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## 1. Background Information

As a charity with significant turnover, it is important that the Students' Union carries a level of 'free cash reserves'. This requirement is built on three key reasons:

- i. Working capital: to maintain cash flow and enable us to operate.
- ii. Continuity of charitable activity: in case of a significant reduction in income or increase in expenditure outside of our control.
- iii. Further investment: to deliver the long term strategy of the Students' Union.

It is prudent to maintain a level of reserves that maximises the level of investment we are able to make to realise our strategic aims, whilst ensuring that the organisation is sustainable and is not subject to an excessive level of risk.

## 2. Charity Commission Guidance

Previous Charity Commission guidance gave a recommendation for organisations to keep three months operating capital in cash reserves. However, this has now been rescinded on the basis that arbitrary figures have caused too many charities to build up reserves for no purpose, and that should be released in order to deliver charitable objects.

The revised Commission guidance provided for in publication CC19 clearly states that:

*There is no single level or even a range of reserves that is right for all charities. Any target set by trustees for the level of reserves to be held should reflect the particular circumstances of the individual charity. To do this, trustees need to know why the charity should hold reserves and, having identified those needs, the trustees should consider how much should be held to meet them.*  
CC19 (p. 9)

It then goes into further detail, specifying the main areas that we should consider when developing and agreeing a formal reserves target:

*The charity's target level of reserves can be expressed as a target figure or a target range and should be informed by:*

- i. *Its forecasts for levels of income for the current and future years, taking into account the reliability of each source of income and the prospects for developing new income sources.*
- ii. *Its forecasts for expenditure for the current and future years on the basis of planned activity;*
- iii. *Its analysis of any future needs, opportunities, commitments or risks, where future income alone is unlikely to be able to meet anticipated costs; and*
- iv. *Its assessment, on the best evidence reasonably available, of the likelihood of each of those needs that justify having reserves arising and the potential consequences for the charity of not being able to meet them.*

CC19 (p. 9)

It should be noted that a number of Students' Unions have adopted a similar risk based approach (for example Liverpool, Liverpool Hope, Liverpool John Moores, Manchester, Oxford, Oxford Brookes, Sheffield Hallam, UEA).

It should be noted that some successful Students' Unions are prohibited from building up reserves by the parent institution as it represents allocated income not being spent on students (for example Plymouth and Sunderland).

### **3. General Reserve**

The general reserve is an unrestricted reserve that is held to manage risk and ensure the organisation is sustainable. It will be funded by accumulated surpluses over time.

The organisation takes a risk based approach in setting the target level of general reserve, given that the main risk (in terms of risk assessment and requirement) is the net contribution generated by the trading services, the policy is set to ensure that the reserve target is in line with the target trading contribution.

### **4. General Reserve Target**

The organisation is committed to maintaining a general reserve balance at 50% of the annual budgeted contribution from trading services.

### **5. Other Reserves**

Where there is strategic rationale, a designated funds may be used to hold reserves beyond the general reserve target. Such funds will be ring-fenced in accordance with strategic decisions taken by the Board, and will be at their discretion to release for expenditure. Examples of this would be to accumulate funds for a specific, large strategic project or capital programme such as a building restructure.

Where funding is received for a specific purpose, and restricted by the funder, any funds unspent at the end of the year will be held in a restricted reserve. Balances held of student group accounts administered by RHSU will also be held in a restricted reserve.

### **6. Policy Statement**

Royal Holloway Students' Union is committed to ensuring that the organisation is run in a financially sustainable way, and sets an unrestricted reserve target to ensure that any unexpected reductions in revenue or increases in costs can be met within reasonable limits. The target general reserve target is set at 50% of the budgeted contribution from trading operations.

Other designated and restricted reserve funds will be administered where appropriate to comply with accounting standards and to give the clearest information to our members and other interested parties.

### **COVID19 ADDENDUM**

The organisation remains committed to operating towards the target reserve balance of 50% of the contribution from trading services. However, this addendum acknowledges the financial impact of the COVID19 pandemic on historically accumulated reserves, and that it is not possible or realistic to currently operate with reserves at this level. The organisation is embarking on a three year recovery plan, commencing August 2021, with the aim to replenish reserve to a level in line with this policy over the course of the recovery stage.

Royal Holloway Students Union remain committed to ensuring that the organisation is run in a financial sustainable way and has balanced the temporary inability to meet the unrestricted reserve target of 50% of the budgeted contribution from trading operations, with additional financial assurance from RHUL the parent institution.