

Guide to setting your Reserves Policy

Introduction

Every village hall charity should consider what level of financial reserves it needs to remain financially resilient and continue delivering its charitable purposes.

A reserves policy helps trustees think ahead. It provides a framework for managing financial uncertainty, maintaining the building, responding to emergencies and meeting future liabilities. A clear reserves policy also demonstrates good governance and helps explain to members, funders and regulators why the charity holds the level of reserves that it does.

There is no single "correct" level of reserves. What is appropriate for one hall may be wholly inappropriate for another. Trustees should base their decisions on the particular circumstances, risks and future needs of their own charity.

What are reserves?

In simple terms, reserves are the funds that are freely available for the charity's general purposes.

When considering reserves, trustees should distinguish between:

Type of fund	Description
Restricted funds	Money that must be used for a specific purpose because the donor or funder has imposed conditions.
Designated funds	Unrestricted money that trustees have earmarked for a particular purpose such as building repairs or refurbishment. Trustees can redesignate these funds if circumstances change.
General funds	Unrestricted money available for the charity's general purposes.
Reserves	The portion of unrestricted funds that is readily available to support the charity's work.

A common misunderstanding is that a village hall's building forms part of its reserves. This is generally not the case. A hall may own a building worth hundreds of thousands of pounds, but that asset cannot easily be used to pay bills, fund repairs or cover unexpected costs. Trustees should therefore focus on cash and other readily available funds when assessing reserves.

Why does a village hall need reserves?

Reserves help ensure that the charity can continue operating when unexpected events occur.

Examples might include:

- Failure of the heating system.
- Emergency roof repairs.
- Flooding or storm damage.
- Vandalism or break-ins.
- Major electrical works.
- Unexpected increases in utility costs.
- Significant loss of letting income.
- Delays in receiving grant payments.
- Essential replacement of furniture or equipment.
- Future building refurbishment projects.

Without adequate reserves, trustees may find themselves unable to address urgent maintenance issues or continue operating the hall safely and effectively.

Setting an appropriate level of reserves

Trustees should avoid adopting an arbitrary target such as "three months' expenditure" without considering the hall's actual needs.

Instead, a simple four-step approach is recommended.

Step 1 – Identify potential liabilities and risks

Consider:

- What could go wrong?
- What major costs are foreseeable?
- What would happen if income reduced significantly?

Examples might include:

- Boiler replacement.
- Roof repairs.
- Replacement of kitchen equipment.
- Structural repairs.
- Temporary closure of the building.

Step 2 – Estimate likely costs

Trustees do not need precise figures, but they should develop reasonable estimates.

For example:

Risk	Estimated cost
Boiler failure	£15,000
Roof repair	£15,000
Emergency electrical works	£3,000
Loss of major hirer	£2,500

Step 3 – Assess likelihood and timing

Ask:

- Is this likely to occur within the next year?
- Within the next five years?
- Within the next ten years?

Not every risk requires money to be set aside immediately, but trustees should understand their exposure.

Step 4 – Agree a reserves target

Having considered foreseeable risks, trustees should determine:

- A minimum level of reserves.
- A target level of reserves.
- The circumstances in which reserves may be used.

The target may be expressed as:

- A monetary amount (for example £15,000).
- A range (for example £12,000 to £18,000).
- A number of months' operating expenditure.

The chosen approach should be supported by the charity's risk assessment and financial forecasts.

Building reserves

Many village halls operate on very tight margins and may not immediately hold the level of reserves they would ideally like.

In such circumstances trustees should:

- Include a modest surplus within annual budgets where possible.
- Build reserves gradually over several years.
- Consider whether unrestricted fundraising can contribute towards reserve levels.
- Explain clearly to members and funders why reserves are being accumulated.

It is entirely reasonable for trustees to build reserves over time where this supports prudent financial management and long-term sustainability.

Designated Funds

Many village halls choose to create designated funds for major future expenditure.

Examples include:

- Building refurbishment fund.
- Roof replacement fund.
- Heating replacement fund.
- Equipment replacement fund.

Designating funds can help demonstrate that trustees are planning responsibly for known future costs.

However, trustees should remember that designated funds remain unrestricted funds. Unlike restricted funds, the trustees can change or remove a designation if circumstances require it.

Reviewing the Policy

The reserves policy should be reviewed at least annually, usually when the budget is approved.

Trustees should consider:

- Current reserve levels.
- Changes in income.
- Building condition surveys.
- Planned maintenance works.
- Emerging risks.
- Future opportunities.

The policy should evolve as the circumstances of the charity change.