

# **RS5 - Small Charities and Reserves**

(Version June 2003)



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# Introduction

This report examines the way in which small charities deal with the management of charity reserves.<sup>1</sup>

For trustees, consideration of the level of reserves their charity needs to hold is an important part of planning and sound financial management. It is also a key issue for the Charity Commission as the regulator. If reserves are set too high, they tie up money that could and should be spent on charitable activity. If they are too low, the future of the charity may be put at risk.

The Charity Commission's policy on the administration of small charities aims not to be overly prescriptive or to impose an unnecessary regulatory burden. The Commission does not expect or require small charities to produce sophisticated reserves policies. Reserves are important, however, and merit consideration which is proportionate to the size and nature of the charity.

Our research and casework findings indicate that whilst on the face of it a reserves policy may seem an irrelevance or luxury for small charities, thinking about such a policy (which can be simple, short and straightforward) can help charities use their charitable assets to better effect and help them plan for a sudden change in income or expenditure.

Many small charities will not have any reserves or the means to develop a reserve. However, small charities should ensure they are transparent in their operations and that they achieve their goals in an atmosphere of good practice. A reserves policy contributes positively towards this.

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<sup>1</sup> For the purposes of this report a small charity is defined in terms of its income. If a charity has an annual income of £10,000 or less in its last full financial year we will consider it to be a small charity. The term 'reserves' is defined in the glossary on page 19.

# Summary

Income funds that could be spent but are instead held back from expenditure, known as reserves, play a significant role in helping charities meet their objects and balance the needs of future and current beneficiaries.

Most small charities try to develop a reserve, but amounts and specific practices vary considerably. Whilst several small charities reported that they did not have any reserves, and were unable to develop them, half of the small charities that did not have a reserves policy do in fact have reserves.

There are many good reasons why small charities might need a reserve. Indeed, in some cases reserves are vital for the continuation of a charity. Trustees should not hold back, without good reason, funds that could be spent. Research showed that only 17% of small charities had a reserves policy at the time that the survey was undertaken. Trustees of small charities should think about devising a policy to explain their position. The policy needn't be difficult or complex. Small charities who had a policy generally found it easy to create and helpful to have.

Overall, small charities reported largely similar experiences in managing reserves to those in the higher income groups. The research findings for larger charities can be found in our publication **Charity Reserves (RS3)**.

## Recommendations

As good practice trustees of small charities should:

- give consideration to the issue of reserves and develop a policy that is proportionate to the needs of their charity;
- refer to Charity Commission guidance **Charities' Reserves (CC19)** even where they have had advice about their charity's reserves from a friend or associate.

In addition the Charity Commission will:

- emphasise proportionate reserves management, for small charities in an updated publication **Charities' Reserves (CC19)**;
- continue to develop easy and accessible advice for charities.

This report has been compiled using evidence from the Charity Commission's records and an examination of our case files. We have also spoken to numerous small charities and undertaken a survey.

## The regulatory position

Almost 100,000 charities in England and Wales fall into the category of 'small charity'. The Charity Commission takes an approach that is appropriate to the size of, and assets held by, these charities. Trustees are given much more freedom in taking straightforward, but important, decisions, freeing them from the need to always justify their actions to us in detail. A dedicated Small Charities Unit, based in Liverpool, handles the vast majority of issues affecting small charities and their trustees.<sup>2</sup>

Non-company charities whose gross income and total expenditure is less than £100,000 can produce either receipts and payments or accrual accounts.<sup>3</sup> They are also required to prepare a brief summary annual report (Charities Act 1993 Section 45 (1)).

Charitable companies are always required to produce accounts prepared on an accruals basis, even if their annual income and total expenditure is beneath the £10,000 threshold. The production of a Trustees' Annual Report is also necessary for charitable companies (Charities Act 1993 Section 45 and Companies Act 1985 Section 234).

Whilst there is no statutory requirement for small charities to file their accounts or records on an annual basis with the Charity Commission charities are required to be able to submit them for scrutiny, upon request (Charities Act 1993 Section 41 and Section 42).

**Accounting and Reporting by Charities, Statement of Recommended Practice (SORP 2000)** applies to all charities in

England and Wales regardless of their size, constitution or complexity. It provides the basis for the preparation of all accruals accounts, which we require to give a true and fair view, and also provides recommendations in other cases (ie on the preparation of receipts and payment accounts).

**SORP 2000** (Paragraph 31e) requires charities to disclose in their annual report a policy on the maintenance of reserves (if they have one). This requirement therefore also applies to small charities.

Whilst there is no specific legal requirement for charities to have a reserves policy, there is a clear implication that a charity will need a policy in order to justify the holding of any income funds in reserves. There is a legal requirement for charities with a policy to disclose that policy in their annual report. For further details and the position relating to Charitable Companies please refer to **Charity Reserves (RS3)**.

## Why charities have reserves

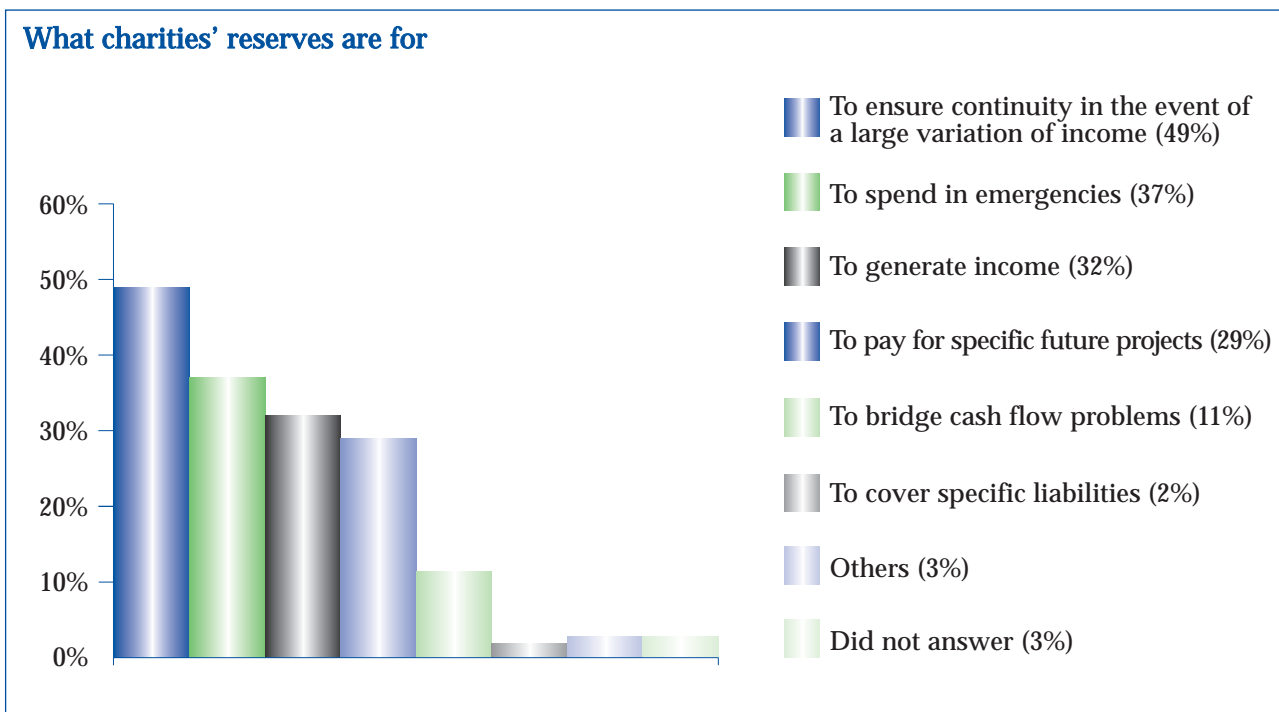
Mirroring the findings of the large charities survey, those charities that had reserves used them to ensure continuity in the event of a large variation of income (49%) or to spend in emergencies (37%).

Charities whose main activity was the provision of financial assistance were more likely to use their reserves to generate future income (49%) than those whose main activity was service provision (19%). Service provision charities used their reserves most often 'to ensure continuity in the event of a large variation in income'.

<sup>2</sup> Our Taunton office provides advice for small charities in Wales and those operated by the Armed Forces.

<sup>3</sup> This therefore includes small charities.

## Findings



### Determining the reserves level

Trustees need to be confident that they have the right level of reserves. Too much in reserves and trustees may be acting in conflict with their duty to apply income within a reasonable time. Too little and trustees may be placing their organisation at avoidable risk.

The Charity Commission is not prescriptive about the level of reserves that a charity should have and each charity must decide how much they require based on their particular circumstances and after due consideration of the risks that their organisation faces.

In a survey commissioned by the Charity Commission charities were asked to describe how they decided on the appropriate level of reserves for their charity. The most common responses were:

- through a cash flow analysis;
- discussion with manager, treasurer or member of the finance committee; or

- through an examination of past trends.

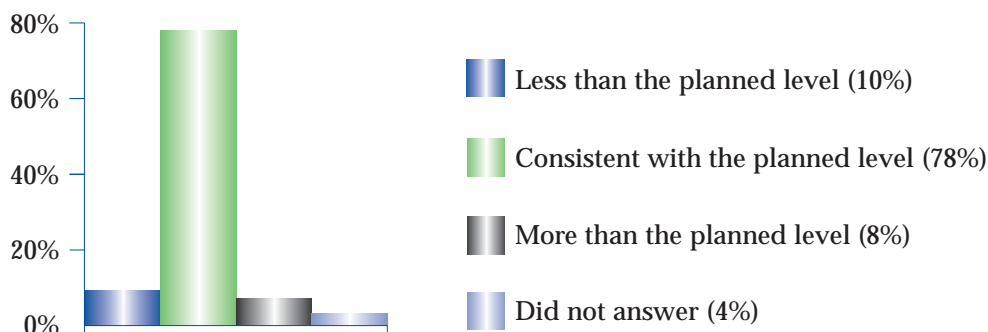
Small charities should undertake a risk assessment of their activities which is proportionate to the needs of their organisation. At a basic level this gives an opportunity to determine potential activities where a liability or problem may arise. This may include examining patterns of incoming and outgoing resources through a series of questions, for example:

- How likely is it that our main source of income will change?
- How would we cope if it did?
- How would our beneficiaries be affected?

When examining the actual levels of reserves, the results for small charities were very encouraging. The vast majority of small charities (78%), irrespective of organisational activity, had reserves that were consistent with their planned level. This compares with 58% who held their planned level in the larger charity survey **Charity Reserves (RS3)**.

## Findings

### Actual and planned levels of reserves for small charities



Of those charities whose level of reserves was not currently consistent with that planned, 15% of charities that provided financial assistance had more than the planned level of reserves, whereas 16% of the charities that provided services or support reported having less than the planned level of reserves.

Whilst many small charities reported that they had reserves, the experience of being unable to create an essential reserve was also common.

*"We have difficulty staying 'in the black' let alone developing reserves."*

Survey respondent

Small charities that are unable to create an essential reserve should consider how they would manage if they experienced a drop in their usual income source. Trustees should satisfy themselves that they have strategies for coping in this scenario by, for example, diversifying income streams and not relying on only one source of funding.

It is entirely legitimate for charities who have been unable to build up reserves to the desired level to fundraise specifically

for that purpose, provided that donors are made fully aware of the purpose for which the funds are required.

Many of the charities surveyed reported that they only spent the money that they received in a year and never committed beyond that in advance.

*"There must be no reserves, as parents expect the money that they have helped raise to be spent on their children, not on someone else's two years later."*

Survey respondent

In these circumstances it is entirely appropriate to have no reserves and a simple statement outlining the reasons for this would be an ample description of their position.

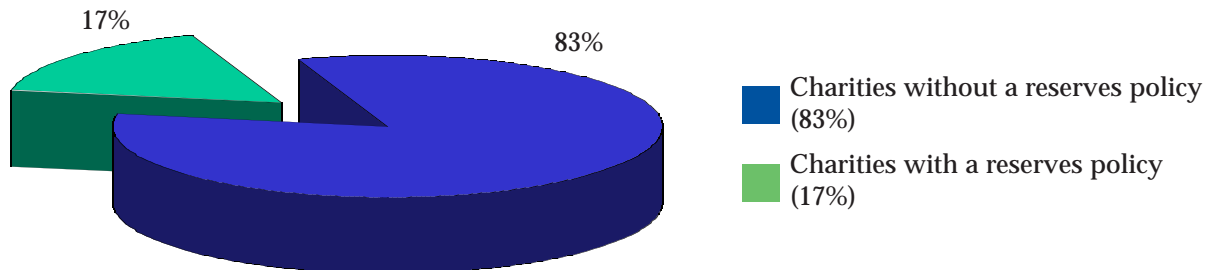
### Reviewing the reserves position

The research showed that small charities which had a reserves policy were almost as likely to review their policy on a regular basis as larger charities. 58% of small charities review their reserves policies annually compared with 64% of larger charities.



## Findings

### The extent of reserves policies in small charities



### Extent of reserves policies

Only 17% of the small charities surveyed had a reserves policy in place.

The most common type of activity that charities who had a reserves policy undertook was the provision of financial assistance (46%) whereas for those without a reserves policy it was the provision of services/support (46%). Table 1, Annex A, gives details of responding charities by key characteristics.

Although 83% of charities stated that they did not have a policy on reserves many reported having an 'unofficial' or 'working' policy.

*"We have an unwritten policy not to spend everything, this seems to work - [it is a] good house keeping policy"*

Survey respondent

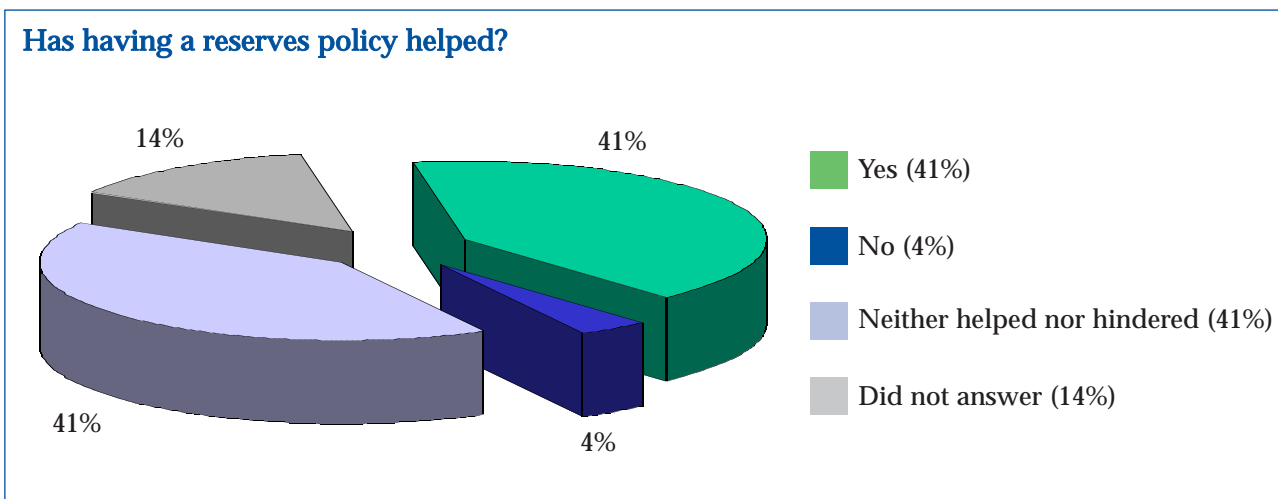
*"Its just a general understanding and has not been formulated into a written policy."*

Survey respondent

As good practice trustees who currently work within a 'general understanding' or 'good housekeeping policy' should seek to formalise this in a written statement. This ensures that it is available for new trustees, donors, beneficiaries or any other interested stakeholder to see. Where the charity has a reserves policy, trustees are obliged to publish it in their annual report.

Overall, charities who had taken time to consider the issue and develop a policy, found that it had been useful. 41% of charities with a policy said that it had helped their charity and only 4% said that it had been unhelpful.

## Findings



Whilst the need to develop a reserves policy may seem a daunting requirement, the majority of the charities surveyed felt that it was not particularly difficult. Only 3% of charities currently with a policy said that it was 'quite or very difficult' to produce.

Generally a small charity with a simple stable pattern of receipts and payments, few if any commitments, and little susceptibility to outside influences should be able to cover these matters relatively quickly and to record briefly the trustees' conclusion.

Where small charities have a large asset portfolio or significant endowments, consideration of reserves will need extra care. Charities with these characteristics are advised to consult **Charity Reserves (RS3)**, **Charities' reserves (CC19)** and **Charity income reserves (OG43)** to ensure that the policy they have and the level of consideration given is proportionate to their assets.

- The Charity Commission will emphasise proportionate reserves management for small charities in an updated publication **Charities' Reserves (CC19)**.

## Developing a policy

The survey showed that the 'trustee body as a whole' was responsible for creating the reserves policy in the majority of cases (60%).

The Charity Commission's publication **Charities' Reserves (CC19)** was commonly used as guidance (19%) when setting reserve levels and devising a policy. A professional advisor was also a key source of information, with 20% of small charities turning to them for advice.

Friends or associates featured significantly (19%) which represents a higher number than that reported in the larger charity survey (7%). Those who sought advice from a friend or associate found creating their policy easier than those who turned to the formal Charity Commission guidance. 70% found the process either very easy or quite easy, compared with 47% using the Commission's guidance.

Charities were given the opportunity to state how the process of developing a reserves policy could be made easier for them. Whilst few survey respondents chose to answer this question, those who did requested more specific direction and advice from the Charity Commission.

## Findings

85% of respondents with no policy had not sought advice from anywhere. Where charities had sought advice but still not developed a policy the main reason was that they had no funds to keep in reserves.

Various explanations as to why charities had not developed a policy were given.

44% of charities without a policy reported that they had not considered having one. A further 44% said it was because they had no funds to keep in reserves and 35% said it was because they are not obliged to have one.<sup>4</sup>

Only 5% of charities reported that they had not created a policy because they didn't have enough time to do it and only 3% felt hindered because it was too difficult.

- As good practice trustees of small charities should give consideration to the issue of reserves and develop a policy that is proportionate to the needs of their charity.
- The Charity Commission will continue to develop easy and accessible advice for charities.

### Explaining the reserves position

Charities who have set their reserves level based on the needs of their organisation should have no problem in explaining this decision to their stakeholders through their reserves policy.

**Charities' Reserves (CC19)** sets out a number of elements that a good reserves policy covers, including four key areas:

- the reasons why the charity needs reserves;

- what level (or range) of reserves the trustees believe the charity needs;
- what steps the charity is going to take to establish or maintain reserves at the agreed level (or range); and
- arrangements for monitoring and reviewing the policy.

As was the case with large charities, small charities detailed their intentions for monitoring and reviewing their policy and the steps trustees would take to establish or maintain reserves at the agreed level far less frequently than they covered the other two aspects (the reasons why the charity needs reserves and the level or range the trustees believe they need).

Encouragingly, charities that had used **Charities' Reserves (CC19)** were much more likely to have a written statement that covers all of the four key areas. 71% of survey respondents who had read the guidance outlined in their written statement the level or range the charity trustees believe that the charity needs. This compares with only 12% of charities that sought advice from a friend or associate.

41% of charities that used **Charities' Reserves (CC19)** included in their reserves statement the reasons why their charity needed or did not need reserves, while none of those who turned to a friend or associate for advice addressed this issue in their written policies.

These results indicated that whilst informal methods of getting information are useful and make policy creation easier, trustees of small charities need to take care to ensure that the advice they receive covers all of the best practice advice. As a check, trustees should consult formal Charity Commission guidance as well.

<sup>4</sup> Respondents could give more than one answer.

## Findings

- As good practice trustees of small charities should refer to Charity Commission guidance **Charities' Reserves (CC19)** even where they have had advice about their charity's reserves from a friend or associate.

### Policy disclosure

52% of small charities do not publicise their reserves policy. Of those that do, almost a third (32%) publish them in the trustee's annual report.

Small charities were asked to indicate the number and range of parties that had expressed an interest in their reserve policy. 42% stated that their trustees had been interested in the policy and a smaller number of charities reported that their auditor, grant giving body, donors, employees or members had been

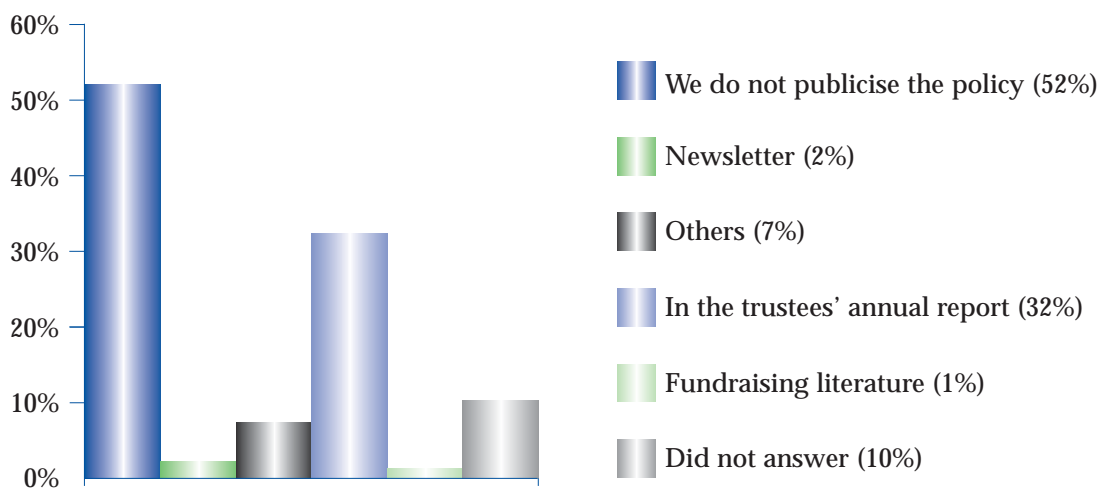
interested. However, many charities (42%) with a policy in place had never been asked about it by anyone. This experience was significantly more common for smaller charities than it was found to be in the larger charity survey, where in only 16% of charities nobody had been interested in their policy prior to the survey.

Although many small charities have not been asked about their reserves policy in the past, it is likely that interest in this area of charity management will increase.

Reserve policies are a useful tool for small charities, they contribute positively to good management and facilitate transparency.

Reserves policies are often simple and straightforward to develop and trustees of small charities generally benefit from giving reserves proportional consideration.

#### Where the reserves policy is published



**Note:** total adds up to more than 100% as respondents could give more than one answer.

## Annex A - Research Techniques

Phase one of the research on reserves involved examining the experience of charities with an annual income over £10,000. The findings from this research are presented in **Charity Reserves (RS3)**.

To obtain a copy of **Charity Reserves (RS3)** you can either:

- view and print from the publications section of our website; or
- call our Contact Centre staff for a printed copy on 0870 333 0123 (between 8.30 am and 6.00 pm on weekdays) or (at other times) our answer phone order line on 01823 345427.

**Small Charities and Reserves (RS5)** reflects the experience of charities whose annual income is below £10,000 and has been compiled through phase two of the research.

Phase two of the research involved an examination of Charity Commission small charity casework and discussions with individual charities. An independent research company undertook a postal survey of 1200 small charities on behalf of the Charity Commission during the summer of 2002.

The small charity survey achieved a response rate of 44%. This is high for a survey of this type.

Responses were provided by 90 charities with a reserves policy and 443 without. Accordingly, further subdivision and analysis of those with a policy involves an extremely small base size. These circumstances are indicated in the tables.

## Survey Findings

**Table 1: Profile of respondents**

		<b>With Reserves Policy %</b>	<b>Without Reserves Policy %</b>
<b>Has a policy</b>	With Reserves Policy	17	-
	Without Reserves Policy	-	83
<b>Main activity</b>	Providing financial assistance	46	37
	Providing services/support	41	46
	Acting as umbrella/resource body	2	5
	Sponsoring or undertaking research	0	1
	Other	4	4
	Did not answer	7	9
<b>Main source of income</b>	Contract	2	2
	Donors	10	17
	Grants	3	6
	Investments	42	26
	Members	20	22
	Trading subsidiary	0	1
	Other	16	17
	Did not answer	7	10
<b>Base</b>		<b>90</b>	<b>443</b>

## Survey Findings

**Table 2: Overall view to having a reserves policy**

Has having a policy helped the charity?

	Total	
	%	Number
Yes	41	37
No	4	4
Neither helped nor hindered	41	37
Did not answer	14	12
<b>Base</b>	<b>90</b>	

**Table 3: Sources of advice/information small charities use to set reserves level and develop a policy**

	Total	
	%	Number
A professional advisor	20	18
CC19 - Charity Commission Guidance	19	17
Friend or Associate	19	17
Advice from Auditors	17	15
SORP 2000	7	6
Sector periodicals	2	2
SORP examples - CC66	2	2
Operational guidance from Charity Commission website	1	1
Others	28	25
Did not use any of the above	22	20
Did not answer	3	3
<b>Base</b>	<b>90</b>	

\* Note that respondents could give more than one option, so total may be more than 100%

## Survey Findings

**Table 4: Ease of creating policy - by sources of advice/information used**

Advice/ info used	Ease of creating policy						Base
	Very easy %	Quite easy %	Neither easy nor difficult %	Quite difficult %	Very difficult %	Did not answer %	
A professional advisor	17	33	33	0	6	11	<b>18</b>
Advice from auditors	33	27	27	0	0	13	<b>15</b>
CC19 - CC Guidance	29	18	47	6	0	0	<b>17</b>
Friend or associate	29	41	29	0	0	0	<b>17</b>
Operational Guidance from CC website	0	0	100	0	0	0	<b>1*</b>
Sector periodicals	0	0	100	0	0	0	<b>2*</b>
SORP examples - CC66	0	50	50	0	0	0	<b>2*</b>
SORP 2000	33	33	33	0	0	0	<b>2*</b>
Others	48	20	28	4	0	0	<b>25</b>
Did not use any of the above	35	25	40	0	0	0	<b>20</b>

\* Note extremely small base

**Table 5: Who was the main architect of the policy?**

	Total	
	%	Number
Trustee body as a whole	60	54
Specific member of the trustee body	19	17
Member of staff	7	6
Auditor	3	3
Professional advisor	2	2
Other	4	4
Did not answer	4	4
<b>Base</b>		<b>90</b>



## Survey Findings

**Table 6: Areas written statement sets out - by sources of advice/information used\***

Sources of advice/ information used	What written statement sets out						Base
	The level or range the trustees believe the charity needs	Reasons why your charity needs/does not need reserves	Steps charity is going to take to establish/maintain reserves at agreed level/range	Arrangements for monitoring and reviewing the policy	We do not have a written policy	Did not answer	
	%	%	%	%	%	%	
A professional advisor	22	11	11	11	61	17	18
Advice from auditors	40	20	33	7	47	13	15
CC19 - CC Guidance	71	41	24	24	29	0	17
Friend or associate	12	0	0	0	77	12	17
Operational Guidance from CC website	0	0	0	0	100	0	1**
Sector periodicals	100	100	50	50	0	0	2**
SORP examples - CC66	50	50	50	0	50	0	2**
SORP 2000	83	83	67	33	17	0	6**
Others	24	24	0	8	48	12	25
Did not use any of the above	15	0	0	0	75	15	20

\* Note total may add up to more than 100% as respondents could give more than one answer

\*\* Note very small base

**Table 7: Parties that have expressed an interest in charities' reserves policies\***

	Total	
	%	Number
Trustees	42	38
No one has expressed an interest	42	38
Auditors	12	11
Charity Commission	10	9
Grant-giving bodies	9	8
Financial advisors	4	4
Donors	2	2
Employees	2	2
Fundraisers	2	2
Members	1	1
Others	2	2
Did not answer	6	5
<b>Base</b>	<b>90</b>	

\* Note total may add up to more than 100% as respondents could give more than one answer

## Survey Findings

**Table 8: Reasons given for not having a reserves policy**

	Total	
	%	Number
Have not considered having one	44	193
No funds to keep in reserves	44	193
Not obliged to have a policy	35	157
Don't know how to create the policy	9	39
No time to consider the issue of reserves	5	22
Too difficult	3	11
Do not want to disclose this information to others	2	8
Others	11	50
Did not answer	2	9
<b>Base</b>	<b>443</b>	

**Table 9: Does your charity have any money that could be described as reserves? (respondents without a reserves policy)**

	Total	
	%	Number
Yes	51	225
No	45	197
Don't know	3	11
Did not answer	2	10
<b>Base</b>	<b>443</b>	

## Survey Findings

**Table 10: How did you decide on the level of reserves to keep? (respondents with a policy)**

	Total	
	%	Number
By discussion with management/treasurer/finance committee etc	14	13
Cash flow analysis	14	13
Looked at past trends	12	11
To retain present levels of investment/investment income	9	8
Ready money/surplus funds/accumulated income/legacies	8	7
Up to and including two years' running costs/expenditure	8	7
Minimum sum required to maintain purpose of charity	7	6
Working capital constitutes reserves	4	4
Planned/budgeted expenditure	4	4
Stay with a fixed/set amount of reserves	4	4
Followed recommended guidelines/portfolio from professional bodies	3	3
Personal judgement/experience	2	2
Sufficient to generate income	2	2
<b>Base</b>	<b>90</b>	

**Table 11: Level of reserves held by charities with a policy**

Is the current amount that you hold in reserves ....?

	Total	
	%	Number
Less than the planned level	10	9
Consistent with the planned level	78	70
More than the planned level	8	7
Did not answer	4	4
<b>Base</b>	<b>90</b>	

## Survey Findings

**Table 12: Current amount in reserves - by main organisational activity (respondents with a policy)**

Amount in reserves	Main organisational activity				
	Financial assistance %	Service/support %	Umbrella %	Research %	Other %
Less than the planned level	5	16	0	0	25
Consistent with the planned level	78	78	100	0	50
More than the planned level	15	3	0	0	0
Did not answer	2	3	0	0	25
<b>Base</b>	<b>41</b>	<b>37</b>	<b>2*</b>	<b>0</b>	<b>4*</b>

\* Note very small base

\* Note total may add up to more than 100% as respondents could give more than one answer

**Table 13: Steps taken to remedy the situation where reserves were higher or lower than planned (respondents with a policy)**

	Total	
	%	Number
Continue/increase fundraising	19	3
Appeal to congregation/other charities/institutions for funds	13	2
Funds are falling/will be reduced	13	2
Monitor/reduce expenditure	6	1
Reinvest interest/dividends	6	1
Capital projects planned	6	1
Reserves seen as minimum figure, happy/acceptable if they are higher	6	1
Did not answer	38	6
<b>Base</b>	<b>16</b>	

## Survey Findings

**Table 14: What charities' reserves are for (respondents with a policy)\***

	Total	
	%	Number
To ensure continuity in the event of a large variation of income	49	44
To spend in emergencies	37	33
To generate income	32	29
To pay for specific future projects	29	26
To bridge cash flow problems	11	10
To cover specific liabilities, eg pension/contractual commitments	2	2
Others	3	3
Did not answer	3	3
<b>Base</b>	<b>90</b>	

\* Respondents could give more than one answer so total may add up to more than 100%

**Table 15: What charities' reserves are for - by main organisational activity\***

What reserves are for	Main organisational activity				
	Financial assistance %	Service/ support %	Umbrella %	Research %	Other %
To ensure continuity in the event of a large variation of income	39	57	50	0	50
To spend in emergencies	22	46	50	0	75
To generate income	49	19	50	0	0
To pay for specific future projects	24	27	50	0	100
To bridge cash flow problems	7	16	0	0	0
To cover specific liabilities, eg pension/contractual commitments	2	3	0	0	0
Others	5	3	0	0	0
Did not answer	5	3	0	0	0
<b>Base</b>	<b>41</b>	<b>37</b>	<b>2**</b>	<b>0</b>	<b>4**</b>

\* Respondents could give more than one answer so total may add up to more than 100%

\*\* Note very small base

## Annex B - Glossary of Terms

**Reserves.** The term "reserves" has a variety of technical and ordinary meanings, depending on the context in which it is used. As in **SORP 2000**, here we use the term 'reserves' (unless otherwise indicated) to describe that part of a charity's income funds that is freely available for its general purposes.

Reserves are therefore the resources the charity has or can make available to spend for any or all of the charity's purposes once it has met its commitments and covered its other planned expenditure.

More specifically **SORP 2000** defines reserves as income which becomes available to the charity and is to be spent at the trustees' discretion in furtherance of any of the charity's objects (sometimes referred to as 'general purpose' income); but which is not yet spent, committed or designated (ie is 'free'). This definition of reserves therefore excludes:

- permanent endowment;
- expendable endowment;
- restricted funds;
- designated funds; and
- income funds which could only be realised by disposing of fixed assets held for charity use.

**Income funds** are all incoming resources that become available to a charity and that the trustees are legally required to apply in furtherance of its charitable purposes within a reasonable time of receipt (the proper exercise of a power of accumulation is an application).

**Unrestricted funds (including designated funds)** are expendable at the discretion of the trustees in furtherance of the charity's objects. If part of an unrestricted fund is earmarked for a particular project it may be designated as a separate fund, but the designation has an administrative purpose only, and does not legally restrict the trustees' discretion to apply the fund.

**Restricted funds** are funds subject to specific trusts, which may be declared by the donor(s) or with their authority (eg in a public appeal) or created through legal process, but still within the wider objects of the charity. Restricted funds may be restricted income funds, which are expendable at the discretion of the trustees in furtherance of some particular aspect(s) of the objects of the charity. Or they may be capital (ie endowment) funds, where the assets are required to be invested, or retained for actual use, rather than expended.

**Endowment funds.** An endowment fund where there is no power to convert the capital into income is known as a **permanent endowment fund**, which must generally be held indefinitely. This concept of 'permanence' does not, however, necessarily mean that the assets held in the endowment fund cannot be exchanged (though in some cases the trusts will require the retention of a specific asset for actual use eg a historic building), nor does it mean that they are incapable of depreciation or loss. What it does mean is that the permanent endowment fund cannot be used as if it were income (ie to make payments or grants to others).

## Glossary of Terms

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Trustees may have the power to convert endowment funds into expendable income; such funds are known as **expendable endowments**. (Expendable endowment is distinguishable from 'income' by the absence of a positive duty on the part of the trustees to apply it for the purposes of the charity, unless and until this power to convert into 'income' is actually exercised.) If such a power is exercised the relevant funds become restricted or unrestricted income, depending upon whether the trusts permit expenditure for any of the purposes of the charity, or only for specific purposes.

**Must** is used to refer to actions that trustees, or their agents or employees are obliged to take by law.

**Should** is used to suggest actions which we consider to be good practice and which we expect trustees to follow.

## Annex C - Advice and Information

Charity Commission advice and information for small charities is arranged in the following ways:

### **The Charity Commission for England and Wales**

#### ■ *For small charities in England*

Small Charities Unit  
2nd Floor  
20 Kings Parade  
Queens Dock  
Liverpool L3 4DQ

#### ■ *For small charities in Wales and those operated by the Armed Forces*

Woodfield House  
Tangier  
Taunton  
Somerset  
TA1 4BL

Tel: 0870 3330123  
Minicom: 08703330125  
E-mail: [enquiries@charitycommission.gsi.gov.uk](mailto:enquiries@charitycommission.gsi.gov.uk)  
Website: [www.charitycommission.gov.uk](http://www.charitycommission.gov.uk)

### **The following Charity Commission publications may be of use:**

Charity Accounts 2001 The Framework	(CC61)
Charities' Reserves	(CC19)
Charity Income Reserves	(OG43)
Small Charities: Principles of Commission Policy	(OG 200)

**To view the full list of resources and the bibliography relating to this report please see Charity Reserves (RS3).**