

# RESERVES POLICY

Discover the basics of building resilience through a reserves policy



## What are reserves?

The term 'reserves' is applied to the part of the organisation's income that is freely available for its general purposes. This is income which becomes available to the organisation but which is not spent, committed or designated (Northern Ireland Council for Voluntary Action, 2007).

Reserves are often used to further the aims of the objects of the organisation, including but not limited to purchasing new equipment, funding expansions and covering unexpected costs.

## Why have a reserves policy?

A reserves policy is not only good practice, but a key to good financial governance. It provides assurance that the finances of the organisation are actively managed and its activities are sustainable. It is important to keep money as a reserve if income drops or if a new opportunity arises. Other common situations include:

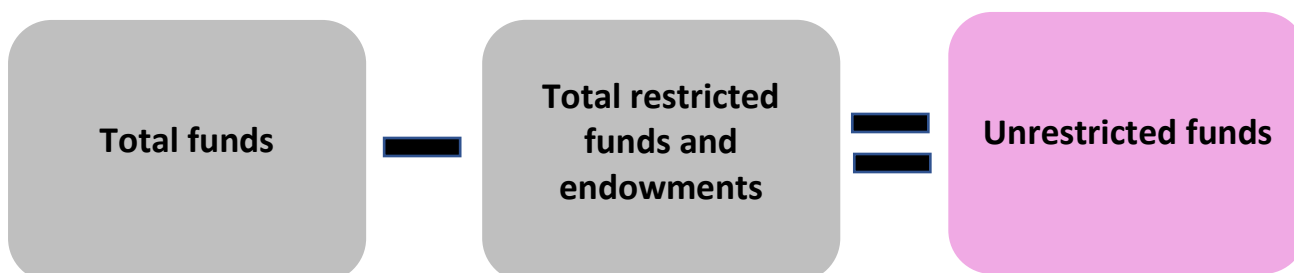
- Funders use it when looking at funding requests
- Regulators use it when reviewing an organisation's resource usage
- It is useful to explain to others why you are setting money aside rather than using it

If you are a registered charity, "the Charities Statement of Recommended Practice (SORP) requires a statement of a charity's reserves policy within its annual report. In addition, if a charity operates without a reserves policy, the regulations require this fact to be stated in the annual report." - Charity reserves: building resilience (2016).

For more specific information regarding requirements, please visit the relevant regulator website (e.g. if you are a charity with an income over £500,000, the UK Government expects a greater degree of accountability and detail within policy). Not sure of your requirement? Get in touch with us at [membership@sported.org.uk](mailto:membership@sported.org.uk).

## Where do I start?

The Scottish Charity Regulator: Charity Reserves Factsheet neatly outlines how to get to your "reserve starting point". Although intended for Scottish charities specifically, the principles can be applied to any organisation. The "reserve starting point" can be determined by taking the total funds of the organisation minus any restricted funds, fixed assets and money already set aside for future activities. Below you can see it broken up in two simple transactions.



(‘Total funds’ – ‘Total restricted funds and endowments’ = ‘Unrestricted funds’)

Restricted funds and endowment funds will not be included in your reserves as these cannot be freely spent.



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(‘Unrestricted funds’ – ‘Fixed assets or funds aside within unrestricted funds’ = ‘Available reserves’)

Reserves don't include tangible fixed assets or designated funds. Once you have your starting point the committee member/trustees can start to look at what level of reserves you want to hold back.

## How much reserve should you have in place?

Regulators do not prescribe a "correct" level of reserve. They recognise that each organisation is different and it's impossible to set a formula for reserve level that will suit all organisations at all stages of their development. Below is some basic guidance:

### What informs your reserves amount?

Forecasted levels of income for the coming years, taking into account the reliability of each source and the prospects for new sources.

Forecasted expenditure in future years, based on planned activity.

Future needs, opportunities, contingencies or risks arising, as well as the potential consequences for not meeting them. In particular, consideration for winding up and the financial consequences.

### Can you have different types of reserves in place?

Yes, this will be part of your assessment of the level of reserves and you may want to split it out as follows:

- Working capital reserve - provide a float if expenditure is needed before income is received
- Income reserve - protect against a fall in income
- Opportunity reserve - funding for new initiatives and opportunities
- Adversity reserve - protect against unplanned events such as losing key staff, theft, fire, etc
- Cessation reserve – amount held back to pay off liabilities if the organisation is wound down

## What should a reserves policy contain?

- The amount of detail included in a reserves policy should be proportional to the scale and complexity of the organisation's operations. Generally, it should contain:
- A brief description of the organisation, its beneficiaries and its funding streams. This will help the reader to understand the context behind the policy.
- The rationale behind the reserves policy. This will explain the reasons that the organisation board members believe reserves are required. It will outline areas where there may be shortfalls in funding and how these shortfalls will be met.

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- Steps taken to establish the level of reserves. This will be a more detailed description of how the board members have considered the overall financial position of the organisations leading to their conclusion about the level of reserves needed.
- The level of reserves required.
- How and when the reserves policy will be reviewed. A reserves policy is not a static document; the needs and the financial position of the organisation may change. It is important that the reserves policy is actively monitored and reviewed.

*Note: the above recommendations have been adapted from the Scottish Charity Regulator: Charity Reserves Factsheet (2017) and serve as general guidance.*

## What should a reserves policy contain?

Now that you have identified the different reserves you would like to have in place have identified and begun to draft a reserves policy, it is time to have a discussion with your board to present your ideas and have a discussion about the level of risk and general resources that is appropriate for your organisation. The ultimate decision lies with the committee/board of directors. During your board meeting, make sure to record the rationale in more detail than is within the policy. This will display good governance to external stakeholders and can be used in future for reviews.

## Need more guidance?

For more information on developing a reserves policy for your organisation, visit:

- How to set a reserves policy for your charity - <https://www.gov.uk/guidance/charity-financial-reserves>
- Charity reserves policies: demonstrating and building resilience - <https://www.gov.uk/government/publications/charity-reserves-policies-demonstrating-and-building-resilience>

If you have any questions about this guide or would like to discuss developing a reserves policy with a Spotted volunteer who has specialist skills in financial management, [request Volunteer Support via the Spotted Hub](#).

## Sources

Scottish Charity Regulator (2017) Charity Reserves Factsheet

Copeland, D. (2007) Guidance on Reserves. Northern Ireland Council for Voluntary Action.

Halford, J. (2019) Charity Reserves. Presented at Institute of Chartered Accountants in England and Wales webinar.

Charity Commission for England and Wales (2018) Charity reserves policies: demonstrating and building resilience

