

General Welfare Requirement: Organisation

Providers must plan and organise their systems to ensure that every child receives an enjoyable and challenging learning and development experience that is tailored to meet their individual needs.

Finance

4.10.1 Reserves Policy

Policy Statement for St Joseph's Pre-school

Statement of Intent

At St Joseph's 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 St Joseph's Pre-school to adhere to its obligations with regards to the Pre-school's Group Constitution¹. Specifically, the Committee 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 term's 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.

In addition, the effectiveness of the policy is monitored and reviewed in light of changing funding, financial climate and other risks on an annual basis. As such, it is an important part of the internal financial management of St Joseph's 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 (St Joseph's Pre-school) finances are being properly managed.

¹ Group Constitution 2019

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

³ CC19 published 29 January 2016

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 objectives 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.

Annual Return

St Joseph's Pre-school's Trustees Annual Report contains a brief statement (see below) on its policy on reserves and clearly explains to our stakeholders why holding these reserves is necessary⁴.

The management committee aim to reserve the maximum of either:

- *One term's running costs plus exit costs; or*
- *£37,500*

To provide working capital in periods of low activity and income and to provide funds for future expansion.

[Annual Return 2022-23]

St Joseph's Pre-school's funding streams

St Joseph's 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 covers.

In addition, the Pre-school actively organises fundraising events during the year to fund Pre-school activities, this is done through parent/carer inclusion and donations. This additional money is used for specific projects or to purchase specific early years educational items.

(Unrestricted) Reserved funds

Being a small charity, St Joseph's Pre-school's investment policy for reserves is very straightforward and follows the Charity Commission's guidance CC14⁶. Reserved funds are held in an interest bearing account with a UK bank linked to the Pre-school's business current account allowing for same day money transfer.

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.

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)

⁶ CC14: Investing charity money : a guide for trustees

Designated funds

As with the “(unrestricted) reserves fund St Joseph’s Pre-school follows the Charity Commission’s guidance CC14⁷ with regards to investing monies held in this account.. Designated funds are held in an interest bearing account with a UK bank/building society. Money raised via fundraising for a particular project (i.e. restricted funds) are transferred to the account via the Pre-school’s business current account.

Protection of restricted reserves and designated funds

To protect St Joseph’s Pre-school’s reserves and designated funds, the Committee will ensure that monies are deposited with a trustworthy provider, ie. a bank or building society that is authorised by the:

- Financial Conduct Authority;
- Prudential Regulation Authority; or
- Relevant financial regulator in any other country.

When choosing an account the Committee will consider:

- the rates of interest on offer at different providers and whether more than one provider will be used;
- when interest is paid;
- if interest is paid gross or net of tax – if net we will make sure we can reclaim the tax;
- any charges or penalties that apply if we want to access any monies at short notice or close the account;
- any reputational and other non-financial factors that are part of the Pre-school’s investment policy and objectives, and if these are relevant to the choice of account.

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 endeavor 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 reserves⁸ 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 will:

- 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;

⁷ CC14: Investing charity money : a guide for trustees

⁸ ie. both restricted and designated funds

- 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:

- review the Pre-school's reserves annually and ensure that the funds are adequate;
- undertake suitable risk assessments before reserves are used;
- our designated fund grows each year and will continue to do so as we employ the changes of the national living wage. Also if we take on a new member of staff, we will amend the reserve to reflect this;
- where other costs may be taken into consideration, this will be reviewed by the Committee and, if agreed, reflected in our 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 using the reserves results in a balance of £6,000 or less, we will look at alternative options to fund that activity;

Further Guidance

- Charity Commission Guidance: Internal Financial Controls for Charities (CC8)
- Charity Commission Guidance: Investing charity money : a guide for Trustees (CC14)
- Charity Commission Guidance: Charity Reserves: building resilience (CC19)
- Charity Commission Guidance: Charity Types: How to Choose a Structure (CC22a)

Version Number	Author	Purpose of change	Date
1.0	K Coupe	Requirement of Constitution 2019 and good business practice	06/08/2020 Cttee Mtg
2.0	K Coupe	Updated to reflect the increase in the amount of reserves as agreed by Committee on 11 March 2021 and as noted in the Trustees Annual Report 2019-20	29/04/2021 Cttee via email (quorate)

Version Number	Author	Purpose of change	Date
3.0	L Farrer	Updated to reflect the increase in the amount of reserves as agreed by Committee on 4 May 2023 and as noted in the Trustees Annual Report 2022-23	12/07/2023 Chair (A Hitchings)
4.0	K Coupe	Inclusion of referenced to Charity Commission guidance CC14 – and additional information included under “(unrestricted) Reserved Funds	17/09/2023 Cttee Mbr (S Webb)
5.0	K Coupe & L Farrer	Updated to reflect discussions at the 20 June 2024 Committee meeting about restricted reserves and designated funds.	23 July 2024 Cttee Mbr (L Finn-Powers)