



Charity Reserves: Building Financial Resilience

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At the start of 2016, on the back of much media attention on the financial regularities of the not for profit sector, the Charity Commission published an update to its guidance on reserves (CC19 – Charity reserves: building resilience). This looks at the practical nature and intent behind a fully justifiable level of reserves, and uses it to act as a reminder to trustees of their responsibilities and legal duties.

Rethink your reserves

Historically, Charity Commission guidance clearly promoted the principals of charity law that required charitable funds to be spent in a reasonable period of receipt. This has been moved to the back of the recent guidance, with a programme of 'key messages' that includes an underlying steer towards bolstering reserves to address risks of 'unplanned closures' and essential services. Therefore, this is a turnaround from having to justify why reserves are being retained, to requiring an explanation as to why they are adequate.

It also clarifies the meaning of what should be classed as reserves. Briefly, they are unrestricted funds that are freely available (so no designated funds towards future spending plans and no fixed assets) and readily available cash that can be called upon momentarily. There is no formula to apply and no legal levels set; every charity has its own personal circumstances which should be reflected.

Therefore, tailoring a reserves policy is crucial to give an understanding of the charity's position (both current and future) and indicative of the Charity Commission's expectations; no longer is a static overview with minimal attachment to the charity's position an option. This demands regular reviews (across the financial period, not merely at the balance sheet date), flexibility, explanation and direction is to be applied.

What policy?

The policy should aim to provide accountability, express confidence in times of uncertainty, display sustainability in a charity's objects, while evidencing the trustees' management skills and understanding of a charity's strategy and budget.

Where a charity's accounts are prepared on an accruals basis, this reserves policy is to be disclosed in the annual report, alongside the actual level of reserves maintained and why they are held, or the impact and solution if they have fallen short.

Where a zero level policy is adopted, the mitigation of risks inherent to such a position (unforeseen expenditure coverage or shortage of anticipated funds), should be clarified. Where there is an aspiration to hold certain levels of reserves, but the charity appears unable to reach them, the charity needs to be able to explain how it will raise additional funds to meet it.

Alternatively, surplus free funds can appear superfluous or not commensurate with a charity's objects, if no reasonable care is taken to explain the purpose behind maintaining at such a level, or are its funds simply greater than required? A sign that trustees should be considering widening the scope or reach of the charity's operations to become even more successful.

Tailoring a reserves policy is crucial to give an understanding of the charity's position



With the mass media spotlight brighter and more far reaching than ever, the need to meet objectives and maintain credibility in your field remains vital

Adequate balance

This new guidance and the resounding change in focus has been criticised, as despite its arguments to 'build resilience', reviewers feel that as a result charities may lose sight of, or be fearful of, taking advantage of opportunities to grow.

The regular reference throughout CC19 to 'unplanned closures' has found accusations that there will be an emphasis and fear instilled on trustees and a need to hold on tighter to reserves 'just in case' and that building resilience equates to building savings. This need not be the case. There has always been an onus on trustees to be aware of their reserves, to understand what they have and why they need it. It is perhaps the discipline to review and reflect on this on a more regular basis and the need to record and report it more explicitly that might be the only change that is required.

Maybe the conclusions drawn will still be a relatively low reserves level, or an ambition and recognition of what a charity should be striving for to alleviate the pressures of the future. If this is the conclusion, then there should be a clear route towards achieving this.

In these enlightened times, with the mass media spotlight brighter and more far reaching than ever, the need to meet objectives and maintain credibility in your field remains vital and for example, no amount of reserves can shield from a damaged reputation, so you also need to remember your objectives and not let them be threatened by a future reserves target.

There is no correct answer of course. Each and every charity must consider its own position, be aware of the threats and opportunities ahead, and create a reserves policy that is both resilient and open to flexibility on its way towards achieving its objectives.



Checklist for the month

- ✓ In terms of reserves, think liquidity and availability – how much unrestricted cash do we have?
- ✓ What reserves do we need? Have we adequately reviewed and assessed our liquidity requirements recently? Level of reserves is a key balance to get right when trying to attract investors: what will they consider too much (either not enough focus on the frontline objectives, or simply no requirement for funding) or not enough (poorly planned and vulnerable)?
- ✓ Is our reserves policy a sustainable model that allows us to meet our objectives and requirements for service delivery?
- ✓ Have we adequately documented our policy and our reasoning behind it?
- ✓ Can our reserves be invested for a financial return, whilst still remaining a liquid asset?



Where can I get more information?

Charity Commission Guidance CC19:

www.gov.uk/government/publications/charities-and-reserves-cc19/charities-and-reserves

How to invest charity funds:

www.gov.uk/guidance/how-to-invest-charity-money

If you have any questions arising from this article or would like to speak to a member of our team about how we can help. Please get in touch with your local MHA member firm.