

**Imperial College Union
Finance, Audit & Risk Committee / 2 November 2022**

Funds and Reserves Policy

Author(s): Rob Scully (Director of Finance & Resources)

Purpose: This paper proposes a new policy which details how ICU will manage accounting reserves / funds.

Action(s): To recommend to the Board of Trustees that they approve the Reserves and Funds Policy

1. Context

ICU currently has a Reserves Policy (a copy of which is contained in Appendix 1), which determines that the Board of Trustees will determine a recommended ‘free’ or general reserve level using a risk-based approach. The policy also considers these risks and sets the recommended level, but does not explicitly consider the impact of long term pension liabilities. ICU does not currently have any policies governing our approach to funds other than the General Reserve.

In line with the approach to accounting policy, regulation and procedure agreed in March 2022, the proposed policy sets out the framework in which funds and reserves should be managed and is intended to be a longer term policy, this will be complemented by an annual Reserves Review which will consider the particular risks and recommend a target reserves level and plan to achieve this level.

2. Types of Fund

In line with the Charities SORP and Charity Commission guidance¹, the following types of fund exist:

Unrestricted	General	Often referred to as ‘free’ reserves, these are used as a risk management tool to respond to financial uncertainty and smooth out financial performance over several years. For ICU, this is our General Reserves
	Designated	Trustees have within their power the ability to designate general reserves for a particular purpose (ie earmark the funds for future use). This is at Trustees discretion and designations can be reversed or amended by Trustees. For ICU, this is currently our Activities Development Fund (ADF) and Fixed Assets Fund
Restricted	Income	Restricted funds are for a particular purpose, as determined by the funder when the income is received. Restricted income funds are readily available to spend. For ICU, this is funds generated for CSPs / Halls, specific Capital Grants, and any grants / donations which are for a specified purpose.
	Endowment	A Restricted Endowment Fund is capital that is invested to provide an income stream for the charity in line with a donor’s instruction. The capital may be permanent (ie cannot be converted to income), or

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

		expendable (can be converted into income). ICU holds no Endowment Funds.
--	--	---

Reserves are defined by the Charity Commission as *that part of a charity's unrestricted funds that is freely available to spend on any of the charity's purposes*. This is the Unrestricted General Fund, adjusted for any elements which are committed to particular purposes and therefore not freely available.

ICU's current Reserves Policy is limited to just that – Reserves. The proposed policy includes all types of fund, and separates the parts that change annually into a Reserves Review.

3. Current Reserves Position

At 1 August 2021, the Union's fund levels were:

Unrestricted	General	General Reserve: £678k Pension Deficit: (£176k) Total: £502k
	Designated	Fixed Asset Fund: £92k ADF: £76k Total: £168k
Restricted	Income	Student Activities / Halls: £1,959k Capital Grants: £100k Total: £2,058k
	Endowment	£nil

The balances as at 31 July 2022 are still subject to a final audit query and sign off, however the most notable impact to the balances will be the significant increase to the pension deficit (increasing from £176k to £379k).

This increase is as a result of the latest valuation of the USS pension scheme, which has been well documented in HE. There are various opinions amongst employers and scheme members / trade unions around the reliability of the valuation and the plan to address the deficit. It is a long term funding shortfall to the scheme and does not represent a short term liability for ICU. Though there is the potential for some cash call in the future, this would not be for anywhere near the total deficit amount, which will largely be recouped though increased annual costs.

A separate pension liability management plan will be formulated, and in determining future target reserves levels, the risk associated with this plan should be considered rather than the total deficit.

Imperial College Union

Funds and Reserves Policy

1 Responsibilities

- 1.1 The Board of Trustees approve and own this policy, approve the overall approach to fund accounting, set the target reserves level on an annual basis and approve any changes to the designation of funds.
- 1.2 The Board of Trustees are responsible for ensuring that this policy, and the application of it, is compliant with all relevant laws, regulation and the Charities SORP.
- 1.3 The Finance, Audit & Risk Subcommittee will make monitor and review fund balances and potential impacts on funds of decisions taken.
- 1.4 The Finance, Audit & Risk Subcommittee will undertake an annual Reserves Review. They will recommend changes to the target reserves level to the Board of Trustees.
- 1.5 The Director of Finance & Resources is responsible for the operational implementation of this policy, including ensuring that it is accessible to staff and that appropriate training and guidance is available for those who is affects.

2 Definitions

- 2.1 Funds – the money and other assets held by the charity to be applied to further our charitable purpose.
- 2.2 Reserves - that part of a charity's unrestricted funds that is freely available to spend on any of the charity's purposes (a subset of Funds).
- 2.3 Student Activities / Halls Funds – specific Restricted Funds held for a particular student groups (clubs, societies, projects, halls committees etc)

3 Restricted Funds

- 3.1 Imperial College Union will hold Restricted Funds in trust until such time as they can be spend on their intended purpose.
- 3.2 At the point of receipt, Imperial College Union will record any restricted income as such and ensure there are appropriate mechanisms in place to ensure such funds cannot be utilised for unintended purposes.
- 3.3 Where existing Restricted Funds are not able to be spent on their original intended purpose, Imperial College Union will administer remaining funds (in the following order of precedent):
 - 3.3.1 In accordance with any funding agreement or constitution that governs the funds;
 - 3.3.2 By asking the original funder to unrestrict the funds, or amend the terms of the restriction;
 - 3.3.3 By applying any other mechanism available in law to ensure the funds can be applied correctly for charitable purposes;
 - 3.3.4 By returning them to the original funder if no other solution can be found.
- 3.4 Imperial College Union will not accept funds where we do not feel we can reasonably comply with the terms of the restriction, that the terms are beyond our charitable purposes, or are not aligned with our organisation values.
- 3.5 In the case of any funds being returned or rejected under Clauses 3.3.4 or 3.4, the Director of Finance & Resources will inform the Chair of the Finance, Audit & Risk Subcommittee.

3.6 In the case of Student Activities / Halls Funds, Imperial College Union will provide a mechanism to enable groups to identify parts of their funds as being held or accumulated for a particular purpose.

4 Designated Funds

4.1 Imperial College Union will administer Designated Funds at the discretion of the Board of Trustees.

4.2 Designated Funds will remain unrestricted.

4.3 The Board of Trustees may designate funds for any purpose, but will operate two ongoing funds:

4.3.1 Fixed Assets Fund – to fund the future depreciation charges of fixed assets funded by donations, legacies and grants, or other income already received but not classified as a capital grant.

4.3.2 Student Activities Designated Fund – to enable, at the discretion of the Board of Trustees, general funds previously allocated to support student activity to be held as such over the longer term.

5 General Funds

5.1 All funds not Restricted or Designated are General Funds.

5.2 Imperial College Union will separate long term pension deficit liabilities from other General Funds to better support understanding and decision making.

6 Reserves

6.1 Imperial College Union will hold a reserve that is, in the view of the Board of Trustees, sufficient to ensure that the organisation is sustainable in the long term and can respond to uncertainty, shocks and underperformance.

6.2 Imperial College Union will set a target reserves level using a risk-based approach to evaluate what level of reserves are required to satisfy Clause 6.1.

6.3 Imperial College Union will undertake an annual Reserves Review which will:

6.3.1 Consider whether the target reserves level should be amended in light of the current assessment of risk;

6.3.2 Consider any distinction between the General Funds shown in the accounts and Reserves as defined by the Charity Commission (eg the value of assets not covered by the Fixed Assets Fund or Capital Grants, or long term pension deficits);

6.3.3 Set and evaluate plans to achieve the target reserves level within a reasonable timeframe;

6.4 Where the current reserve level significant exceeds the target reserve level, a plan to reduce this by strategically utilising excess funds will be developed.

6.5 Where the current reserve level significantly falls short of the target reserve level, a plan to resolve this will be developed. This may include:

6.5.1 Requiring budgets to deliver surpluses

6.5.2 Selling assets to raise cash

6.5.3 Undesignating funds

6.6 When considering reserves, Imperial College Union will take into account the long term pension deficit and the plans to address this. The Reserves Review will ensure that there are sufficient funds available to respond to any potential short term deficit reduction

requirements, and that medium to long term requirements are considered in longer term planning.

DRAFT