

Sightsavers Reserves Policy

Contents

1. Background and Objective	3
2. Document History and Change Control	3
3. Responsibilities.....	4
4. Approach to Developing Reserves Policy.....	5
1. Understanding the nature of charitable reserves held	5
2. Identifying functional assets	5
3. Understanding the financial impact of risk	6
4. Liquidity and working capital.....	9
5. Reviewing sources of income.....	9
6. Impact of future plans and commitments.....	9
7. Agreeing a reserves policy	11
5. Links to Investment Holdings.....	12
6. Reserves Monitoring.....	13
Appendix 1	14

1. Background and Objective

Reserves are that part of a charity's unrestricted funds that is freely available to spend on any of the charity's purposes. Where the Trustees have a reserves policy, this policy must be set out in the Trustees' annual report.

The Charity Commission for England and Wales' guidance notes (Refer Appendix 1) lay 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 period of receipt. Trustees should be able to justify the holding of income as reserves
- A reserves policy should take into account the charity's financial circumstances and other relevant factors. It should demonstrate the charity's resilience and capacity to manage unforeseen financial difficulties, and the ability to respond to strategic opportunities that may require the utilisation of financial resources
- Trustees should regularly monitor and review the effectiveness of the policy in the light of the changing funding and financial climate and other risks and opportunities

A reserves policy explains to existing and potential funders, donors and other stakeholders why a charity is holding a particular level of reserves. A reserves policy should give confidence to stakeholders that the charity's finances are being managed and can also provide an indicator of future funding needs.

The objective of this policy is to set out what Sightsavers is seeking to achieve through the maintenance of reserves, the planned level of reserves, and process of reserve monitoring.

2. Document History and Change Control

September 2011	Policy approved by Council
October 2013	Policy reviewed and updated - approved by Council
October 2016	Policy reviewed and updated - approved by Council <ul style="list-style-type: none">• To ensure that the policy was in line with the Charity Commission guidelines. The guidelines were updated in Jan 2016 and there were no changes to the approach.• Reduction in functional assets following the sale of Grosvenor Hall• Reserves level amended to £7mm +/- £1.5mm

October 2018	<p>Policy reviewed and updated</p> <ul style="list-style-type: none"> • Ensure policy in line with Charity Commission Guidelines that were reformatted in February 2017 • Reserves level amended to £7.5mm +/- £1.5mm • Investment asset quantum within the reserves target range rather than targeted at the bottom end of the range • Inclusion of new appendix showing actual reserves level against planned reserves since 2013 and outrun financial surplus/deficit against plan for the same period
October 2020	<p>Policy reviewed and updated</p> <ul style="list-style-type: none"> • Reviewed Charity Commission Guidelines for updates • Impact levels reviewed and amended • Bringing cybercrime into the risk assessment • Reserves level amended to £8.0mm +/- £1.5mm • Inclusive of liquidity reserve this would be equivalent to £11mm +/- £1.5mm when comparing with June 2022 methodology
June 2022	<p>Policy reviewed and updated</p> <ul style="list-style-type: none"> • Reviewed Charity Commission Guidelines for updates • Inflation risk added • Impact levels of key risks reviewed and amended • Reserves level amended to £14mm to £21mm including £4mm for liquidity and working capital reserves provision
October 2024	<p>Policy reviewed and updated</p> <ul style="list-style-type: none"> • Reviewed Charity Commission Guidelines for updates • Impact levels of key risks reviewed and amended

Investment Committee will review reserves requirements and reserves policy on a biannual basis on behalf of Council. Any changes to this policy must be approved by Council. Pension Fund Trustee(s) will be consulted as part of any policy change process.

3. Responsibilities

Trustees must ensure that the charity's funds are used appropriately, prudently, lawfully and in accordance with the charity's purposes for the public benefit. The general principle of trust law is that funds received as income should be spent within a reasonable period of receipt. The holding of reserves will be authorised (generally) by an implied power to hold reserves. Trustees are justified in exercising their power to hold income reserves if, in their considered view, it is necessary in the charity's best interests.

4. Approach to Developing Reserves Policy

The Charity Commission guidelines lay out an integrated approach to developing a reserves policy for a charity with complex activities and structures. Sightsavers added sub-section 4 in this document to discuss liquidity and working capital needs.

1. Understanding the nature of charitable reserves held
2. Identifying functional assets
3. Understanding the financial impact of risk
4. Liquidity and working capital
5. Reviewing sources of income
6. Impact of future plans and commitments
7. Agreeing a reserves policy

1. Understanding the nature of charitable reserves held

Reserves are that part of a charity's unrestricted income fund that is freely available to spend on any of the charity's purposes. In setting a reserves policy it is vital to understand any restrictions on the use of the charity's funds. In certain circumstances holding restricted funds may reduce the need to hold reserves for particular purposes. However, this does not currently apply to Sightsavers.

Sightsavers holds restricted funds which are to be used in accordance with specific restrictions imposed or required by donors or which have been raised by the charity for a specific purpose. In addition, Sightsavers holds one small endowment fund comprising monies to be held as capital. Restricted funds, endowment funds and designated funds are excluded from the calculation of free reserves.

Sightsavers designates unrestricted funds for specific purposes.

Group accounts show the activities and resources of the charity and its consolidated subsidiaries. The value of reserves stated takes account of the net assets of subsidiary organisations.

2. Identifying functional assets

Where the Trustees consider functional fixed assets to be essential to the delivery of the charity's aims then the value of such assets can be designated and excluded from the calculation of reserves. This is not a material component of our balance sheet after calculation of reserves.

3. Understanding the financial impact of risk

Sightsavers has instituted a mechanism to review its' risk management policy every two years. The most recent update, including the risk management framework, was completed in January 2022. The risk management system, including financial risk, is a continuous embedded process involving new risks being identified and prioritised, and mitigation implemented.

Risks are reviewed at every audit committee meeting and at least annually by Council. Key risks with the potential to impact reserves have been identified. In reviewing the financial impact of these risks it is the short-term under initial consideration; the potential drawdown of reserves to give time to undertake additional mitigation activities and adjust to changed financial circumstances.

Financial loss due to currency volatility:

Sightsavers is exposed to exchange rate risk. Most income is denominated in Sterling, Euro, and USD, whilst most overseas charitable expenditure takes place in Africa and South Asia. When Sterling depreciates in value, particularly against the USD, then the ability to maintain funding of overseas expenditure is impacted. Foreign exchange hedging was introduced in 2009 to partially mitigate short-term movement in exchange rates, however in recent times Sightsavers has had more USD income and the net balance of income and expenditure in currencies has negated the need for a hedging programme. We monitor our currency mix across both restricted and unrestricted sources.

Although sustained Sterling depreciation damages the ability to support charitable activity, there is time to explore rebudgeting and cost mitigation options in response.

The financial impact of currency volatility risk on reserves in the short term is estimated at £1mm.

Inability to raise voluntary income

Inability to raise voluntary income could have many root causes including recession or other economic stress in fundraising markets, penetration of new international markets failure to demonstrate impact, or a reputation event such as a significant programmatic failure.

Planned voluntary income levels are around £62mm in 2024. Income sources are not concentrated to any single donor and a significant portion of voluntary income from individuals is committed through monthly direct debit or standing order.

Legacy income can be uneven, and one risk is that the pipeline of legacies starts to run down. Sightsavers has a reasonable view of legacy pipeline in the UK and would have some warning if legacy activity in the round started to decline.

Sightsavers planning systems for predicting voluntary income and fundraising investment are robust. Sightsavers also performs monthly forecasting and annual 3-

year scenario planning in order to anticipate any potential challenges in relation to voluntary income.

An unplanned decline in voluntary income of around £3mm is estimated as a prudent view of the impact of this risk on reserves.

Inability to replace or grow institutional income

Inability to replace institutional income is not a big risk to reserves financially as the funds are primarily restricted. However, some of our large grants have significant indirect cost recovery (ICR) which contributes to unrestricted funds and therefore general reserves. Such grants may also have programmes with significant cost bases and it may not be possible to perfectly match income and expenditure levels and manage the timing of expenditure reductions.

There may be times when large grants are coming to an end when it is appropriate to utilise unrestricted funding to support post award 'gap filling' activities to ensure that strategic and reputational commitments can be met e.g., making funding available where certain countries are close to trachoma elimination. Although this can be viewed as 'discretionary', ensuring we maintain a wide enough reserves range to provide some additional headroom for gap filling activities is deemed prudent.

This risk impact is estimated at £2mm.

Inability to manage large and complex programmes

There are risks associated with grant and contract income streams notably around poor cost and budget estimates, failure to recover associated costs, as well as mitigating quality issues with suppliers and partner organisations. The grants and contracts themselves do not hold us legally to financial account for delivering outcomes, but there is the potential for contract termination with associated costs of exit that would bring. Our overall mix of contracts and grants does change over time.

Sightsavers has a robust monitoring process to ensure programmes are progressing against their objectives, including monitoring spend to date. The quarterly Programme Oversight Management (PRO) report is a comprehensive report which gives an overview of which projects are on track and which need some intervention. The Monitoring, Evaluation and Learning team collaborate with teams across the organisation e.g., country teams, the data analysis and reporting team (DART) and the programme finance team, to produce the report. The report is discussed at the management team meetings and shared on Sightsavers intranet.

Monthly forecasting is also expected for all income and programmatic expenditure and large variances are highlighted and discussed.

Pre-financing arrangements have been negotiated on a number of grants and contracts and mitigates a significant drawdown on working capital and liquidity as a result of taking on grant funding. This is not the case for all contracts and a sizeable change in the overall grant financing mix could result in a need to finance short-term liquidity from reserves, or available financial facilities.

Holding some reserves against these risks is prudent. An impact of 2% of grant planned income levels in 2024 would impact reserves by £1mm.

Financial loss due to fraud, cyber or partner misuse of funds

Cyber risk presents increasing challenges to the organisation. Sightsavers takes this seriously and has obtained Cyber Essential Plus certification, the UK Government's minimum standard for cyber security.

Given the spread of countries in which Sightsavers operates, financial loss due to fraud is a risk. There is ongoing effort to refine and improve the control framework, but investment levels in controls are balanced against operational risk. With the spread of activity internationally and programmatically it is unlikely that any single instance of fraud would be material due to portfolio effects.

The financial impact of fraud risk on reserves is estimated at £1mm in the short-term to mitigate business interruption.

Credit events leading to financial loss

The material credit risk to Sightsavers would be a failure of one of our lead banks, principally HSBC and SCB, together with secondary banks such as AIB or Ecobank. However, our view is that this is an extremely unlikely event, not least that HSBC and SCB are systemically important institutions.

Failure of a key supplier is a risk that we face. It would be prudent to hold £0.5mm of reserves to mitigate any short-term business impact of failure of a key supplier.

Inflation risk

High inflation in the UK and programmatic countries impacts on core costs. Salaries are generally increased in line with inflation and can have a significant impact, however we do plan for inflationary increases each year. Exchange rate movements can offset high inflation in programmatic countries but not always, and purchasing power parity is not a given in the short-term.

The impact of significant rises in inflation is considered to be £1.5mm if Sightsavers had to mitigate in the short-term.

Other

There are other risks Sightsavers faces that could have a financial impact, such as stranded assets because of an international governance breakdown issue, a significant legal claim perhaps as a result of a medical incident with a partner or poor quality of programmes, or a significant business discontinuity event. Sightsavers carries a comprehensive suite of insurance cover that acts as financial mitigation across our risk profile therefore the short-term financial impact of these is less tangible.

Our investment holdings are subject to capital market risk. Any movement in investment value is a risk that we choose to absorb within our investment holdings given the potential for investments holdings to rise and fall over time. Overall, given the risks Sightsavers faces a prudent case estimated financial impact of risk events on reserves would be £10mm on an additive basis.

4. Liquidity and working capital

To ensure sufficient general working capital a liquidity holding element is included within the higher general reserves target.

The timing of some income and expenditure can be volatile, and not well matched, and there may be times when we have an inadequate level of liquidity and working capital. In order to meet these needs £4mm liquidity reserve is currently assessed as an appropriate amount to hold in core reserves. This element of reserves would be asset backed by unrestricted cash holdings.

5. Reviewing sources of income

Voluntary income sources are diverse with limited reliance on any one donor or donor group. Income generation is concentrated in Western economies, primarily UK, Ireland, Italy, and USA. Additional investment in diversifying income sources is ongoing, notably in India.

Grant and contract funding has not declined materially, and there are new opportunities, particularly for NTD funding. Sightsavers continues to invest in managing funder relationships effectively and in experienced project management resources to mitigate delivery risks.

6. Impact of future plans and commitments

Expenditure

Expenditure is significantly diversified, across multiple geographies and programmes.

Managing forward expenditure within existing commitments is done by regular monitoring of programmes. Any issues are highlighted at review meetings and if there is an issue on the availability of funds, programmes can be adjusted to manage this.

Fundraising investment can be reduced in the short-term, but this would impact income plans and revenue growth ambitions.

Our employee base is approximately 820 people at a basic salary cost per annum of £28mm. A headcount reduction of 20% would cost around £2mm to deliver (average

of 5 years' continuous service) but lead to a reduced cost base of around £5.6mm per annum. Any reduction in headcount needs to be managed alongside a reduction in associated activities and would impact ability to deliver organisational and operational objectives.

A full close down scenario is considered highly unlikely, whereas a going concern restructure or rationalisation might be more likely and hence this is the type of situation that the reserves policy aims to address.

There is much complexity in the cost structure of the organisation and it is not trivial to get costs out of quickly, but by reducing investment in fundraising, cutting headcount and related expenditure and, if required, reviewing the unrestricted funded programme, an expenditure reduction of £5 - £10mm could be accessed within a twelve-month period.

Programmes funded from unrestricted monies include the clause 'subject to funding' so can notionally be reduced, albeit with potential reputational consequences.

Designations

In recent years, where specific external commitments have been made, Sightsavers Trustees have designated funds to cover these. At 31 December 2022 £13mm of unrestricted funds was held as designated by Trustees for planned NTD activities in future years. This is expected to be £2mm at the end of 2024 and spent completely in 2025.

Sightsavers designates its cash held internationally in programme countries in its accounts. However, the designation has an administrative purpose only and does not legally restrict the Trustee's discretion to apply the funds. The market value of the balance of cash held internationally is included in the calculation of reserves alongside general funds.

Defined Benefit Pension Scheme

Sightsavers has a defined benefit pension scheme which now has a small technical surplus – per the roll forward at 31 December 2023 of the latest triannual actuarial valuation. 2024 is the final year of the pre-existing agreed deficit recovery contribution plan. Discussions are expected with the Scheme Actuary and Trustee(s) regarding future contributions, and it is recognised that under a Solvency valuation basis a deficit remains and it is likely that Sightsavers will continue to need to make further contributions, albeit at a lower level, as a part of a next phase for the Scheme, on a path towards a likely ultimate insurance buy-out.

The Scheme achieves a significant level of hedging against movements in the value of its liabilities, and exposure to interest rate and inflation risk, through holdings of Liability Driven Investments (LDI), whilst holding a majority of growth assets. The Scheme is considered to be in a good financial position, and funding for the scheme in the future will be considered alongside other liability management opportunities, investment strategy and reducing scheme management costs. There will be ongoing discussions with Pension Fund Trustee(s) to review strategic options.

Sightsavers remains confident it can provide agreed UK scheme pension contributions from projected future income at levels which are not significant annually and without significantly impacting on its planned level of charitable activity. Free reserves are calculated without setting aside designated reserves to cover any pension funding requirements.

7. Agreeing a reserves policy

Sightsavers has good diversification of income sources and expenditure commitments. Voluntary income has sustained in recent years and expenditure levels can be materially adjusted within a 12-month period to fit revised funding levels if needed.

The reserves policy seeks to balance spending income raised in line with strategic objectives and in a reasonable time period with maintaining the minimum level of reserves to ensure uninterrupted operation and provide time to adjust to a change in financial circumstances. The ability to respond to strategic opportunities that may present themselves, requiring the utilisation of financial resources, should also be considered.

- A prudent assessment of the financial impact of risk events on reserves is estimated at £10mm. This is backed by investment holdings.
- Liquidity and working capital reserve needs, in line with managing short-term timing differences between income and expenditure, have been assessed at £4mm, backed by unrestricted cash holdings.
- The cumulative minimum level of reserves that should be held is therefore £14mm.

In line with Charity Commission guidance, it is considered appropriate to set a target level or range for core reserves for monitoring, reporting and decision-making purposes. The resulting overall range represents something of a reserves 'sweet spot'; below the range plans need to be in place to support reserves recovery and above the range business plans should be developed to bring reserves down.

Given the challenging operating environment, overall income and expenditure volatility, and need to retain some 'gap filling' headroom, providing for a range of 50% of planned minimum level of reserves gives an upper end to the reserves range for monitoring and reporting purposes of £21mm.

When considering overall reserve levels, an alternative simpler non-risked approach would be to reserve a % of total cash income or a minimum number of months of unrestricted expenditure. Based on plans for 2024, 10% to 15% of total cash income is around £10.8mm to £16.2mm which is consistent with the minimum level of policy reserves.

A reserves range of £14mm to £21mm is equivalent to around 3 to 5 months' worth of unrestricted expenditure (as disclosed in the statutory accounts). However, this is a conservative view of months' equivalent expenditure given that some unrestricted expenditure is funded by large trust donations.

Our auditors, Crowe, have confirmed that our approach of looking at risks and building up the potential financial impact of those risks is common among larger charities. Often a range is defined along with a commitment to review this on a regular basis. Sightsavers reviews the reserves level formally every two years, and also as part of the annual review

It remains appropriate to maintain a liquidity element, recognising the significant challenges of running into liquidity constraints.

It is also important to retain some flexibility and financial firepower when setting our reserves levels to mitigate and manage heightened risks and a negative outlook. A minimum reserves level of £14mm is deemed a prudent response. With this level of reserves we are also able to respond to opportunities that present themselves.

Decisions in framing a reserves policy should take into account medium-term planning and the organisation's strategic intent. Examples of this include thinking about 'step change' impact on cost base and resourcing, for example, from high growth or high rationalisation scenarios, or from any significant strategic opportunities that may present themselves; or where significant investment may be needed to transform infrastructure or systems architecture. Large and complex organisations should retain financial resources and assess reserve levels so as to be able to respond to such situations.

Some organisations have eaten into their reserves and are now rebuilding them as there is some nervousness and uncertainty. Sightsavers is in a good position with healthy reserves and is currently in a reserves spend down to within target level phase, with careful oversight to avoid overshooting.

Sightsavers has shown resilience in surviving several significant external shocks over a 20-year period, for example the 2008 financial crisis, Brexit and the COVID-19 pandemic, suggesting that management and monitoring and planning processes in place are effective.

5. Links to Investment Holdings

Sightsavers holds around £7mm of investment assets which are managed by UBS. It is intended to maintain fixed asset investments around this level, with other assets principally held in cash. A recent switch to re-investing dividend and interest income generated by the portfolio will mean that investment holdings levels will be boosted over time. These investments can be considered as a specific asset holding that is designed to partially asset back the targeted level of reserves. Investment Committee on behalf of Trustees may consider increasing our investment holdings to maintain this link.

Because our investment policy has the intention of holding investments over the long-term, the decline in investments is a risk that we choose to absorb within our investment holdings, given the potential for investments to rise and fall over time.

6. Reserves Monitoring

Reserves are reported monthly in the management accounts.

Business plans will be set with intent to maintain reserves in the range of £14mm to £21mm. If core reserves have a sustained fall below the minimum level targeted, then a recovery plan will be prepared by the CEO and COO in conjunction with the Treasurer for consideration by Trustees.

If reserves are in excess of target range it is expected that management will make additional investments over a one-to-four-year time horizon such that excess reserves are deployed in line with Sightsavers objectives, programme approaches and thematic strategies. Decision making around new programme investment is considered carefully given the multi-year nature of most of our programmes and requirement to seek to sustain specific programme investment in line with plans and partner commitments.

Over the last five years Sightsavers has run reserves in excess of policy target. Plans are in place to spend down reserves in a considered and measured way.

Appendix 1

Charity Commission: Charity reserves: building resilience (CC19)

<https://www.gov.uk/government/publications/charities-and-reserves-cc19/charities-and-reserves>