



POLLYANNA PRE-SCHOOL CIO FINANCIAL RESERVE & REDUNDANCY POLICY

1. Statement of Intent

Pollyanna Pre-School CIO recognises the importance of maintaining sufficient financial reserves to protect the continuity and quality of its charitable activities and to manage financial risks responsibly. The Trustees have a duty to act in the best interests of the charity and its beneficiaries, protect the charity's assets and ensure that Pollyanna Pre-School CIO remains financially sustainable.

This policy sets out:

- why Pollyanna Pre-School CIO holds reserves;
- what is included and excluded when calculating reserves;
- the target level of reserves;
- how reserves will be monitored and reviewed;
- how reserves may be used;
- how redundancy liabilities are considered within financial planning; and
- the principles and procedures that will be followed if redundancies become necessary.

The policy has been developed with reference to Charity Commission guidance on reserves and current UK employment law and ACAS guidance relating to redundancy.

PART A – FINANCIAL RESERVES

2. Purpose of Holding Reserves

Pollyanna Pre-School CIO holds reserves to provide financial resilience and to reduce the risk of an unexpected financial difficulty resulting in an unmanaged interruption or closure of the preschool.

Reserves may be required to:

1. meet redundancy and other employment liabilities should the preschool need to reduce staffing or cease operating;
2. maintain continuity of preschool provision during periods of reduced income;
3. meet unexpected operational expenditure;
4. manage temporary increases in staffing costs, including cover arising from illness, maternity leave or other unforeseen absence;
5. meet essential equipment replacement and repair costs;
6. meet necessary building or premises-related expenditure for which Pollyanna Pre-School CIO is responsible under its rental or other premises arrangements;
7. make significant changes or improvements required to maintain compliance with applicable Early Years Foundation Stage (EYFS), health and safety, safeguarding or other regulatory requirements;
8. meet unexpected professional, legal, insurance or administrative costs;
9. support the preschool during periods of significant change to funding arrangements or other income;
10. provide sufficient time for the Trustees to identify alternative sources of income, reduce expenditure or otherwise manage financial difficulties; and
11. support an orderly relocation or closure of the preschool if this becomes necessary.

The Trustees will ensure that reserves are held at a level that is prudent and proportionate to Pollyanna Pre-School CIO's circumstances and risks.

3. Definition of Reserves

For the purposes of this policy, free reserves are the part of Pollyanna Pre-School CIO's unrestricted funds that are freely available to spend on any of the charity's purposes.

Free reserves will not automatically be treated as equivalent to the total balance held in the charity's bank accounts.



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When calculating free reserves, the Trustees will consider whether unrestricted funds are genuinely available for general charitable purposes.

The following will generally be excluded from free reserves:

- restricted funds;
- funds that are legally or otherwise restricted for a particular charitable purpose;
- designated funds that Trustees have formally set aside for a specific future purpose;
- tangible fixed assets required for the charity's activities;
- other funds that are not freely available for general expenditure; and
- amounts already committed or otherwise unavailable for general charitable purposes.

The Trustees will ensure that the reserves figure used for financial monitoring is consistent with the charity's accounting records and applicable charity accounting requirements.

4. Restricted Funds

Restricted funds are funds that may only be used for the particular purpose for which they were given or otherwise restricted.

Restricted funds will not normally be included within Pollyanna Pre-School CIO's free reserves.

The existence and level of restricted funds may nevertheless be considered by the Trustees when assessing the charity's overall financial position and financial risks.

Restricted funds must not be used to meet general operating costs unless the terms of the restriction expressly permit such use.

5. Designated Funds

The Trustees may designate part of Pollyanna Pre-School CIO's unrestricted funds for a particular future purpose.

Examples may include:

- planned replacement of significant equipment;
- premises or relocation costs;
- major maintenance;
- planned improvements to preschool provision;
- future strategic projects; or
- other significant expenditure that the Trustees have identified as necessary to further the charity's purposes.

Designated funds remain unrestricted funds in legal terms, but they will not normally be counted as part of free reserves while the designation remains in place.

The Trustees may review, amend or remove a designation where circumstances change, provided that doing so is consistent with the charity's governing document and legal duties.

Any material designated funds will be recorded clearly in the charity's accounting records and explained in the Trustees' Annual Report where required.

6. Factors Used to Determine the Reserve Level

When determining the appropriate level of reserves, the Trustees will consider the financial and operational risks faced by Pollyanna Pre-School CIO.

These will include, where applicable:

- staffing and payroll commitments;
- contractual notice periods;
- potential statutory redundancy liabilities;



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- pension and employer National Insurance costs;
- premises and rental costs;
- insurance;
- utilities and essential services;
- administration and professional costs;
- equipment replacement and maintenance;
- changes in funded early-years provision;
- fluctuations in fee income;
- changes to government or local authority funding;
- fundraising income;
- potential unexpected expenditure;
- the cost of maintaining safe and legally compliant provision;
- the potential impact of temporary closure;
- the potential impact of an unexpected reduction in pupil numbers;
- the financial implications of relocation;
- the needs of children and families who rely on the preschool; and
- the time required to implement alternative income or expenditure measures if financial circumstances deteriorate.

The Trustees will review these risks when setting the annual budget and when reviewing the reserves target.

7. Target Level of Free Reserves

Pollyanna Pre-School CIO's target level of free reserves is equivalent to approximately one-third of the annual essential operating expenditure budget.

This target has been established because Pollyanna Pre-School CIO has ongoing staffing, premises and operating commitments and may experience fluctuations in income, particularly through changes in pupil numbers, funded provision, fee income and fundraising.

The target is intended to provide sufficient financial resilience to allow the Trustees reasonable time to respond to an unexpected financial difficulty without immediately placing the continuity of preschool provision at risk.

The reserve target is not intended to accumulate unrestricted funds unnecessarily or to prevent the charity from spending income appropriately in furtherance of its charitable purposes.

The target level will be reviewed annually and may be increased or decreased if the Trustees consider that Pollyanna Pre-School CIO's financial risks or operating circumstances have materially changed.

8. Calculation of the Reserve Target

The reserve target will normally be calculated using the annual budget approved by the Trustees.

The calculation will take account of essential expenditure, including where applicable:

- staff salaries and employer costs;
- rent and premises costs;
- insurance;
- payroll and essential administration costs;
- essential utilities and services;
- essential equipment and supplies;
- essential professional services; and
- other unavoidable operating expenditure.

The Trustees may also make separate provision for liabilities or expenditure that cannot appropriately be reflected simply by calculating one-third of annual expenditure. The reserve calculation will be reviewed at least annually and whenever there is a significant change in the preschool's financial circumstances.



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9. Redundancy Provision Within Reserves

The Trustees will consider potential redundancy liabilities as part of the charity's financial risk assessment. The potential liability will be reviewed using the actual employment arrangements in place at the time of the assessment.

When estimating redundancy liabilities, Pollyanna Pre-School CIO will consider:

- employees' contractual notice periods;
- statutory minimum notice requirements;
- statutory redundancy pay where applicable;
- any enhanced contractual or discretionary redundancy payments that the Trustees have agreed to provide;
- accrued salary and holiday liabilities where relevant; and
- any other reasonable employment costs associated with an orderly reduction in staffing.

The reserve calculation will not assume that every employee has a fixed notice period unless that period is actually provided for in their contract.

Statutory redundancy calculations will be based on the legislation and statutory limits in force at the time employment ends.

10. Where Reserves Will Be Held

Pollyanna Pre-School CIO will, where practicable, hold its free reserves separately from the bank account used for routine day-to-day expenditure.

The reserves may therefore be held in an appropriate savings or deposit account in the name of Pollyanna Pre-School CIO.

The Trustees will ensure that:

- the account is held in the charity's name;
- appropriate authorised signatories are in place;
- funds remain accessible when legitimately required;
- the arrangements comply with Pollyanna Pre-School CIO's financial controls; and
- the charity's banking arrangements are reviewed periodically.

Holding reserves in a separate account does not itself determine whether funds constitute free reserves; the classification of funds will continue to be based on their legal and accounting status.

11. Access to Reserves

Reserves may only be used for purposes that are consistent with Pollyanna Pre-School CIO's charitable purposes and the charity's governing document.

The Trustees will normally approve significant use of reserves.

In an emergency, where immediate expenditure is necessary to protect children, staff, the charity's assets or the continuity of provision, expenditure may be authorised in accordance with the charity's financial controls and subsequently reported to the Trustees.

The Trustees will record significant decisions to use reserves, including:

- the reason for the expenditure;
- the amount used;
- the effect on the remaining reserves;
- whether the expenditure was anticipated; and
- any action required to restore reserves to the agreed target.



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12. Monitoring Reserves

The actual level of free reserves will be monitored by the Trustees as part of regular financial monitoring. The Trustees will compare:

Actual free reserves

against

The agreed reserves target.

This comparison will be undertaken at least quarterly and as part of the annual budgeting process. The Trustees will consider whether the reserve level remains appropriate in light of:

- the current financial position;
- the approved budget;
- actual and anticipated income;
- expenditure forecasts;
- staffing commitments;
- significant financial risks; and
- any planned or unexpected expenditure.

13. Reserves Below Target

If free reserves fall materially below the agreed target, the Trustees will assess the reasons for the shortfall and consider an appropriate recovery plan.

Possible measures may include:

- increasing fundraising activity;
- increasing earned income where appropriate;
- reviewing fees where necessary;
- improving income collection;
- reducing non-essential expenditure;
- postponing non-essential expenditure;
- reviewing staffing and other operating costs;
- identifying additional funding opportunities; and
- implementing other appropriate financial measures.

The Trustees will ensure that any recovery plan remains consistent with Pollyanna Pre-School CIO's charitable purposes and does not compromise safeguarding, regulatory compliance or the quality and safety of preschool provision.

14. Reserves Above Target

If free reserves are materially above the agreed target, the Trustees will consider why the excess has arisen and whether the funds are genuinely surplus to foreseeable requirements.

The Trustees will consider whether funds could appropriately be used to:

- improve the quality of preschool provision;
- replace or improve equipment;
- undertake necessary maintenance;
- improve facilities;
- support planned development;
- strengthen the charity's financial resilience where justified; or
- otherwise further Pollyanna Pre-School CIO's charitable purposes.

The Trustees will not deliberately retain excessive reserves without a clear and documented reason. The Trustees will also not commit excess reserves to expenditure that could place the charity's long-term financial viability at risk.



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15. Cash Flow and Day-to-Day Working Capital

The requirement to maintain free reserves is separate from the need to maintain sufficient cash in the charity's current account to meet ordinary day-to-day expenditure.

The Trustees will monitor both:

1. **working capital/cash flow**, needed to meet immediate financial commitments; and
2. **free reserves**, maintained to provide longer-term financial resilience.

The annual budget and cash-flow position will therefore be considered alongside the reserves position.

16. Annual Report

Pollyanna Pre-School CIO will include an appropriate statement concerning its reserves policy and reserves position in its Trustees' Annual Report in accordance with applicable charity accounting and reporting requirements.

The statement should explain, as appropriate:

- the charity's reserves policy;
- the target level of reserves;
- why the charity considers that level appropriate;
- the level of reserves actually held at the relevant reporting date;
- any significant difference between actual and target reserves; and
- any action being taken to address a material shortfall or excess.

The Trustees will ensure that the reported reserves figure is based on the appropriate definition of free reserves rather than simply the total amount held in the bank.

PART B – REDUNDANCY POLICY AND PROCEDURE

17. Purpose of the Redundancy Policy

Pollyanna Pre-School CIO recognises that redundancy is a potentially serious and difficult situation for employees.

The Trustees and management will seek to avoid redundancies wherever reasonably practicable.

Where redundancies become unavoidable, Pollyanna Pre-School CIO will seek to:

- act fairly and reasonably;
- comply with employment legislation;
- consult employees properly;
- consider alternatives to redundancy;
- use fair and objective selection procedures;
- avoid discrimination;
- provide appropriate notice and redundancy payments;
- support affected employees wherever reasonably practicable; and
- maintain the financial sustainability and charitable purposes of the preschool.

18. What Constitutes Redundancy

Redundancy may arise where:

- Pollyanna Pre-School CIO intends to close all or part of its operation;
- the need for employees to carry out work of a particular kind has ceased or diminished;
- the need for employees to carry out work at a particular location has ceased or diminished; or
- there is another legally recognised redundancy situation.

Redundancy is different from dismissal for conduct, capability or other reasons unrelated to redundancy.



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19. Employees and Other Individuals

Statutory redundancy rights apply to employees who meet the relevant legal eligibility requirements. Employment status will be determined by the individual's actual contractual and working relationship and not simply by the label applied to the arrangement.

A zero-hours arrangement does not, by itself, determine whether an individual is an employee or a worker.

Where there is uncertainty about an individual's employment status or redundancy entitlement, Pollyanna Pre-School CIO will seek appropriate professional advice before taking action.

20. Alternatives to Redundancy

Before proposing compulsory redundancies, Pollyanna Pre-School CIO will consider reasonable alternatives where practicable.

These may include:

- restricting or suspending external recruitment;
- not replacing employees who leave voluntarily;
- reducing overtime;
- reviewing temporary or agency staffing;
- considering voluntary redundancy where appropriate;
- considering suitable redeployment;
- considering changes to working arrangements;
- reviewing staffing levels against pupil numbers;
- reviewing non-essential expenditure;
- reducing or postponing non-essential expenditure;
- considering whether alternative sources of funding are available; and
- considering other reasonable measures that may reduce the need for compulsory redundancies.

No alternative will be implemented without proper consideration of contractual, employment, safeguarding and operational requirements.

21. Redundancy Consultation

Pollyanna Pre-School CIO will carry out genuine and meaningful consultation before making a final decision to dismiss an employee as redundant.

Consultation will be used to discuss:

- why redundancies are being considered;
- the proposed organisational changes;
- the number and type of roles potentially affected;
- ways of avoiding or reducing redundancies;
- possible alternatives;
- the proposed selection process;
- selection criteria;
- the skills and staffing requirements of the future organisation;
- the proposed timetable;
- redundancy payments and notice arrangements;
- any concerns raised by employees; and
- suggestions made by employees for avoiding or reducing redundancies.

The Trustees and management will genuinely consider representations made during consultation but are not required to agree to every proposal.

Consultation will take place before final redundancy decisions are made.



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22. Individual Consultation

Where fewer than 20 redundancies are proposed, affected employees will normally be consulted individually.

Each employee who is provisionally selected for redundancy will be invited to a private consultation meeting.

Employees will be provided with sufficient information to understand:

- why their role is at risk;
- the proposed selection process;
- the selection criteria;
- their provisional selection score or assessment where applicable;
- the alternatives considered;
- the proposed timescale; and
- their potential notice and redundancy entitlements.

Employees will be given a reasonable opportunity to ask questions, provide information and make representations.

The consultation period will not be predetermined by a fixed number of days. It will last for as long as reasonably necessary to ensure meaningful consultation in the circumstances.

23. Collective Consultation

Where Pollyanna Pre-School CIO proposes to dismiss 20 or more employees as redundant at one establishment within a 90-day period, the statutory collective redundancy consultation requirements will apply.

The Trustees will ensure that appropriate consultation takes place with:

- a recognised trade union, where applicable; or
- elected employee representatives where there is no recognised trade union.

The statutory minimum consultation periods will be observed:

- 20–99 proposed redundancies: consultation must begin at least 30 days before the first dismissal takes effect;
- 100 or more proposed redundancies: consultation must begin at least 45 days before the first dismissal takes effect.

The required notification to the Redundancy Payments Service will also be made within the applicable statutory timescale.

Where collective consultation requirements apply, Pollyanna Pre-School CIO will provide the information required by law, including:

- the reasons for the proposed redundancies;
- the numbers and categories of employees affected;
- the proposed selection method;
- the proposed method of carrying out the redundancies;
- the proposed timetable; and
- the proposed method of calculating redundancy payments.

24. Selection Pools

Where not all employees in a particular area of work are being made redundant, Pollyanna Pre-School CIO will consider whether an appropriate selection pool is required.



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Selection pools will normally include employees undertaking the same or similar work and may include employees with similar skills where appropriate.

The composition of the selection pool will be considered as part of the consultation process.

The selection pool will be determined according to the circumstances of the proposed organisational change and will not be designed simply to produce a predetermined outcome.

25. Redundancy Selection Criteria

Where selection between employees is required, Pollyanna Pre-School CIO will use fair, objective and measurable criteria wherever reasonably practicable.

Depending on the circumstances, criteria may include:

- skills;
- qualifications;
- relevant experience;
- performance;
- flexibility;
- disciplinary record; and
- attendance record.

Any attendance criterion must be based on accurate information and will exclude absences that must legally be disregarded, including relevant pregnancy, maternity and disability-related absences.

Selection criteria will not be based on protected characteristics or applied in a discriminatory manner.

The criteria will be applied consistently to employees within the relevant selection pool, subject to any reasonable adjustments or other legal requirements.

26. Discrimination

Pollyanna Pre-School CIO will not select employees for redundancy because of a protected characteristic.

The Trustees and management will take appropriate care to ensure that redundancy criteria do not directly or indirectly discriminate unlawfully.

Protected characteristics include:

- age;
- disability;
- gender reassignment;
- marriage and civil partnership;
- pregnancy and maternity;
- race;
- religion or belief;
- sex; and
- sexual orientation.

Particular care will be taken where employees are pregnant, on maternity leave, absent because of a disability or otherwise protected by employment legislation.

27. Provisional Selection and Representations

Employees selected for redundancy will normally be informed that their selection is provisional.

The employee will be given an opportunity to:

- review the reasons for selection;
- ask questions;



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- provide additional relevant information;
- challenge factual inaccuracies;
- raise concerns about the selection criteria or scoring; and
- suggest alternatives to redundancy.

Any representations will be considered before a final redundancy decision is made.

28. Final Redundancy Decision

After consultation has concluded, the Trustees or authorised management representative will consider all relevant information before making a final decision.

Where the decision is to proceed with redundancy, the employee will receive written confirmation setting out:

- the reason for redundancy;
- the date employment will terminate;
- the notice period;
- whether the employee is required to work their notice;
- any payment in lieu of notice where applicable;
- statutory redundancy pay, where applicable;
- payment for accrued but untaken holiday, where applicable;
- any other contractual payments due; and
- the employee's right of appeal.

29. Notice and Payment in Lieu of Notice

Employees made redundant will receive the notice to which they are entitled under their contract and applicable legislation.

The contractual notice period will not be less than the statutory minimum.

Where appropriate and permitted by the employee's contract, Pollyanna Pre-School CIO may make a payment in lieu of notice rather than requiring the employee to work some or all of their notice period.

Any payment in lieu of notice will be calculated in accordance with the applicable contractual and legal requirements.

30. Statutory Redundancy Pay

Employees who meet the statutory eligibility requirements for redundancy pay, including the applicable minimum period of continuous employment, will receive statutory redundancy pay.

The statutory redundancy payment will be calculated in accordance with the statutory formula and the statutory limits in force at the date employment ends.

The calculation will take account of:

- the employee's age;
- length of continuous employment; and
- relevant weekly pay, subject to the applicable statutory limit.

Where Pollyanna Pre-School CIO has agreed any enhanced contractual or discretionary redundancy payment, this will be dealt with separately.

31. Time Off to Find Alternative Employment

An employee with the required period of continuous employment who is under notice of redundancy will be entitled to reasonable time off to:

- look for alternative employment;
- attend job interviews; or
- undertake training for future employment,



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in accordance with applicable legislation.

Employees should give reasonable notice when requesting such time off wherever practicable.

32. Holiday and Other Payments

On termination of employment following redundancy, Pollyanna Pre-School CIO will make any payments that are legally or contractually due.

This may include:

- salary up to the termination date;
- accrued but untaken holiday;
- statutory redundancy pay;
- contractual redundancy pay, where applicable;
- payment in lieu of notice, where applicable; and
- other contractual payments properly due.

Any deductions from final pay will only be made where legally permitted or otherwise authorised.

33. Right of Appeal

An employee who believes that:

- the redundancy process was not followed correctly;
- the selection criteria were applied unfairly;
- relevant information was not considered;
- the selection decision was discriminatory; or
- there are other grounds why the redundancy decision should be reconsidered,

will have the right to appeal.

The appeal should normally be submitted in writing within **10 working days** of the employee receiving written confirmation of redundancy.

The employee should explain the grounds of their appeal and provide any relevant supporting information.

Where reasonably practicable, the appeal will be considered by someone who was not responsible for the original redundancy decision.

Because Pollyanna Pre-School CIO is a small organisation, where it is not reasonably practicable for a completely independent internal person to hear the appeal, the Trustees will appoint the most impartial person reasonably available and may seek external advice or assistance where appropriate.

The outcome of the appeal will be confirmed in writing.

34. Support for Employees

Pollyanna Pre-School CIO will make reasonable efforts to support employees affected by redundancy.

Support may include:

- providing reasonable time off to look for alternative employment;
- providing information about redundancy entitlements;
- providing a reference where appropriate;
- considering reasonable requests for flexibility during the notice period;
- considering suitable alternative employment within the organisation where available; and
- signposting employees to appropriate external support where reasonably practicable.



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35. Suitable Alternative Employment

Where suitable alternative employment exists within Pollyanna Pre-School CIO, the organisation may consider offering it to an employee whose existing role is at risk.

Any offer will take account of:

- the nature of the alternative role;
- duties and responsibilities;
- pay;
- working hours;
- location;
- contractual terms; and
- the employee's skills and experience.

Where statutory provisions relating to suitable alternative employment apply, Pollyanna Pre-School CIO will comply with them.

36. Redundancy Records

Pollyanna Pre-School CIO will retain appropriate records relating to redundancy exercises.

Records may include:

- financial information supporting the proposal;
- Trustee decisions;
- consultation documents;
- selection pools;
- selection criteria;
- scoring records;
- meeting notes;
- employee representations;
- correspondence;
- redundancy calculations;
- notice arrangements;
- appeal documentation; and
- relevant statutory notifications.

Records will be retained securely and in accordance with Pollyanna Pre-School CIO's data protection and document retention requirements.

Access to confidential redundancy records will be restricted to those who have a legitimate need to access them.

37. Trustee Responsibility

The Board of Trustees has overall responsibility for ensuring that Pollyanna Pre-School CIO maintains an appropriate reserves policy and manages the charity's finances responsibly.

The Trustees will:

- approve the reserves target;
- monitor the level of free reserves;
- review financial risks;
- approve significant use of reserves;
- review material shortfalls or excess reserves;
- ensure that the reserves policy is reflected appropriately in the Trustees' Annual Report; and
- ensure that any redundancy process is undertaken fairly and in accordance with applicable law.



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The Manager and other authorised staff may assist the Trustees with the implementation and monitoring of this policy but do not replace the Trustees' ultimate responsibility for the charity's financial governance.

38. Policy Review

This policy will be reviewed at least annually and sooner if there is:

- a significant change in Pollyanna Pre-School CIO's financial circumstances;
- a significant change to staffing or employment arrangements;
- a change in relevant charity or employment legislation;
- a significant change to government or local authority funding;
- a change to the preschool's premises or operating model; or
- any other circumstance that may materially affect the policy.

The annual review should normally take place following the financial year-end and as part of the preparation of the annual budget and financial planning process.

The policy will be approved by the Board of Trustees.

Review and Approval

This policy was reviewed and adopted on: 1st September 2026

Signed by Management Committee: 

Print Name: Nikitta Wehrle

Version: 1.0 2026

This policy is reviewed **annually** or sooner in response to changes in legislation, guidance, or setting practices.