On Call Africa (OCA) Reserves Policy

Purpose

The purpose of the Reserve Policy for On Call Africa is to ensure the stability of the mission, programmes, employment, and ongoing operations of the organisation by specifying the amount of unrestricted reserves it aims to hold at any given time to provide sufficient resources and liquidity to cover forecast expenditure. The Reserve Policy will be implemented in concert with the other governance and financial policies and is intended to support the goals and strategies contained in these related policies and in strategic and operational plans.

Definitions and Goals

The term "Reserves" is used to describe that part of the charity's income that is freely available for operating purposes not subject to commitments, planned expenditure and spending limits. Reserves do not include endowment funds, restricted funds, and designated funds. Reserves are not intended to replace a permanent loss of funds or eliminate an ongoing budget gap.

On Call Africa’s reserves are defined as all unrestricted funds, and excludes:

- Those which are held as tangible assets
- Programme related investments
- Designated funds allocated by the board of trustees for a specific purpose
- Commitments that have not been provided for as a liability in the accounts

Unrestricted funds include those unrestricted funds that are held in the UK, Zambia and in currency accounts by On Call Africa.

Past Policy

The target amount to be held as Reserves to date had been established as an amount sufficient to maintain ongoing operations and programs for a set period of time, measured in months. The target minimum Reserves was equal to three months of average monthly operating costs, and the target maximum was equal to six months of average monthly operating costs. The average monthly operating costs was calculated annually at the beginning of the financial year, and was equal to total forecast operating expenditure (excluding capital expenditure) for the financial year, divided by the number of months (twelve). The Reserve target amounts was calculated each year after approval of the annual budget and included in the management accounts.
Three months was set as the minimum to allow OCA to moderate expenditure or wind up operations responsibly if the need arose. The six month upper limit was established to trigger discussion at board level to ensure OCA was not holding more funds than required.

**Reasons for changes to the Reserves Policy (September 2021)**

Four key factors/risks have been identified that need to be addressed by the OCA Reserves Policy. Whilst OCA is still keen not to hold more funds than necessary, any policy in place needs to consider:

- Ownership of Property and the long-term responsibilities that brings
- An unprecedented escalation in activity funded by restricted funds that brings long term commitments to funders
- Risk of redundancies as long term restricted funds come to an end
- Lack of diversity in the source of unrestricted funds i.e. dependency upon major donor income

While the fundraising strategy is addressing this final point, there is a need in the interim to recognise the risk of being dependent upon one major donor.

To mitigate risks, OCA aims for unrestricted funds to be kept between nine and ten months of operating costs that are covered by unrestricted funds. While this represents a significant increase in Reserves, it reflects the changing needs of the charity following exceptional growth of OCA over the past six months and is therefore considered a prudent approach. It will also allow the organisation to provide three months salary for all staff members if the organisation were to be wound up.

**Monitoring Reserves**

The reserves ratio will be included in all management accounts and reviewed by the Board of Trustees at least quarterly to ensure adherence to this policy.

**Governance**

The trustees will review the reserves ratio at every trustee meeting. In the event that reserves fall out with the policy the trustees will:

- Include a minute which notes that reserves fall short of or exceed the range targeted within this policy
- Ensure that reserve holdings are indicated as a risk on the risk register
- Minute any corrective actions which should take place and the measures to monitor these actions, or, if no corrective action is required, minute the reasons why (e.g., expected future changes to the ratio).

**Review of Policy**

This Policy will be reviewed every other year, at minimum, by the Treasurer, or sooner if warranted by internal or external events or changes. Changes to the Policy will be recommended by the Treasurer to the Board of
Trustees.