

Financial Reserves Policy

Policy date
31 March 2026

Next review
31 March 2027

Policy owner
Board of Trustees

Version
2.4 - 22 October 2026

1. Purpose of our reserves

Roots for Change UK CIO holds reserves to protect essential work and meet its obligations when funding is delayed, income falls or unexpected costs arise. Reserves may also support an orderly reduction or closure of services. The amount held must reflect the charity's circumstances and the needs of the people we support. Funds should be used for our charitable purposes rather than accumulated without a clear reason. All spending must remain within the constitution's objects and powers.

This policy explains how we calculate, agree and monitor reserves. The Board records its target, the reasons for it and the next review date in Annex A. The target must be supported by a recorded Board decision.

2. Responsibilities and forecasts

The Board approves the reserves target and any planned use of reserves. The Treasurer prepares the calculations and monthly monitoring reports. If there is no Treasurer, the Board appoints a trustee to carry out this work and records a deputy. Programme leads provide current grant conditions, commitments and the likely effect of a funding interruption on services.

Maintain a rolling twelve-month income and expenditure forecast and a thirteen-week cash-flow forecast. Show confirmed funding separately from uncertain or conditional income, and identify restrictions on its use. Unawarded grants, speculative donations and restricted receipts must not be treated as unrestricted money available to meet general obligations.

3. Calculate free reserves and available cash

Free reserves are the unrestricted funds available for the charity's general purposes. Start with total unrestricted funds under the accounts basis used, then show each exclusion. Restricted funds and permanent endowment are not free reserves. Designated funds remain legally unrestricted, although amounts genuinely set aside for essential future spending may be excluded with a clear explanation.

Make the exclusions appropriate to the accounts and Charity Commission definition: operational tangible fixed assets, social investments, justified designations for essential future spending and commitments not already recognised as liabilities. Count each exclusion once. Designations must reflect a genuine purpose and must not be used simply to reduce the reported reserves balance.

Calculate available cash separately. Exclude money held for restricted purposes and identify upcoming bills and other claims on the remaining cash. Accounting reserves may include resources that cannot be used to pay a bill when it falls due.

4. Set a realistic target

At least once a year, and before a significant change to services or funding, use Annex A to assess three plausible scenarios: delay in an important grant payment; loss or reduction of a major income source; and orderly reduction or closure of activities. Consider the effect on the people we support, including safeguarding and continuity of care or referrals where relevant.

For each scenario, choose and explain a period long enough to take realistic corrective action. Forecast essential, unavoidable payments and reliable receipts that can lawfully be used to meet them. Include contractual notice, redundancy where applicable, leases, possible grant repayments, safe handover and closure costs where relevant. Check that no cost has been included twice.

Work out the largest cumulative cash shortfall in each scenario: essential payments less reliable, usable receipts, with a minimum of zero. Resources already excluded from free reserves can reduce only the same eligible costs they are set aside to cover. Calculate the target before comparing it with existing free reserves. Use the largest scenario shortfall plus a justified allowance for risks not already covered as the proposed target. Record the assumptions and explain any difference between the cash requirement and the accounting target.

The Board considers the calculation, reliability and concentration of income, risks to services and affordability. It then agrees a target amount or range and a review date. Record the reasons for any adjustment to the proposed figure. A decision to hold no reserves also needs a reasoned assessment and a workable alternative for managing the risks.

5. When a target is missing or reserves are low

If a current reserves target cannot be evidenced, the Treasurer must complete Annex A for the next quorate Board meeting and within thirty calendar days. Until the Board decides the target, report the actual free-reserves and cash position accurately, without presenting an unapproved figure as the target.

During this period, new discretionary commitments outside the approved budget need prior approval from the unconflicted Board under the constitution. Review the thirteen-week cash forecast every week and protect funds needed for lawful existing obligations and safeguarding. Tell trustees immediately if the forecast shows that the charity may be unable to pay its debts. Restricted funds remain subject to their restrictions.

If reserves fall below the agreed target, the Board must set a realistic recovery plan. This may include raising income, adjusting costs or changing services where appropriate. Record actions, milestones and a review date. The annual report must explain the amount actually held and any shortfall against the target.

6. Monitor reserves and act on concerns

Within fifteen working days of each month end, the Treasurer gives trustees a report showing free reserves, available cash, restricted balances, forecast cash flow, significant commitments, comparison with the target and actions needed. Compare the figures with the previous month and the budget. Discuss the report at every Board meeting and keep the calculation and decision record.

Notify the Chair and all trustees within one working day of identifying a forecast inability to pay debts when due, a significant unplanned use of reserves, cancellation of major funding, or a threat to safeguarding or service continuity. Arrange an urgent quorate decision and obtain suitable financial or insolvency advice where needed.

If reserves exceed the target, establish whether this reflects timing, changed risks or money available for charitable work. Agree how the funds will be used or revise the target using the evidence. Do not describe funds as restricted or designated without a genuine basis.

7. Approve the use of reserves

Before a planned use of reserves, trustees must record the charitable purpose, amount, authority, funding restrictions and effect on cash flow. Consider alternatives, risks, the people affected and whether reserves need to be rebuilt or services changed. The Treasurer tracks the decision separately from routine spending within the budget.

Follow the Conflict of Interest Policy and the current constitution for withdrawal, quorum and minimum trustee numbers. No trustee may approve their own benefit or a connected arrangement. The constitution dated 22 July 2024 requires at least three trustees; if membership falls below that minimum, only the restorative actions permitted by the constitution may be taken. An urgent commitment must fall within an existing lawful delegation. Record it promptly and report it to the Board.

8. Hold funds safely and report the position

Hold reserves in a way that reflects when the funds may be needed and the charity's investment powers. Before committing funds, the Board checks access, security, exposure to each provider and withdrawal penalties. Allow for the time and possible loss involved in converting investments to cash.

The TAR must explain the reserves policy, actual free reserves and reconciliation, significant designations, the target, differences from it and any corrective action. Distinguish accounting reserves from cash and planned resources from money already held. Keep target decisions and calculations with the financial records for at least six years, or longer where required.

Review this policy and the target annually, after a major grant or service change and after a significant financial incident. Use it with the Annual Reporting Policy, Conflict of Interest Policy, Trustee Expenses Policy and Fundraising Policy. The next scheduled policy review is 31 March 2027.