

## **Reserves Policy**

All charities and some CIC and groups need to develop a policy on reserves which establishes a level of reserves that is right for the groups and clearly explains to its stakeholders why holding these reserves is necessary.

### **What are reserves?**

Reserves are the unrestricted funds that are held by a charity and available to spend on its purposes. Funders often look at the amount of reserves (or “free reserves”) a charity holds to help decide whether to fund them. Local authorities will also ask about reserves to decide whether to allow any discretionary rates relief.

### **What to consider?**

The starting point for calculating the reserves held by a charity is the amount of unrestricted funds.

However, some or all of the unrestricted funds of a charity may not be available for spending.

For example:

- if your charity has responsibility for a building, you should hold reserves to meet the costs of repairs and maintenance
- if you employ staff, you should hold funds to cover their notice period and any redundancy they may be entitled to in the case of closure of the charity

Some charities simply state that they will hold a specified number of months operating costs in reserve. However, depending on the commitments of the charity and the types of services it provides, that could be way more than is reasonable, or not enough to meet all its liabilities in the event of closure.

### **The Charity Commission has published guidance that trustees should:**

- develop a reserves policy that:
  - fully justifies and clearly explains keeping or not keeping reserves
  - identifies and plans for the maintenance of skeleton services for beneficiaries
  - reflects the risks of unplanned closure associated with the charity's business model, spending commitments, potential liabilities and financial forecasts
  - helps to address the risks of unplanned closure on their beneficiaries (in particular, vulnerable beneficiaries), staff and volunteers
- publish the reserves policy (even if not required to by law) and ensure it is tailored to the charity's circumstances

The [insert organisation name] reserves policy was reviewed and updated during [month/year].

The trustees have set a level equivalent to [number] months of operating costs for the organisation as a desired level of reserve. This fund is a contingency in the event of a sudden reduction in income, in order to protect the future operation of the organisation from the effects of any unforeseen variations in its income and expenditure. It also provides a cash flow for grants and contracts that are paid in arrears.

The trustees have designated reserves where there are planned commitments that cannot be met by anticipated future income alone. These reserves are broken down into a number of funds that relate to:

- The organisation's responsibilities as an employer to hold sufficient funds to provide proper notice and redundancy costs in the event of closure
- The organisation's responsibilities as a leaseholder with full-repairing responsibilities. It is the trustees' intention to build a capital improvement fund over the next few years to meet future repair and refurbishment commitments
- [include any other information that justifies and clearly explains keeping reserves]

The reserves policy and the levels of reserves required are reviewed yearly as part of the annual budgetary process.

Within the accounts, the amounts of reserves are specified in a table as follows:  
(Please not all might be relevant to your organisation)

Unrestricted Funds represented by:	Desired Reserves	Balance as at 31st March 2022	Description of Funds
General purpose reserve fund			Funds to provide cash flow and meet unforeseen expenses. Based on approx. 3 months of annual turnover.
Salaries Reserve			Two months salaries and employers' NI contributions
Redundancy Reserve			Redundancy liabilities (and required notice period) based on statutory minimum payments for all staff.
Premises Reserve - General			To fulfil lease obligations.
Premises Reserve - Capital Improvements			Funds to maintain, repair and improve premises held on a full-repairing lease.
Premises Reserve - Capital Improvements			Provision to replace IT and furniture as required.
Total			

The minimum reserves required is the Restructuring Fund plus the Dissolution Fund. These are to be used to ensure we look at every alternative before dissolution of the company/charity.

### **Annual Review**

Due to the nature of the organisation and the regular review of the budget, this policy should be reviewed on an annual basis to ensure

- the continuity element matches changes to the annual budget
- the restructuring element matches the requirements of trading activities
- the cyclical maintenance element moves forward in at least an inflationary manner
- the dissolution element matches the requirements of the staffing levels

Should the budget be reduced due to the end of projects or other such occurrences, then the reduction of reserves should be planned over a minimum of five years.

POLICY DATED: *(insert date when approved by trustees/board)*

REVIEW DATE: *1 years after date of policy*