

8. Managing money

8.9 Reserves

This information sheet should be read in conjunction with the information sheet entitled “Ensuring you have a good reserves policy”

1. Introduction – definition of reserves

Firstly what are reserves? Reserves are that part of a charity’s unrestricted funds that are freely available to spend on any of the charity’s purposes.

Therefore, to calculate what reserves you have available you need to exclude restricted funds and endowment funds, as well as tangible fixed assets held for operational purposes and any amount deemed to be designated by the trustees.

Once you have considered all these factors you will arrive at the unrestricted reserves figure. How you determine whether this amount is the amount that you need, however, is a more complex question.

2. Why do you need reserves?

2.1 Can you legally hold reserves?

Charities do have a legal duty to spend income within a reasonable time of receipt. In contrast, trustees need to hold income in reserves.

Occasionally a charity’s governing document will explicitly allow trustees to hold income in reserves, but more often the trustees will rely on an implied power to hold reserves. This power won’t be found in the governing documents but will be implicit as part of their role as trustee, allowing them to make decisions and take actions that allow the charity to function properly on a sound financial basis.

This means that trustees have to assess and conclude whether the charity does, in fact, need reserves and whether holding such reserves are in the charity’s best interests.

2.2 Why would you hold reserves?

There are numerous reasons a charity may need to hold reserves:

- Unexpected expenditure may arise that hasn't been budgeted for, creating a need for funds that hadn't been anticipated
- Expenses can fluctuate for reasons out of the charity's control e.g. long term sickness cover, legislation changes to pensions.
- Income streams can fluctuate or timescales can be extended e.g. grant reductions or legacy issues.
- The charity may need to invest in assets such as IT servers, the recovery of cost only being seen in later years.
- There may be a need to match-fund new projects from reserves.
- Funds may be paid in arrears and therefore the charity requires reserves for cash flow funding.

Trustees need to think through the reasons why such events may occur and rationalise the need within the organisation for a pot of funds as free reserves.

3. How should trustees calculate required reserves?

There is no single method for calculating reserves, and neither is there a right or wrong answer for the level of reserves that are held. What trustees are required to do is adopt a sensible approach to their calculations, which shows that a robust and thorough process has been undertaken.

3.1 Factors to consider when calculating your required reserves

There are a number of issues that trustees should first consider

- It is important to analyse and understand the income streams received by the charity. Are they restricted or unrestricted funds? Are they received in advance or arrears? What factors will cause them to fluctuate? – you must consider both internal and external issues.
- What risks and uncertainties does the charity face in the future? These risks should be found within the charity's risk register and should be linked to the reporting requirements of the SORP (Statement of Recommended Practice) which all charities are bound to comply with. These risks and uncertainties allow trustees to consider the likely need for funds.
- What strategic plans does the charity have in place? Will these plans require an amount to be spent to cash flow an initiative?
- What costs does the charity have that are committed and for how long?
- What redundancy costs are inherent within the team and how would these be funded?

All of the above will allow trustees to make informed calculations on the likely need for reserves and the level to be held.

3.2 How often should the reserves policy be reviewed?

Trustees should keep their policy and also the level of reserves held under review. The monitoring process should not just be a year end procedure, but something that is monitored as part of the normal finance monitoring.

Fluctuations of reserves should be discussed to assess whether it is a short term or longer term issue.

Changes in income streams and risks should also be monitored, with trustees considering the changes these impacts have on reserves.

4. Is there such a thing as too much?

Can your organisation ever have too much in reserve? Well yes, if you have calculated how much is needed and you have an excess then that excess should form part of a strategic planned spend or investment for the future.

5. And if we don't have enough?

If trustees are confident that the reserves policy is robust and realistic but the reality falls short, what should they do? Trustees should still report their reserves policy and the level they would ideally like to have, but also then consider the plan for achieving this level, and document the activities that will allow them to achieve it in the trustees report.

Further resources

Charity Commission for England & Wales

Tel: 0845 3000 218

[Charities and Reserves CC19](#)

Charities SORP

<http://charitycorp.org/>

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