



Reserves Policy

Reserves are that part of a charity's unrestricted funds that is freely available to spend on any of the charity's purposes. The starting point for calculating the amount of reserves held is therefore the amount of unrestricted funds held by a charity. However, some or all of the unrestricted funds of a charity may not be readily available for spending. This is because spending those funds may adversely impact on the charity's ability to deliver its aims. The items that should be excluded from reserves are:

- tangible fixed assets used to carry out the charity's activities, such as land and buildings
- programme-related investments those held solely to further the charity's purposes
- designated funds set aside to meet essential future spending, such as funding a project that could not be met from future income
- commitments that have not been provided for as a liability in the accounts

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.

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.

A reserves policy provides essential accountability to funders, donors and other stakeholders. A good reserves policy will explain how reserves are used to manage uncertainty and, if reserves are held to fund future purchases or activities, it will explain how and when the reserves will be spent. A reserves policy provides assurance that the finances of the charity are actively managed, and its activities are sustainable.

In particular, a reserves policy will:

- give confidence to funders by demonstrating good stewardship and active financial management
- demonstrate the charity's resilience and capacity to manage unforeseen financial difficulties to beneficiaries, funders and the public
- give voluntary funders, such as grant-makers, an understanding of why funding is needed to undertake a particular project or activity
- give assurance to lenders and creditors that the charity can meet its financial commitments

- manage the risk to a charity's reputation from holding substantial unspent funds at the year-end without explanation

Developing a reserves policy is also an important part of the internal financial management of a charity. Developing a reserves policy is likely to:

- assist in strategic planning, for example considering how new projects or activities will be funded
- inform the budget process, for example is it a balanced budget or do reserves need to be drawn down or built up?
- inform the budget and risk management process by identifying any uncertainty in future income streams

The requirements for all charities

All charities must include in their annual report their policy on reserves, stating the level of reserves held and why they are held. Where the charity does not have a reserves policy in place, it should include a statement to that effect.

The Veterans Charity Reserves Policy (reviewed 31 August 2020)

The Veterans Charity holds reserves to ensure that services to beneficiaries can continue during a period of unforeseen reduced income or increased expenditure. Our reserves policy is set with reference to the financial risks facing the charity.

The Veterans Charity is heavily dependent on volunteer support and donations from the public to enable it to carry out its work. Our biggest risk is that our income suddenly drops because of unforeseen factors beyond our control. In these circumstances, reserves would need to fund operating expenditure while the organisation was put back onto a stable footing.

The Trustees have reviewed the charity's reserves policy in the context of the key financial risks facing the charity and agreed that The Veterans Charity should seek to hold reserves of £25,000. On 31 August 2020, the charity held reserves of £25,000. These funds are non-restricted, which means they can only be used for any purpose deemed suitable by the Trustees