



**CHARITY RESERVES**  
SEPTEMBER 2019

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## YOUR PRESENTER



### Jill Halford, BDO Charity Partner

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- ▶ Over 20 years' experience advising charities
- ▶ Specialises in audit and advisory work (especially governance reviews)
- ▶ Secondment into charities, working alongside CEOs, including covering the Finance Director role
- ▶ ICAEW charities sub-committee, member of the Charity Finance Group (CFG)
- ▶ Experienced tutor and runs training courses for charity finance professionals including Civil Society and CFG.
- ▶ Volunteer roles:
  - Treasurer of Association of Chief Executives for Voluntary Organisations (ACEVO)
  - Trustee of the School for Social Entrepreneurs
  - Advisory Board HighTide (theatre and performing arts charity)
- ▶ **Clients have included:** Great Ormond Street Children's Charity; RNIB; Action on Hearing Loss; Breast Cancer Now; Southbank Centre; National Theatre; Somerset House; British Museum; Tate; Dogs Trust; and ZSL London Zoo.

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## AGENDA

- ▶ Importance of reserves
- ▶ Trustees' responsibilities
- ▶ Reserves policy and good financial governance
- ▶ Charity Commission CC19
- ▶ Charity Commission reserves research
- ▶ Going concern
- ▶ Next steps



# IMPORTANCE OF RESERVES

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## IMPORTANCE OF RESERVES



**Free reserves** - the most important figure in the accounts, most difficult to manage and to calculate!

Why?

- ▶ Trustees and exec use this to judge solvency of the charity and what they can spend
- ▶ Funders use it to assess the need for funding requests
- ▶ Regulators use this to ensure the charity is spending funds in a reasonable time.

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## CHARITY FINANCIAL RESERVES



CHARITY COMMISSION  
FOR ENGLAND AND WALES

It's important to keep money aside as a reserve to protect your charity against drops in income or allow it to take advantage of new opportunities.

Your charity's reserves can be spent on any of its aims.

Write a reserves policy to explain to others why you are setting money aside rather than spending it on your charity's aims.

Your reserves policy should set out:

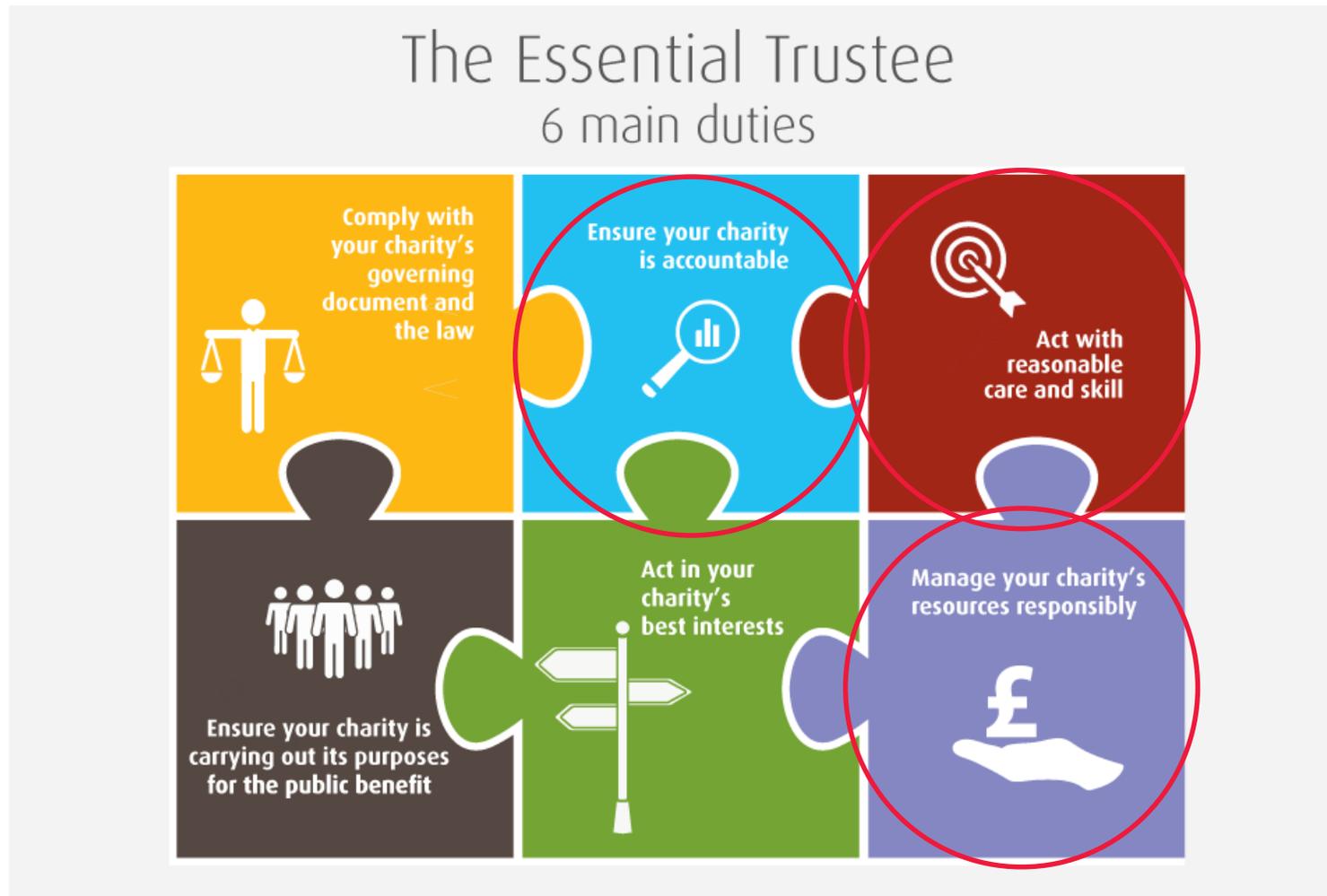
- How much your charity needs to hold in reserve and why
  - How and when your charity's reserves can be spent
  - How often the reserves policy will be reviewed

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# TRUSTEES' RESPONSIBILITIES AND RESERVES

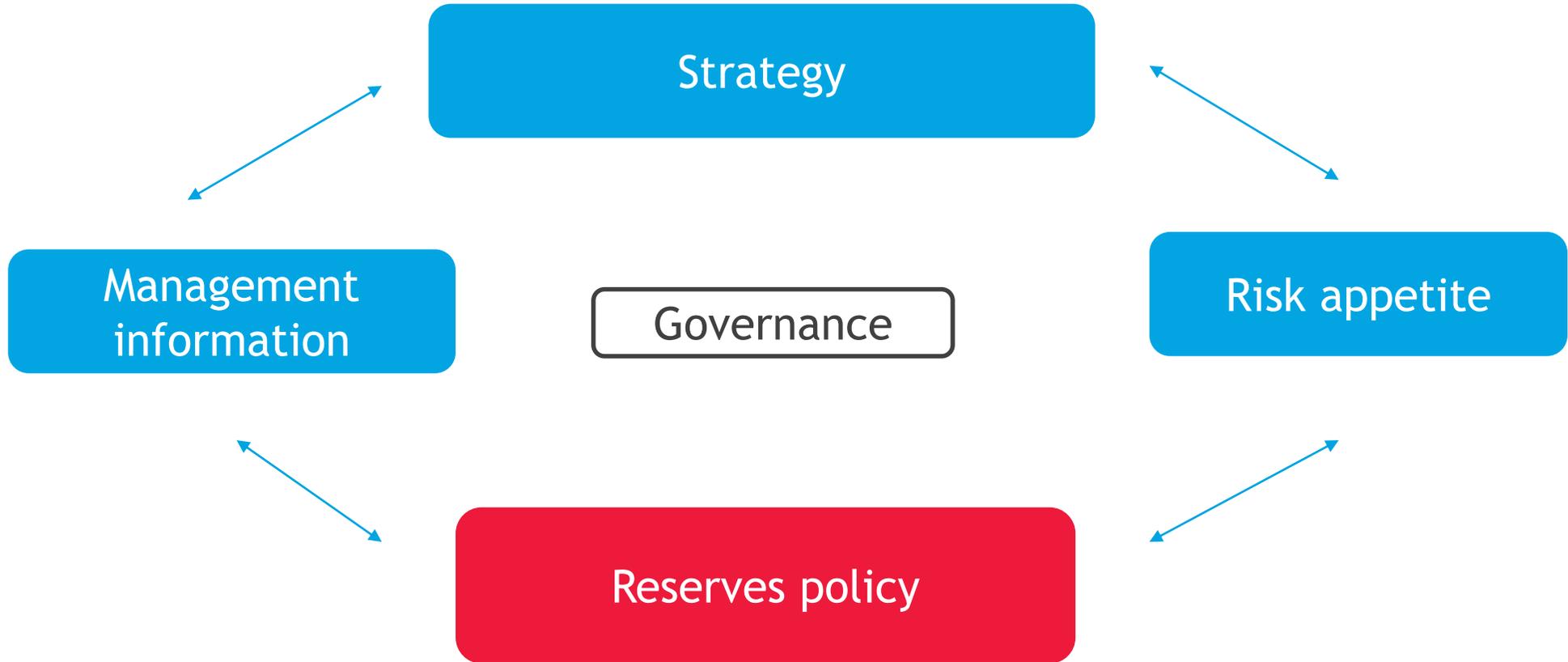
# TRUSTEES RESPONSIBILITIES



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# RESERVES POLICY IS KEY TO GOOD FINANCIAL GOVERNANCE



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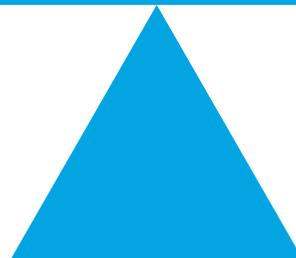
## RESERVES POLICY

Top 50 UK charities on average have **three months** unrestricted expenditure cover.

*BDO reserves study (June 2017)*

Current beneficiaries

Future beneficiaries



Sustainability

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# CHARITY SORP 2015 AND CC19 AND SECTOR BEST PRACTICE

## SORP/CC19 requirement

State the amount of the total funds the charity holds at the end of the reporting period

Identify the amount of any funds which are restricted and not available for general purposes of the charity at the end of the reporting period

Identify and explain any material amounts which have been designated or otherwise committed as at the end of the reporting period

Indicate the likely timing of the expenditure of any material amounts designated or otherwise committed at the end of the reporting period

Identify the amount of any fund that can only be realised by disposing of tangible fixed assets or programme related investments

State the amount of reserves the charity holds at the end of the reporting period after making allowance for any restricted funds, and the amount of designations, commitments (not provided for as a liability in the accounts) or the carrying amount of functional assets which the charity considers to represent a commitment of the reserves they hold

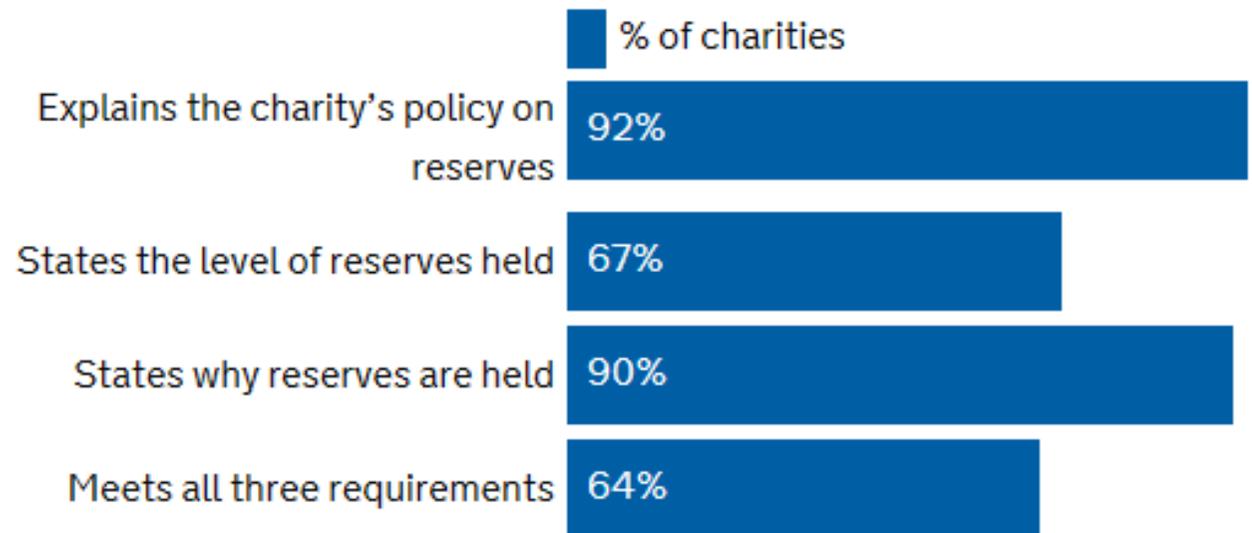
Compare the amount of reserves with the charity's reserves policy and explain, where relevant, what steps it is taking to bring the amount of reserves it holds into line with the level of reserves identified by the trustees as appropriate given their plans for the future activities of the charity

# CHARITY RESERVES POLICIES: DEMONSTRATING AND BUILDING RESILIENCE

PUBLISHED: 21 NOVEMBER 2018

- ▶ Review of the trustees' annual report and accounts to consider whether:
  - the charity had explained its reserves policy, as required
  - the charity's stated level of reserves was calculated correctly

Lack of transparency - why reserves held and the basis of charities' calculations.



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## RECENT PRESS

Transparency data

### Charity reserves policies: demonstrating and building resilience

*Published 21 November 2018*

<b>The reserves figure in the trustees' annual report</b>	<b>% of charities</b>
Was not stated	33%
Did not deduct fixed assets held for charity use and/ or designated funds	30%
Deducted fixed asset investments	3%
Included restricted funds	3%
Was shown as net current assets or cash held	5%
Did not appear to relate to the figures in the accounts	4%
Was calculated in accordance with our guidance	22%
<b>Total</b>	<b>100%</b>

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# CHARITY RESERVES POLICIES: DEMONSTRATING AND BUILDING RESILIENCE

How to calculate reserves

Not just the level of unrestricted reserves but:

unrestricted  
reserves

—  
(less)

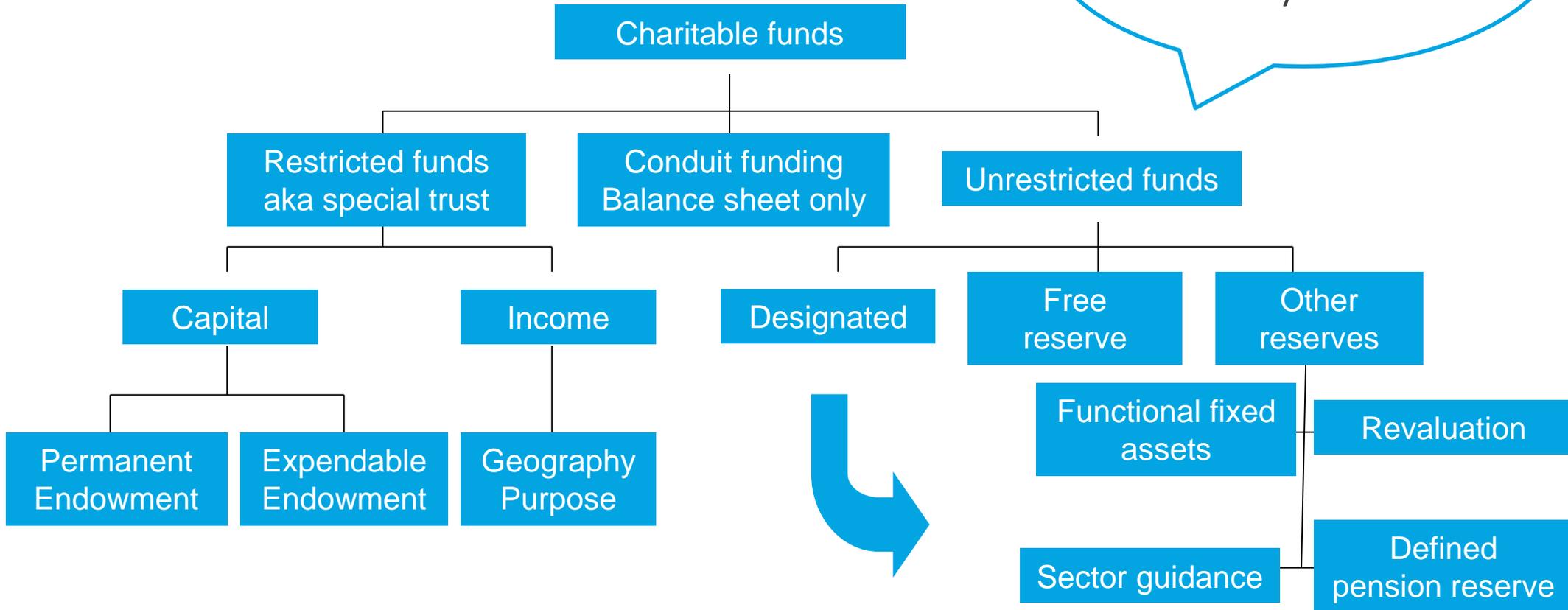
any unrestricted fund not  
readily available for spending

The items that should be excluded from unrestricted reserves are:

- ▶ Tangible fixed assets
- ▶ Programme-related investments
- ▶ Designated funds
- ▶ Commitments

# DO YOU UNDERSTAND YOUR FUNDS?

# THE SORP - TYPES OF FUNDS



# RESERVES POLICY

# TARGETING AND HOLDING THE RIGHT LEVEL OF RESERVES



## Why hold reserves?

- ▶ **Income risk reserve** - protect against a fall in income levels and protect expenditure until income recovers or adjustments can be made
- ▶ **Cessation reserve** - liabilities can be discharged in the event of cessation
- ▶ **Working capital reserve** - provide working capital if expenditure is needed before income is received
- ▶ **Opportunity reserve** - funding for new initiatives or opportunities
- ▶ **Adversity reserve** - protect against unplanned adverse events, such as losing key staff, theft, fire, adverse publicity etc.

Understanding the business...Insurance cover?...Risk appetite?

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# GOOD PRACTICE EXAMPLE

# CANCER RESEARCH UK

## RESERVES POLICY AND MANAGEMENT

Reserves are maintained at a level that enables the Charity to manage financial risk and short-term income volatility. They allow the Charity to sustain optimal levels of research over the long term, ensuring that financial commitments can be met as they fall due.

Our reserves policy takes into consideration that we commit expenditure over the medium term, since our research commitments span many years, whilst recognising that, as we are a fundraising charity, we are subject to the effects of short-term volatility in income. We therefore hold funds in reserve to ensure that we can meet our research commitments in the face of such fluctuations. We use a rolling five-year plan to model how we will fund the delivery of our strategy, ensuring reserves remain at an appropriate level.

We have a single reserves measure. This measure mandates that the Charity holds a minimum level of cash and investments to ensure that the Charity will be able to discharge its financial commitments as they fall due over the course of the five-year plan.

We monitor 'managed cash and investments', which includes all amounts available to finance the general activities of the Charity, net of any overdraft or credit line which has been drawn upon. Council have agreed that 'managed cash and investments' should exceed a minimum of three months but is not expected to exceed five months annualised forecast cash outflow.

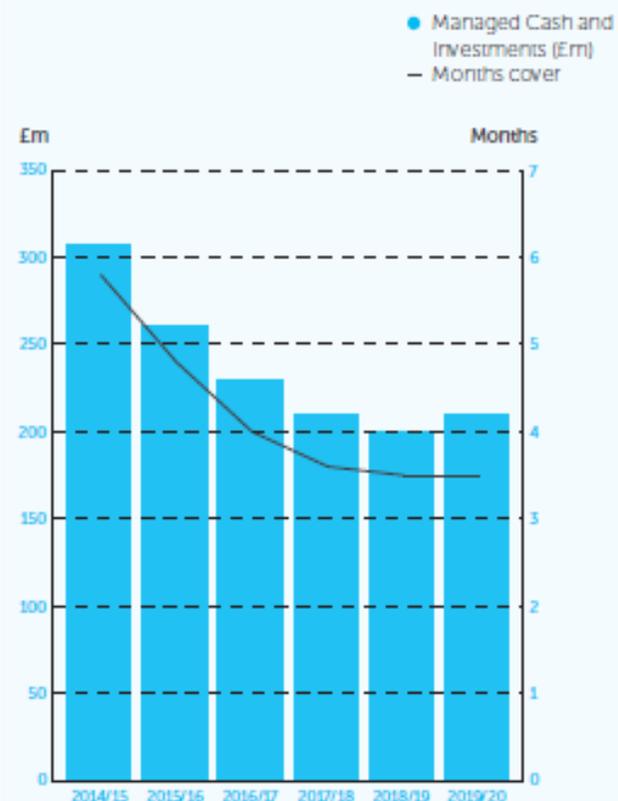
Our reserves measured at 31 March 2015 are as follows:

	31 March 2015 Em	31 March 2014 Em
<b>Managed cash and investments</b>		
Cash and investments	318	293
Less: funds under separate management <sup>1</sup>	(11)	(11)
<b>Managed cash and investments</b>	<b>307</b>	<b>282</b>
<b>Months of annualised forecast cash outflows</b>	<b>5.7</b>	<b>5.7</b>

<sup>1</sup> Consolidated endowments and charities.

At 31 March 2015, although the 'managed cash and investments' level is nearly six months of forecast cash outflows, the Charity's five-year plans include projections for reserves to reduce as the Charity increases charitable expenditure and completes its funding contribution for construction of the Crick. The indicative shape is shown below.

## INDICATIVE FUTURE RESERVES (£M)



\*CRUK 2014/15 accounts, page 23

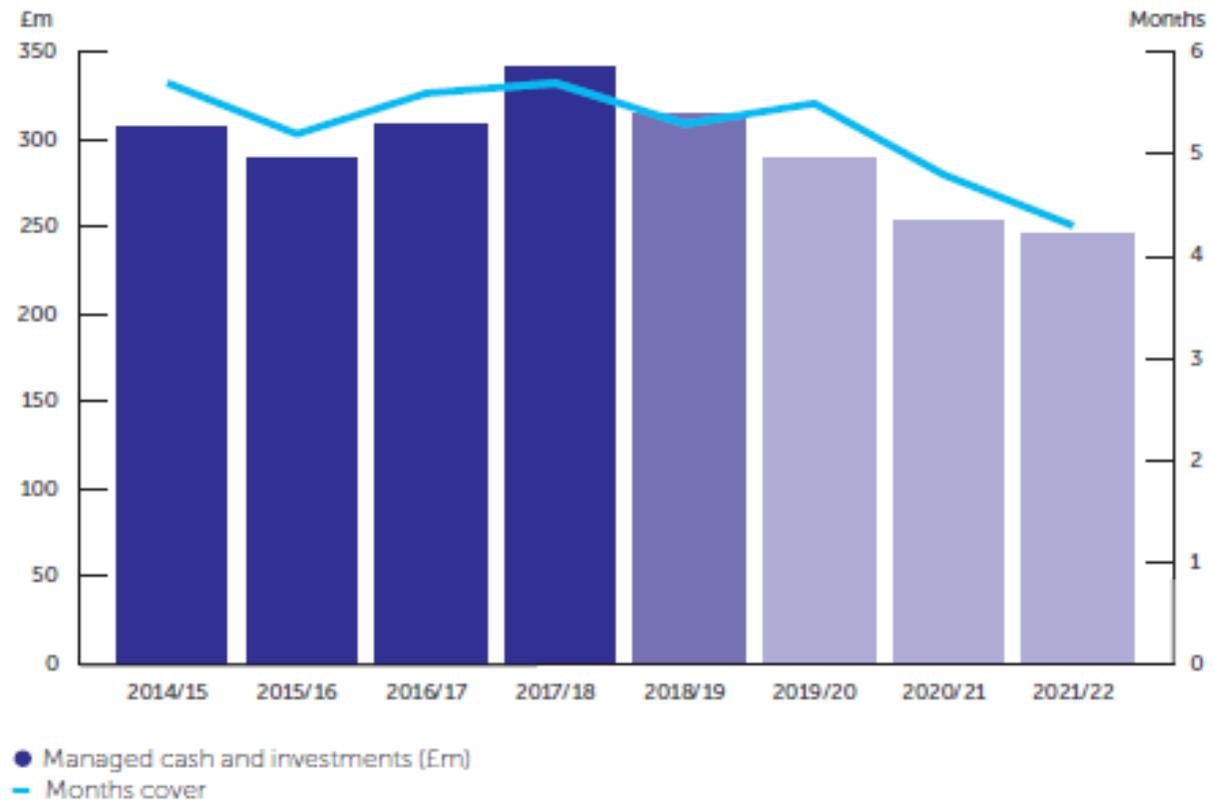
# CANCER RESEARCH UK

## RESERVES POLICY AND MANAGEMENT

Reserves are maintained at a level that enables the Charity to manage financial risk and short-term income volatility. They allow the Charity to sustain optimal levels of research over the long term, ensuring that financial commitments can be met as they fall due.

Our reserves policy states that managed cash and investments should exceed three months but are not expected to exceed five months' forecast cash outflows. Although since 2016 levels have been greater than five months' cover, the Charity's medium-term plan includes projections for reserves to reduce as we increase charitable expenditure, bringing the anticipated cover to four months, as shown diagrammatically opposite.

## HISTORIC AND INDICATIVE FUTURE RESERVES



\*CRUK 2017/18 accounts

# GOING CONCERN

## GOING CONCERN



*Trustees required to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in business.*

**Best practice:** Regular monitoring throughout the year

**When financial statements are approved:**

- Trustees consider the going concern basis for at least 12 months from signing - paper
- Consider - free reserves, forecast cash flows, commitments, loan covenants, any significant uncertainties relating to timing of income and expenditure
- Scenario planning
- Trustees robustly challenge the plans and assumptions

*Auditors role in robustly challenging an organisation's own assessment of "going concern"*

WHAT'S NEXT?

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## WHAT'S NEXT?

 Regulator interest - Charity Commission research

 Press interest

 Increased focus and guidance

 Liquidity reserves policy

 Endowments and restricted funds

 Clarity in decision making

# ANY QUESTIONS?



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