

## GOV.UK Guidance on Reserves policy for charities (CC19)

### 3.2 Why is a reserves policy important?

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.

The Charities 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.

### QUESTION 1 – DOES YOUR CHARITY NEED TO KEEP RESERVES?

Reason	Estimate
a) The risk of an unforeseen emergency or other unexpected need for funds, eg an unexpected large bill or finding 'seed-funding' for an urgent project	
b) Covering unforeseen day-to-day operational costs, eg employing temporary staff to cover a long-term sick absence	Outsourcing processes to outside agencies to cover a shortage of volunteers. 2 Years, 400 man-hrs/yr @ £20 = <b>Total £16K.</b>
c) A source of income, eg a grant, not being renewed. Funds might be needed to give the trustees time to take action if income falls below expectations	1 club disaffiliating. 1 year @ £300, and LOTL or LOP stops. 1 year @ £1K <b>Total £1.3K.</b>
d) Planned commitments, or designations, that cannot be met by future income alone, eg plans for a major asset purchase or to a significant project that requires the charity to provide 'matched funding'	Investment in Education & Development for years in which there are insufficient funds available from Income/Expenditure. <b>Total £5K</b>
e) The need to fund short-term deficits in a cash budget.	Cashflow contingency covers 3 months' expenditure, with no income. <b>TOTAL £5.4K</b>
If, after considering the above, you think that reserves are needed, go to question 2. If you conclude that your charity does not need to hold any reserves, then you must explain that in your annual report.	<b>TOTAL £27.7K</b>

---

## 3.2 Why is a reserves policy important?

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.

The Charities 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.