

Voluntary Action Merthyr Tydfil

Your local county voluntary council



VOLUNTARY ACTION
MERTHYR TYDFIL
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8. Managing money

8.13 How reserves should be invested

Introduction

Key points about charity reserves

- The Charity Commission defines reserves as the part of a charity's unrestricted income fund that is freely available to spend
- Charity law requires any income received by a charity to be spent within a reasonable period of receipt
- This has to be balanced with the trustees' need to provide for beneficiaries today and in the future
- Agreeing an acceptable level of reserves is a key part of the overall financial plan for the charity and demonstrates forward planning and good governance
- Holding excessive reserves can limit the amount that can be spent on charitable work and adversely impact the charity and its beneficiaries
- Trustees should have a reserves policy and this should be reviewed regularly
- Charity Commission guidance [CC19: Charities and reserves](#) provides full guidance on reserves, including the level that should be held and how long it is appropriate to hold them for
- The Charities SORP (Statement of Recommended Practice which all charities are bound to comply with) requires trustees to include in their annual report:
 - a statement of their policy on reserves
 - the level of reserves held and an explanation of why they are held
- If a charity has significant reserves, the trustees should consider whether some or all of the reserves could be invested in order to obtain a financial return for the charity

How should reserves be invested?

- When looking at investing all or part of their reserves, trustees need to be clear about the purpose of the reserve
- The nature of the work of the charity will have a bearing on the nature of its reserves, e.g. a Foundation seeking to smooth the level of grants payable; or an operating contingency reserve for a charity providing services

- The purpose of the reserves will impact upon how they may be appropriately invested. A reserve fund that has a short time horizon (i.e. if the trustees intend to draw upon the reserves in the near future) where capital cannot be put at risk will need to consider if holding equities (stocks and shares) within their portfolio is appropriate (and to what degree), as equities may suffer short term fluctuations in the capital value which can damage the short term value of the investment. If it is a requirement to preserve the real (after inflation) value of the reserve, some market investment may be deemed appropriate
- When considering how to invest reserves, trustees may wish to consider:
 - Any liquidity requirements
 - The time over which the reserves should be invested
 - The level of investment risk they are willing to take on
 - The investment objective (for example, capital growth or capital preservation)
- Charity Commission guidance [CC14: Charities and investment matters: a guide for trustees](#) states that all charities with a discretionary investment manager (i.e. an investment manager that you have agreed has full discretion in making investment decisions on your behalf) should have an Investment Policy Statement which provides a framework for making investment decisions. This Investment Policy Statement should be consistent with the reserves policy in order to ensure that both the invested reserves and non- invested reserves fit with the overall financial plan
- If you have an external investment manager or adviser, they should be able to assist in the development of an appropriate investment strategy for your reserves
- Trustees considering investing need to take account of the guidance outlined in CC14: Investment of Charitable funds - a guide for trustees

More information

CC19: Charities and reserves

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

CC14: Charities and investment matters: a guide for trustees

<https://www.gov.uk/government/publications/charities-and-investment-matters-a-guide-for-trustees-cc14>

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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.

The value of investments and any income from them can fall and you may get back less than you invested. The above information is for illustrative purposes and is not intended as investment or legal advice. Trustees are responsible for ensuring that their investment policy statement and reserves policy meets the specific requirements of their charity.

For further information contact

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