

44. Reserves Policy

Version number	Dates produced & approved	Reason for production & revision	Author	Locations	Proposed next review date
V1-0	30 Aug 2020	New policy in line with requirements of Group Constitution 2019 & recommended by Charity Commission	K Coupe & E Sellers	Dropbox.com Website	Sept 2022

Statement of Intent

At North Nibley Pre School we aim to hold sufficient reserves to meet redundancy obligations and other costs should the Pre-school have to close. We aim to maintain a level of funds to help with future sustainability, ie. to support the Pre-school if income falls below expected levels or to assist our recovery should we encounter a business disaster, for example. loss of premises.

Aim of Policy

This policy enables North Nibley Pre-school to adhere to its obligations with regards to the Pre-school's Group Constitution¹. The Committee specifically aims to:

- retain funds to cover operational costs in periods of low activity;
- maintain funds to cover costs associated with the closure of the Pre-school;
- ensure our funds cover the cost of relocation should our current rental accommodation become unavailable. This equates to a terms' costs²;
- manage the Pre-school's funds responsibly;
- provide a budget to enable us to predict fluctuations in revenues and expenditure quickly and to enable quick resolutions; and
- in the event that funds are used to recover from unexpected incidences, we will aim to rebuild our reserves primarily to meet redundancy obligations (inclusive of pension payments), and continue to rebuild our funds to cover a business disaster.

Moreover, the effectiveness of the policy is monitored and reviewed in light of changing funding, financial climate and other risks on an annual basis. It is also an important part of the internal financial management of North Nibley Pre-school, for example helping with forecasting.

To assist us in writing this Reserves Policy, we have followed the guidance set out in Annex 1 of the Charity Commissions "Charity Reserves: building resilience" document³.

What are reserves?

Reserves are that part of a charity's unrestricted funds that are freely available to spend on any of the charity's purposes. A good reserves policy gives confidence to stakeholders (ie. Gloucestershire County Council, parents/carers etc), that the charity's (North Nibley Pre-school) finances are being properly managed.

These reserves can also be classified as restricted or designated funds and can be explained as follows:

- *Restricted funds*: Are subject to specific trusts, which may be declared by the donor(s) or with their authority (eg. in a public area) or created through legal process, but still within the wider objects of the charity.
- *Designated funds*: Are part of the unrestricted funds which the Committee have earmarked for a particular project or use, without restricting or committing the funds legally. These funds can be cancelled at a later date if the project/use does not go ahead.

¹ Group Constitution 2019 adopted on xxx 2020

² Based on the Autumn term which is the longest being 15 weeks long.

³ CC19 published 29 January 2016

Charity Commission Annual Return

Our Trustees Annual Report contains a brief statement (see below) on our policy on reserves and clearly explains to our stakeholders why holding these reserves is necessary⁴.

The management committee aim to preserve a reserve of £7,000 to provide working capital in periods of low activity and income to provide funds for future expansion. The Pre-school also has a fund of £15,000 reserved specifically for the case of setting closure to pay redundancy and other owed debts..

[Annual Return 2018-19]

North Nibley Pre-school's funding streams

North Nibley Pre-school is an unincorporated⁵ charity that provides early years education for children aged 2 to school age in the Stroud Valley. The Pre-school is a registered early years provider with Gloucestershire County Council. As such its primary income is attained via Nursery Education Funding (NEF). NEF is available to eligible 2, 3 and 4 year olds for either 15 hours universal entitlement or 30 hours extended entitlement. Income is also received from parents/carers of those children who are not eligible for NEF or attend more hours than their NEF entitlement.

North Nibley Pre-school actively organises fundraising events with parents/carers' inclusion to complement its income. Additional funds received from grants and donations are used for specific projects or to purchase early years educational items.

(Unrestricted) Reserved funds

Reserved funds are held in an interest bearing account with a UK bank linked to the Pre-school's current account allowing for same day money transfer. An additional designated fund is held in a UK building society to cover costs associated with closure of the Pre-school.

The reserves can be invested. However, by their nature, reserves tend to be resources that may be needed in the short to medium term. The Committee, therefore, ensure that reserves are invested in a way that can be readily realised as cash, when needed.

Fundraising or applying for grants

When fundraising, the Committee will ensure that the Pre-school is open and transparent about the setting's need for funds.

When applying for a grant, the Committee will endeavour to ensure that the funder understands our reserves policy and that this policy explains and justifies the reserves held.

Committee responsibilities

The Committee's monitoring of reserves is not just a year-end procedure. How the level of reserves change during the year can be a good indicator of the underlying financial health of the Pre-school and can be an indicator of potential problems.

In particular, the Committee should:

- identify when reserves are drawn on so that they understand the reasons and can consider the corrective action, if any, that needs to be taken;
- identify when reserve levels rise significantly above target so that they understand the reasons and can consider the corrective action, if any, that needs to be taken;

⁴ Requirement by Charity Commission. See para 4.1 of CC19

⁵ A charity without a corporate structure (see Charity Commission CC22a: Charity Type: how to choose a structure)

- where the reserves level is below target, consider whether this is due to short-term circumstances or longer term reasons which might trigger a broader review of finances and reserves;
- regard the ongoing review of the reserves target, the reserves level and the reserves policy as part of managing the charity;
- ensure that the reserves policy continues to be relevant as the charity develops or changes its strategy and activities;
- review the statement on reserves in the Trustees' Annual Report where there have been significant changes in the reserves policy or level of reserves held.

In addition, the Committee will adhere to the following:

- review the Pre-school's reserves annually and ensure that the funds are adequate;
- undertake suitable risk assessments before reserves are used;
- increase our designated fund each year reflecting increasing staff costs such as the changes to the National Living Wage or additional staff members;
- where other costs may be taken into consideration, this will be reviewed by the Committee and, if agreed, reflected in this policy;
- the money in the reserves are for the described reasons. Should we encounter a situation that does not reach this criteria, the Committee will meet to discuss alternative options. If the only solution is to use our reserves, then this will be done by a Committee vote and recorded in the relevant minutes;
- our reserves will be grown using good business practice techniques. This will ensure that our income is greater than expenditure;
- reserves will not be developed by fundraising activities;
- if the reserves balance falls below £5000, then only essential spending will be carried out until the funds are recovered above this level.

Further Guidance

- Charity Commission Guidance: Internal Financial Controls for Charities ([CC8](#))
- Charity Commission Guidance: Charity Reserves: building resilience ([CC19](#))
- Charity Commission Guidance: Charity Types: How to Choose a Structure ([CC22a](#))