

Agenda Item: Draft Reserves Policy

Summary:

IPPF's current general reserves policy was approved by the Governing Council (predecessor of the Board of Trustees) in May 2013. It sets a target level for general reserves of between US\$18 million and US\$24 million.

In line with the Charity Commission's guidance that Trustees should regularly monitor and review the effectiveness of the policy in the light of the changing funding and financial climate, IPPF has reviewed the ongoing applicability of the current reserves policy in the background paper that was presented to the C-FAR on 12th August 2021.

In determining an appropriate target reserves level, IPPF followed the Charity Commission's suggested steps to setting a reserves policy which balances the financial impact of risk with IPPF's functional assets, sources of income and future plans and commitments.

Action Required:

On the recommendation of the C-FAR the Board of Trustees to approve:

- the draft reserves policy;
- set the revised target of reserves between US\$19 million and US\$26 million (note attached); and
- delegation responsibility to the Finance, Audit and Risk Committee to review and update the level of reserves for IPPF in line with this policy, at least once a year and subsequently update the Board of Trustees of any revision thereof.

1 Background and purpose

The Charity Commission for England and Wales' guidance note ("[Charity reserves: building resilience](#)") sets out key points for charity Trustees when setting or reporting on their charity's reserves policy:

- Charity law requires any income received by a charity to be spent within a reasonable time of receipt. Trustees are justified in holding income reserves only if they believe it is in the charity's best interests.
- A reserves policy should take into account the particular circumstances of the charity and should not be regarded as a static policy. It should demonstrate the charity's resilience and capacity to manage unforeseen financial difficulties.
- Trustees should regularly monitor and review the effectiveness of the policy in the light of the changing funding and financial climate and other risks.

Deciding the level of reserves that IPPF needs is important in order to avoid reserves levels are neither:

- **higher than necessary** – which would limit the amount spent on charitable activities, nor
- **too low** – which would increase the risk of IPPF not being able to carry on its activities in the event of financial difficulties in the future.

2 **Policy statement**

IPPF's reserves policy seeks to balance maximising spending of income raised as soon as possible with maintaining the minimum level of reserves to ensure uninterrupted operation and to provide time to adjust to a change in financial circumstances.

IPPF's reserves policy will ensure that it has the resources in place to manage financial risk and short-term income volatility and to continue to invest in initiatives to meet its goals set out in its Strategic Framework/Plan.

A target reserve level of US\$19m - US\$26m is assessed as striking an appropriate balance between the need to spend income when it is received and maintaining operational integrity.

3 **Scope**

This policy will apply to all funds held by IPPF as group, which would include, all its offices set up either as branches, subsidiaries or any other legal form.

4 **Approach to setting up reserves level**

This reserves level under the policy will be set taking the following steps, as suggested by the UK's Charity Commission:

- (i) Understand the nature of the charitable funds held.
- (ii) Identify functional assets.
- (iii) Understand the financial impact of risk.
- (iv) Review sources of income.
- (v) Assess the impact of future plans and commitments.
- (vi) Agree to a reserves level.

Following the above steps, IPPF will set its target taking into account the risks arising from the potential loss of unrestricted donor income, the impact of losing restricted projects, employment relations, working capital requirements of projects, potential fraud or misallocation of funds, Member Associations' needs, unrestricted cashflow deficits arising

from timings of payments and potential redundancy costs in the event of financial difficulties.

The details of steps undertaken to work out the target amount are provided in the “Background paper on reserves policy” (August 2021) attached.

5 **Monitoring general reserves**

The Director, Finance & Technology will be responsible to keep a close watch over the general reserves. Any draw down from general reserves shall require the recommendation of the Finance, Audit and Risk Committee and approval of the Board of Trustees.

The General reserves will be reported in the management accounts of IPPF.

The overall investment/ spending plans will always be developed keeping in mind that reserves shall have to be maintained within the target range approved by the appropriate authorities.

6 **Review of the policy**

The Board of Trustees will approve any amendments (including to the level of reserves), if required, to the Reserves policy annually, on the recommendation of the Finance, Audit and Risk Committee to ensure the policy remains effective in the light of the prevailing funding and financial climate and any other risks.

The Director – Finance & Technology will be responsible to bring these amendments to the policy, for review to the Finance Audit and Risk Committee.

Version Control

Version	Effective Date	Review Date	Owner	Approved Date
Version No. 1	December 2021 (subject to approval by Board of Trustees)	5 November 2021 (by the Finance, audit and risk committee)	Director – Finance and Technology	3 December 2021 o/s (by the Board of Trustees)