

# Cardiff Third Sector Council

Your local county voluntary council



## 8. Managing money

### 8.12 Ensuring you have a good reserve policy

This information sheet should be read in conjunction with the information sheet entitled “Reserves”.

#### 1. Introduction

When we refer to “reserves” we are referring to the part of the charity’s unrestricted funds that are freely available to spend on any of the charity’s purposes. This excludes permanent endowment and restricted funds, and also income funds that are tied up in fixed assets. Expendable endowment and designated funds may also be regarded as being excluded, but that is up to the trustees to decide based on the particular circumstances.

All charities should decide on the level of reserves that they need and this should be based on their own particular circumstances and the risks, uncertainties, financial pressures etc. that they face. No two charities are the same so each charity will have a different required level of reserves.

#### 2. Good reserves policies

Not only should a charity have reserves, but it should also have an appropriate reserves policy which is documented and included every year in the Annual Report. This is a requirement of the SORP (Statement of Recommended Practice) which all charities are bound to comply with.

A good reserves policy would have the following characteristics.

##### 2.1 A clear explanation of why reserves are needed

This would include some comment on the risks the charity faces and the uncertainties it is subject to. It would be informed by forecast levels of income and expenditure and an analysis of future needs, opportunities, commitments and exposures.

##### 2.2 A statement as to the level of reserves needed

Having considered the issues in 2.1 above, the trustees need to decide the level of reserves needed. This might be expressed as an absolute figure (e.g. £100,000), a range of figures (e.g. £80,000 to £120,000) or in some other way (e.g. a sum equivalent to 4 months normal operating expenses).

### **2.3 An explanation of current reserve levels including comment as appropriate on designated funds**

This would explain from the figures in the Annual Report how the charity has calculated their reserves and also the reason for setting aside designated funds.

### **2.4 An explanation of how the charity plans to move from their actual reserves to their desired reserves**

In an ideal world the actual reserves will be in line with the policy. If that is the case then this should be stated. However, in many cases, the actual reserves will either fall short of or exceed the desired level of reserves.

If the reserves fall short, some comment should be made on how the trustees plan to build up reserves, e.g. by retaining planned surpluses for a number of years.

If the reserves are higher than the ideal, then the trustees must address this as well. A charity should not be in a position of continually retaining income funds (sitting on cash) that should be paid out in the fulfilment of its objectives.

### **2.5 An explanation of the plans to monitor and review the policy**

This would normally be done at least annually.

## **3. Bad reserves policies**

The following approaches are discouraged by the Charity Commission.

- **The ‘status quo’ approach:** Look at the current level of reserves and create a policy to justify them. This approach is often used if reserves are on the high side.
- **The ‘Armageddon’ approach:** Assume that the worst will happen and calculate the reserves needed to fund closure of all activities, redundancy for all staff, settlement of lease commitments etc.

## 4 An example from the Charity Commission model accounts

Explain why needed.	The Management Committee has examined the charity's requirements for reserves in light of the main risks to the organisation. It has established a policy whereby the unrestricted funds not committed or invested in tangible fixed assets held by the charity should be between 3 and 6 months of the expenditure.
Explain level needed.	Budgeted expenditure for 2009/10 is £550,000 and therefore the target is £137,500 to £275,000 in general funds. The reserves are needed to meet the working capital requirements of the charity and the Management Committee are confident that at this level they would be able to continue the current activities of the charity in the event of a significant drop in funding.
Explain current level.	Whilst income funds stand at £56,792 a designation of £20,000 has been set aside for the purchase of equipment for the training project and a further £22,500 funds the office equipment of the charity. The present level of reserves available to the charity of £14,292 therefore falls significantly short of this target level
Explain how to get to needed level.	Although the strategy is to continue to build reserves through planned operating surpluses, the Management Committee is well aware that it unlikely that the target range can be reached for at least five years. In the short term the Management Committee has also considered the extent to which existing activities and expenditure could be curtailed, should such circumstances arise.
Plans to monitor and review	<i>Not covered in this model – but it is good practice to explain that the policy is kept under review by the trustees.</i>

## 5. Further guidance

Charity Commission for England & Wales

[Charities and reserves \(CC19\)](#)

[Tell it like it is \(RS13\)](#)

[Charity Income Reserves \(operational guidance - OG43\).](#)

Charities SORP - <http://charitySORP.org/>

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### Disclaimer

The information provided in this sheet is intended for guidance only. It is not a substitute for professional advice and we cannot accept any responsibility for loss occasioned as a result of any person acting or refraining from acting upon it.

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