The Collegiate Trust
Exceptional Education for All

RESERVES POLICY

Lead	CFO
Consultation	N/A
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Contents

Section 1 - Introduction

1.1 The requirement for academies and multi-academy 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. Trusts must set a reserves policy and then report this policy in the annual financial statements.

1.2 Whilst the Trust does not wish to hold excessive reserves, as it believes that funds should be expended on the pupils of today, it also recognises that a level of reserve is required to cover unforeseen events and areas of investment. The use of reserves may be permitted to cover expenditure in unprecedented times in agreement with the CEO and on the basis of a short-term loan from reserves in stead of a permanent depletion of funds.

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 academy 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.

Section 2 – Purpose of the Policy

2.1 The Collegiate Trust 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 The Collegiate Trust.

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; and
- Informs the budget and risk management process by identifying any uncertainty in future income streams.

Section 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; and
- The full range of financial risks identified.

Section 4 – A Balanced Budget

4.1 Academies with the Trust are expected to set and maintain a balanced budget where costs are met from income in a given year. Accumulated reserves can be utilised, subject to the provisions of this policy.

Section 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 directors 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 respresnting unspent General Annual Grant funds. They are restricted by the limitations outlined in the funding agreement.
- Capital restricted resreves 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.

Section 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 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 Generally, reserves are to be maintained at 5% of the gross GAG income of the Trust as a whole. This level will be reviewed annually by the Board after consideration by the Audit, Finance and Risk Committee.

Section 7 – Academies in Deficit

7.1 Where an academy has no alternative but to set an in-year deficit budget, it may not be able to contribute to any or all of its commitments. The Finance and Capital Committee will consider the specific circumstances leading to a deficit position at the time the budget is submitted for approval.

7.2 Approval of an in-year deficit budget lasting no more than one financial year, will only be granted if the academy demonstrates it as a plan to redicate this deficit within an acceptable time.

7.3 An academy with an overall deficit position will need to draw on the Trust's central reserves to finance this deficit. The Trust therefore expected the academy to repay this amount into the Trust's central reserve over an agreed period not exceeding 3 years, unless agreed otherise by the Finance and Capital Committee.

7.4 If an academy is planning to run a deficit for more than 1 year, this would need to be approved by the Finance and Capital Committee 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 CEO.

Section 8 – Academies in Surplus

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.

Section 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.

Section 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 Policy and Procedures.

Section 11 - Monitoring and Review

11.1 The 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.

11.2 Each year, the Trust will report in the financial statements, a brief outline of the policy in place and the level of reserves held at the start and end of the financial year.