

# FINANCIAL RESERVES POLICY

## Amendment History

Revision	Author	Description of change	Date updated
1	Karen Walls	Amendment history added	May 2006
KASC policy	Carol Hooper	Adapted from adopted Kineton Playgroup policy	August 2006
2	CH	Merge KASC and Playgroup policies; update footer	September 2007
3	Ruth McFarlane	Change NEG to NEF	June 2009
4	CH/AF	Check reference to level of reserves with Ruth	July 2010
5	CH	Statement that reserves held in interest bearing account, following January 2013 board meeting	January 2013
6	CH/HS	Changes made to reflect current position over reserves and employment costs liabilities	June 2013
7	CH	No substantive changes	June 2015
8	CH	Reference to national living wage and auto-enrolment pensions	November 2016
9	CH & SF	Reviewed; no substantive changes	February 2018
10	CH & SF	Reference to increasing employment costs	January 2020

# **FINANCIAL RESERVES**

## **INTRODUCTION**

According to the Charity Commissioners 'A Reserves Policy sets out the level of Reserves needed to effectively meet the needs designated by the Charity's Trust'.

Kineton Playgroup Limited (KPG), which runs Kineton Playgroup and KASC including the Breakfast Club, must secure its viability beyond the immediate future. It must be able to absorb setbacks and to take advantage of change and opportunity. KPG does this by setting aside some of its income against future uncertainties.

## **BACKGROUND**

KPG is dependent on revenue funding from fees paid by parents to enable their children to attend Playgroup and KASC sessions, plus fees paid through Funding schemes for Playgroup fees. Capital funding for the construction of Helen's Place was provided by a combination of funding from the National Lottery Fund, SureStart and KPG's own funds; that funding related to capital expenditure and so does not form part of this Financial Reserves Policy. From time to time, KPG may apply for additional capital grant funding as it becomes available.

The level of fee income is governed by the number of children registered and the number of sessions they attend. From the registration lists, KPG is able to estimate attendance up to twelve months in advance. Additionally, KPG may gain an impression of whether numbers beyond this may fall or rise significantly through discussion with the local Health Visiting teams and the Lighthorne Heath and District Children's Centre. Thus, to some extent, the numbers of children can be predicted. Each child may attend a wide pattern of sessions, depending on family circumstances, which makes prediction of fee income difficult; budgets are set on a combination of knowledge of numbers of registered children and registered sessions, and analysis of previous years. Budget predictions are always robust, predicting income at the lower end of the realistic scale and expenditure at the higher end.

The registration lists are generally finalised a term ahead of each academic year, in June. At this time financial projections are made to determine if fees for the coming year may need to be increased. Exceptionally, increases in fees may be needed at other times in the year. KPG serves a predominantly rural community and is determined to provide access to all families within its catchment area, whatever their circumstances.

Funding is determined by Government policy interpreted by Warwickshire County Council as local education authority. With the political emphasis on improving early years' education and access to childcare, the application of early years funding has widened since its introduction in April 1997. The per

capita rate is dependent on the funds available to Warwickshire County Council and its policy in allocating those funds; the per capita per hour rate has increased only marginally in the last 10 years.

An annual budget is drawn up towards the end of each financial and academic year to look at the probable financial position for the following year. In addition, a three year based Business Plan is drawn up looking at projections three years ahead in a cash flow plan, and noting other factors which may impact income and expenditure further ahead. Sufficient reserves are essential to maintain KPG's financial viability.

To contrast with income is of course KPG's expenditure. Staff costs are by far the largest item and have been affected in recent years by legislation providing improved conditions for employees (increases in the national living wage and auto-enrolment pensions), the increased number of employees due to increasing numbers of sessions and children, the need for additional support for children with identified needs and extending operations to include care from 8.00am to 6.00pm during term time.

More children are attending more sessions and this increase in numbers has led to an increase in staff hours; individual members of staff now hold higher level professional qualifications; ongoing training costs and fees have increased; a trend for additional support on a one to one basis needed each year. Employment costs have risen substantially in recent years due to these factors plus the introduction of the auto-enrolment pension and increases in the national living wage.

## **RESERVES POLICY**

To assess the level of reserves needed, the commitment to expenditure over a given period is assessed. The expenditure vital to providing the educational setting as stated in KPG's articles and memorandum of association, is essentially the premises, staff and equipment. The commitment to each of these varies from one month to three months. Having regard to these factors, the board aims to maintain a minimum of three months' operational costs to be held as a reserve which is considered the minimum required to avoid serious disruption.

Most reserves are held in a separate account interest bearing account. At present this designation has an administrative purpose only and does not restrict the board's discretion to apply these funds for other unforeseen purposes which may arise.

## **IMPLEMENTATION AND REVIEW**

It is the Treasurer's responsibility to constantly monitor and review the level of Reserves held. A formal annual review is carried out as part of the Annual Report to the Annual General Meeting.