TRUSTEES' SHORT GUIDE SERIES

Reserves policies.

A foundation for charity sector stability.

February 2026

Reserves continue to be a hot topic in the Charity sector and resilience is key in helping charities stay flexible and adaptable. A robust reserves policy is more important than ever before, with inflationary pressures continuing to be felt across the sector.

What are reserves?

The SORP 2026 uses the term reserves to describe that part of a charity's unrestricted funds that is freely available to spend on its charitable purposes. It is defined in the SORP glossary of terms as that part of a charity's income funds that is freely available to spend on any of the charity's purposes, calculated as follows:

Unrestricted funds, including fixed asset investments but excluding pension deficits

Less:

1. Tangible fixed assets including leased assets
2. Investments for the purpose of achieving the charity's purposes
3. Commitments that have not been provided as a liability
4. Designated amounts for essential future funding.

Equals:

Freely available reserves

However, when considering your freely available reserves, you may need to consider:

- Where restricted funds are held, the nature of the restriction, as such funds may reduce the need for reserves in particular areas of the charity's work
- Whether expendable endowment is readily available for spending
- The impact on reserves of having a pension provision, a long-term mortgage, lease liabilities or a revaluation reserve in the charity's accounts.

Disclosure requirements

In contrast to the previous SORP where charities merely needed to explain that they had a policy and why, or conversely their belief that no reserves or policy was necessary, SORP 2026 requires much more detail from **ALL** charities.

1.37. *The charity must explain:*

- *Any policy it has for holding reserves*
- *State the amount of those reserves and why they are held*
- *If the trustees have decided that holding reserves is unnecessary, the report must disclose this fact and provide the reasons for this decision.*

1.38. *The figure for reserves in the report must be consistent with the accounts and, where this is not evident, the charity must provide a reconciliation, either in the funds note or as a separate note.*

1.39. *The report must:*

- *Compare the amount of reserves with the charity's reserves policy*
- *Explain, where relevant, the steps the charity is taking, given their plans for the future activities of the charity, to bring the amount of reserves it holds into line with the policy.*

1.40. *The review of the charity's reserves must:*

- *Identify and explain any material amounts that have been designated or otherwise committed as at the end of the reporting period*
- *Indicate the likely timing of the expenditure of any material amounts designated or otherwise committed at the end of the reporting period.*

Links to other disclosures:

Going concern means the ability of an organisation to operate for the foreseeable future and its ability to pay its debts as they fall due. Where a charity has no reserves (or negative net assets on the balance sheet), it must explain why it is still operating as a going concern. If, at the date of approving the report and accounts, there are material uncertainties about the charity's ability to continue as a going concern, the nature of these uncertainties must be explained.

The report must provide a summary of the charity's **plans for the future**. It may be helpful for the charity to consider its reserves and going concern assessment when considering its future plans. **Principal risk** disclosures are required for charities with income greater than £500,000. Where holding reserves is part of the risk mitigation strategy, trustees and trustees' reports should make the connection between the risk, response and the level of reserves described in the policy.

Why a reserves policy matters

A reserves policy explains to existing and potential funders, donors, beneficiaries and other stakeholders why a charity is holding a particular amount of reserves. A good reserves policy gives confidence to stakeholders that the charity's finances are being properly managed and will also provide an indicator of future funding needs and its overall resilience.

Deciding the level of reserves that a charity needs to hold is an important part of financial management and forward financial planning. Failure to do this may result in reserves levels which are either:

- Higher than necessary and may tie up money unnecessarily. Holding excessive reserves can unnecessarily limit the amount spent on charitable activities and the potential benefits a charity can provide
- Too low, increasing the risk to the charity's ability to carry on its activities in future in the event of financial difficulties, and increasing the risks of unplanned and unmanaged closure and insolvency.

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

Developing a reserves policy

There is no one size fits all policy that a Charity can adopt. It will depend on the size, complexity of activities, legal structure and the nature of funds received and held by a charity. All charities will need to follow these steps:

1. **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.
2. **Risk based policy.** Linked to your risk register, is there a risk of key funding ceasing, and reserves are required to maintain services, or in the event of a decision to close, what would it cost to wind down the charity in an orderly fashion (including transferring services, redundancy costs and recognising lease liabilities). Conversely, should funds be held to enable the charity to take on new opportunities that may present themselves.
3. **Future funding and committed expenditure.** All charities need to think about their future budgets and future projects or spending plans that cannot be met from the income of a single year.

By working through these steps the trustees will be well placed to identify why reserves might need to be held and to decide the amount of reserves needed to operate effectively.

Once a reserves policy is set, it should not be regarded as a static policy. The circumstances of a charity or the environment in which it operates will change with time and trustees should review their policy at least annually as part of a charity's planning processes. The amount held in reserves should also be monitored during the course of the year as part of a charity's budgetary processes.

Next steps

We recommend that trustees review their current policies and ensure that they reflect the current risks and requirements of the charity and establish a cycle of regular review.

Further reading

The Charity Commission has **extensive guidance** to help trustees with setting reserves policies in CC 19 Charity reserves: building resilience.

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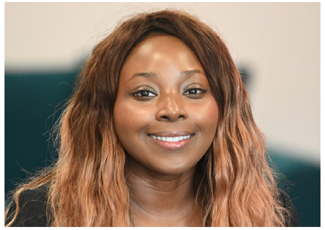

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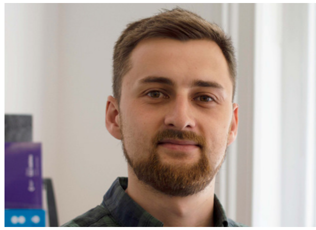

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