

## Reserves Policy

Policy Name	Reserves Policy
Policy Number	HA/POL/RP
Version Number	003

	Print Name	Job Title/Role	Signature	Date
Department Quality Review	Graham Sutherland	Director of Finance and Services	<b>G J Sutherland</b>	10/02/2022
Reviewed and approved by BOD	Dr Mohamed Ashmawey	CEO	<i>Mohamed Ashmawey</i>	Feb 25 2022
Reviewed and approved by BOT	Dr Kamil Omoteso	Trustee	<i>Kamil Omoteso</i>	Mar 02 2022
Date of next review	February 2024			

Policy Owner	Director of Finance and Services
Key Responsibilities	All staff
Associated Documents	

### Revision History

Revision History (Provide summary of changes and justification)	Changes reviewed & approved by	Date of review & approval	Date effective

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## Reserves Policy

### Overview

Reserves shall be held at the appropriate level to minimise the cost of financial distress that equates to programme disruption – i.e. minimise risk.

Reserves shall be applied within the stated Charity Objects.

The size of reserves shall be appropriate to the purposes for which the reserves are maintained.

### Policy Statement

Human Appeal reserves policy requires that reserves are maintained at a level which ensures that its core programme work (including adequately respond to humanitarian disasters and emergencies) could continue during a period of lack of funds, while at the same time ensuring we do not retain income for longer than required, ensuring the needs of present and future beneficiaries should be balanced.

The reserves levels to hold will take into consideration the future strategic plans of Human Appeal and the following factors will be taken into consideration:

Vulnerability to unplanned changes in the financial position, relating mainly to income projections and fundraising unrestricted income.

The net financial risk related to the above, taking into consideration the likely speed of onset as well as the mitigation steps available to Human Appeal.

Expenditure that is unpredictable, where risks involve unplanned events and interventions for programme themes, countries that attract minimal or no donor funding.

The approach results in a target level of general reserves to be £1.5M. The basis of determining the target reserves level shall be kept under periodic review and will be adjusted as perceptions of risk and other factors of change.

### Key Risk based Approach

Human Appeal shall take into consideration key risks as per its risk register that impact reserves, with a view on the short-term potential drawdown of reserves requiring time to undertake mitigation activities and adjust its financial circumstances.

### Over dependency on General Reserves (where most needed)

Human Appeal is exposed to the risk of funding programmes and countries for which specific (restricted funds) are either not raised or difficult to attract funds for by fundraising campaigns. Human Appeal need to recognise the need for financial prudence to ensure it can provide agreed funding to programme partners and continue the funding of programmes agreed to.

Thorough application of the process of approving programmes and countries, with the expected time duration and exit strategies be kept under periodic review and will be adjusted subject to the financial funding availability.

### **Inability to raise Income**

Inability to raise income could have multiple root causes including recession in fundraising markets, failure to demonstrate impact, or a reputation event such as adverse media coverage or a significant programmatic failure.

Income sources shall not be concentrated on a single donor base or audience and significant income from individuals shall be committed through online, monthly direct debit or standing orders.

A decline in income of 10% shall require a review of the financial impact of this on the reserves, undertake mitigation activities, and adjust the financial circumstances.

### **Financial loss due to currency volatility**

Human Appeal is exposed to exchange rate risk. Most income is denominated in GBP and Euros, whilst most expenditure takes place in Africa, Middle East and Asia. When sterling depreciates, the ability to maintain funding of overseas expenditure is impacted.

Human Appeal shall apply foreign currency management and seek to agree programme budgets and expenditure in the local currency of the country applicable, thereby obtaining competitive exchange rates centrally within the UK.

### **Financial loss due to fraud**

Due to the geographical spread of countries in which Human Appeal operates through partners, financial loss due to fraud is a risk.

Thereby, Human Appeal shall ensure continuous improvement of the control environment balanced against operational risks.

### **Other**

There are other risks Human Appeal faces that could have a financial impact, such as inappropriate controls leading to the mismanagement of resources or accuracy of forecasting information. The short-term financial impact of these may be less tangible although a review shall be taken with mitigation activities and adjustment of financial circumstances and activities.

### **Form of Reserves**

Human Appeal shall maintain a proportion of its reserves in a readily realisable form. Human Appeal shall consider readily realisable reserves to be the amount of reserves that are easily converted into cash should the need arise. The calculation of the required shall be considered as part of the

planning, budgeting and forecasting cycle. It shall take into account the risks associated with each income stream and income and expenditure.

### Restricted Funds

These funds are tied to the particular purpose, as specified by the donor or as identified at the time of a public appeal. These funds shall be spent in accordance with these particular purposes.

### Use of Charitable Funds

Human Appeal receives funds through individual donations given by individuals themselves, donations through fundraising events and activities and through partnerships from organisations, bodies, high net worth individuals and grants through institutions.

Funds given can include money, but can also include in-kind goods and services, as well as property and assets of any sort.

Often the funds given are for a specific purpose; as per the charitable theme (Emergency, Water, Health etc. for example) or specific country or specific project (example Plant Olive trees), in these case the funds must specifically be used for this purpose. The systems and accounting records of Human Appeal distinguishes between the different types of funds that are provided and the terms by which they are given.

The funds provided to Human Appeal will usually fall into two categories:

- Restricted funds
- Unrestricted funds

Within these categories, Human Appeal has two faith-based categories of funds

- Zakat funds
- Sadaqah funds

### Definitions

- Sadaqah Income funds

Sadaqah is a Islamic faith terminology literally meaning 'righteousness' and refers to the voluntary giving of charity and has been defined as Giving something to somebody without seeking a substitute in return and with the intention of pleasing God."

These funds will be spent in whichever way the charity sees fit, in accordance with the stated objectives, annual plans and budgets, these funds can cover direct and indirect costs.. For example; if a donor gives Sadaqah under the theme of Syria Emergency; it can contribute to the direct and indirect costs of the charitable projects for Syria.

- Zakat Income funds

Zakat is a religious obligation for all Muslims who meet the necessary criteria of wealth. It is a mandatory charitable contribution a right to the poor and needy and those falling within the categories of Zakat eligibility.

The funds received as Zakat can be used for any purpose that meet the charitable objectives of Human Appeal that meet the criteria of zakat and as a collector of zakat as per the Islamic jurisprudence rules Human Appeal

Human Appeal has diligently obtained scholarly advice for Shaykh Judai clarifying the faith-based items in Saqdaqah, Zakah, and orphans. Based on expert advice thereafter developed its Islamic Policy (refer to Islamic Policy).

<https://www.leedsgrandmosque.com/about/our-team/sheikh-abdullah-al-judai>

Human Appeal informed by scholarly advice has the right to 12.5% deduction or more funds to meet budget and plans if required.

At the time of this brief Human Appeal has maintained the zakat deduction and 12.5% and presets rates into its systems as a long term goal to drive more funds to direct charitable purposes.

- Where most needed / General

Human Appeal utilizes marketing terminology where most needed to indicate general funds which are available for the general purposes of Human Appeal. These funds will be spent in whichever way the charity sees fit, in accordance with the stated objectives, annual plans and budgets.

These funds are not earmarked in any way of any specific purpose, meaning Human Appeal can set the priorities for the funds and how they are spent.

- Restricted Funds

Restricted funds can only be used for the specific purposes for which they are given. The purpose will be specified by the donor or in terms of a public appeal running at the time of the donation or the categorization in Human Appeal's website donation pages.

Human Appeal's restricted funds are generally categorized as follows:

- Emergency fund – these funds are applicable to humanitarian response, disaster risk reduction charitable activities (including indirect/support costs) globally.
- Syria or any specific country funds – these funds are applicable to beneficiaries (including indirect/support costs) of that country whether within their home country or as refugees or other categorisation.
- WASH (Water, Sanitation and Hygiene) – these funds are applicable to safe drinking, adequate sanitation and hygiene charitable activities (including indirect/support costs).
- Food – these funds are applicable to food parcels, feed the fasting, food security, agriculture and such related charitable activities (including indirect/support costs).
- Livelihoods – these funds are applicable to any interventions to provide beneficiaries to transition from the dependency on aid (including indirect/support costs).

- Medical - these funds are applicable to any medical support to beneficiaries charitable activities (including indirect/support costs).
- Orphans and Children - - these funds are applicable to child beneficiaries including education (including indirect/support costs).



Document Details

<b>Title</b>	Reserves policy - signed.docx
<b>File Name</b>	Reserves policy - signed.docx
<b>Document ID</b>	cdd857edc1b34365a57475aa0513a29a
<b>Fingerprint</b>	be76d238c16da0b20bbd84715885be23
<b>Status</b>	Completed

Document History

<b>Document Created</b>	Document Created by Maida Ali (maida.ali@humanappeal.org.uk) Fingerprint: be76d238c16da0b20bbd84715885be23	Feb 25 2022 11:35AM UTC
<b>Document Sent</b>	Document Sent to Mohamed Ashmawey (mohamed.ashmawey@humanappeal.org.uk)	Feb 25 2022 11:35AM UTC
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<b>Document Viewed</b>	Document Viewed by Dr Kamil Ometoso (kamil.omoteso@humanappeal.org.uk) IP: 40.94.102.8	Mar 01 2022 03:07AM UTC
<b>Document Viewed</b>	Document Viewed by Dr Kamil Ometoso (kamil.omoteso@humanappeal.org.uk) IP: 104.47.6.254	Mar 02 2022 09:33PM UTC
<b>Document Viewed</b>	Document Viewed by Dr Kamil Ometoso (kamil.omoteso@humanappeal.org.uk) IP: 2.31.176.233	Mar 02 2022 09:33PM UTC
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