Financial Reserves Policy

Introduction

This reserves policy explains to existing and potential funders, donors, beneficiaries and other stakeholders why we are holding a particular number of reserves. It gives confidence to stakeholders that our finances are being properly managed and will also provide an indicator of future funding needs and our resilience.

Oversight

Our reserves policy is a living document, and describes the process we will follow in creating it. The amount held in reserves will be monitored following the approval of our annual accounts as part of our budgetary process and financial monitoring.

Reserves

Reserves. Are that part of our unrestricted funds that are freely available to spend on any of our purposes. The items excluded from reserves are:

- designated funds set aside to meet essential future spending, such as funding a project that could not be met from future income.
- commitments that have not been provided for as a liability in the accounts.

Restricted Funds. Fall outside the definition of reserves, but the nature and amount of such funds may impact on the charity's reserves policy. Where significant amounts are held as restricted funds the nature of the restriction should be considered, as such funds may reduce the need for reserves in particular areas of the charity's work.

Developing Our Policy

There is no single method or approach to setting a reserves policy and the right approach depends on the size, complexity of activities, legal structure and the nature of funds received and held by our charity. The process we use involves:

- Consideration of the nature of the funds received and held by the charity:
    - Are the funds unrestricted or restricted income?
    - Understanding the nature of the funds allows trustees to identify unrestricted funds which can be spent on any purposes of our charity.

- Including future budgets and future projects or spending plans that cannot be met from the income of a single year, and uncertainties we may face in the future, such as the need to hold some reserves to meet an unexpected call on funds or opportunities that may present themselves.

We will use the above process to identify why reserves might need to be held and to decide the amount of reserves needed to operate effectively. We use the Charity Commission guidance on reserves (CC19) Annex 1 which sets an approach that can be used by smaller charities which do not hold significant amounts of endowed funds, property or operate a defined benefit pension scheme or carry out activities through trading subsidiaries.

Levels of Reserves

Our target level of reserves may be expressed as a target figure or a target range and will be informed by:

- Our forecasts for levels of income for the current and future years, taking into account the reliability of each source of income and the prospects for developing new income sources
- Our forecasts for expenditure for the current and future years on the basis of planned activity
- Analysis of any future needs, opportunities, commitments or risks, where future income alone is likely to fall short of the amount of the anticipated costs
- Assessment, on the best evidence reasonably available, of the likelihood of a shortfall arising which means that reserves are necessary, and the potential consequences for the charity of not being able to make up the shortfall.

Monitoring of Reserves

We will keep our reserves policy and the level of reserves held under review, and monitor the level of reserves held throughout the year to establish the reason for any significant difference with the target level set. If reserves during the year are below target or exceed target, we will consider whether this is due to a short-term situation or a longer-term issue, and take any appropriate action.

Annual Reporting

We will include in our annual report our policy on reserves, stating the level of reserves held and why these are held. If material funds have been designated, the reserves policy statement will quantify and explain the purposes of these designations and, where set aside for future expenditure, the likely timing of the expenditure.
We will ensure that our reporting of our reserves policy meets the requirements of the Charities Statement of Recommended Practice (SORP) (FRS 102) and the requirements of the Regulations.

Investing Reserves

When significant resources are held in reserves from year to year, the trustees should consider whether some or all of the reserves can be invested to obtain a financial return for the charity. In making the investment decision, the trustees should consider when the reserves might be needed (liquidity of the investment) and the acceptable level of investment risk.

Regulatory Guidance

Charity Commission - Charity reserves: building resilience.
Charity Commission - Managing a charity's finances: planning, managing difficulties and insolvency (CC12).
Charity Commission - Charities and Risk Management.
Charity Commission - Example trustees' annual reports and accounts for charities.
Charity Commission Operational Guidance 43 - Reserves.

Change record

Date of change	Change by	Reason for change
June 2025	BHS Main Committee	Adoption
October 2025	Tim Hess	Grammatical errors corrected