

What are charity reserves and why have a reserves policy?

The Charity Commission guidance: [Charity reserves: building resilience CC19](#) explains

- what is meant by the term 'reserves'
- the importance of a reserves policy
- how to develop a policy on reserves for smaller and larger charities
- how trustees must report their reserves policy in their annual report

The guidance defines reserves as “that part of a charity’s unrestricted funds that is freely available to spend on any of the charity’s purposes”

The Charity commission “expects trustees to decide, publish, implement and monitor their charity’s reserves policy so that they can comply with their legal duties to:

- act in the interests of their charity and its beneficiaries
- protect and safeguard the assets of their charity
- act with reasonable care and skill
- ensure their charity is accountable”

A reserves policy will explain why the charity is holding unspent charitable funds instead of spending them immediately on charitable activities for the public benefit.

A good reserves policy gives confidence to stakeholders that the charity’s finances are being properly managed and will also provide an indicator of future funding needs and its overall resilience.

Who may be interested in a charity’s reserves policy?

- Charity Commission
- Major funders
- Donors
- Charity’s beneficiaries
- General public

5 reasons why a charity should hold reserves

1. The risk of unforeseen emergency or other unexpected need for funds
 - an unexpected large repair bill

- finding 'seed-funding' for an urgent or important project
- 2. Covering unforeseen day-to-day operational costs
 - employing temporary staff to cover a long-term absence due to sickness
- 3. A source of income
 - a grant, not being renewed
 - Funds might be needed to give the trustees time to take action if income falls below expectations
- 4. Planned commitments that cannot be met by future income alone
 - Plans for a major asset purchase
 - Plans for a significant project that requires the charity to provide 'matched funding'
- 5. The need to fund short-term deficits in a cash budget
 - Money may need to be spent before a funding grant is received

How much should a charity hold in reserve?

To calculate the required level of reserves, consider each of the 5 reasons for holding reserves listed above and work out an amount the charity may need for each.

When arriving at a figure, take into account the financial risk of each event occurring and use that to influence the target you set.

The level of reserves you arrive at can either be a target amount or a target range.

The reserves policy should include both the target reserve level and an explanation of how you have arrived at that target.

A comparison should be made between what is actually held in reserve and what has been calculated as an ideal level and action should be taken to align the two.

The level of reserves required should be reviewed each year and new targets set if necessary.

Useful links to information on charity reserves

Charity Commission: CC19 Charity reserves: building resilience

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

NCVO: Reserves policy

<https://knowhow.ncvo.org.uk/tools-resources/financial-procedures-manual/writing-the-financial-procedures-manual/financial-responsibilities-1/reserves-policy>

Charity Digital: A charity guide to prudent reserves

<https://charitydigital.org.uk/topics/topics/a-charity-guide-to-prudent-reserves-9512>

