



FINANCIAL GOVERNANCE & SUSTAINABILITY

Reserves Policy: The Myth the Regulator Itself Has Corrected

No reserve level is mandated. What's expected is that the board actually decided, not accumulated

A persistent myth still circulates in the sector: that a well-run charity should keep as little money in reserve as possible, spending everything on programs each year. The ACNC has gone out of its way to correct this directly. Reserves are not a sign an organisation has forgotten its purpose. Done properly, they are a core financial governance discipline, and getting the policy wrong in either direction, too little or too much, carries real consequences.

Which rules apply to your association?

The law depends on how your association is set up. A **company limited by guarantee** follows the Corporations Act 2001 (Cth) and its constitution. An **incorporated association** follows its state or territory associations Act and its rules. A **registered charity** also follows the ACNC Act and the ACNC Governance Standards, and some Corporations Act rules are replaced for charities that are companies. Check your own governing documents, and get advice before decisions with legal consequences.

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The Myth The Regulator Itself Has Corrected

The ACNC's guidance states that a charity can make a surplus provided it is used to further its charitable purposes, and that it is good practice for a charity to have a reasonable amount of funds in reserve. Using a surplus to build reserves that support long-term stability is consistent with that purpose. Reserves exist so an organisation can continue delivering its mission through a sudden loss of funding, an unexpected cost, or an emergency, without that shock becoming an existential threat to the organisation itself.

The Duty This Actually Connects To

Reserves management is not a peripheral financial housekeeping matter. For registered charities, it sits directly inside ACNC Governance Standard 5, which requires an organisation's Responsible People to act with reasonable care and diligence, manage financial affairs responsibly, and never allow the organisation to operate while insolvent. For associations that are not charities, the same expectation flows from directors' duty of care and diligence under the Corporations Act or the relevant state or territory Act. This is precisely the same insolvent trading exposure discussed earlier in this series: an organisation with inadequate reserves is considerably more exposed to the cash flow test for insolvency the moment a funding shock arrives, and a board that has never deliberately considered its reserve position is poorly placed to demonstrate it was exercising the care that duty requires. There is no ACNC-mandated minimum or maximum reserve level, and no general legal one for non-charities either, and any advisor who tells you there is a universal number, three months of expenses, six months, a fixed percentage, is

overstating a case-by-case judgment. What the regulator does expect is that the board actually made the judgment deliberately, rather than arriving at whatever figure happened to accumulate by accident.

The Risk On The Other Side, Less Discussed But Equally Real

Inadequate reserves are the risk most boards already worry about. The opposite risk deserves equal attention. An organisation that accumulates reserves well beyond any reasonable justification faces a reputational exposure: it can create the impression the organisation is stockpiling funds rather than fulfilling its purpose, and erode donor and member trust. For charities, the ACNC notes that a charity cannot accumulate funds indefinitely and should only accumulate a reserve to further its charitable purposes. Both failure modes point to the same underlying fix, a reserves position that is deliberately reasoned and can be clearly explained, not one that simply happened.

What A Sound Reserves Policy Actually Contains

- A stated target level, reasoned from your organisation's actual risk profile, revenue volatility, and fixed obligations, not copied from another organisation's number.
- A simple test of the current position, for example unrestricted, readily available funds divided by average monthly operating costs, giving months of operating cover that can be checked against the balance sheet and cash-flow forecast.
- A clear articulation of what the reserve is for, operating continuity, a specific identified risk, a planned future investment, since an unexplained reserve is what invites the stockpiling perception discussed above.
- A strategy for both building and, when appropriate, spending the reserve, since a policy that only ever accumulates and never specifies drawdown conditions is not a policy.
- A connection to the risk register and risk appetite statement discussed earlier in this series, since reserves are one of the primary tools a board has for managing financial risk tolerance in practice.
- A review cycle, since the right reserve level for an organisation at one stage of growth, revenue mix, or risk exposure will not remain right indefinitely.

A reserves policy is one of the few governance documents that protects an organisation in both directions at once, against the board that has never thought about solvency risk, and against the perception that the organisation exists to accumulate funds rather than deliver its purpose. Getting it onto paper, reasoned and reviewed rather than accidental, is a small effort for a significant protection.

This is one of the practical governance topics built into our Board Director course, alongside the papers, tools and frameworks that turn the principle into your board's actual practice. [Explore the course](#)

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BOARDROOM ACTION WORKSHEET

Reserves Policy: The Myth the Regulator Itself Has Corrected

Turn the resource into evidence, a decision and an accountable next step. Keep the completed record in your association's approved board records system.

1 What is the issue or decision?

State the governance question in one clear sentence.

2 What evidence do we already have?

Record the facts, source documents and stakeholder evidence available now.

3 What evidence is still needed?

Identify the legal, regulatory, financial, member or operational information still required.

4 What is the agreed next action?

Capture the owner, timeframe and how the matter will return to the board.

Action owner	Review date	Board decision or resolution

General education, not legal, financial, tax, clinical or governance advice. Confirm specifics at the relevant primary source or with your own qualified adviser. Nexus Leadership is operated by Lipstick Consulting Pty Ltd · ABN 15 619 120 482.

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