

# Thinking about strategic charity reserves management

*June 2023*

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Based on work commissioned by:



Scotland Funders'  
Forum

# Introduction

*'We're a small charity with a small turnover. We know we're supposed to have reserves but we're not sure how much and how they can be used.'*

It's commonplace for charities to feel this way: uncertain about what is expected or required; and unsure about holding too little or too much in their reserves. Assumptions that surround charity reserves have clouded the thinking and practice of many charities, restricting the potential for more appropriate and proportionate approaches.

This blog explores the idea of 'strategic charity reserves management': what it is, the benefits it provides, and how your charity can begin to implement it, drawing on our [research commissioned by the Scotland Funders' Forum](#).

## What are charity reserves and what is their purpose?

Charity reserves are funds that a charity can freely and readily spend on any of its charitable purposes. They can be defined as:

### Unrestricted

Not restricted or endowment funds.

### Liquid

Held as cash or other current assets. Not tied up as tangible fixed assets.

### Not designated

Funds not designated for another purpose.

The charitable mission is the key driving force for holding charity reserves. By holding reserves, charities can sustain activities and services in the event of adverse operating conditions and financial difficulties:

*'People rely on the foodbank. If we don't have the funds to help them, they suffer real poverty. We can't ethically take away our support, so our reserves enable us to continue supporting them.'*

Reserves can also provide a valuable source of finance for new high-risk projects and innovation.

## What is ‘strategic charity reserves management’?

It is difficult to make generalisations about required levels of reserves. Each charity is different, and a one-size-fits-all approach does not work. Understandably, there is also considerable variation in how charities manage their reserves.

At their best, charities adopt ‘strategic reserves management’, a considered and forward-looking approach based on their specific strategies and circumstances:

*‘Reserves are an accumulation of money, which can be retained for a rainy day, but it must be much more than that. Just because you get a surplus, it is not just for a rainy day. What is the long-term plan in terms of future aspirations? What are you trying to achieve? It should be more strategic.’*

For trustees and senior leadership, there are four core actions in strategic charity reserves management:

- **Consider multiple factors to determine required reserves:**
  - Your financial plan and budget
  - Risk of a significant and unexpected fall in income
  - Risk of unforeseen and unavoidable expenditure
- **Reflect on your own unique circumstances in your reserves policy and practices**
- **Maintain a focus on future strategic and operational plans**
- **Communicate your reserves policy effectively:**
  - Provide a commentary on how you have determined your target level of reserves and how you intend to meet it.

## What are the benefits of strategic charity reserves management?

- You can hold a level of reserves that is appropriate and preserves financial stability.
- You can respond and adapt to changing environments, including taking action to mitigate risks.
- You have the confidence to build and spend reserves as required.

## How can my charity manage our reserves?

- **Integrate reserves management with your strategic plans and budgets.**  
For example, integrate reserves management with your annual budget and risk review process: *‘As plans and risks change, charities may need to flex their reserves as well’.*
- **Have a skilled financial professional on your board.**
- **Access training and resources on reserves management** to enable your trustees to find an appropriate balance between confidence and caution.
- **Talk to your funders** about the need for:
  - Flexible funding: *‘Unrestricted and long-term funding is hugely valuable because it gives you the ability to plan and adapt to change, allowing money to be put into reserves if necessary’.*
  - Making informed assessments about your reserves: *‘Funders should assess each charity on its own respective, distinctive merits and avoid “rule of thumb” judgements: Look at the narrative and not just the figures’.*

When thinking about your reserves or speaking with funders, you can draw from the evidence in our report [‘Thinking about... charity reserves’](#) commissioned by the [Scotland Funders’ Forum](#).

### **About IVAR:**

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