

Reserves Policy

1. Purpose

The British Red Cross' (BRC) Reserves Policy aims to protect our charitable activities from the risk of disruption at short notice because of a lack of funds by maintaining sufficient levels of reserves, whilst ensuring that income is not retained for longer than required.

Free reserves are the proportion of the BRC's unrestricted funds freely available to spend on any of our charitable purposes.

The policy sets out how we will determine and maintain an appropriate level of free reserves in line with charity guidance.

2. Scope

This policy applies to the management and administration of the BRC's free reserves, including relevant staff, board of trustees, finance committee members, and financial advisers involved in these activities.

3. Policy Statement

The BRC will maintain an appropriate level of free reserves to support financial stability and operational continuity across both UK and international activities. The free reserves range will be reviewed and approved annually by the Board of Trustees (BoT) and will consider the financial impact of risk, working capital, and long-term organisational goals.

3.1. The free reserves range calculation will be based on the listed principles and assumptions:

- 3.1.1.** The amount of funding required, in the event of unexpected and significant financial challenges, to sustain our charitable activities on a short-term basis until long-term solutions can be established.
- 3.1.2.** Timing of working capital balance availability.
- 3.1.3.** Evaluation of on-going commitments and long-term plans not included in the annual planning process.
- 3.1.4.** On-going monitoring and assessment of financial risks.
- 3.1.5.** Exclusion of tangible and intangible fixed assets which are required to deliver the charitable objectives and are not readily convertible into cash.
- 3.1.6.** Exclusion of defined benefit pension schemes assets and liabilities, in accordance with charity guidance.
- 3.1.7.** Ensuring normal financial risk and volatility, and any obligations arising from defined benefit pension scheme deficit reduction plans, are included in the annual planning process, and therefore excluded from the free reserves' calculation.

- 3.2.** The free reserves range will provide financial stability in the event of unexpected and significant timing variances. Free reserves may drop below the free reserves range minimum because of an understood volatility, with an expectation that performance will return to the level approved by the BoT.
- 3.3.** The BoT will review and approve the level of forecast free reserves each year as part of the annual planning process, and in the context of the approved free reserves range.
- 3.3.1.** Taking the relevant factors into account for the financial years from 2024-2027, the minimum level of free reserves has been calculated as £50 million with the range set at 10% of general funds income and expenditure which equates approximately to £20 million.
- 3.3.2.** The free reserves range is set at £50 million to £70 million for the financial years from 2024-2027.
- 3.4.** The BRC will disclose the free reserves range and balance, key financial risks and an assessment of future free reserves in the Trustees' Report and Accounts to ensure transparency and accountability.

3.5. Lessons Learned from Policy Evaluation

The policy has been updated to: incorporate feedback from the Executive Leadership Team (ELT), the Finance and Audit Committee (FAC) and the BoT; streamline content; and to comply with the Policy and Procedure Framework.

4. Responsibilities

Ultimate responsibility for this policy rests with the BoT.

The FAC has responsibility for reviewing this policy and making recommendation for approval to the BoT.

The ELT is responsible for compliance with this policy.

The Owner (Chief Finance Officer) oversees the development and review of the policy and provides support to the Lead (Financial Controller).

The Lead undertakes the policy review under the guidance, and with the support of the Owner.

The Financial Controller, Head of Financial Accounting and Control & Policy Manager provide support and advice with regards to this policy.

All staff involved in the activities of this policy are responsible for adhering to, and complying with, this policy.

5. Governance

Associated policy document/s	<ul style="list-style-type: none"> • Investment Policy • Restricted Funds Policy • Risk Management Policy
Policy(ies) superseded	N/A
Legislation/ regulatory requirements and standards	<ul style="list-style-type: none"> • Trustees Act 2000 • Charities Act 2022

	<ul style="list-style-type: none"> Charity Commission guidance 'Charity reserves: building resilience (CC19)' Charities Statement of Recommended Practice (SORP; FRS102) BRC Decision Making Matrix (DMM) 														
Equality impact assessment	No equality impact identified														
Data Protection impact assessment	No data protection impact identified														
Environmental impact assessment	No environmental impact identified														
Endorsing Authority; Endorsement date	ELT; 11 2024														
Approval Authority; Approval date	FAC, BoT; 12 2024														
Policy Owner	Chief Finance Officer														
Policy Lead	Financial Controller														
Date effective	12 2024														
Interim update date	N/A														
Review date	12 2027														
Version	4.0														
Keywords	financial risk, free reserves, reserves, restricted funds, risk, total funds, unrestricted funds, working capital														
Revision history	<table border="1"> <thead> <tr> <th>Version</th> <th>Summary of change (s)</th> </tr> </thead> <tbody> <tr> <td>1.0</td> <td>Scheduled review of original document, minimum reserves level increased from £22.5m to £30m. Target range introduced with maximum level of £35m set.</td> </tr> <tr> <td>1.1</td> <td>Interim update, maximum level increased to £40m.</td> </tr> <tr> <td>2.0</td> <td>Scheduled review, range increased from £30m-£40m to £40m-£50m.</td> </tr> <tr> <td>3.0</td> <td>Scheduled review, formatting changes only.</td> </tr> <tr> <td>3.1</td> <td>Interim update, minor amendments and updates to reflect organisational changes and review date extended to June 2023.</td> </tr> <tr> <td>4.0</td> <td>Full review, update into new template, streamlining of content, and revision to reserves range to £50m-£70m.</td> </tr> </tbody> </table>	Version	Summary of change (s)	1.0	Scheduled review of original document, minimum reserves level increased from £22.5m to £30m. Target range introduced with maximum level of £35m set.	1.1	Interim update, maximum level increased to £40m.	2.0	Scheduled review, range increased from £30m-£40m to £40m-£50m.	3.0	Scheduled review, formatting changes only.	3.1	Interim update, minor amendments and updates to reflect organisational changes and review date extended to June 2023.	4.0	Full review, update into new template, streamlining of content, and revision to reserves range to £50m-£70m.
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Appendix: Definitions

Defined benefit pension scheme: also known as a final salary pension scheme. Under these schemes employee members are entitled to a particular level of pension benefit depending on their length of service and the level of their salary when they retire.

Designated funds: funds allocated from unrestricted funds by trustees for a specific purpose.

Free reserves: unrestricted funds excluding tangible and intangible fixed assets, defined benefit pension assets and liabilities and designated funds.

Free reserves range: the target maximum and minimum levels of free reserves.

Reserves: the part of a charity's unrestricted funds that is freely available to spend on any of the charity's purposes.

Restricted funds: funds donated to BRC for a specific purpose, which must be used for that specific purpose. Further details are provided in the Restricted Funds policy.

Risk: the uncertainty surrounding future events and their outcomes that could have a significant impact, either enhancing or inhibiting, on any area of BRC's operations or on the delivery of its objectives.

Total Funds: the total funding available to the BRC which includes restricted and unrestricted funds.

Unrestricted funds: also known as general funds. The element of Total Funds which is not restricted to a particular charitable purpose but are available for the general purposes of the BRC.

Volatility: fluctuations in economic and financial indicators such as economic growth, inflation, rates of taxation and national insurance, interest rates.

Working capital: the capital of an organisation which is used in its day-to-day operations, calculated as the current assets minus the current liabilities, such as short-term net assets including cash, trade debtors, accrued income, tax recoverable, prepayments, other debtors, legacy debtor, stock, creditors, accrued expenses, provisions.