

## The challenges of regulatory data

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## policy and practice

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# The challenges of regulatory data: a case study of British charity reserves reporting

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Charity reserve levels are widely used as a measure of financial vulnerability, of both individual charitable organisations and the wider sector. This paper assesses the mandated reporting of reserves by a large sample of British charities. We find that many charities are reporting figures that do not match the definition of reserves given by regulatory bodies. We therefore recommend caution when using extant reserves data, and that increased attention should be paid to the preparation of such data.

**Key words** financial reserves • annual report • regulatory data • financial vulnerability

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## Introduction

The level of reserves that charities hold is seen as an important measure of their resilience (Mohan et al, 2022). As Kim and Mason (2022) demonstrate, extant research consistently finds that reserves help organisations navigate periods of financial uncertainty or crisis (Booth et al, 2017; Cortis and Lee, 2019; Irvin and Furneaux, 2021; Kim and Mason, 2022: 2). Furthermore, Pascoe (2017) suggests that the maintenance of reserves increases the chances that a charity will remain sustainable in the medium to long term. Charity reserve levels are therefore widely used as a key measure of financial risk (Cortis and Lee, 2019). Given the importance of the voluntary sector for both public service delivery and democratic pluralism (Tuckman and Chang, 1991) – as well as the challenges raised in the United Kingdom (UK) as a result of the COVID-19 pandemic, uncertainties after Brexit and high inflation – the financial sustainability of UK charities is of particular concern.

### *What are reserves?*

Conceptually, Sloan et al (2016: 417) define reserves as money that charities set aside to ‘stabiliz[e] periods of fiscal stress by providing a cushion against unexpected events, an opportunity to seize a strategic opportunity, or even the ability to smooth cash flow problems’. The precise nature of what counts as ‘reserve’ money is, however, contested and context-dependent. In their study of non-profits in the United States (US), Irvin and Furneaux (2021: 2) suggest a difference in definition between emergency reserves, operational reserves and cash reserves. However, in the UK, reserves are generally considered to be all of ‘that part of a charity’s unrestricted funds<sup>1</sup> that is freely available to spend’ (CCEW, 2016).

Reserves do not, however, equal a charity’s total unrestricted funds, as some or all of these monies may not be freely able to spend. The Charity Commission for England and Wales (CCEW) therefore defines reserves more precisely, as a charity’s unrestricted funds excluding:

- ‘tangible fixed assets used to carry out the charity’s activities, such as land and buildings
- programme-related investments [–] those held solely to further the charity’s purposes
- designated funds set aside to meet essential future spending, such as funding a project that could not be met from future income
- commitments that have not been provided for as a liability in the accounts’ (CCEW, 2016, updated 2019).

The Office of the Scottish Regulator (OSCR) similarly defines reserves as:

the funds that your charity has which can be freely spent on any of its charitable purposes. This definition excludes restricted income funds and endowment funds as these must be spent in a specific way. Reserves will also normally exclude tangible fixed assets held for the charity’s own use ... Amounts already set aside for essential future spending (designated funds) are also excluded from reserves. (OSCR, 2017)

While reserves are therefore a contested concept, in this paper we use the CCEW/OSCR definition of reserves, as this is the standard against which English, Welsh and Scottish charities<sup>2</sup> should be reporting.

### *English, Welsh and Scottish charity reporting of reserves data*

In England and Wales, larger charities (those with an annual income of £500,000 or above) must report their reserve levels to the CCEW in two places: in their annual returns and in their trustees’ annual reports. Annual returns consist of an online form into which charities manually submit certain required information. Trustees’ annual reports are narrative reports submitted to the CCEW in concert with the charity’s annual accounts. Charities with an annual income of less than £500,000 are required to report their reserves in their trustees’ annual report, but not their annual returns (CCEW, 2016). This paper focuses on charities that reported an annual income of £500,000 or above for financial years ending in 2019.

Scottish charities are not required to report reserves data in their annual returns, but – as for English and Welsh charities – they are required to publish this information in their trustees' annual report. These trustees' annual reports are submitted to the OSCR along with the charity's annual accounts.

### *The reliability of reserves data*

To understand the health of the charity sector, as well as of individual charities, it is essential that researchers, policy makers and practitioners have access to accurate and reliable data on financial vulnerability, such as levels of reserves (Dayson, 2013). While regulatory data have the potential to provide such evidence for the voluntary sector at a large scale (Clifford, 2017; McDonnell and Rutherford, 2022: 134), there are pressures on charities to inaccurately report financial statements, and reserve levels in particular (Krishnan and Yetman, 2011; Mahmood, 2020).

In the UK, prior small-scale studies – such as by the CCEW (2018) and BDO UK (2020) – have identified challenges with the reliability of reserves data published in trustees' annual reports and accounts. Beyond this, however, there has been limited academic scrutiny of the way in which charities report reserves in their trustees' annual reports and accounts, nor of the reserves data published in charities' annual returns.

This policy and practice paper draws on a large sample of data from English and Welsh charities' annual returns, as well as from English, Welsh and Scottish trustees' annual reports and accounts, to present evidence that:

- Many charities are reporting 'reserves' figures that do not match the definition of reserves given by the CCEW/OSCR.
- There is substantial within-year and year-on-year inconsistency in the methods that charities use to calculate their reported reserves.
- There is substantial variation between charities regarding how they report their reserves.

The findings of this paper suggest that the regulators, sector bodies and charities themselves need to do important work to improve understanding and the management of reserve levels. Given that the English and Welsh context has (arguably) been seen to 'set the standard' (Hogg, 2018: 73) in charity regulation, we believe that this also raises interesting questions for international debates on the reliability and effectiveness of regulatory reporting requirements.

The rest of this paper is laid out as follows. The next section describes the methods employed in the research on which this paper is based. The key findings of the research are then presented, followed by a discussion of the recommendations and implications from the research, and a conclusion.

## **Methods**

### *Data sources*

As described in the previous section, current charity regulation requires English, Welsh and Scottish charities to report their reserves in different places, according to charity size and jurisdiction. All charities<sup>3</sup> in England, Wales and Scotland are

required to report on their reserves in their trustees' annual report, stating their reserves policy and the size and purpose of their reserves (CCEW, 2016). Larger English and Welsh charities (those with an income of £500,000 or more a year and which are the subject of this paper) are also required to report their reserves in their annual returns (CCEW, 2021).

The specific information that needs to be reported in the trustees' annual report is delineated within the charity Statement of Regulatory Practice (SORP). Since the late 1980s, reporting and accounting guidance for UK charities has been outlined in a series of charity SORPs. The current SORP, which is mandatory for those charities to which it applies, has been in place since 2015, with an updated edition published in 2019, and is known as SORP FRS 102 – as it is based on the relevant Financial Reporting Standard (FRS) of the International Accounting Standards Board (IASB). Alongside stipulations as to the format and content of charity trustees' annual reports and accounts, the SORP also outlines which charities must have their accounts audited. In Scotland, an audit is required if the charity has an annual income of £500,000 or more or its gross assets exceed £3.26 million and the charity has prepared accruals accounts. In England and Wales, the updated 2019 edition of SORP FRS 102 states that an audit is required if the charity's gross annual income exceeds £1 million or its gross assets exceed £3.26 million and its gross income exceeds £250,000. This represents a change from the first (2015) edition of SORP FRS 102, when charities with an income of £500,000 or more were required to have an audit.

### *Sampling framework*

For the English and Welsh charities, a random sample of 400 charities was gathered from those charities that submitted annual returns with non-missing reserves data for financial years ending in 2019 (the most recent year for which full reporting data were available at that time). For each of these 400 English and Welsh charities, available trustees' annual reports and accounts were then collected from the CCEW registry database for each year between 2016 and 2021.

For the Scottish charities, a random sample of 400 charities was gathered from the population of charities with an annual income of £500,000 or more and which were active in 2019. While the CCEW publishes trustees' annual reports and accounts for five years, the OSCR only publishes the most recent available charity trustees' annual report and accounts. For Scottish charities, therefore, the most-recent trustees' annual report and accounts were collected. These annual reports were then analysed to collect the figure given (if any) for reserves and to identify, where possible, whether this figure matched the definition of reserves as stated by the OSCR.

### *Data collection*

For the purposes of this paper, charities' statement of their level of reserves was recorded from their trustees' annual report and accounts, and their annual return, where available. While, as noted earlier, the current SORP specifies that charities must state their reserves level in their trustees' annual report, occasionally this figure is instead stated only in the accompanying accounts. Therefore, the entirety of charities' trustees' annual report and accounts was reviewed to gather the figure that charities explicitly stated equalled reserves.

The authors then assessed these reported reserves figures in reference to other relevant financial information given in the trustees' annual report and accounts. Each figure was assessed based on the following criteria:

**Match:** The figure given **matches** – is equal to – the CCEW/OSCR definition of reserves.

**Overestimate:** The figure given **overstates** reserves in comparison with the CCEW/OSCR definition of reserves. For the longitudinal analysis as detailed under key finding 2 (see the next section), this figure was further differentiated between:

- charities that stated a figure that matches total unrestricted funds;
- charities that stated a figure that overstates reserves in comparison with the CCEW/OSCR definition of reserves other than by stating a figure that matches total unrestricted funds.

**Underestimate:** The figure given **understates** reserves in comparison with the CCEW/OSCR definition of reserves.

Some reported reserves figures were then excluded at this stage as insufficient information was given in the trustees' annual report and accounts to verify them.

The Appendix provides worked examples of assessments that were deemed to *match*, *overestimate* or *underestimate* reserves in line with the CCEW/OSCR definition of reserves.

The data were collected and scored by two of this paper's authors. Prior to data collection, the two authors worked together to ensure a clear understanding of the coding scheme. After initial data collection, both authors independently analysed a random sample of 10 reported reserves figures in trustees' annual reports and accounts to assess inter-rater consistency, which was confirmed at 90 per cent. Disagreement occurred as a result of inconsistency in analysing charity or group accounts, where both were reported; the authors reconfirmed that group accounts would be used, in line with SORP guidance. All data were collected between January and March 2022.

## Findings

The findings in this section present data from:

- 1,528 English and Welsh charities' annual returns between 2016 and 2021;
- 1,322 reported reserves figures given in English and Welsh charities' trustees' annual reports and accounts between 2016 and 2021;
- 355 reported reserves figures given in Scottish charities' trustees' annual reports and accounts between 2019 and 2021.

As described earlier, in each year the data exclude a small proportion of observations for which there were insufficient data in the annual accounts to accurately analyse the reserves figure reported in the annual return or trustees' annual reports and accounts.

The breakdown of observations by year is shown in [Table 1](#).

**Table 1: Number of observations, by source and year**

Source	Year						
	2016	2017	2018	2019	2020	2021	Total
English and Welsh charity annual returns	157	293	324	365	313	76	1,528
English and Welsh charity annual reports and accounts	126	246	270	279	281	120	1,322
Scottish charity annual reports and accounts	–	–	–	30	154	171	355

**Table 2: Percentage of charities reporting in their annual returns a figure that matches the CCEW/OSCR definition of reserves**

Code	Year						Average (n = 1,528)
	2016	2017	2018	2019	2020	2021	
Match	37.6	37.2	35.8	38.9	35.8	35.5	37.0
Overestimate	56.1	54.9	57.7	53.4	56.5	52.6	55.5
Underestimate	6.4	7.8	6.5	7.7	7.7	11.8	7.5

Note: Totals do not always sum to 100 due to rounding.

Key finding 1: Analysis of both annual returns (for England and Wales) and trustees' annual reports and accounts (for England, Wales and Scotland) reveals that a notable proportion of charities are reporting reserves figures that do not match the definition of reserves given by the CCEW/OSCR. Annual returns submitted by English and Welsh charities are particularly unreliable.

The findings detailed in [Table 2](#) suggest that, on average, just 37.0 per cent of all verifiable 1,528 reported reserves figures in English and Welsh charities' annual returns match the CCEW/OSCR definition of reserves.

The figure stated in charities' trustees' annual reports and accounts has a higher degree of consistency with the CCEW/OSCR definition of reserves than those reported in these charities' annual returns; however, a notable minority of charities report a figure that does not match this definition. On average, 63.0 per cent of verifiable figures given in English and Welsh charities' annual reports and accounts match the CCEW/OSCR definition of reserves (see [Table 3](#)), while on average 72.7 per cent of verifiable figures given in Scottish charities' annual reports and accounts match the definition (see [Table 4](#)).

### *Annual returns: English and Welsh charities only*

As [Table 2](#) shows, between 2016 and 2021, only 35.5 per cent to 38.9 per cent of charities reported in their annual returns a figure that matches the CCEW definition of reserves set out earlier. A majority of charities (between 52.6 per cent and 57.7 per cent) give a figure that overestimates their reserves level.

### *Trustees' annual reports and accounts: English and Welsh charities*

[Table 3](#) provides the figures for English and Welsh charities reporting on reserves figures in their trustees' annual reports and accounts. While the majority of charities

**Table 3: Percentage of charities reporting in their trustees' annual reports and accounts a figure that matches the CCEW/OSCR definition of reserves**

	Year						Average (n = 1,322)
Code	2016	2017	2018	2019	2020	2021	
Match	63.5	63.4	61.1	63.8	63.3	63.3	63.0
Overestimate	34.1	33.7	35.9	32.6	33.8	36.7	34.3
Underestimate	2.4	2.8	3.0	3.6	2.8	0.0	2.7

Note: Totals do not always sum to 100 due to rounding.

**Table 4: Percentage of Scottish charities reporting reserves figures in their trustees' annual reports and accounts that match the OSCR definition of reserves**

	Year						Total (n = 355)
Code	2016	2017	2018	2019	2020	2021	
Match	–	–	–	80.0	73.4	70.8	72.7
Overestimate	–	–	–	20.0	26.0	28.7	26.8
Underestimate	–	–	–	0.0	0.6	0.6	0.6

Note: Totals do not always sum to 100 due to rounding.

(61.1 per cent to 63.8 per cent) report a figure that matches the CCEW definition of reserves, more than a third of charities are reporting a figure that overestimates their reserves figure.

### *Trustees' annual reports and accounts: Scottish charities*

Table 4 provides the figures for Scottish charities reporting on reserves figures in their trustees' annual reports and accounts. While the majority of charities (72.7 per cent) again report a figure that matches the OSCR definition of reserves, more than a quarter of charities are reporting a figure that overestimates their reserves figure. As for England and Wales, only a small minority of charities are reporting a figure that underestimates their reserves level.

Key finding 2: Within English and Welsh charities there is substantial within-year and year-on-year inconsistency in the methods used to calculate reported reserves. This is again particularly notable within annual returns data.

### *Within-year consistency: comparing reserves figures reported in annual returns and trustees' annual reports and accounts*

Table 5 provides the figures for the proportion of charities reporting the same reserves figures in their annual returns and trustees' annual reports and accounts. In total, there were 1,218 observations where charities reported verifiable reserves figures in their annual returns and trustees' annual reports and accounts in the same year. The same figure was reported in 52.5 per cent of cases. This means that in nearly half of cases, the same charity in the same year reported different figures for reserves in their annual returns and trustees' annual reports and accounts.

**Table 5: Percentage of reported reserves figures in annual returns and trustees' annual reports and accounts that match (England and Wales only)**

	Year						Total (n = 1,218)
	2016	2017	2018	2019	2020	2021	
Percentage of reported figures that match	45.1	51.5	48.7	58.0	54.9	52.5	52.5

**Table 6: Year-on-year consistency in reported reserves figure**

	Total number of organisations reporting in two or more years	Total number reporting against a consistent definition	Percentage reporting against a consistent definition
Annual returns	357	137	38.4
Trustees' annual reports and accounts	302	187	61.9

*Year-on-year consistency: annual returns*

As shown in [Table 6](#), of those charities for which we have verifiable reserves figures from annual returns for two or more years (n = 357), just 38.4 per cent report a figure that corresponds with a consistent definition. Therefore 61.6 per cent of charities changed the definition used to report their reserves between 2016 and 2021.

Of those charities that do report against a consistent definition, 45.3 per cent are consistently reporting a figure that matches the definition of reserves. Meanwhile, 51.8 per cent are consistently overestimating reserves (either by reporting total unrestricted funds, or otherwise overestimating reserves). This means that of all those charities for which we have two or more years of data, just 17.4 per cent are consistently reporting a figure that matches the CCEW/OSCR reserves definition.

*Year-on-year consistency: trustees' annual reports and accounts*

In the figures reported in English and Welsh charities' trustees' annual reports and accounts, there is greater consistency in the definition of reserves used across the years. Of those charities for which we have verifiable reserves figures from trustees' annual reports and accounts for two or more years (n = 302), 61.9 per cent report a figure that corresponds with a consistent reserves definition. Of these, 74.3 per cent report a figure that matches the CCEW/OSCR definition of reserves. This means that of all those charities for which we have two or more years of data, 46.0 per cent are consistently reporting a figure that matches the CCEW/OSCR reserves definition.

We therefore see notably greater consistency in the reporting of data in trustees' annual reports and accounts than for annual returns, and consider this in our recommendations in the next section. Despite this greater consistency, however, nearly 40 per cent of charities are reporting against an inconsistent definition of reserves in their trustees' annual reports and accounts, while more than 60 per cent of charities are reporting against an inconsistent definition of reserves in their annual returns. This means that using such reserves data for longitudinal assessments of the changing financial vulnerability of charities is particularly problematic – both at a sector level and for individual charities.

Key finding 3: There is substantial variation between charities regarding how they report their reserves in their trustees' annual reports and accounts.

As noted earlier, larger charities in England, Wales and Scotland are required to report their reserves in their trustees' annual reports and accounts, alongside providing information about their reserves policy. These textual summaries reflect wide variation in both the level of detail reported and in the use of the term 'reserves'. They are often hard to interpret and can only be understood alongside a detailed reading of the associated annual accounts.

In many cases, the trustees' annual reports state the charities' general approach to reserves, rather than the quantified amount of reserves currently held. For example, rather than stating actual reserves levels, one charity states: 'The trustees will maintain reserves at a level which is at least six months operational expenditure. The trustees will review the level of reserves required at quarterly intervals.'

As suggested by the findings set out earlier, most charities overestimate their reserve levels. This is often due to these charities explicitly including fixed assets within their stated reserve levels. For example, a community development trust lists its reserves as totalling £1.2 million, despite a detailed reading of the accounts showing that £0.8 million of this is held in fixed assets. For many of these charities it is unclear whether the organisation could continue operating if it were to sell its fixed assets, meaning such assets cannot be considered reserves. For example, an educational college states in its 2020 annual report: 'At 31 August 2020, the Trust's Unrestricted Fund reserve amounted to £14,293,215 (2019: £14,001,178) (note 17) and is represented in the main by the fixed assets of the School and its investment in the [redacted] sports centre.' Other charities include within their reserves statement text that suggests a misunderstanding of the need for reserves. In the following example, a heritage charity relies on the value of those heritage assets for its sustainability, and does not otherwise intend to build up reserves:

Given the scale of the rebuilding and refurbishment project and its continuous demand on funds, it is not possible to maintain reserves. Despite that, the trustees remain confident that given the strength of [redacted]'s balance sheet, with a combined value of £10,406,956 of net assets, a dependable network of donors sympathetic to [redacted]'s vision, and the introduction of new revenue streams, there is no need to build up a reserve. The trustees are confident the organisation will continue to be able to meet with its obligations as they fall due.

Finally, there are numerous situations in which annual reports include confusing or muddled terminology. This is perhaps unsurprising given the contested definition of reserves as outlined in this paper's introduction. For example, the term 'reserves' may be used to mean unallocated funds, represent an organisation's total cash-in-bank or be broken down into multiple constituent parts using undefined terms such as 'free reserves' or 'contingency funds'.

## Implications and recommendations

We believe the findings set out in the previous section have implications for both preparers and users of charity annual returns and trustees' annual reports and accounts, including

regulators, researchers, policy makers, those served by charities, donors and charities themselves. We now discuss these implications and then make some key recommendations.

For the regulators, the findings suggest a continued need for greater collaboration between themselves and the voluntary sector to increase sector-wide understandings of reserves, as well as the need for attention to be paid to regulatory reporting requirements. While a smaller sample than the English and Welsh data, the Scottish data present a higher degree of conformity with regulatory definitions of reserves. Further research to explore the difference in findings between the jurisdictions would be valuable.

As noted earlier, larger English, Welsh and Scottish charities are required to have their accounts audited. Smaller charities (but with an annual income of £25,000 or more) must have their accounts independently examined. This audit process is seen as an essential oversight mechanism for charity accounts. However, prior work by the [CCEW \(2019\)](#) suggested that some auditors and examiners were failing to identify significant failings in the accounts they reviewed. The findings presented within this paper also raise potential questions as to the oversight provided by the auditing process, which may be worthy of further consideration by the CCEW and OSCR, and by auditors and accountancy bodies themselves. Further research to specifically examine the role of auditors in the reporting of reserves would again add value to this discussion.

For researchers and policy makers, the findings of this research introduce a significant caveat into work that relies on aggregate or sub-sector analysis of reserves, impacting our collective understanding of the health of the voluntary sector. At an individual charity level, the findings around charities' inconsistent reporting of reserves further mean that users of the charity's accounts, including donors, may find it impossible to gain a true understanding of changes in the financial health of the charity over time.

This paper demonstrates that inconsistent reporting of reserve levels, both within and between charities, as well as the mischaracterisation and misuse of terms, mean that extant data on charity reserve levels are unreliable. Furthermore, it raises questions around whether charities are appropriately managing their financial risk. Therefore, we would like to highlight the importance of future qualitative research, to complement the findings presented here, and to explore the possible reasons underlying the misreporting of reserves data.

Our key recommendations are therefore as follows:

- There should be greater dialogue between the regulatory bodies, the SORP development committee and charities regarding the meaning of reserves and the standardisation of the presentation of certain information in trustees' annual reports and accounts. This may require changes to the current wording of the CCEW/OSCR reserves definitions and greater guidance at the point of data preparation.
- Regulators and sector bodies should further invest in sector-wide training and communications regarding accounting terms and practices. Given the data suggest that Scottish charities are more accurately reporting their reserves than their English and Welsh counterparts, there may be specific learning that can be gathered from the OSCR.
- Researchers and policy makers should exercise caution regarding the claims and decisions made based on an analysis of charity reserves data drawn from annual returns and trustees' annual reports and accounts.

- Researchers, policy makers and sector bodies should invest further resources into understanding the challenges with reporting charity reserve levels, and the practices and motivations that influence such reporting.
- Charities should pay greater attention to understanding and accurately communicating their reserve levels and financial risks and vulnerabilities.

## Conclusion

This paper has presented the findings of the largest study to date that assesses the accuracy of charity reserves reporting in England, Wales and Scotland. It shows that a notable proportion of charities are reporting reserves figures that do not match the definition of reserves given by the CCEW/OSCR, with annual returns submitted by English and Welsh charities being particularly unreliable. We see year-on-year inconsistency in how charities go about counting their levels of reserves, and a substantial variation between charities in the summaries provided in trustees' annual reports and accounts. These findings matter for both policy and practice, as charity reserve levels are widely used as a measure of financial vulnerability, both of individual charitable organisations and the wider sector.

To provide greater accuracy and clarity in terms of individual and aggregate financial vulnerability, we recommend that regulators and sector bodies engage in greater dialogue with charities and invest in sector-wide training and support. For charities, we recommend they pay greater attention to clear and consistent reporting of reserve levels and financial risks and vulnerabilities.

This paper has focused on the use of reserves data by English, Welsh and Scottish charities. However, we believe it also draws attention to possible wider challenges in reported regulatory data. We suggest that similar attention be paid to the use of other reported data in charity annual returns and trustees' annual reports and accounts. Further, we also suggest that regulators, researchers and practitioners outside England, Wales and Scotland can learn from this study in terms of the challenges of mandating accurate regulatory data reporting.

## Note

- <sup>1</sup> In the UK, fund accounting is a key feature of charity accounting: 'Fund accounting distinguishes between two primary classes of fund: those that are unrestricted in their use, which can be spent for any charitable purposes ... and those that are restricted in use, which can only be lawfully used for a specific charitable purpose' (CCEW and OSCR, 2014).
- <sup>2</sup> Excluding excepted and exempt charities. The paper also does not consider charities regulated by other UK regulators, such as the Charity commission for Northern Ireland.
- <sup>3</sup> Excluding excepted and exempt charities.

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## Conflict of interest

The authors declare that there is no conflict of interest.

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## Appendix

### *Appendix: examples of reserves score allocation*

This appendix gives anonymised examples to demonstrate the scoring allocation outlined in this paper. To facilitate understanding, the appendix focuses on some of the most straightforward examples.

As noted in the paper, the authors assessed reserves figures stated in charities' annual returns and trustees' annual reports and accounts, against other relevant information given in the trustees' annual reports and accounts. Each figure was then assessed based on the following criteria: match, overestimate, underestimate and not possible to verify.

#### ***Match: The figure given matches – is equal to – the CCEW/OSCR definition of reserves.***

##### *Example: charity A*

This charity provided a figure for reserves that matched the CCEW/OSCR definition in both their trustees' annual report and accounts, and their annual return.

Their reserves statement in their trustees' annual report states:

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#### **Reserves policy and financial position**

##### *Reserves policy*

The trust is operated as a grant giving charity and the trustees' policy is to seek to distribute the income arising in each financial year.

##### *Financial position*

The balance sheet shows funds of £14,207 (2016 – £29,000) all of which are unrestricted. Of this balance, £8,626 (2016 – £14,692) has been designated by the trustees to cover the future administrative costs of the charity. Free reserves are therefore £5,581 (2016 – £14,308). The trustees consider that this level of free reserves meets the charity's reserves policy above and it, therefore, considers free reserves to be adequate but not excessive.

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The charity's stated reserves figure in their trustees' annual report was recorded as £5,581. Analysis of the charity's Statement of Financial Activities (SoFA – a key part of the accounts as required by SORP FRS 102, which also requires that 'items recorded in the SoFA must be analysed between unrestricted funds, restricted income funds, and endowment funds') demonstrates that all the charity's funds are unrestricted (see [Table A1](#)), meaning that surplus funds would meet the first part of the CCEW/OSCR definition that reserves consist of 'part of a charity's unrestricted funds'.

Analysis of the charity's balance sheet suggests that the charity has no fixed assets or programme-related investments and that liabilities have been recognised (see [Table A2](#)). Designated funds above have also been excluded from the amount stated as reserves.

This suggests that the figure of £5,581 also meets the second part of the CCEW definition of reserves – that funds are 'freely available', and exclude:

Table A1: Charity A: Statement of Financial Activities

Statement of Financial Activities year to 31 December 2017			
		Unrestricted funds	
		2017 £	2016 £
<b>Income from:</b>	Notes		
Donations (including tax reclaim under Gift Aid) Other income		4,338,857	588,069
Foreign exchange gains		9,720	3,330
<b>Total income</b>		<b>4,348,577</b>	<b>591,399</b>
<b>Expenditure on:</b>			
Charitable activities	1	4,363,370	590,577
<b>Net (expenditure) income for the year and net movement in funds</b>		<b>(14,793)</b>	<b>822</b>
<b>Reconciliation of funds:</b>			
Fund balances brought forward at 1 January 2017		29,000	28,178
Fund balances carried forward at 31 December 2017		14,207	29,000

- ‘tangible fixed assets used to carry out the charity’s activities, such as land and buildings
- programme-related investments [–] those held solely to further the charity’s purposes
- designated funds set aside to meet essential future spending, such as funding a project that could not be met from future income
- commitments that have not been provided for as a liability in the accounts’ (CCEW, 2016, updated 2019).

Further review of the trustees’ annual report and accounts indicates that the statement of no fixed assets is likely reliable: the charity is a completely volunteer-led,

Table A2: Charity A: balance sheet

Balance sheet 31 December 2017			
	Notes	2017 £	2016 £
<b>Current assets:</b>			
Debtors	4	10,527	15,076
Cash at bank and in hand		17,497	37,934
		28,024	53,010
<b>Liabilities:</b>			
<b>Creditors:</b> amounts falling due within one year	5	(13,817)	(24,010)
<b>Net current assets</b>		<b>14,207</b>	<b>29,000</b>
<b>Total net assets</b>		<b>14,207</b>	<b>29,000</b>
<b>The funds of the charity:</b>			
Unrestricted funds			
General funds		5,581	14,308
Designated fund	6	8,626	14,692
		14,207	29,000

grant-giving organisation with no staff or office. As with all other organisations, the annual accounts – from which the SoFA and balance sheet are drawn – are audited and the auditors have given an unqualified opinion on the accounts.

For this charity, the annual return for the same year stated the same figure for reserves (£5,581), and therefore was also considered a match.

***Overestimate: The figure given overstates reserves in comparison with the CCEW/OSCR definition of reserves.***

***Example: charity B***

This charity provides a figure for reserves that overestimates the reserves level, based on comparison with the CCEW/OSCR definition of reserves, in both their trustees' annual report and accounts, and their annual return.

Their reserves statement in their trustees' annual report states:

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It is the policy of the charity that unrestricted funds which have not been designated for a specific purpose should be maintained at a level sufficient of three months of expenditure (2018: £504,633) to enable the day-to-day activities of the charity. At the balance sheet date, the charity held reserves of £47,679 (2017: £96,432) which are all unrestricted. The current policy is under review by the trustees as they are considering the appropriate level of reserves required. The charity will seek further funding from its parent company if required should the reserves fall to near depletion.

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The charity's stated reserves figure in its trustees' annual report was recorded as £47,679. Analysis of the charity's SoFA demonstrates that all the charity's funds are unrestricted (see [Table A3](#)).

However, analysis of the balance sheet shows that the 'reserves' figure stated includes tangible fixed assets (see [Table A4](#)).

Further analysis of note 12 of the accounts demonstrates that the fixed assets are essential to carrying out the charity's activities as described in the trustees' annual reports and accounts. These fixed assets are not therefore 'freely available' to be disposed of. Therefore, the reserves figure of £47,679 is an overestimate of the charity's reserve levels.

This charity's annual return stated the same reserves figure of £47,679, and therefore was also recorded as an overestimate.

***Underestimate: The figure given understates reserves in comparison with the CCEW/OSCR definition of reserves***

***Example: charity C***

This charity provides a figure for reserves that underestimates its reserves level, based on comparison with the CCEW/OSCR definition of reserves, in their trustees' annual report and Accounts.

Its reserves statement in its trustees' annual report states:

Table A3: Charity B: Statement of Financial Activities

Statement of Financial Activities (including income and expenditure account) for the year ended 31 March 2018					
	Notes	Unrestricted funds £	Restricted funds £	Total funds 2018 £	Total funds 2017 £
<b>Income from:</b>					
Donations and legacies	3		41,400	41,400	53,520
Charitable activities	4	1,953,262		1,953,262	1,859,759
Other trading activities	5	2,280		2,280	4,330
<b>Total income</b>		1,955,542	41,400	1,996,942	1,917,609
<b>Expenditure on:</b>					
Charitable activities	7, 8	(1,983,517)	(41,400)	(2,024,917)	(1,995,121)
<b>Total expenditure</b>		(1,983,517)	(41,000)	(2,024,917)	(1,995,121)
<b>Net (expenditure) before investment gains</b>		(27,975)		(27,975)	(77,512)
Net (loss)/gain on investments	6	(20,778)		(20,778)	35,957
<b>Net (expenditure) income for the year</b>		(48,753)		(48,753)	(41,555)
<b>Net movement in funds</b>		(48,753)		(48,753)	(41,555)
<b>Reconciliation of funds:</b>					
Total funds brought forward		96,432		96,432	137,987
Total funds carried forward		47,679		47,679	96,432

#### Reserves policy

[REDACTED] acknowledges that it only has small unrestricted reserves valued at £2,446 and that the majority of its reserves are restricted and capital funds that are not for general use. The day to day operations of [REDACTED] are met from use of the restricted [REDACTED] monies.

The charity's stated reserves figure in its trustees' annual report was recorded as £2,446. The charity's SoFA shows that the figure of £2,446 relates to unrestricted income for the year, but does not include unrestricted funds brought forward from the previous year (see [Table A5](#)).

The balance sheet suggests that the charity's actual reserves level is £7,823 (see [Table A6](#)). This figure excludes tangible fixed assets, while detailed analysis of the charity's trustees' annual report and the notes to the accounts show that the charity has no programme-related investments or designated funds.

The charity's annual return states its reserves figure for the year as being £7,823. The figure of £2,446 given in the trustees' annual report is scored as an underestimate of the charity's reserves level, while the figure of £7,823 given in the annual return is scored as a match.

**Table A4: Charity B: balance sheet**

Balance sheet as at 31 March 2018			
	Notes	2018 £	2017 £
<b>Fixed assets:</b>			
Tangible assets	12	25,330	82,257
<b>Current assets:</b>			
Debtors	13	356,211	158,133
Investments	14	260,560	275,221
Cash at bank and in hand		414,723	428,775
		1,031,494	862,129
<b>Creditors: amounts falling due within one year</b>	15	(1,009,145)	(847,954)
<b>Net current assets/liabilities</b>		22,349	14,175
<b>Net assets</b>	16, 17	47,679	96,432
<b>Funds:</b>			
Unrestricted funds:			
General fund	16, 17	47,679	96,432
<b>Total funds</b>		47,679	96,432

**Table A5: Charity C: Statement of Financial Activities**

Statement of Financial Activities for the year ended 31 July 2019					
		Unrestricted funds	Restricted funds	31.7.19 Total funds	31.7.18 Total funds
<b>Income and endowments from:</b>	Notes	£	£	£	£
Donations and legacies	2		281,588	281,588	499,999
Charitable activities	4				
Provision of education			4,035,000	4,035,000	4,609,172
Investment income	3	2,446		2,446	5,378
<b>Total</b>		2,446	4,316,588	4,319,034	5,114,549
<b>Expenditure on:</b>					
Charitable activities	5		3,751,503	3,751,503	2,589,209
Provision of education					
<b>Net income</b>		2,446	565,085	567,531	2,525,340
<b>Reconciliation of funds:</b>					
Total funds brought forward		5,377	2,533,224	2,538,601	13,261
Total funds carried forward		7,823	3,098,309	3,106,132	2,538,601

Table A6: Charity C: balance sheet

Balance sheet at 31 July 2019					
		Unrestricted funds	Restricted funds	31.7.19 Total funds	31.7.18 Total funds
	Notes	£	£	£	£
<b>Fixed assets:</b>					
Tangible assets	11		884,642	884,642	622,047
<b>Current assets:</b>					
Debtors	12		332,041	332,041	211,103
Cash at bank		7,823	2,760,256	2,768,079	2,645,979
		7,823	3,092,297	3,100,120	2,857,082
<b>Creditors:</b>					
Amounts falling due within one year	13	—	(578,630)	(578,630)	(619,846)
<b>Net current assets:</b>		7,823	2,513,667	2,521,490	2,237,236
		—			
		7,823	3,398,309	3,406,132	2,859,283
<b>Total assets less current liabilities creditors:</b>					
Amounts falling due after more than one year	14	—	(300,000)	(300,000)	(320,682)
<b>Net assets</b>		7,823	3,098,309	3,106,132	2,538,601
<b>Funds:</b>	17				
Unrestricted funds				7,823	5,377
Restricted funds				3,098,309	2,533,224
<b>Total funds</b>				3,106,132	2,538,601

Not possible to verify

Example: charity D

This charity reported reserves of £151,767 in its annual return, and reserves of £20,490 in its trustees' annual report.

#### Reserves policy

[REDACTED] reserves policy is to hold sufficient cash in reserves to ensure that in an unforeseen emergency situation it can meet all of its financial obligations as and when they fall due. As a going concern the church undertakes a detailed annual budget review to ensure that the church is in a position where it can meet all of its obligations as they fall due but as a failsafe has set aside the sum of £20,490 in reserves held in the [REDACTED] account that could be called upon if an emergency situation arose. The church council feel that this sum would cover any liabilities that would fall due if the church were to cease its activities with immediate effect as in all likelihood any cessation of the church's activities would most likely be foreseen and planned well in advance so that all of the church's financial obligations were met. The church council have agreed to increase reserves by £10,000 in 2018 to cover the increase in obligations to staff and activities undertaken.

The SoFA states that the charity has £840,060 in unrestricted funds (in total, therefore including tangible fixed assets), while the balance sheet for the charity states that the charity retains £164,040 in net current assets (excluding tangible fixed assets and excluding liabilities, but including both unrestricted and restricted costs). The notes to the annual accounts include a stated 'designated reserves figure' of £22,078 for one part of the organisation, with substantial further unrestricted current assets included within 'general funds' for different parts of the organisation. Based only on the information given in the different parts of the annual accounts, it was therefore not possible to verify the accuracy of the reported reserves figure.