



Guide to constructing a charity's reserves policy

This document is for general guidance only and reference should also be made to the Charity Commission's publications and the law.

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

1. Definition of reserves

Remember that "Reserves" is used to describe that part of a charity's funds that are freely available to fund its general operations and so is not subject to commitments, planned expenditure or other restrictions. Consequently, Reserves do not include endowment funds, restricted funds and designated funds.

2. Why does a charity need a reserves policy?

Because:

- a) A reserves policy helps a charity to properly manage its resources.
- b) A reserves policy helps a charity to plan and formally report its approach to stakeholders.
- c) A reserves policy helps the charity to match its reserves to its requirements and no more, otherwise the charity would hold reserves that are too high or too low for its needs.

3. What does a reserves policy cover as a minimum?

- a) The amount of reserves (at least at every balance sheet date);
- b) The reason(s) why the charity needs this level of reserves;
- c) How the charity intends to establish / maintain reserves at the amount determined by the trustees; and
- d) How the trustees are to review the reserves policy on a regular basis.

4. How do trustees set a reserves level?

Reserves should be set by considering (where appropriate) the following:

- a) Cash flow (and forecasts);
- b) A review of existing funds and reserves;
- c) A review of future income streams;
- d) A review of likely future expenditure
- e) A review of past operational and other trends;
- f) The likely effects of changes on the public and beneficiaries;
- g) A review of the major risks facing the charity;
- h) An analysis of future needs, contingencies and risks the potential consequences for the charity not being able to meet them.
- i) Level of redundancy payments
- j) Record any break clauses in rental agreements

5. Sample template of a basic reserves policy to be disclosed in a charity's trustees' annual report

"The charity's reserves and its policy are set out as follows:

	Current Year	Previous Year	Reason(s) for change
Unrestricted Funds			
Restricted / Designated Funds:			
- New building Fund			
- Minibus Fund			
- Others			
Endowment Funds			
Total Funds			
Ratio of Reserves to Annual Operating Expenditure			

In the Trustees' view, the reserves should provide the charity with adequate financial stability and the means for it to meet its charitable objectives for the foreseeable future.

The trustees propose to maintain the charity's reserves at a level which is at least equivalent to six months operational expenditure and have done so having regards to its manner of operation of likely funding streams.

The trustees review the amount of reserves that are required to ensure that they are adequate to fulfil the charity's continuing obligations on a quarterly basis at their finance meeting.

Approved: July 2015	Review:
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