

Sightsavers Reserves Policy

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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
- Trustees should regularly monitor and review the effectiveness of the policy in the light of the changing funding and financial climate and other risks

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	Policy reviewed and updated

	<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

Investment Committee will review reserves requirements and reserves policy on a bi annual basis on behalf of Council. Any changes to this policy must be approved by Council. Pension Fund Trustees 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. Section 4 has been added 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 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.

Sightsavers designates unrestricted funds for specific purposes.

Restricted funds, endowment funds and designated funds are excluded from the calculation of free reserves.

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.

In recent years, where specific external commitments have been made, Sightsavers Trustees have designated funds to cover these. In 2021 £6.5mm of unrestricted funds was designated by Trustees for planned NTD activities in future years.

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.

Investment assets can also be regarded as functional assets.

3. Understanding the financial impact of risk

Sightsavers updated its risk management framework during 2009, identifying risks, prioritising them and setting out mitigation approaches and accountabilities for the highest priority items. These risk processes have now been consolidated into a risk management policy which was approved by the Board in April 2018. It was reviewed in January 2022 and only minor amendments were made.

Risks are reviewed at every audit committee meeting and at least annually by Council. Key risks have been identified with potential to impact reserves. In reviewing financial impact of these risks, it is the short-term under 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. In recent times Sightsavers has had more USD income and the net balance of income and expenditure in currencies has reduced the volume of the hedging programme.

A 10-cent depreciation (un-hedged) in GBP/USD rate impacts funding by around £2.0mm per annum and a sustained depreciation damages the ability to support charitable activity. However, there is time to explore 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 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 2022. 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.

Sightsavers performs monthly forecasting and annual scenario planning in order to anticipate any potential challenges in relation to voluntary income.

Our planning systems for predicting voluntary income and fundraising investment are robust. In 2018 and 2019 voluntary income benefitted from grants that were not part of the financial plan at the beginning of the year. 2020 and 2021 outperformed plans as more fundraising investment was made during the covid-19 pandemic and donor acquisition and average gift levels improved as a result.

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

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.

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. In 2021 the FCDO ended the Ascend contract; some further restricted funding was raised to replace it, but not to the same level. As a result of having excess reserves, Sightsavers has been able to gap-fill to an extent where appropriate. FCDO are no longer a core investor in NTD work and the institutional funding portfolio is now more diversified with funding from GiveWell and USAID.

Another big funding stream, from Accelerate, is due to end in May 2023. Again, the funding obtained to replace it is unlikely to be at the same level. If Sightsavers is unable to replace institutional income there is a risk to our ability to cover indirect costs that were built into those grants. This risk impact is estimated at £1.5mm.

Another consideration is given the closure of Ascend and other FCDO funded contracts and with funding through Accelerate programme declining from next year, there are calls to utilise unrestricted funding to support post contract '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.

Inability to manage large and complex programmes

Income from grant and contract funding has increased significantly in recent years. However, with the closure of the FCDO ASCEND contract in 2021 and current Accelerate agreement concluding in May 2023 Sightsavers' income is expected to fall from its 2021 peak in both 2022 and in future years.

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.

Pre-financing arrangements have been negotiated on a number of grants and contracts that 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 significant change in the overall grant financing mix could result a need to finance short term liquidity from reserves.

Holding some reserves against these risks is prudent. An impact of 2% of grant planned income levels in 2022 would impact reserves by £1mm.

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

Cyber risk presents increasing challenges to the organisation. Some of this risk resides with suppliers. It is an area that Sightsavers is keeping under review.

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.

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, HSBC, SCB, AIB or Ecobank. However, our view is that this is an extremely unlikely event, not least that HSBC and SCB are systemically important institutions.

Given ongoing volatility in markets, 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. 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 £2mm 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. However, the short-term financial impact of these is less tangible.

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

In 2018 a £3mm liquidity reserve was established, currently referenced in Sightsavers' Treasury Policy, as formal recognition of the need for operating liquidity and cash to facilitate financial operations. This is in addition to our general reserves holding.

It is now intended to consolidate this reserve holding within core reserves for clarity of reporting purposes.

The timing of some income and expenditure can be volatile and there may be times when we have an inadequate level of liquidity and working capital. In order to meet these needs, £4mm is now 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. Voluntary income levels have grown in recent years. 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 increased substantially in recent years although is now expected to decline given reduced levels of 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 just over 750 people at a salary cost per annum of £24mm. A headcount reduction of 20% would cost around £1.5mm - £2mm to deliver (average of 5 years' continuous service) but lead to a reduced cost base of around £4.8mm 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.

By reducing investment in fundraising, cutting headcount and related expenditure and, if required, reviewing the unrestricted funded programme, an expenditure reduction of £5 to £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.

Defined Benefit Pension Scheme

Sightsavers has a defined benefit pension scheme with a much-reduced deficit – a preliminary estimate of approximately £0.9mm technical deficit (95% funding position) as at December 2021 is expected under the scheme's latest triannual actuarial valuation which is in the process of being prepared by the Scheme Actuary. A pre-existing 10-year deficit recovery plan is in place of employer annual real contributions of £360k, in 2017 money, until the end of 2026. Annual indexation is agreed to be 3% per annum. Actual contributions for 2022 are £430k in nominal terms, continuing to so index annually. All other factors being equal 2022/23 contributions will eliminate the technical basis deficit. As part of the finalisation of the 2021 actuarial valuation discussions are expected with Scheme Actuary and Trustees regarding future contributions, but it is recognised that under a Solvency valuation basis the deficit is much larger and it is likely that Sightsavers will continue to need to make contributions as a part of a next phase for the Scheme, on a path towards a likely ultimate insurance buy-out.

The pre-retirement discount rate applied by the actuary in the December 2021 valuation is Nominal Gilt Yield curve plus 1.75% p.a. (2021 gilt yield, duration matched, is 1.1%, compared to 1.8% for 2018). Given inflationary pressures it is likely that base rates and yields on long dated UK gilts will be increase in the immediate term, reducing

the actuarial liabilities in the scheme. The Scheme achieves a significant level of hedging against movements in the value of its liabilities, 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, but there is a lot of uncertainty about the future direction and level of rates, and funding for the scheme in the future will need to be considered alongside other liability management opportunities, investment strategy and reducing scheme management costs. There will be ongoing discussions with Pension Fund Trustees to review strategic options.

Sightsavers remains confident it can provide required pension contributions from projected future income without significantly impacting on its planned level of charitable activity. Free reserves are calculated without setting aside designated reserves to cover any pension liability.

7. Agreeing a reserves policy

Sightsavers has good diversification of income sources and expenditure commitments. Voluntary income has grown 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.

- 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 an upper level 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 very challenging external environment, overall income and expenditure volatility, and need to retain some 'gap filling' headroom when large grants and contracts come to an end means it would be appropriate to widen the reserves range compared to previous policy. Providing for a range of 50% of planned minimum level of reserves gives an upper end to the reserves range for reserves monitoring and reporting purposes of £21mm.

When considering overall reserve levels, an alternative 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 2022, 10% to 15% of total cash income is around £9.8mm to £14.7mm which is consistent with the minimum level of policy reserves.

Based on statutory reported unrestricted expenditure for 2021, a reserves range of £14mm to £21mm is equivalent to around 5 to 8 months' worth of unrestricted expenditure. In recent discussion with our auditors, Crowe, they noted this is in line with a 'typical' reserves range when looking at other organisations in the sector.

Crowe also confirmed that other organisations, where they have funds available, have been increasing reserves policy targets. This is in response to the highly uncertain external environment: Covid-19 impacts continuing, environmental concerns, conflict situations inclusive of Ukraine leading to heightened food and fuel insecurity, high inflation impacting both costs of doing business and voluntary income performance, as well as withdrawal of key funders.

It is important to retain some flexibility and financial firepower when setting our reserves levels to mitigate and manage heightened risks and a negative outlook. Increasing the level of minimum reserves to £14mm as well as widening the overall reserves range is deemed a prudent response.

5. Links to Investment Holdings

Sightsavers holds around £7mm of investment assets which are managed by UBS. It is intended to maintain investment levels around the minimum level of core reserves excluding the liquidity working capital component. These investments managed by UBS can be considered as a specific asset holding that is designed to 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 holdings to rise and fall over the long-term.

6. Reserves Monitoring

Reserves are reported monthly in the management report.

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. It is worth noting our planning bias has tended towards a consistent small favourable outcome in actual net surplus/deficit versus plan, however, during 2020 and 2021 the reserves levels increased significantly due to successful funding campaigns and reduced expenditure on programmes and discretionary expenditure due to Covid-19. A substantial unrestricted donation was also received in Q1 2022 from the US philanthropist MacKenzie Scott. Comprehensive plans have been put in place to spend down excess reserves.

Appendix 1

Charity Commission: Charity reserves: building resilience (CC19)

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