

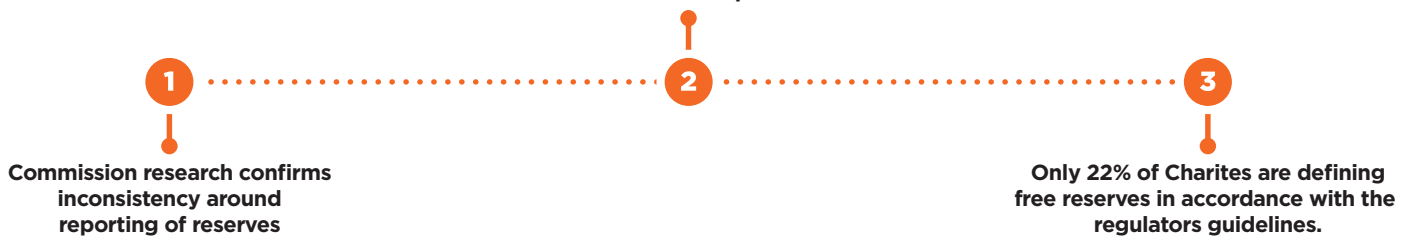


Reserves

Reserves continue to be a hot topic in the Charity sector, and in these turbulent times financial resilience is key in helping charities stay flexible and adaptable.

A robust reserves policy is more important than ever before. The Charity Commission has recently published their findings based on an extrapolation of annual returns. The latest findings indicate that:

More than 1/3 of explanations of reserves policy do not provide all of the basic information required.



The charity SORP FRS102 states that the reserves policy in the Trustees annual report should:

- State the amount of the total funds the charity holds at the end of the reporting period;
- Identify the amount of any funds what are restricted and not available for general purposes of the charity at the end of the reporting period;
- Identify and explain any material amounts which have been designated or otherwise committed as at the end of the reporting period;
- Identify the amount of any fund that can only be realised by disposing of tangible fixed assets or programme related investments;
- State the amount of reserves the charity holds at the end of the reporting period after making allowances for any restricted funds, and the amount of designations, commitments (not

provided for as a liability in the accounts) or the carrying amount of functional assets which the charity considers to represent a commitment of the reserves they hold;

- Compare the amount of reserves with the charity's reserves policy and explain, where relevant, what steps it is taking to bring the amount of reserves it holds into line with the level of reserves identified by the trustees as appropriate given their plans for the future activities of the charity.

Why do reserves matter?

Reserves are much more than a statement about the health of the charity. Striking a balance between having spare cash for a rainy day, whilst satisfying donors that much needed charitable funds are not just sitting idle, has long been a test for trustees.

Trustees must decide, publish, implement and monitor their charity's reserves policy to ensure that they comply with their legal duties to:

- Act in the interests of the charity and its beneficiaries;
- Protect and safeguard the assets of the charity;
- Act with reasonable care and skill; and
- Ensure the charity is accountable.

What do we mean by reserves?

The Charity Commission's guidance document, Charity Reserves: Building Resilience (CC19), defines reserves as "that part of a charity's unrestricted funds that is freely available to spend on any of the charity's purpose".

Free reserves can be defined as being:



Setting your reserves policy

To enable meaningful reserves policy to be set, trustees need to understand the business and why they need to hold reserves. Consideration should be given to the following points when developing your reserves policy:

Understand your funds

It is essential that trustees understand any restrictions on the use of charity funds. In certain circumstances holding restricted funds may reduce the need to hold reserves for a particular purpose.

Future Income streams

Trustees should review existing funding agreements and assess the likely future funding. It is important to give consideration to whether income is attributable to single or multiple sources and the risk to each income stream of a sudden or unforeseen decline.

The less secure an income stream is the higher the level of reserves required.

Committed expenditure

Understanding expenditure patterns and how quickly the charity can curtail or change the timings of cash outflows is key. Commitments made in future financial periods and projects or capital spending plans that cannot be met from anticipated future income alone need to be considered.

A risk based policy

In developing a reserves policy trustees need to consider other major risks that the charity is exposed to which could impact on the level of reserves that is considered adequate.

Remember: You should calculate the level of reserves you feel is appropriate for your organisation **BEFORE** comparing this to the actual level of reserves held.



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Please note that the information contained within this factsheet is not intended to give specific technical advice nor should it be construed as doing so. Professional advice should always be sought before action is either taken or refrained from as a result of information contained herein.