10.13 RESERVES

The Windmill Pre-School aims to hold sufficient financial reserves to cover:

- short-term shortfalls in fundraising income (Income & Expenditure Reserve)
- unexpected costs such as staff sickness, replacement of equipment, adverse in-year changes to the funding structure (Income & Expenditure Reserve)
- payment of staff redundancies in the unlikely event that the preschool had to reduce staffing numbers or to close (Redundancy Reserve)
- a shortfall between core income and core expenditure in any financial year as a result of a temporary drop in enrolment (Wages Reserve)

The Pre-School maintains three reserve accounts:

- Income & Expenditure Reserve
    - The committee will aim for the balance to fall within the range of the average of the previous three years' non-core expenditure as a minimum and twice that sum as a maximum. This is felt sufficient to cover the contingencies and risks identified above without tying up money unnecessarily.
    - Funding and fee income is effectively constrained by the County Council funding policy and therefore the Pre-school has little control over income other than fund-raising. Most expenditure relates to basic essential running costs with limited scope for savings. Therefore, if the balance falls below this minimum fundraising activity will be increased. Any surplus above the maximum may be invested in new equipment, etc, or transferred to the Wages Reserve.
    - Monies representing the Income & Expenditure Reserve are held in a current account.

- Redundancy Reserve
    - This is to cover all redundancy obligations as required by law.
    - The amount held in the Redundancy Reserve account is reviewed regularly and topped up from the Income and Expenditure Account as necessary or, if a member of staff leaves, the surplus is released back into the Income and Expenditure Account.
    - Monies representing the Redundancy Reserve are ring-fenced in a separate interest-bearing deposit account, and will not be used for any other purpose.

- Wages Reserve
    - This is to make provision to be able to maintain staffing levels and wage rates during periods of temporarily reduced income due to lower roll and/or session numbers, giving rise to budgeted and/or actual net core expenditure.
    - The Wages Reserve is maintained from the surplus of core income over core expenditure in any given financial year. Future deficits of core expenditure may then be charged against some or all of the balance.
    - The target minimum balance for the Wages Reserve is any budgeted deficit for the coming year. The maximum is any budgeted deficit plus £3,000.
    - If there is a surplus in the Wages Reserve beyond that maximum, the funds may, at the committee's discretion, be:
        - re-allocated to the Income & Expenditure account,
        - retained in the Wages Reserve if a deficit is anticipated in the year after next, or
        - taken into account when deciding whether a pay rise may be offered.
        - Monies representing the Wages Reserve are not ring-fenced and are held in an easy-access, interest-bearing deposit account.

The committee believes that holding the above reserves is justified in the interest of safeguarding the pre-school's future. The maximum balances on each account have been set to ensure that money is not retained unnecessarily, which would more properly be spent on furthering the pre-school's charitable aims. If the balance on all reserve accounts is approaching the maximum, the surplus money will be spent and/or fundraising activity will be reduced. However, it must be recognised that fundraising has important educational, community and goodwill aspects beyond the generation of income.

Note: “Core income” consists of fees and funding income; “core expenditure” consists of wage costs, rent, insurance, subscription to the Pre-School Learning Alliance and Ofsted registration fees. Total core expenditure should not exceed total core income in any given year.

This policy was adopted at a meeting of the pre-school held on (date)…………..........

Signed on behalf of the pre-school……………………………………………. (Chairperson)

Next Policy Review February 2018