

# Reserves Policy

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## RESERVES POLICY

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<b>Presented to OLOG Audit &amp; Risk Committee</b>	<b>07/10/20</b>
<b>Presented and Approved by OLOG Board of Trustees</b>	<b>07/10/20</b>
<b>Signature of Chair of Board of Trustees:</b>	
<b>Name of Chair of Board</b>	<b>Michael Coleman</b>
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## Introduction

Where reserves are held, it is a requirement of the charity accounting regulations that charity trustees ('director') must state their reserves policy in their annual report. Academy schools, as exempt charities, must comply with these regulations.

The Education Skills and Funding Agency's (ESFAs) annual Academies Accounts Direction sets out guidance on academies' reserves policies and reporting requirements, which this policy also aims to comply with.

## Definition of Reserves

The Charity Commission has provided a specific definition for "reserves" as *"that part of a charity's unrestricted funds that is freely available to spend on any of the charity's purposes. This definition excludes restricted income funds and endowment funds, although holding such funds may influence a charity's reserves policy. Reserves will also normally exclude tangible fixed assets held for the charity's use and amounts designated for essential future spending."*

This definition is intended to provide the charity (academy) with a way of identifying those reserves that are readily available in relatively liquid form if required.

The free reserves of Our Lady of Grace Catholic Academy Trust ('academy') for which a policy is needed are represented by unrestricted general fund and exclude both the restricted funds held and funds that have been designated by the trustees, the latter including a Tangible Fixed Asset Fund representing the net book value of tangible fixed assets held at the balance sheet date.

It is recognised that charities are under a general duty to apply charity funds within a reasonable time of their receipt subject to any specified rules in the governing document, although there are no such requirements in Our Lady of Grace Catholic Academy Trust's memorandum and articles of association. Similarly, whilst the Charity Commission requirements only require consideration of free reserves, it would be inappropriate to not apply restricted funds within a reasonable time period.

## Why does the academy hold free reserves?

Academies are expected to hold contingency reserves from their annual GAG funding or other income, which may be both capital and revenue reserves.

The Trustees require a **revenue reserve** to be created to fund future expenditure related to the Academy Development Plan's strategic long-term aims and developments. The policy of the Academy is to carry forward a prudent level of resources designed to meet the long-term cyclical needs of renewal and any other unforeseen contingencies, subject to the constraint that the level of resources does not exceed the level permitted by the DfE.

In addition, the Trustees may require a **capital reserve** to be created to fund future capital expenditure as the DfE provides minimal funding in the way of Devolved Formula Capital Grant at present. In addition academies are able to bid for a share of the Academies Capital Maintenance Fund.

The academy is required to consider what level of reserves it is appropriate to hold in order to demonstrate appropriate financial management, stewardship and sustainability. The trustees wish to do this to provide assurance to all the academy's stakeholders that it is being managed in a prudent manner for the best interests of its beneficiaries.

The trustees also want to provide confidence that there is a strong justification for the reserves held by the academy, and that they wish to be open and transparent on all aspects concerning its reserves policy. In doing this the academy has considered the following areas.

### *Working Capital*

Any organisation needs working capital to allow it to meet its liabilities as they arise – this is a key going concern requirement. Cash or other liquid assets are required to meet normal operating expenditure.

For Our Lady of Grace Catholic Academy Trust its cash flow is strong due to the profile of its incoming resources. In particular, the receipt of core ESFA grant funding at the start of the each month means that reserves are not required for working capital purposes.

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## *Financial risk management*

All academies are subject to a wide range of risks, many of which have financial implications. Contingency funds are appropriate to be held as mitigation against the effect of such risks. The academy has a formalised approach to risk management which identifies major risks that it faces, assesses their severity in terms of impact and likelihood, and identifies mitigating actions.

The financial risks that are mitigated by the holding of reserves include:

- Drop in income due to lower number of pupils on roll at census date or low take up of nursery places;
- Potential of discontinued grants from the London Borough of Newham (e.g. KS2 meal funding, reading guarantee)
- Increase in expenditure when special projects are undertaken (e.g. professional fees incurred in relation to capital bid preparation/expansion project)

## *Future development*

As part of their strategic planning the trustees also consider the need for funds to develop their activities or to consider new opportunities to assist their beneficiaries (e.g. extension of school).

## *Reserve fulfilment*

By their nature free reserves are deemed to be readily available for application, however they are not required to be held in either cash or “near cash” assets. As a result there may be a need to convert underlying assets into cash in order to fulfil a reserve utilisation.

## **Explanation of the Policy in the Accounts**

The Charities Statement of Recommended Practice (SORP) 2005 requires disclosure of the academy’s policy on reserves in the Trustees’ Annual Report (‘TAR’) – stating the level of reserves held and why they are held. Details are also required of any material designated funds, setting out the amount and purposes for the funds the trustees have decided to earmark for future application as well as the likely timing of that expenditure.

A summary of this policy will therefore be included in the TAR as required each year. The wording shall be considered by the Audit and Risk Committee and Board as part of their consideration of the annual financial statements. Where actual reserves held are significantly different to the required policy level an explanation will be included how the academy is seeking to resolve this disparity. The notes to the accounts will identify any designated funds, the purpose of each fund and the expected date of future application of those funds.

## **Reserves policy and Going Concern considerations**

The academy’s policy for reserves is linked to and part of its formal consideration of the academy’s going concern presumption. An appropriate level of reserves underlies the forecasts and cash flow projections that are used by the Board to confirm that Our Lady of Grace Catholic Academy Trust is a going concern and is able to meet its liabilities as they arise.

At the year end the reserves policy, actual reserves held and future business planning forecasts are used to confirm the going concern principle applies for at least 12 months from the date that the statutory accounts are approved by the board.

As part of the annual financial planning process, whilst approving the 2020/21 budget and the 3 year budget plan (July 2020), the Trustees have considered the acceptable level of free reserves the Trust should aspire to have at 31 August 2020. The Trustees have agreed that the acceptable level should be in a range of 5%-10% of total trust income in the light of significant reduction of income levels anticipated in the forthcoming 2 years while the National Funding Formula is fully implemented, the rising staffing and pension costs and the uncertainty over the funding shortfall of construction costs with regards to the on-going expansion of the Trust. It is recognised that an individual schools’ reserves may at times fall outside this range, depending on prior or future commitments.

## **When does the academy consider its reserves policy?**

Monitoring and oversight of the reserves held by the academy is undertaken throughout the year. This is achieved through regular management accounts, cash flow monitoring, and termly financial forecasts.

At least on an annual basis the reserves policy is reviewed formally by the trustees as part of its strategic and business planning process.

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For schools within the Trust where reserves are predicted to fall below 3% (of total income) within a year the Chief Accounting Officer and Chief Finance Officer will review working capital weekly to ensure sufficient funds are available for payment of staff and creditors. In the event of insufficient funds being available a temporary “cashflow transfer” between schools may occur under the following guidelines:

- Headteachers of both school to approve in writing
- CAO and CFO to approve in writing
- Repayment schedule to be agreed in advance of transfer within 6 months
- CAO and CFO to monitor repayment schedule
- All temporary cashflow transfers to be reported to Trustees
- Longer term transfers must be agreed by all parties (i.e. Headteachers, CAO, CFO and Trustees in advance)

## Links to other policies/documents

[Financial Regulations](#)

[Accounting Policies](#)

[Risk Management & Risk Map](#)