Reserves policy

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Introduction

All charities are required to develop a reserves policy that establishes the level of reserves the Trustees believe should be held and explaining why this is necessary.

Trustees are also required to explain how reserves will be used and show that this is being managed in line with the organisation's strategy, business plan and financial plans. This policy enables us to:

- give assurance to lenders and creditors that the charity can meet its financial commitments;
- manage the risk to the charity's reputation from holding substantial unspent funds at the year-end without explanation;
- demonstrate the charity's resilience and capacity to manage unforeseen financial difficulties to beneficiaries, funders and the public.

Background

Dementia Carers Count (DCC) hold reserves arising from the proceeds of the sale of care homes in 2016. The majority of these reserves are held as investments, managed by an external investment manager.

Since our inception as DCC in 2018 trustees have taken a strategic decision to utilise reserves and are doing so in a managed way, investing in Service Delivery and Development, Income Generation and Influencing. A steady growth in income through income generation will see the planned deficit reduce year on year, with sufficient reserves remaining to ensure the future sustainability of the organisation.

This policy therefore focusses on the use of reserves to deliver our strategy, as well as considering the level required to ensure commitments can be met in the short term.

Required level of reserves

It is important that carers are not let down during a time of crisis and that they are able to have free, uninterrupted access to our services, even during a time of economic uncertainty.

Reserves are required to ensure DCC is able to maintain service delivery in the event of an unavoidable drop in income. This includes a loss of income from public donations, trusts and foundations or commissioned services, as well investment income which is determined by economic factors outside our control, the level of which cannot therefore be guaranteed.

With income generation being developed within the organisation, and a stepped approach to growth, there is a need to hold reserves that are sufficient to ensure the current strategy can be delivered to December 2026 if income drops unexpectedly.

An unexpected drop in target income needed to ensure a sustainable future of 30% to 60% over a 3 year period would equate to £1.35m-£2.7m. With reserves at this level, such a reduction in income would still enable services to carers to be maintained, showing the financial resilience of the charity.

Current level of reserves

At 31st December 2024 DCC had total reserves of £5.3m. £3.7m is invested in a long term investment portfolio to maximise returns for the charity. The remainder is in a combination of a deposit fund with our investment manager and a bank current account to meet cash flow requirements over the next 12-18 months. Further details of our approach to investments can be found in our Investment Policy.

The financial model for the 5 years to December 2029 shows the use of these through a planned deficit each year as DCC invests in Service Delivery and Development, Income Generation and Influencing. A steady growth in income through investment in income generation will see the deficit reduce year on year, with sufficient reserves remaining to ensure the future sustainability of the organisation.

Designated funds and the use of reserves

Designated funds are set aside by the trustees for investment in Service Delivery and Development, Income Generation and Influencing over the next 5 years.

The amount of funds set aside is based on the 5-year financial model, taking into account budgeted income and the activity shown in the strategy and business plan.

As at 31st December designated funds total £3m, as follows:

Service Delivery and Development	£1.5m
Income Generation	£0.7m
Influencing	£0.8m

The use of reserves is reviewed annually by the trustees at the time of approving annual budgets and updates to the rolling 5-year financial model.

Allocations to designated funds are also reviewed annually and reviewed by the Board.

Free reserves

Free reserves are calculated as unrestricted funds, excluding designated funds and those invested in tangible fixed assets. At 31st December 2024 these were £2.2m.

The use of these reserves will be considered during the development of the organisational strategy beyond 2026, to ensure they are used to support the ongoing work of the charity.

Long term financial planning

The 5-year financial model is reviewed and updated annually to support longer term financial planning. This includes the use of reserves alongside increasing income generation.

At the point where the organisation is able to raise income to cover costs, it is anticipated that sufficient funds would remain in reserves and invested in the investment portfolio to continue to support long term financial sustainability.

Policy review

This policy will be reviewed and updated annually at the end of each financial year.

A wider review of the policy and approach to reserves will take place at the end of the current strategic period which is December 2026.