**Introduction: what is a Reserves Policy?**

It is good practice to keep money aside as a reserve to protect the charity against drops in income or allow it to take advantage of new opportunities. Reserves can be spent on any of its aims.

A reserves policy should set out:

* How much the charity needs to hold in reserve and why
* How and when the charity’s reserves can be spent
* How often the reserves policy will be reviewed.

Organisations can set aside enough money to meet a potential need, such as an unexpected reduction in income. If setting aside money for a specific purpose, such as building work, a charity should make it clear that this is separate from the charity general reserves.

**Reserves Policy**

**Components**

The policy allocates money from unrestricted fund balances, which are not invested in fixed assets, to several designated funds. These funds are:

**1. Continuity Fund**

This fund is to be used to bridge any possible delays in receiving promised grants or managing payment in arrears contracts. This has been defined as a minimum of a three-month budgeted trading activity.

**2. Restructuring Fund**

This fund is to be used to cover essential trading/activities whilst sourcing income to a maximum of 6-month budgeted trading activity.

**3. Cyclical Maintenance Fund**

This fund is to be used for major items of maintenance of the fabric of the building such as redecorating the interior and exterior.

**4. Dissolution Fund**

This fund provides for the costs of dissolution should the charity be unable to continue. It is only to be used to pay notice periods, redundancies and the expenses of running the organisation until closure.

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| **Fund** | **Balance** |
| Continuity Fund |  |
| Restructuring Fund |  |
| Cyclical Maintenance Fund |  |
| Dissolution Fund - Redundancies   * 3 months minimal running costs * 3 months residual salaries |  |
| **Minimum Required** |  |

NOTE: The minimum reserves required is the Restructuring Fund plus the Dissolution Fund. These are to be used to ensure we look at every alternative before dissolution of the organisation.

**Annual Review**

Due to the nature of the organisation and the regular review of the budget, this policy should be reviewed on an annual basis to ensure:

* The continuity element matches changes to the annual budget.
* The restructuring element matches the requirements of trading activities.
* The cyclical maintenance element moves forward in at least an inflationary manner.
* The dissolution element matches the requirements of the staffing levels.

Should the budget be reduced due to projects ending, or other occurrences, then the reduction of reserves should be planned over a minimum of five years.

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| **Policy Name** | Reserves Policy |
| **Version** | September 2024 |
| **Date of issue** |  |
| **Next Review** |  |
| **Trustee Responsible** | Name |
| **Date adopted at a meeting of trustees** | Date |