RESERVES POLICY

Lead	CFO
Consultation	N/A
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RESERVES POLICY

1. Introduction

1.1 *The Collegiate Trust* (*TCT / the Trust*) is a partnership of academies in Crawley and Croydon whose purpose is to build *collaboration to deliver exceptional education*, and whose vision is *exceptional education for all*. This is reflected in our Trust's values: **ambition** & **collaboration**, as well as in our desired outcomes: **achievement** & **enjoyment**. This policy provides a key mechanism that informs our wider *Trust Improvement Strategy*.

1.2 The requirement for academies and multi-academy trusts (hereafter referred to as *school trusts*) to set a reserves policy is developed from the *Charity SORP* and the *Academies Accounts Direction*. Regardless of the regulatory requirement, establishing reserves that protect the operation of the Trust and contribute to its smooth running is good practice and forms part of its overall financial control and governance framework. School trusts must set a reserves policy and then report this policy in the annual financial statements.

1.2 Whilst the Board of TCT does not wish to hold excessive reserves, as it believes that funds should be expended on the pupils and students of today, it also recognises that a level of reserve is required to cover unforeseen events and to provide for essential investment that cannot otherwise be funded.

1.3 The *Education and Skills Funding Agency* (ESFA) previously set limits on the amount of *General Annual Grant* (GAG) that could be carried forward from one year to the next. These limits have now been removed so that school trusts have the freedom to keep money aside for when it is needed most and to build up reserves, for example for long term capital projects.

2. Purpose of the Policy

2.1 The Board of TCT has established this *Reserves Policy* to protect its activities by providing financial buffers against an unpredictable environment and to make sufficient provision for future cash flow requirements and capital investment. The policy also provides the framework for future strategic planning and decision-making. The development of an effective reserves policy will restrict the impact of any risk upon the continuing operations of TCT.

2.2 The Trust's *Reserve Policy*:

- assists in strategic planning by considering how new projects or activities will be funded
- informs the budget process by considering whether reserves need to be used during the financial year or built up for future projects
- enables investment decisions to be made at a Trust level, where necessary utilising reserves across the Trust
- informs the budget and risk management process by identifying any uncertainty in future income streams.

3. Application of the Policy

3.1 When considering an appropriate level of reserves, the Trust Board considers:

- the risk of unforeseen emergency or other unexpected need for funds
- a fall or rise in sources of income
- planned commitments, or designations, that cannot be met by future income alone, for example plans for a major capital project
- the need to fund potential deficits in a cash budget, for example money may need to be spent before funding is received
- the full range of financial risks identified.

4. Balanced Budget

4.1 Academies within the Trust are required to set and maintain a balanced budget, with costs met from income in a given year.

5. Types of Reserves

5.1 Reserves are the representation of the cash balance available at the period end. This cash is transferred into fund balances for *restricted* or *unrestricted* purposes depending on their source.

5.2 *Unrestricted Reserves*
Unrestricted reserves are derived from income funds, grants or donations that can be spent at the discretion of the Board in furtherance of any of the Trust's objectives. Unrestricted reserves will be achieved through operational efficiencies and any trading activities undertaken by the Trust.

5.3 *Restricted Reserves*
Restricted reserves are mainly derived from government grant funding through the ESFA but may include other grants and donations. Restricted reserves must be used in accordance with the limitations outlined in the original funding agreement.

If any income is restricted to a particular area of expenditure, then the Trust must put procedures in place to monitor its use and ensure compliance with any donor restrictions.

Types of restricted reserves include:

- GAG restricted reserves respresenting unspent GAG funds. They are restricted by the limitations outlined in the funding agreement.
- Capital restricted reserves represent the value of all fixed assets. These are therefore not cash reserves but represent the depreciated value of the building and its capitalised contents.
- Other restricted reserves represent unspent donations from other sources that must be spent in line with the donor's explicit wishes.

5.4 *Pension Reserves*
Pension reserves represent the Trust's share of assets in relation to the local government pension scheme. This is most likely a negative reserve as the schemes are largely in deficit. This figure, although worked out by the local authority's actuaries is a notional figure and should not be included when assessing the level of free reserves, as the debt is unlikely to crystallise. Pension reserves relate only to the *Local Government Pension Fund* as teachers' pensions are underwritten by the government.

6. Level of Reserves

6.1 The Trust is responsible for determining the level of financial reserves to be carried forward at the end of each financial year. The levels and treatment of reserves carried forward at the end of each financial year will be in line with the guidance received from the ESFA on the treatment of GAG income and other grants.

6.2 The Board has decided to maintain a ***cash reserve equivalent to 5% of the gross GAG income*** of the Trust as a whole. Such a level is broadly equivalent to a month's net salary costs for the Trust and, therefore, represents a reasonable level of security for dealing with unanticipated issues that might require use of reserves, and to provide a mechanism for capital investment over and above that possible within capital funding levels.

6.3 The Board will review reserves annually in February. This review will:

i. analyse level of reserves from most the previous year's *Financial Statements*
ii. consider projections for the level of reserves at the end of current financial year
iii. agree contributions to reserves to be included in subsequent years' *School Budget Plans* to maintain (or restore) the cash reserve objective of 5%.

7. Use of Reserves

7.1 Capital Investment
A school may apply to the Trust for a *capital loan* to fund a project that sits outside of the scale that could be supported by the Trust's *Capital Plan*; for example, this may be to expand facilities on a site to support growth in pupil / student numbers where there is no *basic need* investment possible from the LA. The proposal for a capital loan will be drawn up by the COO and relevant Principal, and must demonstrate clear need and rationale, along with a strong repayment profile to the Trust of at least 50% in the year after completion of

the project, at least 35% in year 2 and 15% or a smaller balancing figure in year 3. A capital loan of this type must not be used for general maintenance, routine improvements or health and safety requirements.

7.2 Emergency Activity

This includes all activity that might be required for *business continuity* purposes.

7.3 Planned Deficit in Schools

Should the annual budget planning process identify that a school can best be supported through a planned, single year deficit, then subject to a recommendation from the CFO and approval from ARFC, the Trust's central reserves can be used to finance this deficit. Such approval will only usually be granted if it is clear that:

- the reason for the deficit is temporary and that to set a balanced budget would damage the education of pupils / students
- the level of deficit will be repaid over the following 3 years at an annual repayment profile of 35% for the first 2 years and 30% in the third year
- the CFO confirms that the deficit is necessary and repayment plan is secure.

If a school is planning to run a deficit for more than 1 year, this would need to be approved by ARFC and be re-approved on an annual basis as required. Regular meetings to review the on-going financial situation will take place between the Principal, CFO and COO.

8. Treatment of Surpluses

8.1 At the end of each financial year, any surplus funds achieved by academies will be transferred to reserves unless it has otherwise been agreed by the CEO that a proportion may be utilised for a planned purpose prior to the year end.

9. Academies Joining the Trust

9.1 Upon conversion to academy status and joining the Trust, any accumulated reserves will added to the Trust's central reserves and be designated in accordance with this policy.

9.2 Academies joining with negative reserves or in-year budget deficits must demonstrate a coherent plan for achieving compliance with these reserve requirements prior to the completion of the joining process.

10. Accounting

10.1 It is a requirement that all cash reserves are recorded on the Trust's accounting system and administered by Trust staff. All accounts should be subjected to regular reconciliation in accordance with the Trust's financial procedures.

11. Monitoring and review

11.1 This *Reserves Policy* will be regularly reviewed in light of the changing funding and financial climate and other emerging risks, at least on an annual basis. This is in addition to the annual review of reserves generally outlined in section 6.3.

11.2 The Trust will report on reserves annually in the *Financial Statements*.