



## **Reserves Policy**

### **What we do:**

Founded in 1900, **Dr Graham's Homes Kalimping (UK) (DGHUK)** is a Scottish charity that supports the work of Dr Graham's Homes - a school in Kalimping, India - as they care for children in need. We help the school through a [child sponsorship programme](#) and targeted fundraising. We also continue supporting the children's education after they leave the school through our [extended sponsorship programme](#).

### **What are reserves?**

Reserves are a parcel of unencumbered assets which an organisation maintains over and above those required for its day-to-day operations.

### **Catering for the unexpected**

Reserves allow the organisation to deal with the unexpected, such as sudden and unusual reductions in income or large items of expenditure which were not budgeted for.

It is typical for any organisation, including charities, to maintain a **general reserve** comprising assets which are either cash (ie cleared funds at the bank) or in a form which can be converted into cash within the required period.

DGHUK is no different to many other organisations; it needs a general reserve:

- to cover a shortfall in income if, for example, a main sponsor was to withdraw funding; in such a case the reserve could be called upon to provide the necessary cashflow until a replacement funder was found.
- to meet unexpected expenditure: if, for example, the trustees received an unexpected call from Dr Graham's Homes to help fund an exceptional need regarding the welfare of DGHUK's sponsored children.

### **Closure**

In addition to 'the unexpected', the existence of adequate reserves will ensure that, if the worst happens and the organisation needs to cease operations, there will be sufficient funds to meet all of its obligations and liabilities as part of a managed exit.

In the case of DGHUK it is envisaged that, in the event of closure, a higher level of reserves would be required to meet a managed exit compared with a commercial enterprise of a similar size. This is because DGHUK could not simply 'close its doors'. In order to meet its moral obligations to its sponsored children in Dr Graham's Homes, and to those in further education under its extended sponsorship scheme, it would need to continue operating for a period to complete education already commenced or to arrange alternative provision.

In the event of closure, the general reserve would be required to fund all residual operations and costs of closure.

## What is our Reserves Policy?

DGHUK aims to maintain a general reserve of unrestricted funds sufficient to meet its financial, legal and moral obligations to its sponsored children at Dr Graham's Homes, those young people benefitting from the extended sponsorship scheme, its employees and volunteers and to all relevant authorities.

## Why does DGHUK need a Reserves Policy?

1. to assist the trustees in assessing what the sufficient level of reserves should be at any given time. This will change over time as the charity develops, calls on funding change and the risk profile of income and expenditure changes.  
It should be noted that, whilst DGHUK, like all charities, should be maintaining sufficient reserves, it also has a duty to not be over-cautious and maintain excessive levels of reserves. Subject to maintaining sufficient reserves (in accordance with the Policy) DGHUK should apply all of its income and assets in the provision of its core charitable objectives.
2. to clarify the arrangements for monitoring and reviewing the level of reserves.
3. for compliance purposes, as standard accounting practice requires charities to report on its reserves and reserves policy in the annual statutory accounts.
4. to assist with fundraising, as many charitable trusts and similar organisations now require details of, or even sight of, the Policy as part of their assessment of any funding application.

## How will the Policy apply in practice?

The trustees will agree a target level for the general reserve which will be kept under review and assessed regularly. The actual level of reserves at any time will then be measured against this target and appropriate action taken to make up any shortfall / utilise any surplus.

## How will the target level of general reserves be assessed?

In assessing the appropriate level for the target general reserve, the trustees will consider each of the following:

1. **Income risk:** the robustness of the current income streams, DGHUK's sensitivity to the partial or complete withdrawal of any particular funding source and the likelihood and timing of any potential replacement / new funding.
2. **Expenditure risk:** the level of confidence in the expenditure budgeted for the current period, the likelihood and likely magnitude of unbudgeted costs arising and the ability of DGHUK to flex spending in the short to medium term in response to unexpected events.
3. **General operating environment:** the potential external risks / developments / changes which could impact DGHUK's operating position such as changes in government legislation in both UK and / or India, loss of key personnel etc.
4. **Cost of closure:** should an event or events occur which cause the trustees to decide to close DGHUK, how closure of the charity would be managed and funded.

## Arrangements for monitoring and reviewing the general reserve and the Policy itself.

Given that DGHUK is a developing organisation, it is likely that the target general reserve will change from time to time.

The target general reserve, and indeed the Policy itself, will be the subject of a regular review by the Chairman, Secretary, Treasurer and Sponsorship Secretary. Any proposed changes will be reported to and discussed at the next full meeting of trustees.

A formal assessment of the target general reserve and of actual reserves will be undertaken by the Chairman, Secretary, Treasurer and Sponsorship Secretary on an annual basis, as part of the preparation of the Trustees' Report which ultimately appears in the Statutory Accounts as submitted to Companies House and the Office of the Scottish Charity Regulator.

This formal assessment will be presented to and approved by a full meeting of Trustees each year. The latest annual assessment will be appended to the Policy annually.

**For further information please contact the DGHUK Treasurer – [treasurer@drgrahamshomes.co.uk](mailto:treasurer@drgrahamshomes.co.uk)**