



Association for Agency-Based Counselling  
& Psychotherapy in Ireland Ltd

## RESERVES POLICY GUIDE FOR CHARITIES<sup>1</sup>

*This document is only to be used as a guideline for organisations*

*Should you require any further support or have any queries please contact  
(AACPI National Director)*

[www.aacpi.ie](http://www.aacpi.ie)

This guidance is to assist Board members of charities to develop and disclose a reserves policy as recommended by the Code of Governance.

### 1. DEFINITION OF RESERVES

The Code of Governance for Charities and IPCs (Guideline 6.3.1) states that ***“While all charities should maintain some level of reserves to ensure long-term financial sustainability, the charity should disclose its reserves policy in the annual report.”***

The term "Reserves" is used to describe that part of a charity's income funds that is freely available for its operating purposes not subject to commitments, planned expenditure and spending limits. Reserves do not include endowment funds, restricted funds and designated funds.

### 2. WHY DO YOU NEED A RESERVES POLICY?

- a) Having a reserves policy helps inform the way in which a charity manages its cash, liquid assets and debt, that is, its treasury management approach.
- b) A comprehensive reserves policy will assist charities when planning and explaining their approach to stakeholders. It contributes significantly to the Board's ability to balance the needs of current and future beneficiaries, to provide stakeholders with assurances that the charity is well managed and that it has, where appropriate, a strategy for building up reserves.
- c) Without a reserves policy, the Board cannot be confident that their reserves level matches the charity's needs at the time. The charity could be holding reserves that are too high or too low for its needs.



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### **3. WHAT DOES A RESERVES POLICY COVER?**

***A Reserves Policy should cover as a minimum: (Refer to Annex)***

- a) The amount of reserves as at report date;
- b) What reserves level (expressed in the ratio of reserves to annual operating expenditure) the Board agrees the charity needs, together with the reasons why the charity needs this level;
- c) What steps the charity is going to take to establish or maintain reserves at the agreed level; and
- d) Arrangements for monitoring and reviewing the policy on a regular basis.

### **4. HOW DO YOU SET A RESERVES LEVEL?**

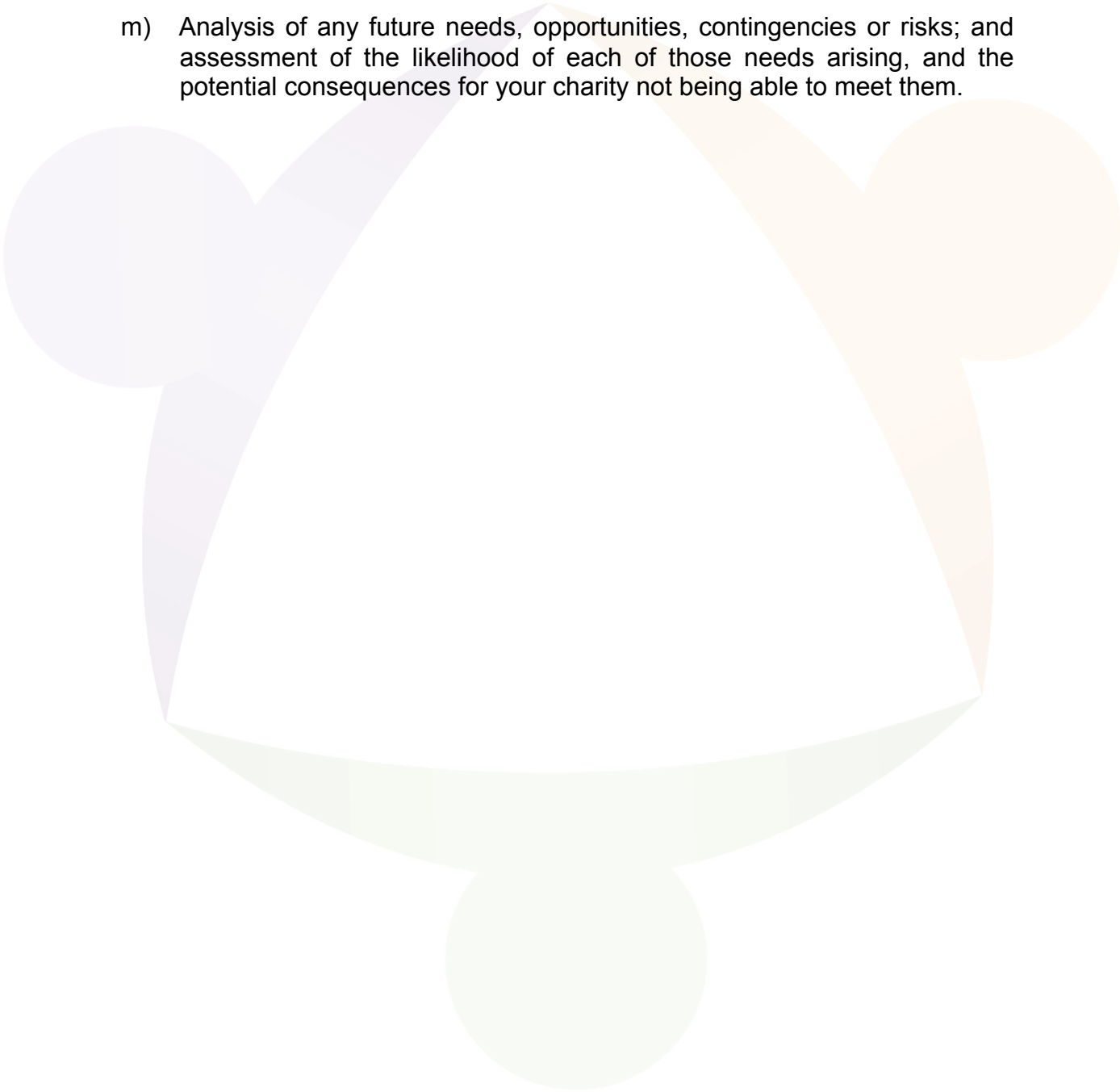
***An appropriate level of reserves could be set through:***

- a) Discussion with your manager, treasurer or member of the finance committee;
- b) Analysis of cash flow;
- c) Analysis of existing funds and reserves;
- d) Review of future income streams with an assessment of their reliability;
- e) Review of committed expenditure and how far this is controllable;
- f) Examination of past trends;
- g) Examining the likely changes in the main source of income;
- h) Assessment of how your charity may cope with changes in the main source of income;
- i) Studying the likely effects on the beneficiaries;
- j) Assessment of the risks facing the charity, and how likely these are to materialise;



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- k) Forecasting levels of income in future years (taking into account the reliability of each source of income, and the prospects for opening up new sources);
- l) Forecasting expenditure in future years on the basis of planned activities;
- m) Analysis of any future needs, opportunities, contingencies or risks; and assessment of the likelihood of each of those needs arising, and the potential consequences for your charity not being able to meet them.





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