NAPA Financial Reserves Policy

Owner	Finance and Operations Manager	**Approval**	CEO on behalf of the NAPA Trustees
Version	1.0	**Effective date**	30 September 2026
Evaluate	Annual	**Review**	30 September 2029

1. Purpose

NAPA maintains reserves to support financial resilience, protect beneficiaries and enable the charity to continue or adjust its work during uncertainty.

This policy explains:

- what NAPA means by reserves;
- why reserves are held;
- how the target range is calculated;
- how reserves are monitored and used;
- how shortfalls or excesses are addressed;
- how reserves are reported transparently.

Reserves are not accumulated without purpose. Equally, holding insufficient reserves may expose NAPA's beneficiaries and charitable work to avoidable risk.

2. Scope

This policy applies to NAPA's unrestricted funds and any Board designations from those funds.

It distinguishes free reserves from:

- restricted funds;
- endowment funds, if any;
- fixed assets required for charitable use;
- designated funds;
- commitments that cannot readily be cancelled;
- other amounts not freely available for general use.

3. Definitions

Unrestricted funds - Funds that may be used for any purpose within NAPA's charitable objects.

Restricted funds - Funds that must be used for a specific purpose imposed by the donor or another legally binding restriction. Restricted funds are not free reserves.

Designated funds - Unrestricted funds that the Board has set aside for an identified purpose. A Board designation is an internal decision and may normally be changed by the Board.

Free reserves - The part of unrestricted funds that is readily available for general purposes after excluding amounts that are not practically or legally available.

Operating cash - Cash required for ordinary short-term transactions. Cash at bank is not necessarily the same as free reserves because some cash may be restricted or committed.

4. Objectives

NAPA may hold reserves to:

- manage income volatility;
- bridge timing differences between income and expenditure;
- meet payroll, tax and contractual commitments;
- respond to loss or delay of significant funding;
- address emergencies or major incidents;
- support orderly restructuring or closure if required;
- protect essential beneficiary services;
- meet uninsured or unexpected costs;
- invest in approved strategic opportunities;
- manage contract or grant repayment risk;
- allow time for responsible decision-making.

Each component of the reserves target should have an identifiable rationale.

5. Board Responsibility

The Board is responsible for:

- approving the reserves methodology and target range;
- understanding which funds are available;
- reviewing risks and financial forecasts;
- monitoring actual reserves;
- approving use of reserves outside the budget;
- establishing replenishment plans;
- explaining reserves in the annual report;
- avoiding both unjustified accumulation and inadequate provision.

Trustees must exercise judgement rather than adopt a generic number of months without analysing NAPA's circumstances.

6. Calculation of Free Reserves

NAPA will calculate free reserves using the figures in its accounts and management reporting. The calculation will normally begin with total unrestricted funds and deduct, as applicable:

- unrestricted tangible fixed assets used in NAPA's operations;
- designated funds;
- commitments already approved and not otherwise provided for;
- illiquid unrestricted assets not readily available;
- pension or other obligations requiring separate treatment;
- other amounts that cannot realistically support general expenditure.

The calculation and any judgement must be documented and reconciled to the accounts.

7. Reserves Methodology

NAPA will determine the target using a risk-based assessment that considers:

- the predictability and concentration of income;
- membership and earned-income volatility;
- grant renewal dates and restrictions;
- donor concentration;
- cancellation or repayment risk;
- committed staffing and contract costs;
- notice, redundancy and closure costs;
- monthly operating cash requirements;
- inflation and statutory employment costs;
- major projects and systems;
- insurance exclusions and deductibles;
- fraud, cyber and safeguarding risks;
- ability to reduce expenditure;
- access to borrowing or emergency funding;
- condition of assets;
- strategic plans;
- the time required to replace lost income.

8. Target Range

Following the risk assessment, NAPA's approved free-reserves target is:

Lower target: equivalent to approximately 6 months of relevant expenditure.

Upper target: equivalent to approximately 9 months of relevant expenditure.

The Board must complete these figures using current financial information before adopting the policy. The target should be expressed as a range rather than a single inflexible amount because actual income, expenditure and risks change. The supporting calculation will be retained as an appendix or Board paper and reviewed at least annually.

9. Target Components

The target calculation may include separately identified amounts for:

- core operating expenditure;
- income-loss contingency;
- emergency or incident response;
- contractual and employment commitments;
- technology or business-continuity recovery;
- planned strategic transition
- orderly closure.

Components must not be double counted.

10. Relevant Expenditure Measure

Where the target is expressed in months, NAPA will define the denominator clearly.

It may use:

- total unrestricted expenditure;
- core recurring expenditure;
- unavoidable committed expenditure;
- another justified measure.

The chosen basis must be applied consistently and explained in the reserves calculation and annual report.

11. Restricted Funds

Restricted funds must not be included in free reserves merely because they are held in NAPA's bank account.

Finance will maintain records showing:

- each restriction;
- income received;
- eligible expenditure;
- commitments;
- remaining balance;
- any risk of repayment.

A shortfall in unrestricted reserves must not be concealed by presenting restricted cash as available.

12. Designated Funds

The Board may designate unrestricted funds for a specific future purpose, such as:

- technology replacement;
- office or premises change;
- programme development;
- organisational restructuring;
- strategic investment;
- a known major liability.

Each designation should record:

- purpose;
- amount;
- expected timescale;
- asis of calculation;
- authority;
- conditions for use;
- review date.

Designations must not be used to present an artificially low or high free-reserves figure.

13. Operating Reserve and Cash Flow

NAPA will distinguish reserves adequacy from cash-flow adequacy.

A charity may have sufficient reserves but insufficient immediate cash if assets are illiquid or income is delayed. NAPA will therefore maintain a rolling cash-flow forecast alongside reserves monitoring.

The Board will consider:

- unrestricted cash;
- restricted cash;
- payment dates;
- payroll and tax obligations;
- expected receipts;
- investment liquidity;
- contingency options.

14. Monitoring

Finance will report reserves to the Board at least quarterly and more frequently where financial risk increases.

Reporting should include:

- free reserves;
- total unrestricted and restricted funds;
- designated funds;
- actual position against the target range;
- cash-flow forecast;
- significant movements;
- forecast year-end position;
- emerging risks;
- approved uses;
- replenishment progress;
- recommended action.

15. Use of Reserves

Use of reserves must advance NAPA's charitable purposes and be consistent with this policy.

Reserves may be used for:

- an approved budget deficit;
- a temporary income shortfall;
- emergency or serious-incident response;
- unavoidable unplanned expenditure;
- orderly restructuring;
- strategic investment approved by the Board;
- another documented purpose consistent with the reserves rationale.

Restricted funds may be used only within their restriction.

16. Approval for Use

Use already incorporated into a Board-approved budget does not require repeated approval unless the purpose or amount materially changes.

Unbudgeted use requires approval under NAPA's Financial Authority Schedule.

A proposal should normally state:

- amount;
- purpose;
- why other funding is unavailable or inappropriate;

- effect on the target range;
- cash-flow impact;
- risks and alternatives;
- expected outcomes;
- whether replenishment is intended;
- responsible owner.

Emergency authority must be documented and reported to the Board promptly.

17. Falling Below the Lower Target

If reserves fall or are forecast to fall below the lower target, the Chief Executive and Finance and Operations Manager will prepare a recovery plan.

It may include:

- revised forecasts;
- expenditure controls;
- income generation;
- fundraising;
- project delay;
- use or release of designations;
- restructuring;
- renegotiation of commitments;
- sale of non-essential assets;
- another proportionate measure.

The plan must identify owners, dates, expected impact and trigger points for further action.

A shortfall does not automatically require immediate spending cuts if planned use of reserves is furthering NAPA's purposes, but the Board must understand and approve the trajectory.

18. Reserves Above the Upper Target

Where free reserves exceed the upper target, the Board will consider whether to:

- invest in charitable activities;
- strengthen capacity or infrastructure;
- accelerate strategic priorities;
- reduce known risks;
- designate funds for a justified future need;
- improve beneficiary outcomes;
- retain the additional amount temporarily because of a documented emerging risk.

The Board will not hold excessive unrestricted funds without a clear explanation and plan.

19. Replenishment

Following planned or exceptional use, the Board will determine whether and how reserves should be replenished.

A replenishment plan should specify:

- target amount;
- timescale;
- expected operating surpluses or income;
- spending constraints;
- responsible owners;
- monitoring dates;
- assumptions.

The plan must be realistic and must not undermine delivery of NAPA's charitable purposes.

20. Investment and Liquidity

Reserves not required immediately may be invested under NAPA's Investing Charity Funds Policy.

Investment decisions must consider:

- when funds may be needed;
- capital volatility;
- liquidity;
- counterparty risk;
- expected return;
- fees;
- inflation;
- ethical or mission considerations;
- deposit-protection concentration.

Funds required for short-term operating or emergency needs must not be placed in unsuitable illiquid or volatile investments.

21. Financial Distress and Orderly Closure

The reserves assessment will consider the potential cost of an orderly reduction or closure, including:

- employee notice and redundancy;
- contractual termination;

- leases and suppliers;
- safeguarding and beneficiary transition;
- data and records;
- professional fees;
- tax and regulatory filings;
- restricted-fund repayment;
- preservation or transfer of charitable assets.

Reserves do not authorise trustees to continue operating where insolvency law or trustee duties require another course of action.

Specialist advice must be obtained promptly where financial viability is seriously threatened.

22. Annual Report Disclosure

NAPA's annual report will explain:

- the reserves policy;
- the target level or range;
- how the target was calculated;
- the amount of reserves held;
- the definition of free reserves used;
- significant designated funds;
- why actual reserves differ from the target;
- steps being taken where relevant;
- material plans for use or replenishment.

The explanation must be specific to NAPA rather than generic wording.

23. Relationship with Risk Management

The reserves calculation will be informed by the current risk register and financial scenarios.

The Board will consider whether the reserves target remains sufficient following:

- loss of significant income;
- major staffing or contractual change;
- safeguarding or legal incidents;
- cyber events;
- economic shocks;
- material new projects;
- changes to insurance;
- increased closure liabilities.

24. Responsibilities

Board - Approves and oversees the policy, target and material use.

Treasurer - Supports scrutiny and Board understanding without replacing collective responsibility.

Chief Executive - Ensures operational plans reflect the reserves position and implements approved actions.

Finance and Operations Manager - Calculates, monitors, forecasts and reports reserves and maintains supporting records.

Budget holders - Manage budgets and notify Finance of risks affecting the reserves forecast.