



Tell it like it is

The extent of charity reserves and reserves policies



The Charity Commission is the independent regulator for charitable activity. This is one of a series of reports that present our case-working experience, supplemented by additional research. Their purpose is to help increase understanding of an issue. They are part of our mission to help charities maximise their impact, comply with their legal obligations, encourage innovation and enhance effectiveness.

This report presents the findings of our research into charities' reserves management and contains ideas you may wish to consider adopting, taking into account your charity's situation.

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Introduction

Charities exist to create a better society and their day-to-day activities are geared towards transforming the lives of their current beneficiaries. But to ensure they can continue to make a positive difference, trustees know that it is essential to plan for the future. In an increasingly complex and changing funding environment, charities need to be able to absorb setbacks and take advantage of change and opportunity. Many provide for this by putting aside some of their current income as a reserve.

Trustees are publicly accountable for their stewardship of charity funds and information about their charities' aims, activities and finances is becoming more in demand and more widely available. There is an increasing emphasis on the need for the sector to sustain and improve the public's trust and confidence in the work of charities generally.

But underlying much public discussion of charity reserves is the belief, rightly or wrongly, that holding back significant amounts rather than spending it on the charity's current beneficiaries is similar to hoarding. This belief is likely to persist unless charities consistently and objectively explain their reserves position.

In 2002 we looked at the extent of charity reserves across the sector and the number of charities with policies for their management¹. We found many examples of best practice in reserves management but identified areas where improvements were needed. For example, many charities were planning for unforeseen circumstances by setting aside funds but were not putting a policy in place for their management.

It is pleasing that our new research has found some improvement in this situation. But more should be done. Charities have a good opportunity, through the reporting and accounting mechanisms in place², to educate the public about the ways they operate, their successes, and the risks and challenges they face. Transparent reporting can bring about a more informed and beneficial relationship between funders and the charities they support. Charities that do not take up that opportunity leave themselves open to criticism.

This report revisits some areas we looked at last time, presents the findings of new research on charities with medium to very large incomes³ and considers how reserves are currently presented and managed.

¹ You can find the results of our earlier research carried out in 2001 in our report, *Charity Reserves* (RS3, published in 2002). All Charity Commission publications referred to in this report are available from our website, www.charitycommission.gov.uk

² Currently, the Charities Act 1993, the Charities (Accounts and Reports) Regulations issued in 2005 ('the Regulations'), and where appropriate, The Statement of Recommended Practice: Accounting and Reporting by Charities ('SORP 2005').

³ Definitions of 'medium', 'large' and 'very large' charities for the purposes of this report are in *Annex B*. In our report *Small Charities and Reserves* we looked separately at how small charities (with gross income or total expenditure of £10,000 or less) manage their reserves.

Executive summary

The landscape in which charities operate is constantly changing. Since the publication of our last report on charities' reserves⁴, we have seen the profile and visibility of the sector increasing. Highlighting charities' potential to deliver public services and promote active citizenship raises people's expectations of accountability and transparency and also of professionalism in their day-to-day activities.

To demonstrate responsible financial management, trustees need to balance the needs of their current and future beneficiaries by identifying the likely challenges and opportunities that the charity may face in the medium to long term. They can then set aside, or work towards, a level of income in reserve which can be objectively justified and clearly explained to all stakeholders.

Charities with reserves policies

Based on data collected on annual returns from charities with incomes over £10,000⁵, we are pleased to report that **the proportion of charities with a reserves policy has risen from 27% in 2002 to 40%**. It is clear that improvements have been made; for example 84% of very large⁶ charities now have a policy in place, which is an increase from 65% in 2002.

But we found that **28% of charities holding reserves still had no policy in place for their management**⁷. The amount held in reserve unaccounted for by a policy has dropped to £3.6 billion compared with £5.6 billion in 2002, but this still means that **assets amounting to around 10% of charities' total annual expenditure are apparently held without being formally justified**.

The upward trend we have identified needs to continue so that all charities account responsibly for their reserves levels through a policy.

Disclosure of reserves policies

The Statement of Recommended Practice ('SORP')⁸ requires trustees to include a statement about their reserves in their annual report. Our definition of 'reserves' in this report is based on that used in SORP⁹.

Encouragingly, **84% of charities that submitted an Annual Return for 2004 confirmed they publish their reserves policy in the Trustees' Annual Report**.

However, improvements are still needed. Routine checks of accounts for SORP-compliance show that very often a charity has a policy but has failed to publish it in their annual report, or, if it is present, a small amount of information is missing which, when added, will ensure full compliance. We urge charities to take steps to improve standards across the sector.

Extent of reserves

From our sample, we found that charities currently hold reserves totalling £35.5 billion. This compares with £26 billion noted in our earlier research. Very large charities hold the majority (75%) of the sector's total reserves.

While this may look like a major increase in the absolute amounts held since 2002, comparison against the growth of income and expenditure over the same time-period shows that **reserves levels have not risen in line with income and expenditure**. Medium-sized charities in particular are facing shortfalls in the amounts available to them to put aside for the future. This echoes the increased difficulty for charities in attracting funding, reported elsewhere in sector commentary¹⁰.

Full compliance with SORP's recommendations on reserves can only help to demonstrate the charity's effective financial management, and make it better able to tell its story and justify its funding.

⁴ The results of our earlier research can be found in our report, *Charity Reserves* (RS3, published in 2002).

⁵ Our sample included over 62,000 registered charities with an income of £10,000 and over providing information for financial years ending in 2004 on Part B of the Annual Return. Charities with an income below £10,000 were not required to complete Part B.

⁶ Definitions of 'medium', 'large' and 'very large' charities for the purposes of this report are in *Annex B*.

⁷ 9,348 charities had reserves but no reserves policy.

⁸ *Accounting and Reporting by Charities – Statement of Recommended Practice* (revised 2005). SORP sets out the recommended practice for charities in preparing annual reports and accounts.

⁹ The full text relevant to reserves is set out in *Annex F*.

¹⁰ For example, *The UK Voluntary Sector Almanac 2006: The State of the Sector*, NCV0 (2006) and *Charity Trends 2006*, Charities Aid Foundation (2006). Note: the samples of organisations on which NCV0's, CAF's and our research are based differ.

Funders and reserves

Our research last time found that many charities with reserves felt they were having difficulty securing funding because of them. Yet many funders we consulted as part of that research reported that they assessed each charity individually and on the merits of the proposed use of the grant, rather than by applying arbitrary rules based on the level of its reserves.

Our casework shows that some charities still believe that funders will penalise them if they have 'large' reserves. However, it is encouraging to report that our research this time found this is only true in a minority of cases. **The majority of charities we asked as part of our new research (88%) said they had found that their reserves had not been a barrier to attracting funding.** In addition, our casework experience does suggest a growing understanding of why charities need to provide for their future stability. Most funding bodies recognise the important way reserves contribute to a charity's long-term security and when considering an application they would prefer to see evidence of an effective policy for managing the reserves.

Improvements in reserves management

In a supplementary survey carried out for this report, **92% of charities said they had no difficulty developing the policy itself.** For those having difficulties, this report refers you to various sources of guidance and includes a checklist we hope will help you get a SORP-compliant policy in place.

We were pleased that those with a newly formulated policy in place were very clear and positive about the benefits the process had brought. **The majority of respondents (88%) said that having reserves and a policy made their charity more secure and protected it against risks and that donors now regarded the charity as more accountable.**

Looking to the future

Our research has clearly shown that a charity that plans its reserves in the wider context of a medium-to long-term strategy and tells its story effectively to beneficiaries, funders and the public generally is more likely to operate successfully. It will build the confidence of its beneficiaries, funders and wider stakeholders, therefore making its long-term future more secure.

We hope charities that have still not realised the opportunities and benefits of publishing a well-thought out policy in the Trustees' Annual Report

will be encouraged by the messages in this report to act accordingly.

1. Reserves in context

Key messages

- Reserves management works best when it is carried out in the context of the charity's wider strategic planning.
- A sound, well-reasoned reserves policy can help a charity meet expectations of accountability and transparency.

The landscape in which charities operate is constantly changing. Since the publication of our last report on charities' reserves, we have seen the profile and visibility of the sector increasing. Highlighting charities' potential to deliver public services and promote active citizenship increases people's expectations of their accountability, transparency and also professionalism in their day-to-day activities.

The sector itself recognises this and recent sector-led initiatives to drive up standards include the Code of Governance¹¹, the ImpACT Coalition and the Fundraising Standards Board self-regulatory scheme for fundraising.

The issue of holding, managing and explaining reserves has long been a target for media criticism. The charity that appears to be hoarding large sums of money which could be spent on its current beneficiaries, and the charity brought to the brink of collapse by failing to plan and set aside money for the unexpected, are equally likely to be portrayed in a negative light.

Whether justified or not in individual cases, the perception that one high-profile charity is 'getting it wrong' can damage the reputation of the whole of the sector. It is clear from our research for this report that, across the sector as a whole, there is room for improvement in the ways that charities calculate the level of reserves they need to help secure their long-term future and in how they explain their reasoning to their beneficiaries, funders and wider stakeholders.

1.1 Reserves and strategic planning

Financial management is the lifeblood of any charity. To be most effective, financial management has to be understood and managed holistically by those responsible for the stewardship of the charity's funds.

The sector's Code of Governance¹¹ makes it clear that *"Trustees have and must accept ultimate responsibility for directing the affairs of their organisation, ensuring it is solvent, well-run and delivering the outcomes for which it has been set up"*. This, it goes on to say, includes *"setting or approving policies, plans and budgets to achieve those objectives, and monitoring performance against them"*.

¹¹ *Good Governance: A Code for the Voluntary and Community Sector*, 2005.

Ensuring a sound policy for managing reserves is included in our Hallmarks publication¹², which sets out the standards that an effective charity and its trustees should aspire to. However, our case-working experience shows that problems can arise when trustees treat the development of a reserves policy as a stand-alone task rather than as an essential element of their strategic planning.

During our research we saw many charities simply describing the funds they had left over at the end of the year as reserves. We also saw policies that said the trustees' approach was to keep enough in reserve "to continue operating". This neither helps the charity to plan effectively for its future operation nor helps the reader understand the context in which reserves are calculated and held.

The primary measure of a charity's success is not the sheer volume of funds and assets it holds, but its ability to deliver value to its beneficiaries.

The majority of charities accept that in the short term they cannot fully meet the challenges in society they are established to address. Therefore they need to decide within a structured framework about reserving money they could otherwise have spent on current beneficiaries. This framework should balance the needs of the current beneficiaries with the challenges and opportunities that the charity may face in the medium to long term.

1.2 Accountability and transparency

Charities operate in a changing, uncertain and increasingly complex environment and face growing funding pressures. And with increasing expectations of transparency and accountability on the part of beneficiaries, funders and wider stakeholders, each charity must clearly and objectively justify and explain any reserves it holds to ensure that the charity is not open to criticism of hoarding.

Case study

Brent Mind is a medium-sized charity that was set up in 1974 to provide mental health services to people in Brent, London. The services are varied and include counselling, supported housing, befriending and workshops.

On their Summary Information Return¹³, the charity explained a difficult and unplanned situation that caused it to incur a large amount of expenditure. These costs did not form part of the normal day-to-day expenses and without suitable planning this additional burden may have put the charity services and staff at risk.

As part of the trustees' strategic planning, they had previously taken into account the risks that might affect the charity; identified funds that might be needed for unexpected costs and put aside reserves specifically to keep the charity's work going if difficulties arose. The trustees knew they needed to protect the charity's ongoing projects so in this instance they were able to use the reserves to safeguard its services.



For better
mental health



Fortunately, the situation has now improved for this charity overall. Because the trustees set aside appropriate reserves as part of their wider strategic planning, which allows for possible risks, the charity can move forward confidently.

¹² *The Hallmarks of an Effective Charity* (CC60).

¹³ The Summary Information Return ('SIR') is a form designed for very large charities to provide the public with an easily accessible summary of key information. It asks for details of the charity's financial situation and, if relevant, details of significant financial commitments that can make clear the need for reserves at certain levels. SIRs are published on our website, www.charitycommission.gov.uk

“Our reserves policy explains to funders why we appear to be ‘sitting on’ a large amount of money.”

– Administrative and Financial Director – Theatre Alibi

Having decided on the appropriate level of reserves and put in place a comprehensive reserves policy to manage them, an efficient charity will publish that policy to explain to interested parties that it has good reason to withhold this money from its current beneficiaries.

The absence of a policy, or having a vague and uninformative policy, will inevitably raise more questions than it answers. With increasing competition for funding and charities’ financial documents becoming more available to public scrutiny¹⁴, this could make it difficult for the charity to attract new financial support. It could even contribute to an overall decline in public trust and confidence in the charity concerned and perhaps in the charitable sector as a whole.

Often, a charity may hope for a higher level of reserves than it can easily achieve. But the important aspect is for the charity to be able to demonstrate that it would be imprudent or even irresponsible not to hold, or work towards holding, that particular level of funding in reserve.

Resources¹⁵

***Charities’ Reserves (CC19)** – provides guidance for trustees and staff on how to make decisions about reserves levels in a way that is consistent with the legal requirements for the use of charity income.

***Charity Accounts: The framework (CC61)** – sets out the revised charity accounting framework.

***The Hallmarks of an Effective Charity (CC60)** – considers the achievements, performance and impact of an effective charity as well as the principles we expect charities and charity trustees to meet. These are overarching principles rather than a list of legal requirements. The publication is mainly aimed at charities with an annual income above the audit threshold, currently £250,000, but recognises that different types and sizes of charities may have different ways of achieving each Hallmark.

Accounting and Reporting by Charities: Statement of Recommended Practice (revised 2005) – usually referred to as SORP 2005, this includes recommendations and guidance and is supplemented by examples of charity reports and accounts prepared under SORP 2005. Guidance on the preparation of receipts and payments accounts by smaller non-company charities is also available. This is available free from our website www.charitycommission.gov.uk

Good Governance: A Code for the Voluntary and Community Sector – published by the National Governance Hub (a partnership of organisations working to improve governance of charities and other voluntary and community organisations). The Code encourages trustees to set, maintain and regularly review systems of financial and internal controls, which include reserves policies. It is a practical and easy-to-use guide to help charities develop best practice. For smaller charities the Governance Hub has produced **Learning to fly: Piloting your local voluntary or community organisation**. See www.governancehub.org.uk for further details.

Reserves: overview and **Reserves policy for smaller charities** are two summary factsheets produced by NCVO, available in the ‘ask ncvo’ area of its website at www.ncvo-vol.org.uk

¹⁴ For example, on our own website.

¹⁵ This is just a small sample of the guidance and support available. Where not cited here, contact details for all organisations are mentioned in *Annex D*.

* These are Charity Commission publications. Full details on how to obtain copies can be found in *Annex D*.

2. Charities with and without reserves policies

The SORP has always required trustees to have a policy that justifies the level of reserves both to donors and to beneficiaries. As a minimum, the policy should contain:

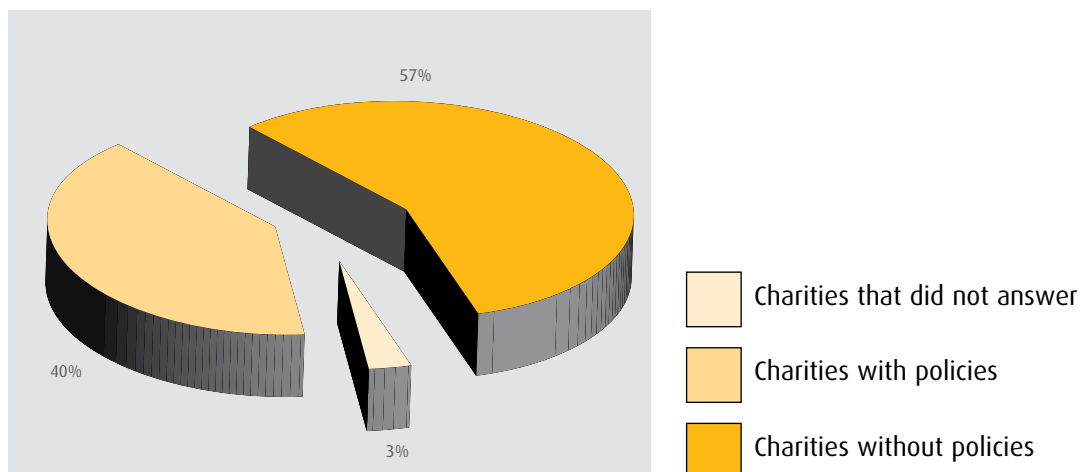
- the reasons why the charity needs reserves; and
- what level or range of reserves the trustees believe the charity needs.

As a matter of best practice, we suggest that trustees should state the level or range of reserves they believe the charity needs; explain how the charity establishes or maintains reserves at the agreed level or range and also explain how the policy will be monitored and reviewed. Where material funds have been designated, the reserves policy should state how much money has been designated and why, and

where money is set aside for future spending, when it is likely to be spent.

Our research showed that compliance with these requirements was patchy at best. While the number of charities with a policy is increasing, there is still much room for improvement.

Extent of reserves policies



2.1 Charities with reserves policies

Key findings

- 40% of all charities now state that they have a reserves policy – an increase from 27% in 2002.
- Large charities have made the biggest improvement, with the proportion having a policy increasing from 51% to 73%.
- However, only 31% of medium-sized charities account for their reserves through a policy.

Our analysis presents a more encouraging picture than our earlier research. We found that the proportion of charities with a reserves policy has increased, from 27% in 2002 to 40%. Perhaps not surprisingly, the likelihood of a charity having a reserves policy increases with size: whereas only 31% of medium-sized charities now have a policy in place, this rises to 73% for large and 84% for very large charities, compared with 51% and 65% respectively in 2002. We are pleased with this improvement.

When determining the policy, setting the desired level of reserves depends entirely on the particular circumstances of each charity – no universal formula can be applied when deciding on an appropriate amount to hold back or aspire to. The amount trustees decide they need to hold in reserve will depend on what the charity is set up to do and those it seeks to assist, and should take into account the likelihood of any opportunities and risks.

Case study

During our visits we often come across policies that just fall short of meeting the SORP recommendations simply because they miss out a small amount of detail.

Brighton and Hove Philharmonic Society is a large charity which provides the local community with varied classical music programmes. It supports the work of Brighton Philharmonic Orchestra by which name it is better known.

We recently visited the charity as part of our Review Visits programme and it was clear that the trustees were aware of the SORP recommendations to have a policy in place to manage reserves and to publish that policy.

For example, the charity did have a reserves policy that included details of why the charity needed to retain funds (in this case to make advance commitment for artists or other expenses, as part of its programme of events

Brighton
PHILHARMONIC
Orchestra



and so that the Society could meet its obligations even if the intended funding sources failed to meet targets). It also explained where the reserves were held and the trustees published the policy in the Trustees' Annual Report.

In this case the trustees only needed to add the level of reserves to achieve a fully compliant policy. The trustees improved on this and added that they had considered key areas of financial risk when considering what the level ought to be – which is, in part, a good example of how reserves management is an integral part of effective strategic planning.

Brighton and Hove Philharmonic Society reserves policy – extract from 2005 Trustees' Annual Report:

The need for reserves: *The Society needs short-term reserves to cover setbacks in funding or cash flow due to the concert season not starting until the second half of each financial year. It also requires long-term reserves to reduce the impact of risks from the external environment and because concert planning often requires the Society to make advance commitment to expenditure before all necessary funding has been attracted or confirmed. Reserves are therefore necessary to ensure the Society can meet its obligations if intended funding sources fail to meet the required targets.*

The level of reserves *In considering the appropriate level of reserves the Board took into account 20 key areas of financial risk. These equate to 7-8 months' operating costs of approximately £270,000.*

Where reserves are held *It is the Board's policy to keep only sufficient reserves in the General Fund that are necessary for the day to day running of the concert season, with an agreed shortfall made up by periodic transfers from the Legacy Fund, where the majority of funds are held.*

Investment policy *With regard to risk, the investment policy has been revised to hold approximately half of the Legacy Fund in longer term investments that offer balanced capital growth and income, and all other funds in cash. The Legacy Fund therefore has a regularly reviewed portfolio of shares, currently 17 share holdings. Remaining funds are held as cash in high interest COIF deposit accounts or a high interest CAF Cash current account. With regard to ethics, the investment policy is to retain shares that are received in the form of donations or legacies, except where holdings are in companies whose activities obviously conflict with those of the Society. Professional advice is taken regularly on the balance of the Society's investments.*

2.2 Charities without reserves policies

Key findings

- 57% of charities across the income bands still do not have a policy, although this proportion has decreased from 69% in 2002.
- 28% of charities that hold assets in reserve do not have a policy in place for their management.
- Reserves equalling 10% of the annual expenditure of all registered charities are held by charities with no policy in place for their management.

In 2002, our research found that 69% of charities lacked a policy for managing reserves. This meant they were holding around £5.6 billion apparently without having any strategy or reason for withholding this money from their current beneficiaries.

Our new research found that the percentage of charities without a policy has fallen to 57%. This represents some improvement, but we are concerned that more than half of all charities still lack a reasoned argument for retaining funds they are not spending immediately.

It is true that many of these charities do not currently hold any money in reserve and this may be why they have adopted no policy. However, a charity that has no reserves may still need to justify this – nil is still a level of reserves and a charity in this position needs to be clear that this is appropriate in their circumstances and should have a reserves policy to help guide its future.

We do not expect small charities to produce a sophisticated or complicated policy – the amount of time spent preparing the policy, and the detail in which it is set down, should be proportionate to the scale and complexity of the charity's affairs.

But our research also found that 28% of charities that do hold reserves do not have a policy for managing them¹⁶. Although the amount held in reserve unaccounted for by a policy has reduced to £3.6 billion since 2002, it is worrying that such a large amount of money is still held apparently for reasons that are unjustified or unexplained. This sum represents around 10% of registered charities' annual expenditure, or 10% of the total reserves held by all registered charities. While the majority of these charities are medium-sized, still around 8% of charities with an income of over £250,000 a year hold reserves without a policy and charities with an income of over £1 million are holding around £2 billion unaccounted for.

¹⁶ 9,348 charities confirmed that they had more than £nil in reserves, and also said that they had no policy for their management in questions B8a and B8c of the Annual Return form for 2004.

When there is no policy in place it is unclear how funds are being managed. Charities that fail to be open and transparent about funds held in reserve could face a loss of public support and their reputation may be tarnished. Ultimately, this could result in a loss of funds to the charity and less public confidence in the sector as a whole.

We urge these charities to consider and make clear publicly why they are holding these amounts of money. Our case-working experience shows that some charities are already familiar with the concept of having reserves and are managing their surpluses at the end of the financial year without necessarily calling it 'reserves management'. In these cases, if the charity can justify its holdings, as part of its wider strategic plan, it should put in place a SORP-compliant policy and publish that in the Annual Report. This is only a simple next step – to explain what it already does and develop the concept further.

However, trustees who find they are holding an unjustifiable level of reserves will need to plan to bring them down to an acceptable level or increase them within a realistic timescale.

Resources¹⁷

***Milestones: Managing key events in the life of a charity (RS6)** – looks at various issues and phases of development that are relevant to charities. It also includes a checklist of standard questions for trustees to consider at various stages of development.

¹⁷ This is just a small sample of the guidance and support available. Where not cited here, contact details for all organisations are mentioned in *Annex D*.

* This is a Charity Commission publication. Full details on how to obtain copies can be found in *Annex D*.

3. Disclosure of reserves policies

Key findings

- 84% of charities with a reserves policy comply with SORP by publishing this policy in the Trustees' Annual Report.
- Of these, 93% of very large charities said that they publish their reserves policy in this way.

If one main advantage of having a reserves policy is to demonstrate a charity's transparency and accountability, then it makes sense to make that policy available to its stakeholders. In England and Wales, all registered charities must produce a Trustees' Annual Report, and SORP has always recommended that this report should include a statement on reserves for all charities, regardless of size and type.

With information about charities and their operation becoming increasingly available, for example on our own website, this is a logical step towards telling the charity's story more effectively.

Our research found that 84% of charities with a reserves policy also confirmed that they publish it in the Trustees' Annual Report. Very large charities especially are leading the way in best practice, with 93% publishing the policy they have drawn up.

During our routine monitoring of accounts, we often find that a reserves policy is missing. Yet when we query this with charities, we find that in many cases the trustees have discussed and decided why they

are holding money in reserve, and their reasoning is sensible and legitimate. The reserves policy may be recorded in the charity's internal planning documents and management information. However, this will not help the public and other stakeholders to understand why the charity needs the stated level of reserves.

Charities' accounts and reports are falling increasingly under the spotlight, and many donors are keen to make more informed choices about the charities they support. If no explanation about a charity's reserves is publicly available, a potential donor to the charity may be put off by what they perceive to be a large 'nest egg'.

Overall, we are pleased that the number of charities with an accessible policy in the Trustees' Annual Report is increasing. But our message for those that still have none is that standards in the sector really can be raised in this area with little effort by those responsible for the Trustees' Annual Report.

It is reasonable to expect charities without a reserves policy to put a SORP-compliant policy in place – and publish it.

Case study

Following our routine checks of charity accounts, a medium-sized charity set up to advance education did not appear to have a reserves policy published in the Trustees' Annual Report so we met with the trustees to discuss the issue.

Although the charity did not have a published reserves policy, the trustees had considered the management of the charity's reserves. However, they had set out this information only in the minutes of the trustees' meetings.

The trustees had discussed and planned for a level of reserves which, after proper investment, would give them a sufficient level of income so that the charity did not need to rely on additional donations to meet its projected expenditure.

Unfortunately, by not having a formal reserves policy and by not publishing it in the Trustees' Annual Report, they fell short of complying with SORP.

After our meeting the trustees followed our recommendations to set out a clearly defined policy in the Trustees' Annual Report showing stakeholders why the charity retains its current level of reserves. This followed the principles already in place but in doing so improved transparency and ensured compliance with the recommendations of the SORP.

4. Extent of reserves

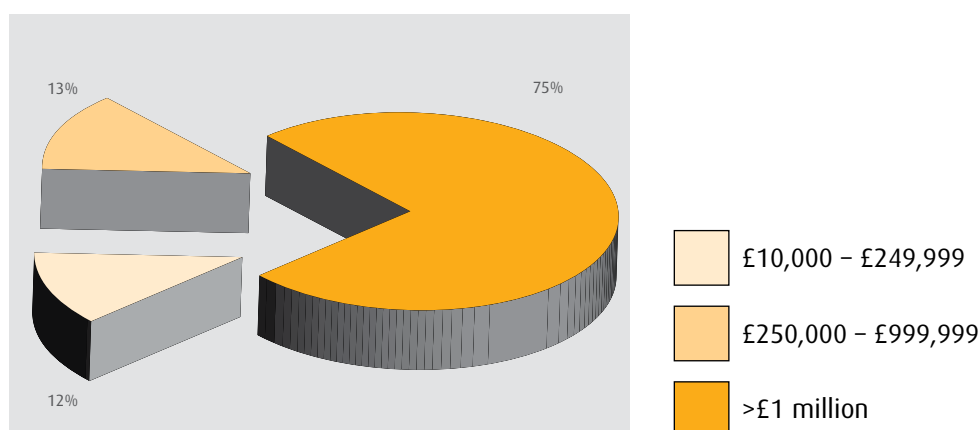
Key findings

- Reserves totalling £35.5 billion were held by charities in our sample.
- 75% of the total reserves are held by very large charities (7% of the sample).
- Medium-sized charities appear to hold reserves covering more months' expenditure than larger charities, but the total amount medium-sized charities hold in reserve has remained relatively static since 2002.

In 2002, we found that the total held in reserves by our sample was £26 billion, roughly equivalent to their total income for the year. Our new research has found that the charities in our sample held £35.5 billion in reserve, compared to a total annual income of £39.2 billion.

Breaking this down by income band, a sizeable gulf appears between smaller and larger charities in terms of the total amounts of reserves they hold. While medium-sized charities make up 81% of the sample, they hold just 12% of the reserves. In contrast, very large charities with an income of over £1 million represent just 7% of the sample, yet hold around 75% of the total reserves.

% of total reserves held by medium, large and very large charities



Charity income range	% of reserves	% of sample
£10,000 – £249,999	12%	81%
£250,000 – £999,999	13%	12%
>£1 million	75%	7%

The absolute amount held in reserves across our sample has increased in cash terms, but analysis of the data suggests an overall decrease when reserves levels are expressed as a proportion of expenditure.

4.1 Reserves coverage

One way in which some charities identify an appropriate level of reserves is for trustees to decide on a range in terms of a number of months' coverage of expenditure. To compare trends across the income bands in our sample, our new research includes analysis of coverage ratios from data collected in 2001 and 2004¹⁸.

Coverage is down from 13.6 months to 11.4 months overall. Breaking the figures down by income band shows that the highest reserves-to-expenditure ratio is found in the medium-sized charities group. But this income band has seen the biggest drop in reserves holdings over a short period: from 29.3 months in 2001 to 18 months in 2004.

	2001			2004			Reduction in coverage in months from 2001 – 2004	% Reduction
	Expenditure (£billions)	Reserves (£billions)	Coverage in months	Expenditure (£billions)	Reserves (£billions)	Coverage in months		
Medium	1.6	3.9	29.3	2.8	4.2	18.0	11.3	39
Large	2.3	3.8	19.8	3.4	4.7	16.6	3.2	16
Very large	19.4	18.7	11.6	31.3	26.6	10.2	1.4	12
Total	23.3	26.4	13.6	37.5	35.5	11.4	2.2	16

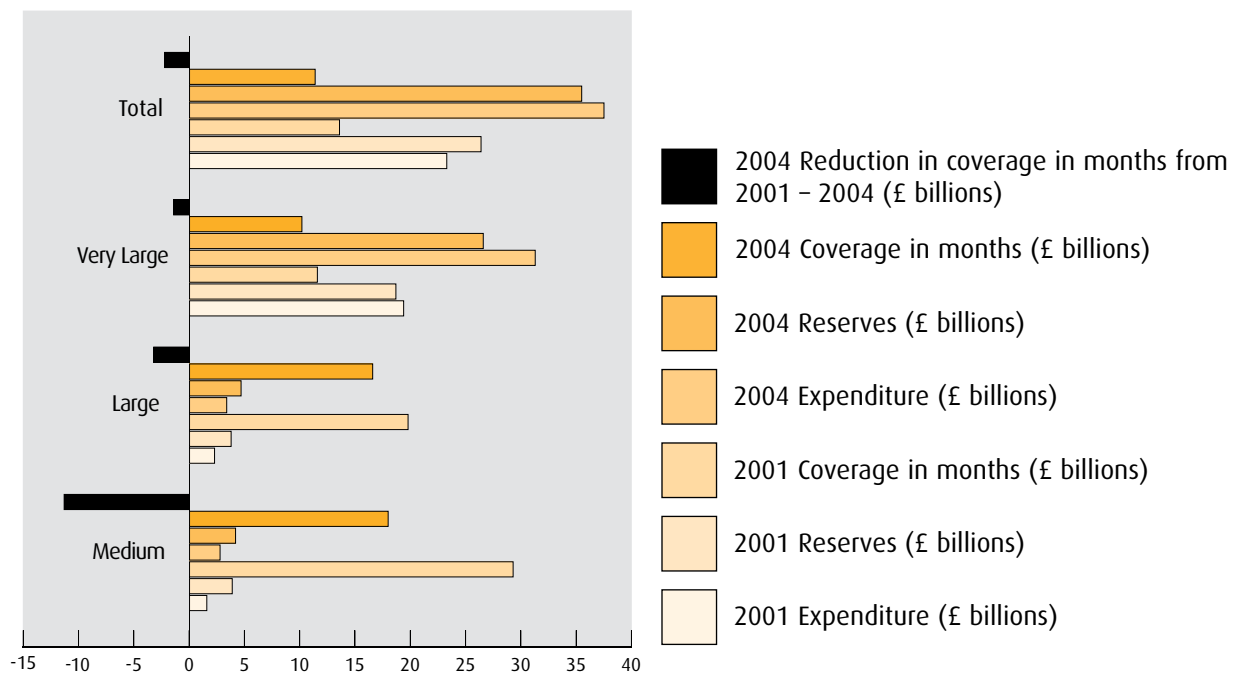
4.2 Trends in reserves, 2001-2004

Comparison of the percentage changes in expenditure compared to reserves levels over the period shows that overall, whereas expenditure has increased by 61%, reserves levels have only increased by 35%.

	2001		2004		% increase 2001 – 2004	
	Expenditure (£billions)	Reserves (£billions)	Expenditure (£billions)	Reserves (£billions)	Expenditure (£billions)	Reserves (£billions)
Medium	£1.6	£3.9	£2.8	£4.2	75%	8%
Large	£2.3	£3.8	£3.4	£4.7	48%	24%
Very large	£19.4	£18.7	£31.3	£26.6	61%	42%
Total	£23.3	£26.4	£37.5	£35.5	61%	35%

¹⁸ This is based on totals for each income band. Within each income band, some charities will hold no reserves, some reserves or a large amount of reserves. The results are therefore not typical of any one charity but are included to show an overall trend.

Comparisons of expenditure and reserves levels, 2001-2004



Again, medium-sized charities appear to have been the most affected. Although their expenditure has increased by 75%, reserves levels have grown less, going up by just 8% over the same period.

Very large charities have experienced the least disparity between expenditure and amounts held in reserve (a 61% increase in expenditure compared to a 42% rise in reserves).

This echoes research across the sector¹⁹ which has found a widening gap between the largest and smaller charities and reflects the increasingly difficult fundraising climate for charities, especially those in the lower income bands. There may be many reasons for this and it is difficult to draw any firm conclusions from these limited data.

However, a charity that is accountable and transparent to its stakeholders and has a sound system in place for its financial management stands a better chance of being able to tell its story effectively and convincingly to funders and wider stakeholders.

4.3 Setting the reserves level

Setting the level of reserves depends entirely on the unique circumstances of each charity – no universal formula applies when deciding on an appropriate amount to either hold back or aspire to. It will normally depend on what the charity is established to do and whom it seeks to assist and should take into account any opportunities, risks, scale and growth of charitable activity, financial commitments and plans, and the likelihood of those risks affecting the charity.

For example, a charity providing a direct service to a group of beneficiaries requiring continuing help may need to hold more in reserve to offset unexpected costs or uncertain outcomes. A lower level of reserves may be needed if the charity makes one-off grants; receives guaranteed funding; or has a regular and reliable income without much risk that an interruption to its income stream may affect its work.

¹⁹ For example, most recently *The UK Voluntary Sector Almanac 2006: The State of the Sector*, NCVO (2006) and *Charity Trends 2006*, Charities Aid Foundation ('CAF'). Note: the samples of organisations on which NCVO's, CAF's and our research are based differ.

Once the trustees have decided on a reserves level, it is not always possible to reach the amount required. Even so, trustees can still decide on and publish in the charity's reserves policy an ideal level of reserves whether or not the actual level currently differs from the ideal level. If the actual level of reserves is less than the desired level, the trustees can then take this into account by including in their strategic plan their proposals for addressing the shortfall, over several years if necessary.

Trustees of other charities may realise that they hold unnecessarily high levels of reserves, in which case these need to be managed down in a responsible way, again over several years if necessary.

Case study

Community Energy Plus (CEP) is a large charity which exists to educate the public in energy conservation and efficiency.

We recently met the trustees as part of our Review Visits programme. The charity had a reserves policy which appeared in the accounts, but the trustees were concerned that stakeholders might consider the level of reserves inappropriately high.

The trustees told us that as the charity continues to grow their major consideration for setting an appropriate reserves level is to maintain a sufficient cash flow. In addition to this they have identified a potential risk: if the charity were to lose a major contract which supplied a large part of its funding, this might affect the charity's future.

This is a valid consideration when deciding on appropriate reserves levels and the trustees felt that the level of reserves was not excessive but reasonable to ensure the long-term security of the charity.



As a result we recommended that the trustees revisit their reserves policy to clarify the reasons for the level of reserves. We suggested the level of reserves should take account of:

- *an analysis of existing funds;*
- *a review of future income streams with an assessment of their reliability;*
- *a review of committed expenditure and how far this is controllable; and*
- *an assessment of the risks facing the charity, and how likely these are to materialise.*

A clear and transparent reserves policy which explains the amount held or aspired to and also the reasons behind it, can reassure stakeholders that the trustees are acting responsibly and in the best interests of the charity and its beneficiaries.

Not all charities need to hold money in reserve; although most do. It is notable that, overall, our research found fewer charities that are potentially vulnerable because they have no reserves at all.

In 2001, 14% of charities confirmed that they had no reserves²⁰. The percentage of charities in this situation has decreased to 9% this time. This suggests that more charities are now setting funds aside when they are able to. There may be various reasons for this, but a recurring theme in our research showed that more charities are aware of the importance of planning for funding difficulties by considering reserves.

We also know from our case-working experience and research that charities are becoming more aware of the SORP recommendations. So the increase in charities holding reserves may also be because they are now more accurately designating funds as reserves which they had previously accounted for differently.

Charities that choose not to maintain reserves should ensure that they fully consider the potential pitfalls of having low or no reserves and that they manage risks properly.

Resources²¹

Reserves checklist – see *Annex A* of this report.

***Charities' Reserves (CC19)** – provides guidance for charity trustees and staff on how to make decisions about reserves levels in a way that is consistent with the legal requirements for the use of charity income.

***Charity Reserves (RS3)** – our earlier research on reserves. It looks at the challenges facing trustees when developing a well-thought-out reserves policy, setting a level of reserves that is appropriate to the charity's needs and clearly explaining this to its stakeholders and other interested parties.

***Small Charities and Reserves (RS5)** – this explored the same issues as Charity Reserves (RS3) but focused on charities with an annual income of less than £10,000.

***Charity Commission and Regulation** – outlines the significant changes to our approach to regulating the charity sector.

Charities Accounting and Reporting by Charities: Statement of Recommended Practice (revised 2005) – this includes recommendations and guidance for preparing charity accounts and annual reports. Guidance on the preparation of receipts and payments accounts by smaller non-company charities is also available.

Asking for it – Honest Answers to Tough Questions: The essential Q&A for all charities – produced by NCVO, it is aimed at both charities and the public. The publication seeks to increase general awareness and understanding about charities. It is available from the NCVO website www.ncvo-vol.org.uk

²⁰ Of the charities answering question B8c of the Annual Return 2004.

²¹ This is just a small sample of the guidance and support available. Where not cited here, contact details for all organisations are mentioned in *Annex D*.

* These are Charity Commission publications. Full details on how to obtain copies can be found in *Annex D*.

5. Improvements in reserves management

Key findings

- 92% of the charities we surveyed that had recently drawn up a reserves policy found that they had no difficulty in developing it.
- The majority of charities surveyed said that having a policy made the charity's future more secure.

We were pleased to note that several charities that did not have a reserves policy at the time of our earlier research²² stated on their 2004 Annual Return forms that they now had one in place. We conducted a supplementary survey to find out the effect this had had on those charities²³.

5.1 Reasons for introducing a reserves policy

Most charities we contacted said that the change was due to an increased awareness of the requirements to account for reserves.

As part of our role under the Charities Act 1993 to promote the effective use of charitable resources, we have helped raise awareness in this area in several ways, for example through:

- monitoring charities' reports and accounts;
- our guidance and publications on
- accounting recommendations²⁴;
- meetings, conferences and seminars that Commission staff attend or hold with various sector organisations, during which we provide overviews of the SORP recommendations and latest developments in this area;
- articles in the sector and professional press; and
- our day-to-day casework and Review Visits programme.

5.2 Charities' experiences in drawing up the policy

We asked the charities we surveyed how difficult it was to set up a reserves policy. For the majority of respondents, setting up the policy was not complicated: 92% of respondents said they had found the process relatively straightforward.

Where there were difficulties, these appeared to be because of resource implications rather than because the process itself was complicated.

"Minor time and resource issues... [we are] a small charity with limited resources to research and implement new policies. But undoubtedly, [it] was a useful process."

– respondent to our survey

For trustees and advisers who are finding the process difficult, our publication *Charities' Reserves* gives more guidance on areas to consider when setting a policy and the checklist at *Annex A* below may also be helpful.

Once the policy is established, trustees will need to review it periodically, taking account of any significant change in the charity's financial circumstances. By revisiting the policy in the wider context of the charity's strategic plan, and the nature of the risks facing the charity, they can ensure that the level of reserves they have, or are aiming to have, remains appropriate to the charity's current position and future prospects.

²² 8,738 charities did not have a policy in the 2001/02 financial year, but did by 2003/04.

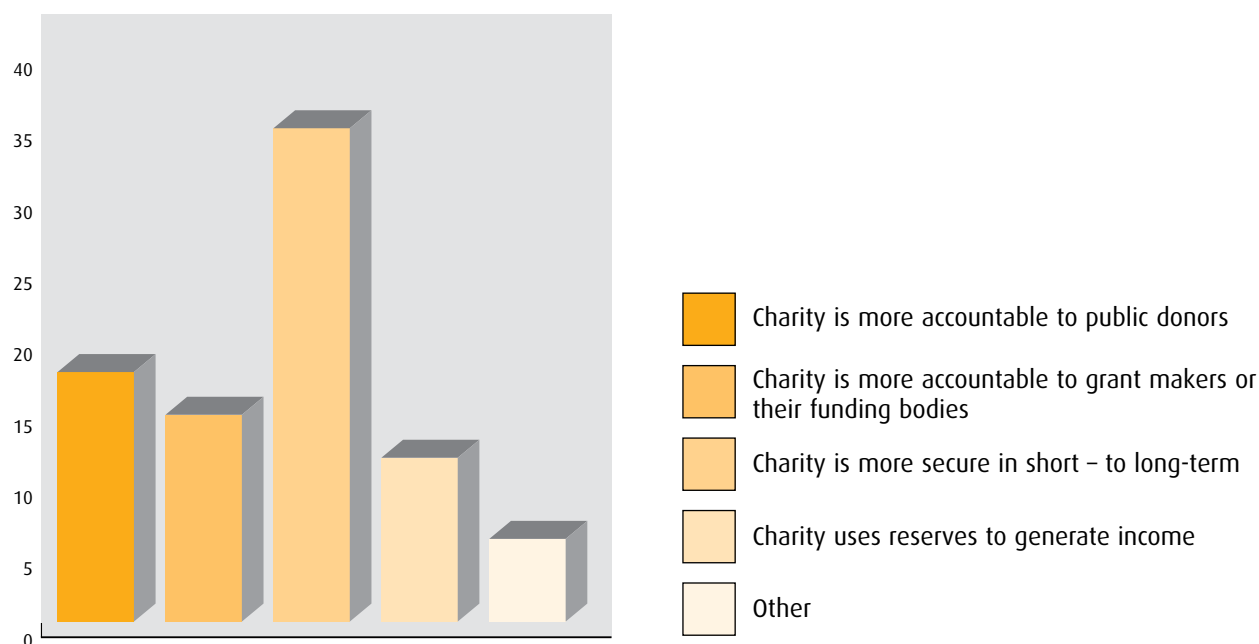
²³ We sent a short questionnaire to 250 of these charities and received a 19% response rate.

²⁴ Guidance and publications available have been listed throughout in the resources boxes.

5.3 Benefits of having a reserves policy

We also asked our sample of charities about the benefits of having a policy.

The reason why charities felt they benefit from a reserves policy



The majority of responding charities (88%) said that having reserves made the charity more secure and protected it against risks, while donors regarded the charity as more accountable.

Our survey found that a few charities use reserves to generate income. What is not clear is whether such charities simply receive income because they have invested reserves or whether their sole reason for having reserves is to generate income.

In the first case, generating income from reserves is entirely appropriate; in fact it would be imprudent not to invest retained income in some way. A short-term delay in spending income is justified if the income needs to be kept back for legitimate operational reasons. However, trustees who hold income in reserve solely to generate future income may not be complying with their duty to spend income on the charity's purposes within a reasonable period of receiving it.

A few charities have an express legal power²⁵ in their charity's governing document allowing the charity to hold income in reserve. However, in some situations other charities have an implied power to accumulate funds. For example, some charities have to maintain a service over a number of years and need reserves to guarantee this service; other charities need to raise money for a particular project, for instance, a piece of equipment for a hospital or the construction of a community building. In such cases, it would be inappropriate to expect a charity to use its income before the final appeal total had been reached.

But whether trustees have an implied or express power, they should exercise it with the charity's beneficiaries in mind. The trustees should still, either by designating funds or in the published reserves policy, demonstrate why the income is held back rather than being spent directly on the charity's beneficiaries in the year in question.

²⁵ Trustees without an express power will have to rely on their implied power – a power not written into the governing document but one that the trustees possess in order to take actions that are necessary for the charity to function properly. As with all discretionary powers, trustees are justified in exercising their power to hold reserves – whether express or implied – only if in their considered view it is necessary in the charity's best interests to do so.

5.4 Reserves and funding difficulties

Earlier in this report, we noted that some charities still thought that holding reserves would create funding difficulties²⁶, so as part of this survey we asked trustees whether they felt this was still a factor for them. It is pleasing to report that one of the main reasons charities said a reserves policy was beneficial was that it made them more accountable to funders. In addition, holding reserves was not preventing the majority of charities we surveyed from getting the funding they need.

“We were apprehensive that reserves that we built up may have been ‘clawed back’ by one of our funders – this however was not the case.”

– respondent to our survey

Charities have told us that a clearly-defined and well-founded policy which they openly publish can help justify to potential funding bodies, other stakeholders and the public why the charity needs to retain some of its income. *Section 6* looks at the issue of *Funders and reserves* in more detail.

²⁶ See section on *Funders and reserves*.

6. Funders and reserves

This report is written at a time of much debate about whether charities and the wider voluntary sector should take a greater role in public service delivery. As the independent regulator of charities in England and Wales, the Commission itself is neutral about whether charities deliver public services²⁷. We recognise the added value that charities can offer and are concerned only with improved services to beneficiaries and ensuring that charities stay independent, remain focused on their objects and properly meet their beneficiaries' needs.

Often, funding for the provision of these services is for a fixed period. And a current issue for the sector is how to recover the full costs attributed to a project (full cost recovery). In some cases, a charity may not be aware of the need – or know how – to calculate the 'behind-the-scenes' costs of delivering the project. In other cases, the funding body may be unwilling to meet these costs. But the charity needs to consider its long-term stability and the implications for its financial health if and when the public sector funding ceases. Well-managed reserves can be called upon if this happens. But only if they have very good reason to do so should charities spend reserves to 'prop up' the services for which they have been unable to obtain sufficient funding.

In 2002 our casework experience showed that some grant-making bodies automatically refused grants if reserves exceeded a certain amount. In these circumstances, a charity was often left wondering what level of reserves funding bodies would think acceptable, rather than what level was appropriate to its needs.

Yet many funders we consulted as part of our earlier research reported that they assessed each charity individually and on the merits of the proposed use of the grant, rather than by applying arbitrary rules. Recently, we have found that some grant-makers are now more flexible on this issue, recognising the important part reserves can play in firming up the charity's long-term stability.

"We recognise that reserves are an important part of any charity's long-term stability. We would prefer to see evidence that a reserves policy and an accompanying fund is in place, helping the organisation to manage problems like minor cash-flow issues, rather than award a grant to a charity which may fold when grants aren't paid on time or some other crisis occurs."

– Big Lottery Fund²⁸ (November 2005)

However, our casework shows that some charities still believe that funders are unsympathetic to the issue of building up reserves.

The representatives of one large charity we visited said that most of the funding is awarded to them for specific projects and they have no room to build up general reserves for contingencies.

This time, our research found that difficulties like this are only true in a few cases and may arise from specific policies set by some funding bodies.

Generally we find that if charities comply with the SORP by explaining convincingly why they need to retain funds at a certain level, then the great majority of donors, supporters and beneficiaries will accept that they need these reserves and this will not affect further support.

We encourage this approach and do not criticise charities for holding reserves at levels that have been carefully assessed and well managed.

Resources²⁹

Full cost recovery: a guide and toolkit on cost allocation – published by New Philanthropy Capital and ACEVO – assists with calculating the full costs of your projects and outlines the steps towards recovering, or funding, the full costs of your organisation. Available from: www.philanthropycapital.org/html/full_cost_recovery.php or to order the toolkit visit www.acevo.org.uk/publications

²⁷ To read our policy statement on *Charities and Public Service Delivery*, visit our website www.charitycommission.gov.uk

²⁸ The Big Lottery Fund uses lottery funding to make grants to organisations to regenerate and revitalise communities, with a particular emphasis on tackling disadvantage.

7. Looking to the future

Our research has shown that a charity that plans its reserves in the wider context of a medium- to long-term strategy, and tells its story effectively to beneficiaries, funders and the public generally, is more likely to operate successfully. It will build the confidence of its beneficiaries, funders and wider stakeholders, therefore making its long-term future more secure.

We recognise that some charities may still be having difficulty in formulating and presenting a reserves policy. Our publication *Charities' Reserves* gives more guidance on considerations affecting the level that may be needed, such as forecasting income and expenditure and thinking about any risks the charity may face.

For trustees who have already established a policy, this report includes a checklist at *Annex A* that may help you think about the issues you need to consider when reviewing and presenting that policy.

We hope that the messages in this report will encourage charities to comply if they have still not realised the opportunities and benefits of having a well-thought out policy and publishing it in the Trustees' Annual Report.

²⁹ This is just a small sample of the guidance and support available. Where not cited here, contact details for all organisations are mentioned in *Annex D*.

³⁰ *Charities' Reserves* (CC19).

Annex A – Reserves review checklist

The following checklist is for charities that hold reserves and have established a policy³¹ to manage them.

It provides questions to assist with:

- reviewing the reserves level and policy regularly to keep this information up to date; and
- presenting this information in the Trustees' Annual Report.

Please note not all points will apply to all types of charity.

Charity reserves

Stage one – The charity's governing document



Do we regularly check our charity's governing document to make sure our reserves level takes into account any restrictions in it?

Do we regularly consider whether the restrictions in the governing document are workable?

If the restrictions are not workable, where appropriate the trustees can consider contacting the Commission for advice.

Stage two – Reviewing the reserves target



Have we considered if any risks may affect the appropriate reserves target, for example rising costs, anticipated changes in the scale of activities or contracts, or an unexpected drop in income?

Have we considered the charity's objectives with our budget when planning the reserves needed?

Have we considered the reserves needed in the context of wider strategic planning?

Have we considered how this reserves target can be achieved?

Have we considered how this reserves target can be maintained?

Have we considered how this reserves target can be reviewed?

Stage three – Publishing the reserves policy



Have we published our reserves policy in the annual report?

Does it state the reasons why we need reserves?

Does it state the level of reserves held?

Does it set the level of reserves the trustees believe are needed and explain why?

Does it explain the steps the charity will take to establish or maintain reserves at the level set?

Does it include ongoing arrangements for monitoring and reviewing the policy?

Annex B – Research techniques and survey findings

We analysed the data provided by charities in their Annual Return 2004 and undertook a further follow-up survey of 250 charities across three income bands³².

Additional data was drawn from seminars with Charity Commission staff and an examination of our extensive casework archive.

Annual Return data

The questions on reserves are in the same format used in our previous research³³. Data for this research was derived from charities' answers to the following questions that appeared in the Annual Return 2004:

Question B8

- a Has the charity had in place during the financial year a policy that sets out the level of reserves needed to effectively meet the needs designated by the charity's trust?
- b If the answer to question B8a is 'yes', does the charity's Annual Report contain a description of the policy?
- c Please state the total reserves held by the charity.

Our findings cannot be directly compared with data gathered from our analysis of the Annual Return 2001, because the composition of the sample was different. However, it is possible to compare percentage figures.

Survey

In August 2005, we conducted a small-scale email survey of 250 charities with an annual income of over £10,000 to find out why some aspects of reserves management had improved. The response rate was 19%.

Charity size classification

Classification	Income
Medium	£10,000 – £249,999
Large	£250,000 – £999,999
Very large	£1,000,000 +

³² We did not survey small charities – that is charities with an annual income below £10,000 – on this occasion because these charities do not need to complete the Annual Return form.

³³ Our earlier report, *Charity Reserves* (RS3), used data collected from questions 10 a, b and c in the Annual Return 2001.

Data tables

Table 1: Number of charities who stated on their annual return 2004 if they did or did not have a reserves policy³⁴

Income band	Medium	Large	Very Large	Total
Estimated number of charities on the Register	58,668	8,208	4,858	71,734
Number of charities that completed and returned AR2004	50,260	7,451	4,522	62,233
Number of charities that confirmed they have a reserves policy on AR2004	15,321	5,453	3,801	24,575
Amount that charities with a policy held in reserves (billions)	£2.9	£4.0	£23.9	£32.3
Number of charities that confirmed they did not have a reserves policy on AR2004	32,772	1,820	618	35,210
Amount that charities without a policy held in reserves (billions)	£1.2	£0.5	£1.9	£3.6
Number of charities that confirmed their policy is published in the Trustees' Annual Report	12,351	4,838	3,523	20,712
Number of charities that did not answer question B8a	2,167	178	103	2,448
Amount held by charities that did not answer question B8a (billions)	£0.5	£0.4	£2.9	£3.8

³⁴ The figures are taken as at 1 December 2005 for those charities (with a total income over £10,000) submitting the annual return for the 2004 financial year. The numbers and amounts represent the total responses those charities provided in questions B8 a, b and c.

Table 2: Reserves compared with income and expenditure

	Total reserves billions	Total income billions	Total expenditure billions
Medium	£4.2	£2.8	£2.8
Large	£4.7	£3.7	£3.4
Very Large	£26.6	£32.7	£31.3
Total	£35.5	£39.2	£37.5

Improvements in reserves management questionnaire results (tables 3-8)

Table 3:

Reasons for introducing a reserves policy	No of responses	% responses
Charity now has reserves	11	16
Charity has now identified money which should have been recorded as resources in 2001	3	4.5
Charity is now aware of the accounting recommendations for reserves	36	53
This may have been a mistake	1	1.5
Operational reasons such as the charity now undertakes strategic planning	11	16
Other – please state:	6	9
Total	68	100%

Table 4

Reasons for increased awareness of and the requirement to have a policy for managing reserves	No of responses	% responses
A Charity Commission publication	18	24
Made aware of the Statement of Recommended Practice	21	28
Professional adviser	27	35
Other charity/contact	10	13
Total	76	100%

Table 5

If charity experienced difficulties developing the policy	No of responses	% responses
Yes	4	8
No	44	92
Total	48	100%

Table 6

Reasons given why the charity will benefit from having reserves and a policy governing them	No of responses	% responses
The charity is more accountable to those who give money to it	18	20
The charity is more accountable to grant makers or other funding bodies	15	17
The charity is more secure in the short to long term	35	40
The charity uses reserves to generate income	12	14
Other	8	9
Total	88	100%

Table 7

If the charity experienced difficulties obtaining funding because money is held in reserve	No of responses	% responses
Yes	6	12.5
No	42	87.5
Total	48	100

Table 8

Where reserves policy is published	No of responses	% responses
In the Trustees' Annual Report	44	92
Other – please state:	4	8
Total	48	100

Annex C – Glossary of terms

In this report, where we use '**must**' we mean it is a specific legal or regulatory requirement affecting trustees or a charity. Trustees must comply with these requirements. We use '**should**' for items we regard as minimum good practice, but for which there is no specific legal requirement. Trustees should follow the good-practice guidance unless there is a good reason not to.

Charity trustees are the people responsible under the charity's governing document for controlling the management and administration of the charity (section 97(1) of the Charities Act 1993). They may be called the trustees, managing trustees, committee members, governors, or directors, or they may be referred to by some other title. In the case of an unincorporated association, the members of the executive or management committee are its charity trustees. In the case of a charitable company, they are the directors.

Income funds are all incoming resources that become available to a charity and that the trustees are generally under a duty to apply towards its charitable purposes within a reasonable time of receiving them (the proper exercise of a power of accumulation is an application).

A **beneficiary** is anyone who uses or benefits from a charity's services or facilities, whether provided on a voluntary basis or as a contractual service.

The term '**reserves**' used here is taken from the SORP 2005. Full details are given in *Annex F*.

A **small charity** is broadly defined in terms of its income. If a charity has an annual income of £10,000 or less recorded on our database in its last full financial year, we will consider it to be a small charity. Almost 100,000 charities in England and Wales fall into this category.

A **medium-sized charity** is defined in terms of its income. For the purposes of this research, if a charity has an annual income between £10,001 and £250,000 recorded on our database in its last full financial year, we consider it to be a medium charity.

A **large charity** is defined in terms of its income. For the purposes of this research, if a charity has an annual income between £250,001 and £999,999 recorded on our database in its last full financial year, we consider it to be a large charity.

A **very large charity** is defined in terms of its income. For the purposes of this research, if a charity has an annual income over £1 million recorded on our database in its last full financial year, we consider it to be a very large charity.

Annex D – Resources for trustees

There are many resources on reserves that charity trustees can use. While this is not a definitive or complete list, it does offer a good overview and a useful starting point.

The Charity Commission for England and Wales

Key Charity Commission publications

The Charity Commission produces a wide range of publications and website guidance giving information and advice to charity trustees and the general public on issues relating to charity law, regulation and best practice. The full list of publications is on our website and in Charity Commission Publications (CC1), but the list below is a selection based on the issues covered in this guidance.

Charities' Reserves (CC19)
The Hallmarks of an Effective Charity (CC60)
Charity Accounts: The framework (CC61)
Charity Reserves (RS3)
Small Charities and Reserves (RS5)
Milestones: Managing key events in the life of a charity (RS6)
Transparency and Accountability (RS8)
The Charity Commission and Regulation
SORP 2005

To obtain copies of these or any of our publications you can:

- view and print them from our website www.charitycommission.gov.uk
- order during office hours (0830 – 1800 weekdays) by phoning us on 0845 300 0218; or
- write to the Charity Commission, PO Box 8585, Adamsway, Mansfield, NG18 9AJ

To obtain copies of SORP 2005:

- view and print it from our website
- order from the publishers CCH at £15 per copy, by:
 - calling CCH on 0844 561 8166 (between 0830 – 1730 weekdays);
 - emailing CCH customer services, quoting product code CCSORP or
 - ordering online at www.cch.co.uk/product319

How to get in touch with us

More information about the Commission and a range of guidance for charities can be found on our website or by contacting Charity Commission Direct:

Telephone: 0845 300 0218 (calls charged at local rate)

Minicom: 0845 300 0219

Email: enquiries@charitycommission.gov.uk

By post:

Charity Commission Direct

PO Box 1227

Liverpool

L69 3UG

Association of Charitable Foundations

ACF promotes and supports the work of charitable grant-making trusts and foundations.

Association of Charitable Foundations
Central House
14 Upper Woburn Place
London
WC1H 0AE

Tel: 020 7255 4499
Email: acf@acf.org.uk
Website: www.acf.org.uk

Association of Chief Executives of Voluntary Organisations

ACEVO provides best practice resources and information on sector issues.

Association of Chief Executives of Voluntary Organisations
1 New Oxford Street
London
WC1A 1NU

Tel: 0845 345 8481
Email: info@acevo.org.uk
Website: www.acevo.org.uk

Business Community Connections

BCC is a charity that helps other charities receive more support from business.

Business Community Connections
Gainsborough House
2 Sheen Road
Richmond upon Thames
Surrey
TW9 1AE

Tel: 020 8973 2390
Email: info@bccconnections.org.uk
Website: www.bccconnections.org.uk

Charities Aid Foundation

CAF helps non-profit organisations in the UK and overseas to increase, manage and administer their resources.

Charities Aid Foundation
25 Kings Hill Avenue
Kings Hill
West Malling
Kent
ME19 4TA

Tel: 01732 520 000
Email: enquiries@cafonline
Website: www.cafonline.org

Charity Finance Directors' Group

CFDG provides information for its members and others on a range of issues and helps charities manage their accounting, taxation, audit and other finance related functions. Benefits of membership include regular members' meetings, monthly mailings and access to information and services.

Charity Finance Directors' Group
3rd Floor
Downstream Building
1 London Bridge
London
SE1 9BG

Tel: 0845 345 3192
Email: info@cfdg.org.uk
Website: www.cfdg.org.uk

Charity Trustee Networks

Charity Trustee Networks is a charity that develops self-help trustee network groups.

Charity Trustee Networks
Crossweys
28-30 High Street
Guildford
GU1 3EL

Tel: 01483 243328
Email: info@trusteenetworks.org.uk
Website: www.trusteenetworks.org.uk

Companies House

All limited companies, including charitable companies, in the UK are registered at Companies House.

Cardiff
Crown Way, Cardiff CF14 3UZ

London
PO Box 29019, 21 Bloomsbury Street WC1B 3XD

Edinburgh
37 Castle Terrace, Edinburgh EH1 2EB

Tel: 0870 333 3636 (contact centre)
Email: enquiries@companies-house.gov.uk
Website: www.companieshouse.gov.uk

Directory of Social Change

The Directory promotes positive social change and provides a wide range of resources for trustees.

London
Directory of Social Change
24 Stephenson Way
London NW1 2DP
Tel 020 7391 4800

Liverpool
Directory of Social Change
Federation House
Hope Street
Liverpool
L1 9BW
Tel 0151 708 0117

Tel: 08450 77 77 07
Email: (London) info@dsc.org.uk
(Liverpool) north@dsc.org.uk
Website: www.dsc.org.uk

Ethnic Minority Foundation

EMF develops resources for black and minority ethnic organisations.

Ethnic Minority Foundation
9 Artillery Lane
London
E1 7LP

Tel: 020 7377 8484
Email: enquiries@emf.org.uk
Website: www.ethnicminorityfund.org.uk

HM Revenue and Customs

HMRC is the department responsible for the business of the former Inland Revenue and HM Customs and Excise. It provides information on a wide range of issues including tax issues relating to charities.

Tel: 0845 010 9000 (a general helpline for charities)
Email: charities@inlandrevenue.gov.uk
Website: www.hmrc.gov.uk

Institute of Fundraising

The Institute of Fundraising aims to promote the highest standards of fund-raising practice.

Institute of Fundraising
Park Place
12 Lawn Lane
London
SW8 1UD

Tel: 020 7840 1000
Email: enquiries@institute-of-fundraising.org.uk
Website: www.institute-of-fundraising.org.uk

Mango

Management Accounting for Non Governmental Organisations, Mango, helps aid agencies and non government organisations become more effective by strengthening their financial management.

Mango
Chester House
George Street
Oxford
OX1 2AU

Tel: 01865 423 818
Email: enquiries@mango.org.uk
Website: www.mango.org.uk

National Association for Voluntary and Community Action

This is the national umbrella body of local voluntary and community sector infrastructure in England providing advice, support and information to voluntary organisations and charities.

National Association for Voluntary and Community Action
177 Arundel Street
Sheffield S1 2NU

Tel: 0114 278 6636
Email: navca@navca.org.uk
Website: www.navca.org.uk

National Council for Voluntary Organisations

NCVO provides information on fund-raising and governance issues and a range of general support services.

National Council for Voluntary Organisations
Regent's Wharf
8 All Saints Street
London
N1 9RL

Tel: 020 7713 6161
Helpdesk: 0800 2798 798
Email: helpdesk@askncvo.org.uk
Website: www.ncvo-vol.org.uk

New Philanthropy Capital

New Philanthropy Capital is a charity that advises donors and funders on how to give more effectively.

New Philanthropy Capital
3 Downstream
1 London Bridge
London
SE1 9BG

Tel: 020 7785 6300
Email: info@philanthropycapital.org
Website: www.philanthropycapital.org

VolResource

This internet-only resource for charities offers quick links to useful organisations concerned with the effective running of charities.

Email: info@volresource.org.uk
Website: www.volresource.org.uk

Wales Council for Voluntary Action

This organisation represents the interests of voluntary organisations, volunteers and communities in Wales. It provides a comprehensive range of information, consultancy, funding, management and training services.

Welsh Council for Voluntary Action
Baltic House
Mount Stuart Square
Cardiff Bay
Cardiff
CF10 5FH

Tel: 0870 607 1666
Email: help@wcva.org.uk
Website: www.wcva.org.uk

Journals, magazines and newspapers

Charity Finance

3 Rectory Grove
London
SW4 0DX

Tel: 020 7819 1200
Email: rcoley@charityfinance.co.uk
Website: www.charityfinance.co.uk

Charities Management

Mitre House Publishing
154 Graham Road
Wimbledon
London
SW19 3SJ

Tel: 020 854 27766
Website: www.charitiesmanagement.com

Charity Times

A business and management magazine covering the financial, business and fundraising news affecting the voluntary sector.

Tel: 020 7426 0496 / 0123
Website: www.charitytimes.com

The Corporate Citizenship Company

This company provides an overview and round-up of current issues, largely through case studies.

Email: mail@corporate-citizenship.co.uk
Website: www.corporate-citizenship.co.uk/publications

The Guardian

The Society section includes information on the voluntary sector.

Website: www.SocietyGuardian.co.uk

Network Wales

Contact WCVA for details – see Resources above.

Third Sector

Tel: 020 8606 7500
Email: subscriptions@haynet.com
Website: www.thirdsector.co.uk

The Times (Public Agenda)

A digest of public sector news.

Website: www.timesonline.co.uk

Voluntary Sector

Contact NCVO for details – see *Resources* above.

Annex E – Bibliography

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Annex F – SORP 2005 reference to reserves

Extract from SORP 2005, Appendix 1

GL51.1. The term 'reserves' has a variety of technical and ordinary meanings, depending on the context in which it is used. In this SORP the term 'reserves' (unless otherwise indicated) describes that part of a charity's income funds that is freely available.

GL51.2. This definition of reserves therefore normally excludes:

- (a) permanent endowment funds;
- (b) expendable endowment funds;
- (c) restricted funds;

and any part of unrestricted funds not readily available for spending, specifically:

(d) income funds which could only be realised by disposing of fixed assets held for charity use and programme related investments.

GL51.3. Individual charities may have more or less reserves available to them that this simple calculation suggests for example:

- (a) expendable endowments may be readily available for spending; or
- (b) unrestricted funds may be earmarked or designated for essential future spending and reduce the amounts readily available.

GL51.4. For further information, see the Charity Commission's publication CC19 on Charities' Reserves.

Financial review

Paragraph 55. The report should contain a review of the financial position of the charity and its subsidiaries and a statement of the principal financial management policies adopted in the year. In particular, the report should explain the charity's:

- (a) policy on reserves (Glossary GL 51) stating the level of reserves held and why they are held. Where material funds have been designated, the reserves policy statement should quantify and explain the purpose of the designations and, where set aside for future expenditure, the likely timing of that expenditure...

Plans for future periods

Paragraph 57. The report should explain the charity's plans for the future including the aims and key objectives it has set for future periods together with details of any activities planned to achieve them.

Paragraph 58. Charities that are not subject to a statutory audit requirement may omit this disclosure although disclosure of this matter is encouraged as a matter of good practice.

Balance sheet

Paragraph 245. The objective of the balance sheet is to show the resources available to the charity and whether these are freely available to the charity or have to be used for specific purposes because of legal restriction on their use. It may also show which of the resources the trustees have designated for specific future use. It will normally be necessary to read the reserves policy and plans for the future in the Trustees' Annual Report (see paragraphs 55(a) and 57) to gain a fuller understanding of the availability and planned use of the charity's funds.

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We would like to thank everyone who has co-operated in the production of this report, especially the charities that gave their time to take part in our survey or gave permission to use their charities as case studies. Thanks also go to staff at the Big Lottery Fund and CCLA Investment Management Limited for their helpful comments.

Notes

This publication can also be accessed at the Charity Commission's website: www.charitycommission.gov.uk

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