



The Association of Jersey Charities: Guidance on Reserves

The Association acknowledges that all charities need to maintain sufficient reserves to continue their operations for a reasonable period.

However, organisations with significant reserves are expected to fully justify their reserve position when making a grant application. The resources of the Association are not unlimited and when deciding to make grants, it must ensure that funds are distributed to those organisations most in need.

Conversely, it must ensure that grants are not awarded to organisations which have negligible resources, could never become financially sustainable through their own fundraising efforts and would not be viable without Association support.

What do you mean by “reserves”?

Put simply, we mean liquid resources or free cash which, on the face of it, you could use to cover the cost of whatever it is you want the grant for or should be using to deliver your services.

We ask you to disclose all of your bank and investment balances and we also ask you to tell us how much (if any) of those funds can only be used for restricted purposes, as determined by the donor, or designated purposes, as determined by your organisation.

We do not take into account funds tied up in buildings from which you operate and we do not usually take into account the value of your investment portfolio if the income it generates is a significant source of income for the organisation.

The difference between your total cash and investments and your total restricted and designated funds is your free cash. It's that figure which your application needs to justify.

Formalising a reserves policy

The Association encourages all charities to formalise their reserves policy and include it in the notes to their financial statements. A reserves policy can be very simple, such as 'maintain sufficient reserves to cover operating costs for x months', or something more extensive if, for example, the organisation employs a lot of staff or undertakes complex activities which could only be wound down over a lengthy period.

The policy must be reasonable in light of the activities undertaken and the income sources of the organisation. A charity which, for example, has a three-year funding agreement in place with someone other than the Association could reasonably be expected to start building a reserve during that period if it knew that funding was not going to be renewed.

What level of reserves is reasonable?

This is entirely dependent on the nature of your activities – which is why we encourage governors to give the subject serious consideration and formalise a reserves policy.

Whilst it's difficult to give a definitive answer, an applicant with reserves in excess of 6 months' operating costs and no reserves policy can expect to have its grant application challenged. Moreover, if your grant request is for more than £15,000 you will be expected to provide a financial forecast, and we will give more weight to your projected reserves position than your historic reserves position. Don't forget that you are obliged to make full disclosure of your projected income from other sources in this forecast.

Financial sustainability is vital

It may seem unreasonable to deny grant funding to organisations with no reserves since apparently they are the most in need. We look at these on a case by case basis.

For example, a small charity may be run entirely by volunteers. Its own fundraising covers its typical annual costs – but it needs a grant for an exceptional expense, perhaps a website update. It has no 'reserves' but it doesn't need them. Its grant application would probably be successful as it appears to be sustainable.

On the other hand, an organisation with a dwindling bank balance, struggling to attract donations and seeking a grant to cover overheads would probably be unsuccessful in its application due to its questionable financial sustainability. In these circumstances, we would ask the governors to consider whether their cause could be better supported some other way – perhaps through collaboration or merger with another organisation or through shared resources.