

Current Reserves Policy

Purpose: This policy sets a target level of ‘free’ or general reserves for the Union, which the Trustees deem to be the appropriate level to mitigate potential risks, fund working capital requirements and facilitate future plans and strategic success.

1. Executive Summary

The Charity Commission expect trustees to decide, publish, implement, and monitor their charity’s reserves policy so that they can comply with their legal duties and give confidence to stakeholders that the charity is being properly managed.

The Trustees have determined that a risk-based approach to determining the target level of reserves is most appropriate to the organisation. This involves considering the key operational and strategic risks that might have a financial implication, analysing the potential costs and likelihood of these risks materialising.

The Trustees are committed to ensuring that the organisation is run in a sustainable way, to ensure that any unexpected fluctuations in revenue or expenditure can be met within reasonable limits. However, we also recognise the importance on not holding excessive reserves because, as a general principle, charitable funds should be spent on beneficiaries, and not held unnecessarily.

In setting this policy, Charity Commission guidance (particularly *Charity reserves: building resilience (CC19)*¹) has been considered and applied.

The new recommended level of reserves is £455k.

2. Risks Analysis

The following risks have been identified and considered. An assessment of the likelihood of the risk materialising and requiring use of the reserve has informed a suggested requirement. In total, these suggested requirements determine the target level of reserves.

2.1 Block Grant

ICU operates in a relatively low risk environment when compared with other charities, due to the presence of our main funder, Imperial College. Although there is not a longer term funding guarantee, the College have been supportive of our new financial model which clarifies the relationship between grant funding and core activity of ICU. From 2021/22, the College has agreed an increase to the level of grant (c35% of the 20/21 level) which confirms their commitment to adequately funding ICU.

The block grant is agreed in advance of the final published budget and once agreed it does not deviate over the year. This gives us time to make changes to our planned expenditure to align with potentially revised income predictions.

Risk Assessment	Low
Suggested Requirement(s)	None

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

2.2 Net Income (non-grant funded areas)

Our funding model does not require our commercial activities to generate a surplus to support the operational running costs of the rest of the organisation. Instead, commercial activities are expected to break-even or generate surpluses to be designated for future, optional strategic investment. This model removes the risk that shortfalls in commercial surpluses have an in-year impact on the rest of the organisation and/or require utilisation of free reserves.

That said, if there is significant disruption to these operations (eg a pandemic, business interruption, infrastructure issue resulting in closure etc), then it is likely that they would operate at a deficit and create a need to utilise reserves.

The suggested requirement below is based on being able to maintain the fixed costs of these operations (mainly staffing) for three months without any income.

Risk Assessment	Low/Medium
Suggested Requirement(s)	£180k

2.3 Working Capital

ICU currently holds cash readily available in bank accounts with Natwest in order to maintain liquidity. This means that immediate working capital needs are easily accommodated by adequate cash balances.

The main expenditure areas of the organisation are stock (with an average stock holding of c£180-200k) and staff (payroll is managed by the College and paid monthly in arrears). The block grant is received quarterly in advance. Cashflows are becoming more regular as the uncertainty around the pandemic reduces, however we do not yet have a very reliable picture of this.

It is therefore considered low risk that there would be working capital shocks or cashflow concerns, however it is prudent to retain free reserves to cover changes that may arise for operational reasons.

Risk Assessment	Low
Suggested Requirement(s)	£150k

2.4 CSPs

ICU has almost 400 CSP's. Their funding comes from a combination of self-generated and Union grant income. Their funds are held as restricted reserves with a total balance of c£2m which has been steadily growing for several years. If a CSP gets into financial difficulty, it is the Union who bears the responsibility rather than the individual members and therefore, there is an element of risk to consider. Whilst the total of all CSPs balances is very positive, there are individual groups with a balance in deficit.

The Union has several mitigating processes in place to reduce this risk. All event budgets and sponsorship contracts are scrutinised and signed off by the OTs or the Activities team and risk assessments are required for relevant events. The Union has identified the most significant risk to be with the large cultural societies who run big events but don't tend to have high reserves. We will work closely with these societies in order to minimise risk. If a major event or activity fails or falls short of budget, there is a risk that student groups will fall into deficit positions. If this were to happen a programme of support would be put in place to help the group recoup the funds.

CSPs also benefit from one off funding from several other sources such as the Harlington Fund and the Blythe Centre for capital expenditure projects. The risk of this funding being withdrawn is low and would not automatically generate a need for the Union to replace it.

Despite the mitigating factors, there is a risk to the free reserve that any deficit balance may ultimately require funding from the free reserve. For this reason, whilst the risk is assessed with a low likelihood, the suggested requirement is in line with the current total deficit of all CSPs in this situation.

Risk Assessment	Low
Suggested Requirement(s)	£50k

2.5 Reactive Compliance & Infrastructure

As the organisation continues to get 'back to normal' following the pandemic and embarks on our Back to Basics Strategy, there are a number of operational risks that might materialise as reviews and improvement projects are undertaken. Whilst the nature of this type of risk makes it impossible to identify with confidence, this could relate to changes to or re-evaluation of VAT treatments, historical corporation tax liabilities, urgent H&S requirements, need to respond to legislative changes etc.

This would also cover the cost associated with the need to replace core infrastructure urgently upon failure in order to maintain the operation.

Whilst in many cases it is likely that the College would provide support in responding to these challenges (and in some cases, such as VAT, they have already committed to doing so), it is important that the organisation is able to respond quickly and independently where necessary and therefore there is a suggested requirement of £75k.

It is envisaged that this particular risk will reduce as we progress through our current strategy and embed a new sustainable operating model.

Risk Assessment	Medium
Suggested Requirement(s)	£75k

3. **Review Process**

In line with Charity Commission guidance, the Trustees will review this policy annually and consider performance against it throughout the year.