Reserves Policy

1 Introduction

1.1 Stowey Bears Preschool needs cash reserves in order to:

- Meet contractual liabilities should the organisation have to close. This includes redundancy pay, amounts due to creditors and commitments under leases.
- Meet unexpected costs like break down of essential office machinery, staff cover re illness, maternity leave, parental leave, and legal costs defending the charity's interest.
- Replace equipment as it wears out and repairs to buildings.
- Ensure that the charity can continue to provide a stable and quality service to those who need them.
- Provide working capital when funding is paid in arrears.

1.2 From time to time funding has certain restrictions which mean that by law it must be held in a restricted reserve until it is spent in line with the funding agreement.

1.3 Large or excessive reserves may be interpreted as 'hoarding'; this policy should identify the necessary level of reserves for the organisation, to justify the amount held in reserve.

2 Funding

2.1 Whilst this range of funders creates a high level of administration it does provide some security in so far as at any point in time some funders are likely to be in place.

2.2 Stowey Bears Preschool plans its fund raising well in advance having an twelve- fifteen month view of the cash flow.

2.3 As far as possible management and trustees should try to anticipate future costs such as sick leave / maternity leave etc and plan for way to meet these costs. This will help to ensure that the reserves fund is not depleted unnecessarily, but left for unforeseen and emergency expenditure.

3 Level of reserves

3.1 In the context of this policy and for reporting purposes, 'Reserves' are resources that Stowey Bears Preschool has or can make available to spend for any or all of the charities purpose, once it has met its commitments and covered planned expenditure.

3.2 Reserves therefore exclude:

- Permanent endowment
- Expendable endowment
- Restricted funds
- Any part of unrestricted funds not readily available for spending, specifically:
- Income funds which could only be realised by disposing of fixed assets held for charity use and programme related investments

3.3 Stowey Bears Preschool aims to have reserves sufficient to cover six month running costs.

3.4 Costs of closure

3.5 As a minimum level of reserves, Stowey Bears Preschool will have sufficient funds to cover the costs of winding up the organisation.

3.6 Were Stowey Bears Preschool to close there would be a cost in winding up the organisation. These are show below.

Redundancy costs		
Staff		£ 10,000-£15,000
Notice period to staff		
Staff (notice period) 1 month		£9000
Creditors as per Balance Sheet		£1500 (months notice)
Audit Costs		£1500
	Total	
	COST OF CLOSURE	**£22,000-£27,000**

3.7 Six month reserves

3.8 There are a number of events that could occur within a year that are not budgeted for and would be funded from reserves. Typically this includes the loss of children, preschool at low capacity or unexpected reduction of funding, unexpected need to replace equipment and difficulties to secure funding.

3.9 Stowey bears preschool have taken on the maintenance lease from the council. Therefore we need to have reserves for any maintence that may occur

Plumbers, electricians in emergencies	£1000-£2000
General yearly costs	£1000
Big costs roof, boilers, structure	£5000-£10,000
Total MAINTENCE BUDGET	**£7000 -£19,000**

3.10 As identified above although a long lead in period is given to securing funding, this may not always be successful and it may take longer. The continuity of services for people experiencing mental distress is essentialStowey Bears Preschool have a reserve sufficient to maintain services without any funding for a period of time in which additional funding may be sought.

3.11 Stowey Bears Preschool will therefore seek to maintain six months running costs in reserves, this time period is the minimum in which funding could realistically be sought.

3.12 It is assumed that most capital purchases will be funded from specific grants for capital purchases. Equally insurance will cover cost to damage to buildings / property.

4 Establishing and maintaining reserves

4.1 In the event of reserves dropping below the minimum threshold level, Stowey Bears Preschool will aim to restore the reserves to the minimum reserves level within the next four years. This could be achieved by increased fund raising, increasing earned income or reducing expenditure.

4.2 If reserves exceed the maximum level Stowey Bears Preschool will consider the likely expenditure over the next two years and aim for the reserves to be less than this maximum level by the end of two years. This could be achieved by reducing fund raising activities, allocating less time staff time to earned income activities, reducing prices, or increasing "free" activities and so increasing expenditure, or updating/decorating, purchasing items from wishlist

5 Monitoring and reviewing

5.1 The directors will consider current costs of closure, costs of maintenance and examine the level of reserves each year when setting the following year's budget.

5.2 This reserves policy will be reviewed every two years.

Policy checked and signed

Chair …….

Print name……..Date…….