Honorary Treasurers Forum - Reserves

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Introduction

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Reserves

Reserves are that part of a charity's unrestricted funds that is freely available to spend on any of the charity's purposes.

Session objectives

1. Understanding charity reserves
2. Determining reserves level
3. Spending reserves
4. Aligning reserves with strategy
5. Managing economic uncertainty
6. Actions including spring clean and practical guidance

Understanding charity reserves

What are charity reserves?

Funds freely available to spend, not earmarked for specific purposes.

Unrestricted reserves: Not tied to a particular project or donor.

Designated funds: Set aside by trustees for a specific purpose, but can be reallocated.

Restricted funds: Must be used for a specific purpose—*not* counted as reserves.

Determining reserves level

Assessing current reserves

How much do we need?
Consider the objects of the charity.

How much do we have in 'free reserves' – unrestricted, undesignated funds not tied up in fixed assets?

- Annual commitments to charity wishes to continue?
- How much is expected to be funded by annual income?
- What are the future plans of the charity?
- Are there any long term contracts or liabilities?
- What are your main risks?

Build into long term strategy

Risk register

Considerations in CC19 Charity reserves: building resilience

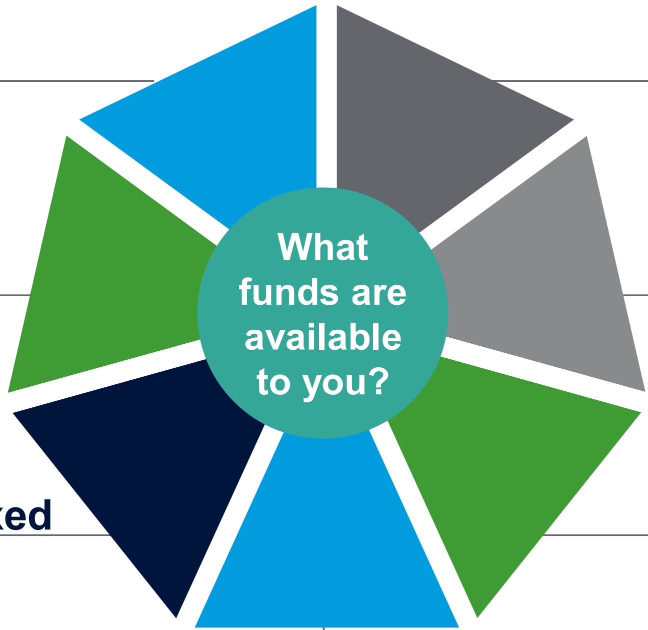
How will we bridge the gap between reserves required and reserves held?

Where are you now?

7. Available reserves

6. Designated funds

5. Unrestricted fund used for fixed assets



1. Total funds

2. Restricted funds

3. Endowment funds

4. Unrestricted funds

Calculating free reserves

	£'000*
Total funds	11,789
Less: restricted funds	(148)
Less: endowment funds	(450)
Unrestricted funds	11,191
Less: unrestricted tangible fixed assets held for the charity's own use	(6,600)
Less: amounts designated for essential future spending	(80)
Available reserves – the starting point	**5,511**
*** The figures in this table are for illustrative purposes only**	

Does your charity have an up-to-date reserves policy?

25% of charities surveyed have not reviewed their reserves policy for at least a year.

Nearly **40%** of charities surveyed noted their actual reserves were ahead of their target.

Developing a robust reserves policy

01

Income

How volatile is it and what is the level of income at risk?

02

Income

How sensitive is the charity’s income and expenditure to factors which are outside its control?

03

Expenditure

What is the nature of spending commitment and how easily can it be reduced?

04

The nature of the reserves

How easily can it be realised and what will be the impact of doing this

Spending reserves

When to spend reserves

Strategic use of reserves

Reserves should be used for emergencies, strategic investments, and bridging short-term funding gaps.

Review and compliance

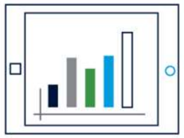
Regularly review designated and restricted funds, ensuring compliance with legal and donor requirements.

Governance and documentation

Spending decisions must be documented, approved by trustees, and communicated transparently to stakeholders.

Aligning reserves with strategy

Target setting myths



Charities should hold 6 months of expenditure in reserves

Charities should hold 10% of expenditure or income in reserves

Charities should spend all their funds and hold nil in reserves or charities should build up reserves to x level

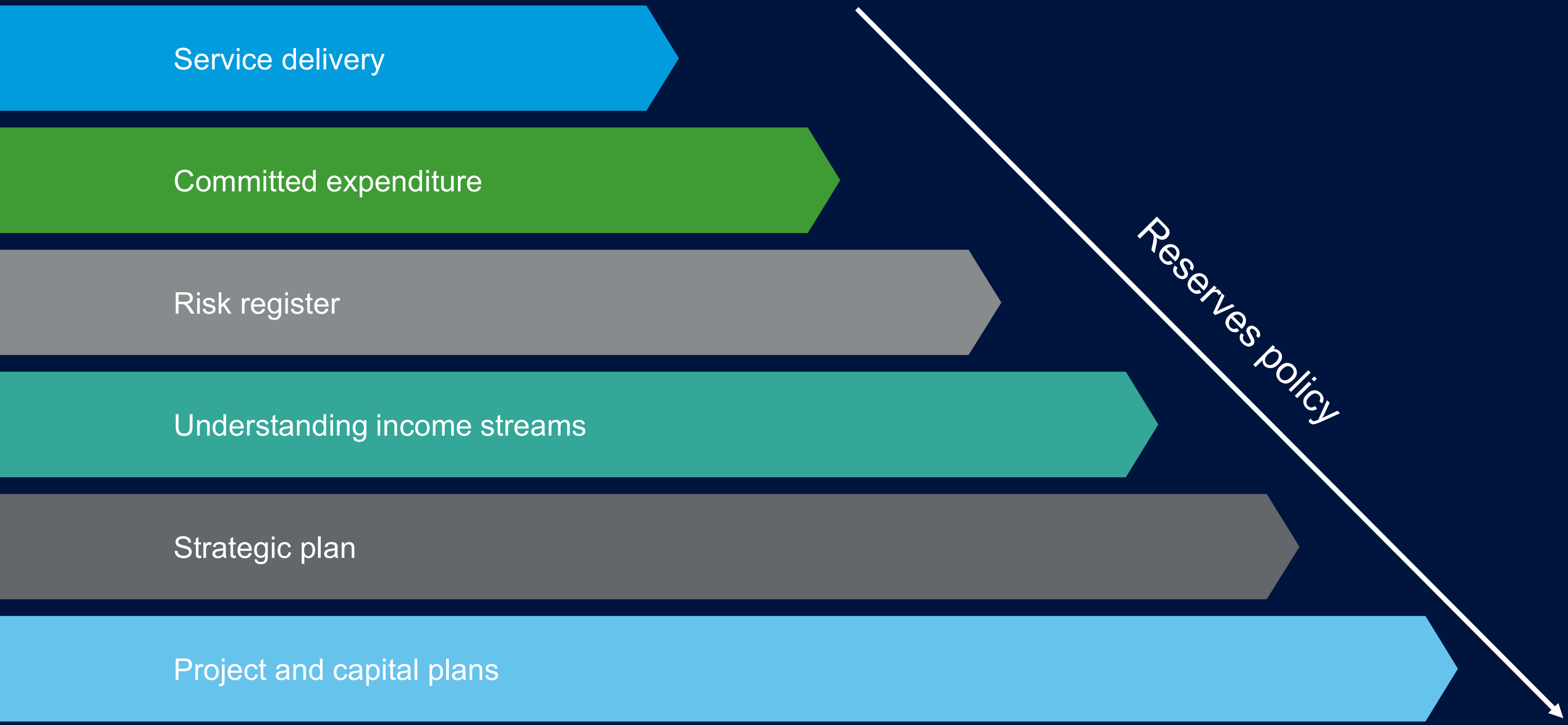
18% of respondents were not aware that there is not a single level, or even a range of reserves that is right for all charities.

Target setting reality

The Charity Commission (CC19 guidance) makes it clear there is no set benchmark for reserves

- Align target with risks
- Inefficient use of funds
- Strategic planning

What should your target be?



Managing economic uncertainty

Charities often operate in a difficult funding environment.

They sometimes have to match unpredictable income with fixed costs. This means that they need to have reserves to act as a buffer and to allow necessary expenditure when required.

ICAEW

Audit Insights Charities (2017)

Strategies for economic uncertainty

Challenges: Inflation, rising costs, funding uncertainty, increased demand for services.

01

Policy review
Increase Review Frequency
Monitor levels against target

02

Link to the risk register and scenario planning

03

Income diversification
Diversifying income sources and closely monitoring cash flow helps maintain financial stability.

04

Clear communication
Be open with staff, funders, and beneficiaries about your approach.

Actions including spring clean and practical guidance

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Trustee responsibilities and monitoring

Understanding Charity Reserves

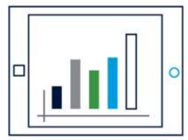
Trustees must understand the level of free reserves and their importance for financial stability.

Policy linked to strategy and risk register

The reserves policy should align with the charity's strategy and risk register.

Management reporting

Ensure robust forecasting and reporting.



Regular monitoring and review

Regular reviews of designated and restricted funds should be embedded in board and management reporting.

Transparency in Reporting

Clear disclosure of reserves policy and actual reserves in annual reports is essential for compliance.

[Charity commission Guidance CC19]

A spring clean

Designated funds

- Review at least annually.
- Have things moved on since the designation was made.
- Should a new designation be made for a known project/activity e.g. new system to give transparency.
- Decisions by Trustees re transfers should be minuted “real time”.

Restricted funds

- Specifically consider restricted funds held re historic capital projects used for depreciation charging.
- Consider “un-used” restricted funds:
  - Is there an obligation to return – check with funder?
  - Were objectives actually met/funds actually used?
  - Seek legal advice prior to transferring if any doubt.

Looking ahead…

Lease accounting
– preparing for the new SORP requirements

Watch the recording

Income recognition
– what's changing in the Charities SORP 2026?

Watch the recording

Tiered reporting and other areas
– what's changing in the charities SORP 2026?

Watch the recording

"The substantive changes to FRS 102 issued by the FRC in March 2024 will see the biggest impact to UK GAAP reporting in over a decade. These changes will filter through to the education, charity and housing sectors in the form of the SORPs. Although the effective date may seem a way off for some organisations it is critical that they start to consider the impact of these now. Even though the final SORPs are yet to be published, there is a lot that finance teams can start to consider and plan for already so that they can understand the impacts of the new SORPs and prepare for this."

Sharon Monteith

Consulting Lead

Not for Profit

Charity trustee insights hub

Explore our new charity trustee insights hub which provides guidance specifically tailored for charity trustees, addressing key challenges and developments within the charity sector.

Our hub will provide regular insights to charity trustees, helping to understand responsibilities and take appropriate steps to ensure proper governance, particularly during times of change and financial constraints.

Discover our hub

Questions

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