Imperial College Union
Board of Trustees / 26 November 2025

Reserves Policy Review

Author(s): Peter Greaney (External Finance Director)
Purpose: This policy presents the annual reserves review
Action(s): To **approve** the review, including updated reserves target.

1. Summary

A reserves review is undertaken annually, in line with Union Policy. This requires the setting of a target level of reserves which are considered appropriate to mitigate potential risks, fund working capital requirements and facilitate future plans and strategic success.

The reserves policy is published in the annual report, in line with Charity Commission requirements, and is due for review and approval by the Board in November. Please note: this was reviweed by FAR in October and recommended for approval.

Whilst some Charities use three months' running costs as a benchmark, Charity Commission guidance[1] indicates that:

> *There is no single level, or even a range of, reserves that is right for all charities. Any target set by trustees for the level of reserves to be held should reflect the particular circumstances of the individual charity. To do this, trustees need to know why the charity should hold reserves and, having identified those needs, the trustees should consider how much should be held to meet them*

The Union's approach has been risk-based and has involved considering the key operational and strategic risks that might have a financial implication, analysing the potential costs and likelihood of these risks materialising.

The target relates to General Funds (unrestricted funds which have not been designated), which are freely available. As such, they do not include restricted fund balances held by CSPs for example.

A proposed new recommended level of reserves is **£640k** (2024: £620k), based on the rationale set out in this Paper which follows. This equates to 2.15 months of core (non-commercial) running costs. This level is considered adequate in the context of the relationship with the College as main funder, including its duty under Education Act 1994 to ensure the financial viability of its student representative body and block grant funding arrangement which is in place.

2. Risks Analysis

The following risks have been identified and considered. An assessment of the likelihood of the risk materialising and requiring use of the reserve has informed a suggested requirement. In total, these suggested requirements determine the target level of reserves.

2.1 Block Grant
ICU operates in a relatively low risk environment when compared with other charities, due to the grant and other support provided by, and relationship with, the College and context of the

[1] https://www.gov.uk/government/publications/charities-and-reserves-cc19/charities-and-reserves

Education Act 1994, which imposes a duty on the College to ensure the financial viability of its student representative body.

Grant-funded costs may increase after the grant level is approved (e.g. due to an uplift) and whilst the College has agreed to requests for salary uplifts to be funded, this may not always be the case.

No change to the reserves figure is proposed at this stage as the Union is currently (in FY25/26) in Year 2 of a grant agreement, with a new agreement.

	New	***Previous***
Risk Assessment	**Low/ Medium**	*Low/ Medium*
Suggested Requirement(s)	**£160k**	*£160k*

2.2 Net Income (non-grant)/ Business Continuity Shocks

Our funding model does not require our commercial activities to generate a surplus to support the operational running costs of the rest of the organisation. Instead, commercial activities are expected to break even or generate surpluses to be designated for future, optional strategic investment. This model removes the risk that shortfalls in commercial surpluses have an in-year impact on the rest of the organisation and/or require utilisation of free reserves.

That said, if there is significant disruption to these operations (e.g., a pandemic, business interruption, infrastructure issue resulting in closure etc), then it is likely that they would operate at a deficit and create a need to utilise reserves.

The baseline figure (from last year) was calculated based on being able to maintain the fixed costs of commercial operations (mainly permanent staffing and maintenance contracts) for a period without any income. These figures have been updated as below:

- Permanent Commercial Staff (excluding Director, based an expectation of some ongoing revenue generating activity oversight being required): **£152k** including an assumed inflationary uplift (2023: £145k**).**
- EPOS system: contractual notice on MCR contract (£100k/5 years from 1/1/22): **£10k** (2024: £30k which assumed a mid-year cancellation).
- Sound and Lighting (new contract): 3 months to wind down activity and return equipment: **£15k** including an inflationary uplift (2024: £13k).
- Other service providers and licencing: 3 months to cover termination period (Sky, TNT, Gaming Equipment, Rota Cloud, Shopify, Storage): **£13k** including an inflationary uplift (2024: £12k).
- New governance and running costs for new trading entity: **£25k** (new) to cover audit, legal and system costs for a theoretical shutdown period.

The Union has also agreed embarked on new commercial activities (including Partnerships, a Temp Agency and Catering) through a trading subsidiary. Whilst there is a level of new potential risk involved, it is assumed that any new risk would be offset by a corresponding level of reward and trading operations would continue to be managed to ensure that they do not incur an ongoing deficit.

	New	***Previous***
Risk Assessment	**Low/Medium**	*Low/Medium*
Suggested Requirement(s)	**£215k**	*£200k*

2.3 Working Capital

ICU holds substantial cash balances and does not have any material cashflow risk. Our main cash outflows are all in arrears (particularly our payroll costs which are invoiced by the College at least a month in arrears), whilst our main cash inflows are received in advance (in the case of the block grant from College) or at the point of sale (in our Commercial Services).

Our main working capital requirement is our stock holding. This is generally offset by the net negative working capital requirement in other areas, however at peak periods this might not be the case (though it will always be covered by significant cash holding related to restricted reserves).

A modest (inflationary) increase is proposed in relation to the Union's increased cost base. This risk should be immediately reassessed if any significant cash balance was invested in a way that would restrict immediate access and therefore impact cashflow risk.

	New	*Previous*
Risk Assessment Low	**Low**	*Low*
Suggested Requirement(s)	**£125k**	*£120k*

2.4 Reactive Compliance & Infrastructure

As with any similar organisation, the Union may be exposed to compliance or infrastructure-related issues which present new liabilities. It is important that the organisation is able to respond quickly and independently where necessary. Whilst hard to quantify, organisations are occasionally faced with costs resulting from changes in activities, historic compliance issues, legislative changes, urgent health & safety requirements, or unforeseen external issues such as cyber-attack or indirect impacts from global events including wars. This would also cover the cost associated with the need to replace core infrastructure urgently upon failure in order to maintain the operation.

The Union has sought to mitigate potential compliance risks over the last year through through review of its VAT and trading arrangements and continues to have some assurance through arrangements with the College (e.g., IT SLA), though quantifying residual risk involves an element of uncertainty. There is also some continuing level of macroeconomic risk with global events

	New	***Previous***
Risk Assessment	**Medium**	*Medium*
Suggested Requirement(s)	**£140k**	*£140k*

3. Pension Fund Deficit

The Union has had a long-term pension deficit liability in relation to the USS Pension Scheme, though this was revalued to £0k in the FY23/24 accounts (2022: £288k). This has been excluded from the reserves target as is not a liability that will fall due at any point but represents the current value of the Union's share of the overall scheme deficit, with employer pension contributions covered as part of the annual operating budget.

This would only need revisiting if there is a risk of a debt crystallising in the short or medium term, which is considered unlikely. Any crystallisation of the pension deficit liability would likely require discussion with the College.

4. Current Reserves Levels

Per the year-end accounts, general funds (unrestricted funds after designations, including fixed assets) are £993k (Note 18). A £640k target would leave £97k (2024: £271k) for strategic investment, after budgeted capital investments in FY25/26:

	£
General Fund Reserves Balance (after designations)	839,004
Free Reserves Target - Nov '25 (subject to approval)	(640,000)
Planned Capital Additions in FY25/26[2]	(102,100)
Available for Further Strategic Investment	**96,904**

The £97k available represents a c£174k decrease in the £271k[3] which was available last year, which mainly relates to the General Funds deficit in FY24/25 resulting from the catering accounting provision of £154k plus a proposed £20k increase in target.

5. Conclusion

In terms of the reserves requirement, whilst it is highly unlikely that all of the above risks would materialise at the same time, it is possible that some could materialise with a higher demand on reserves than the suggested requirement shown above. Therefore, a prudent target reserves level (excluding the long-term pension deficit) would be the total of the above - **£640k**.

In line with Charity Commission guidance, the Trustees will review this policy annually and consider performance against it throughout the year.

[2] Planned capital additions are asset purchases which have been budgeted. As fixed assets cannot typically be converted easily into cash, they are designated, so that General Funds reflect the amounts freely available to the Union. This is a commonly adopted approach for charities in identifying “free reserves”.

[3] Prior Year Strategic Investment Fund figure calculated based on: £993k General Funds less £102k planned capital additions in FY24/25 (v £620k target).