SMALL CHARITY WEEK

17TH – 22ND JUNE 2013

HOW TO TOOLKIT

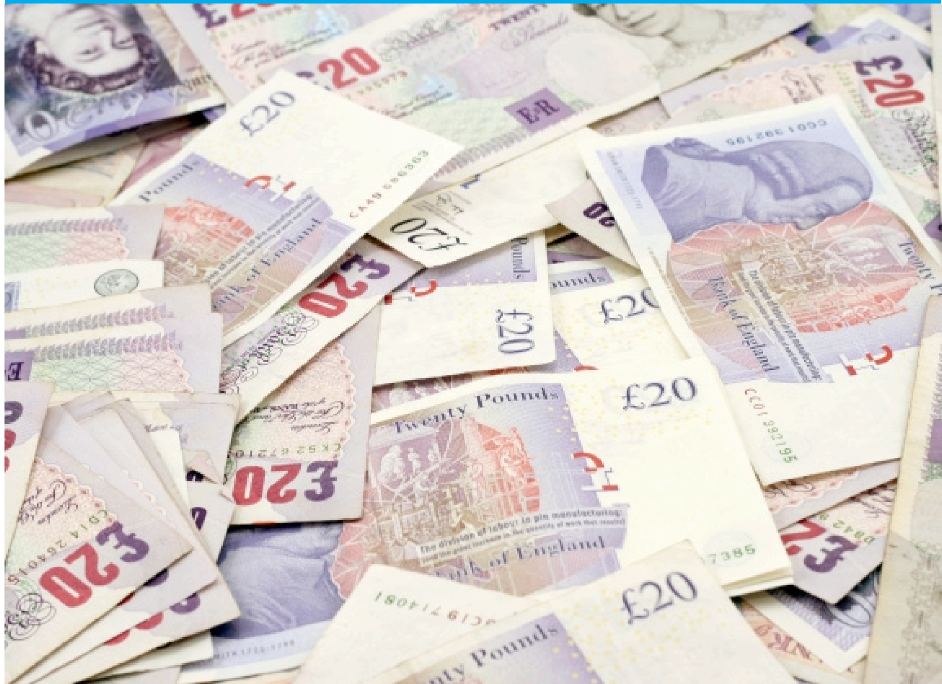
Charity Reserves

INTRODUCTION

This toolkit takes you on a journey to understand the process you need to go through in order to develop your Reserves Policy. There are a number of reasons why you may need to hold reserves. These will vary from charity to charity depending on the type of activities you undertake but a few general reasons are: to fund future planned capital expenditure, for example developing a new project or build a new centre, new wing etc; to fund unexpected expenditure, for example to fund an opportunity that is too good to be missed as it will allow you to deliver your mission in a more effective or comprehensive way; or for when expenditure overruns to fund shortfalls in income, for example when there is downward pressure on cash flow or when during the financial year, income does not reach expected levels. There are different methods of identifying the risks against income and expenditure, but we have used the Risk Identification model, as recommended by Andrew Hind in his book 'Governance and Management of Charities'. This approach is based on and understanding of the different income streams into your charity, their risk profile, the degree of commitment to expenditure and the overall risk environment.

WHAT ARE THE BENEFITS?

- ♦Allows you to meet future commitments or start new activities
- ♦Act as a benchmark to demonstrate that the charity's funds are being used to good effect
- ♦Demonstrate to your Beneficiaries; Donors; Funders and the wider public that you are acting to protect the charity from future challenges and changes in economic circumstances.



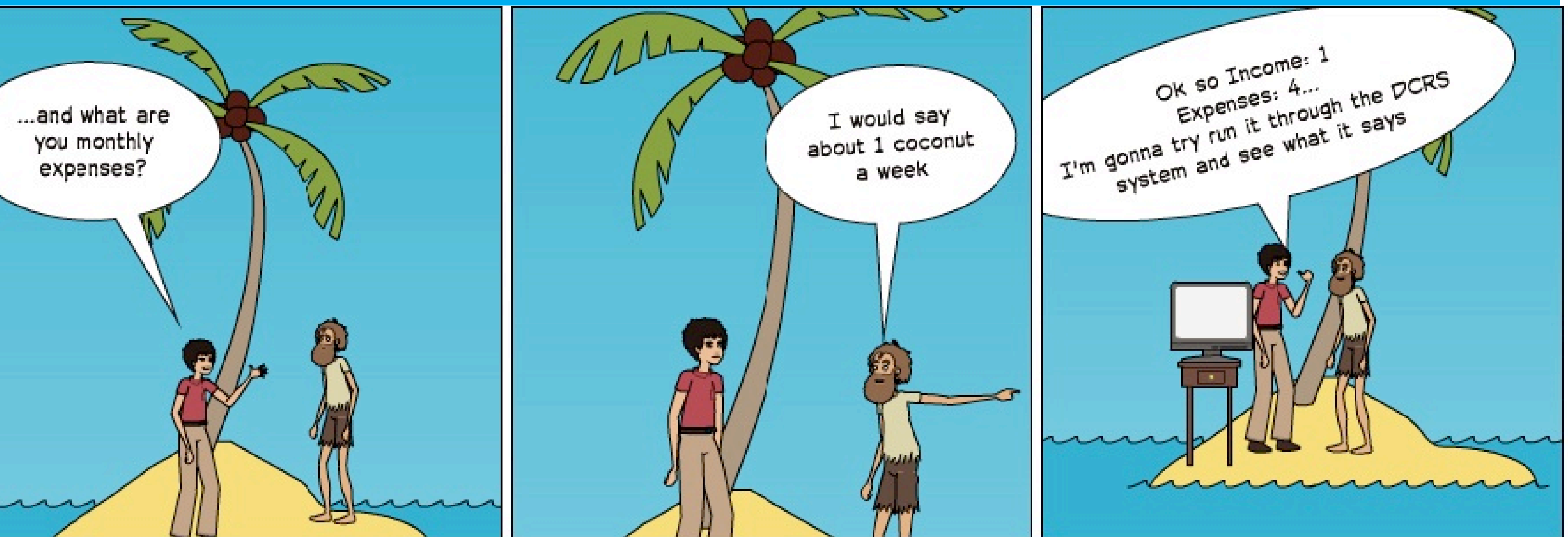
UNDERSTANDING INCOME

Charities have two types of funds, Restricted and Unrestricted.

Restricted Funds – this includes permanent endowment funds which have been donated to the charity to be held as capital. These can be cash or another asset such as shares and so should be held as investments or fixed assets. It also includes restricted income donations received for purposes specified by the donor (in fundraising speak we call these 'earmarked' .

which simply means you can only use them for the purpose they were donated, any deviation has to be agreed by the donor).

Unrestricted Funds – these are funds that can be used on any of your charitable objectives and spent as the trustees dictate through their approval of the charity's strategy and annual operating plan and budget. It includes designated income, this is income that the trustees have decided to 'put aside' for a particular future project (there is usually a note in your annual accounts about these). It also includes general income which comes into the charity with 'no strings attached' and which you can use for any purpose including your operating overheads.



UNDERSTANDING EXPENDITUR

We need to understand the difference between direct programme/activity specific expenditure and other operating costs.

It is essential when making decisions around the amount of reserves required, that you understand the risks associated with expenditure and so for this purpose you need to be able to make a judgement around which areas of expenditure are:

Core Purpose

Essential to run the Charity

Discretionary (could cut back)

Unnecessary

As small charities we will have very little unnecessary and optional expenditure but we nay have some, there is always something in the budget that could be cut back.

REVIEW

In order for the Trustees to be able to make an informed decision about the level of Reserves your charity requires you need to undertake a simple risk assessment in relation to income coming and expenditure. The FSI has developed a Simple Income & Expenditure Risk Assessment for this purpose (note this assessment relates to income and expenditure only and can only be used as part of the organisations risk assessment activity).

(To use the FSI Simple Income & Expenditure Risk Assessment Tool you must be part of the FSI Community (for details of how to register go to www.thefsi.org).

When you write the draft Reserves Policy for the Trustees you also need to take into account any other major risks to which the charity is exposed, for example risks that may turn into a contingent liability or into a commitment in terms of expenditure.

Once the risk against income, expenditure and any other major risks on the horizon are known you will be able to provide this information with a recommendation on the level of Reserves to maintain for your charity to your Trustees who will then be in a position to make an informed decision.

Writing the Policy (Refer to the FSI Policy Toolkit on the FSI Community Site)

The document should seek to understand the reasons why your charity needs to hold reserves, think about this carefully. As a minimum the Policy should cover:

The reason why the charity needs reserves

The level or range of reserve the Trustees believe the charity needs

The steps the charity will take to establish this agreed level or range

Arrangements for monitoring and reviewing the Reserves Policy

(Refer to the sample Reserves Policy on the FSI Community Site)

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REVIEW

Reserves are required in order that your charity is protected against future events known and unknown, and is able to maximise future opportunities and weather future challenges

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