



RESERVES POLICY

VERSION CONTROL		
Date	Description	Responsible
19 Jun 2015	Created & Approved	Board
20 May 2017	Reviewed & Approved	Board
15 Sep 2019	Reviewed & Approved	Board
15 Nov 2022	Reviewed & Approved	Board
21 Feb 2026	Reviewed & Approved	Audit & Risk Committee, Board

Next Review Due: **February 2029**

1. Purpose

The purpose of the EIL/AFS Reserves Policy is to ensure the stability of the mission, programmes, employment, and ongoing operations of the organisation. The policy supports the organisation in meeting its governance and fiduciary responsibilities and in safeguarding the sustainability of the organisation.

The Board considers the maintenance of Operating Reserves to be necessary to mitigate financial risks and to ensure the ongoing sustainability of the organisation. These risks include, but are not limited to:

- Uncertainty or delays in income streams;
- The organisation's contractual obligations to staff, suppliers and service providers;
- Obligations arising from the organisation's role as an employer;
- Unexpected increases in demand for services; and
- Unforeseen operational, economic or external events that may adversely impact income or expenditure.

Maintaining appropriate Operating Reserves enables the organisation to continue delivering its mission and programmes while responding in a measured, responsible and timely manner to financial challenges.

2. Definition of Operating Reserves

For the purposes of this policy, Operating Reserves are defined as unrestricted funds that are readily available to support the organisation's core activities in the event of unforeseen financial difficulty.

Operating Reserves exclude:

- Restricted funds, which may only be used for specific purposes as determined by donors or funders;
- Designated funds, which have been earmarked by the Board for specific future projects or commitments;
- Endowment funds, where applicable; and
- Tangible fixed assets held for the organisation's own use, including property, which are not readily realisable.

Only unrestricted and undesignated funds that are readily realisable may be counted towards the Operating Reserves.

3. Target Level of Operating Reserves

Operating Reserves are to be maintained at a level which ensures that the organisation's core activity could continue during a period of unforeseen difficulty. These unrestricted reserves, at a minimum, should be equivalent to six (6) months of core salary costs.

The calculation of the required level of Operating Reserves is an integral part of the organisation's planning, budget and forecast cycle.

4. Determination of the Appropriate Level of Reserves

In setting the target level of Operating Reserves, the Board has considered the organisation's size, activities, risk profile, income sources and expenditure commitments.

The decision to set Operating Reserves at a level equivalent to six (6) months of core salary costs reflects:

- The organisation's reliance on external funding and the timing of income receipts;
- The need to meet employment and other contractual obligations in the event of income disruption; and
- The time required to implement mitigating actions, such as securing alternative funding, adjusting expenditure levels or restructuring activities.

This level of reserves is intended to provide sufficient time for the organisation to respond to financial challenges in an orderly and responsible manner.

5. Strategy for Maintaining and Rebuilding Reserves

The Board will seek to maintain the Operating Reserves at or above the target level through prudent financial management and annual budgeting.

Where Operating Reserves fall below the target level, the Board will consider appropriate actions, which may include:

- Budgeting for planned operating surpluses in future financial periods;
- Phasing or deferring discretionary expenditure where appropriate; and
- Identifying opportunities to increase unrestricted income.

The strategy for building or rebuilding Operating Reserves will be proportionate to the organisation's circumstances and will not unduly compromise the delivery of its charitable objectives.

6. Use of Operating Reserves

The Board will consider use of Operating Reserves as follows:

6.1. Use of Operating Reserve funds in the case of an operational shortfall:

In the case of an operational shortfall, the CEO and staff will identify the need for access to Operating Reserve funds and confirm that the use is consistent with the purpose of the Operating Reserves as described in this Policy. The CEO will then submit a request to use Operating Reserves to the Board of Directors for approval. The request will include an analysis of the reason for the shortfall, the availability of any other sources of funds before using Operating Reserves, and an estimation of the time period that the funds will be required and replenished.

6.2. Use of Operating Reserves in the case of a once-off Development or Investment Project:

In the case of a once-off Development or Investment Project, the CEO will identify the need for access to Operating Reserve funds and confirm that the use is consistent with the purpose of the Operating Reserves as described in this Policy. The CEO will then submit a request to use Operating Reserves to the Board of Directors for approval. The request will include an analysis of the project cost, the availability of any other sources of funds before using Operating Reserves, and an estimation of the time period that the funds will be required and replenished.

The organisation's goal is to replenish any funds used within twelve (12) months to restore the Operating Reserves to the target minimum amount. If the use of Operating Reserves will take longer than twelve (12) months to replenish, the request will be scrutinised more carefully.

7. Use of Operating Reserves during Financial or Economic Uncertainty

In the event of a financial crisis or period of economic uncertainty, the Board will consider the use of Operating Reserves as part of a wider financial response.

In doing so, the Board will:

- Prioritise essential expenditure and the continuation of core activities;
- Consider whether non-essential projects or expenditure can be postponed or reduced;
- Ensure that only unrestricted reserves are used and that all restrictions on funds are fully respected; and
- Have due regard to the organisation's ability to meet its obligations to creditors as they fall due.

Any use of Operating Reserves during such periods will be carefully monitored, documented and reviewed by the Board.

8. Reporting and Monitoring

The CEO is responsible for ensuring that the Operating Reserves are maintained and used only as described in this Policy. The CEO will maintain records of the use of funds and of the plan for replenishment. In the event that funds are used, the CEO will provide regular reports to the Board of Directors on progress to restore the Operating Reserves to the target minimum amount.

The level of Operating Reserves will be monitored regularly as part of the organisation's financial reporting cycle and reviewed by the Board of Directors.

Where reserves fall materially below or exceed the target level, the Board will assess whether this represents a short-term fluctuation or a longer-term issue and will take appropriate action.

9. Policy Review Schedule

This policy will be reviewed in full on a three-yearly basis, by the Audit & Risk Committee, or sooner if warranted by the Committee, the Board, the Auditor or as a result of external events or changes. Any changes to the Policy will be recommended by the Audit & Risk Committee to the Board of Directors. The Board of Directors has the final authority to approve any changes to this policy.