Charity Reserves: Supporting Sustainable Finance

17 October 2026

Workshop agenda

- Why do charities have a reserves policy?
- What are reserves?
- Why have reserves?
- How much is enough?
- When should we use them?
- What does a reserves policy contain?
- Closing challenge

Why do charities need a reserves policy?

Too little

- Spend everything as it comes in
  - vulnerable to unexpected events
  - services may have to be cut

Too much

- Accumulate reserves without a clear purpose
  - resources aren't being used for public benefit

The challenge

- Balance financial resilience with delivering the mission

Your policy should explain the judgement.

Discussion

How do you decide what is the right level of reserves for your charity?

- *What factors do you take into account when deciding how much?*
- *What would lead you to holding more in reserves?*
- *What would allow you to hold less?*

2 minute discussion with your neighbour

What are reserves?

Free reserves - unrestricted funds that trustees can use for any of the charity's purposes.

Not free reserves	*Why?*
Fixed assets	Essential to deliver charity's activities
Restricted funds	Given for a specific purpose
Endowment	Capital is permanently restricted
Designated funds	Earmarked by trustees

Remember

- Reserves ≠ Cash
- Reserves ≠ Net assets
- Cash flow ≠ Reserves

Your policy should clearly define what you mean by free reserves.

What sort of reserve are these?

A

A donor gives £50,000 specifically to buy a minibus.

B

Trustees set aside £100,000 for a planned building refurbishment.

C

A charity has £200,000 in its bank account from unrestricted donations.

D

A benefactor leaves £1 million to be invested permanently, with income used for charitable purposes.

Why hold reserves?

The 4Cs

Contingency	Unexpected events
Cash Flow	Timing differences
Commitments	Future plans and investment
Closure	Orderly winding up

A further consideration: **Conservation**

How to manage unexpected surpluses

Source: Charities Commission & AGC website – Resources section – Funding sector support tab

Your policy should explain why your charity holds reserves.

Discussion

How would you apply the 4Cs to your charity?

- Contingency
- Cash Flow
- Commitments
- Closure

2 minute discussion with your neighbour

How much is enough?

There is no standard answer

The appropriate level depends on:

- **Risk** - How vulnerable is our income and expenditure?
- **Strategy** – What are we planning to do?
- **Operating model** – How does our charity operate?

The target should follow from the reasons for holding reserves

It may be a range rather than a single number

Your policy should explain how trustees determined the target level.

When should reserves be used?

If trustees know why they hold reserves, they should also agree when they expect to use them.

- **Contingency** - Unexpected financial shock
- **Cash flow** - Temporary timing pressure
- **Commitments** - Agreed strategic investment or change
- **Closure** - Orderly winding-up

Your policy should explain when your charity might draw on its reserves.

What should a reserves policy achieve?

The policy should help:

- **Trustees** understand and challenge the judgements on reserves
- **Donors and funders** understand how their funding contributes to the charity's financial sustainability
- **Other stakeholders** understand that the charity is financially sustainable

Your policy should explain how reserves are monitored and reviewed.

What should a reserves policy include?

1. Purpose
- Why reserves are held
- Definitions
- When reserves are expected to be used
- Restricted, designated and endowment funds

2. Level
- Link to strategy, business plan and risk
- Target/range
- Current level
- Action if outside the range

3. Governance
- Monitoring
- Review
- Reporting

There is no required format
- *write it in the same style as your other policies*
- *align it to your charity's needs*

Closing challenge

Ask yourself

- What are our free reserves?
- Why are they at this level?
- What risks are they designed to cover?
- Does our reserves policy reflect our strategy as well as our risks?
- Could some reserves be used to increase long-term impact?



If a trustee joins your board next month, will your reserves policy help them understand why you hold the amount you do?