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Voluntary Sector Development

Guidance Notes

Cash Reserves & Voluntary Organisations

Many organisations recognise the need to build up reserves to ensure the stability of their organisation due to uncertainties of future funding, cover for staff absences due to sickness or other leave and unexpected expenditure such as emergency costs on premises.

The Charity Commission is clear that a charitable organisation must have a clear reserves policy stating what amount of reserves they wish to/or are holding and the purpose of such reserves. See charity commission publication reference CC19 for full information. One example would be to hold reserves equal to 6 months running costs because future funding is uncertain and the charity may wish to ensure that staff could be employed whilst seeking alternative funding sources and still continuing to run their services.

Charities should be clear about what reserves are restricted i.e. they are held for a predetermined reason and cannot be used for other uses by the Charity. These restricted reserves are often related to restricted income not being spent in any one financial year and these unspent reserves may be requested to be repaid to the Funder by the charity.

Unrestricted reserves can be further split into designated reserves. Designated reserves are money earmarked by the Charity for specific reasons but they can be used for other reasons if the Trustees so desire. Examples of designated funds could be an ITC fund to cover future expenditure to replace computers in subsequent years, or a premises fund to cover refurbishment or redecoration which is likely to occur in the near future.

As an example a Charity with annual expenditure of £80,000 might wish to keep 6 months running costs in general reserves. It may also know that as part of their lease the building has to be repainted every 5 years and in 3 years time they will need to pay for this at an estimated cost of £5,000. Their computers are old and they feel that they will need to be replaced in the next 2 years at a cost of £2,500.

Their reserves note could be shown in their accounts as follows:

Restricted reserves	£xxxx
Total restricted funds	**£xxxx**
Unrestricted reserves:	
Designated funds	
Premises	£5,000
ITC	£2,500
General funds	£40,000
Total unrestricted funds	**£47,500**

It is a good idea to show a movement of funds table highlighting the balances of each fund brought forward, any incoming and outgoing resources and any transfers from each fund. This gives a clear indication to funders where the money is being identified from and also informs them and statutory bodies that the funds are being used and not simply kept in order to boost general unrestricted funds.

If you would like further information or assistance with writing a reserves policy for your organisation please contact Tina Champion – Community Accountant on 020 8875 2845 or email comm.accountant@wvsda.org.uk

More Guidance Notes can be found on our website, www.wvsda.org.uk.

The Wandsworth Voluntary Sector Development Agency (WVSDA) provides information, advice and training to assist voluntary and community groups with issues relating to setting up and managing effective organisations. Whilst every effort is taken to ensure the information, advice and support we offer is current, relevant and accurate, it does not constitute legal advice.