monitors reserves quarterly, recommends actions, and ensures compliance with this policy. It also reviews the reserves position in the context of the charity's risk register, updating financial risk entries where reserves levels could impact service delivery, sustainability, or strategic objectives.