

FERNHURST PRIMARY SCHOOL



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Reserves Policy



Created	2014
Responsible Committee	Finance & Resources
Approved	Summer 2016
Reviewed	June 2018
Next Review	June 2021

Reserves policy

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.”* In practice this means cash and other liquid assets.

Legal Authority to hold reserves

The Charity Commission has identified that all charities have legal authority to hold reserves. Specifically they state: *“Trustees of every charity must ensure that the charity's funds are used appropriately, prudently, lawfully and in accordance with the charity's purposes for the public benefit. The general principle of trust law is that funds received as income should be spent within a reasonable period of receipt. The holding of reserves will be authorised either by using an express or implied power to hold reserves. Trustees are justified in exercising their power to hold income reserves, whether express or implied only if, in their considered view, it is necessary in the charity's best interests.”*

For the University of Chichester (Multi) Academy Trust there is no explicit legal authority to hold reserves set out in its Memorandum and Articles of Association, but the implied authority is deemed sufficient. Specifically the charity has no need to formally accumulate reserves.

Why does the University of Chichester (Multi) Academy Trust hold free reserves?

The charity is required to consider what level of reserves it is appropriate for the charity to hold in order to demonstrate appropriate financial management, stewardship and sustainability. The trustees wish to do this to provide assurance to all the charity's stakeholders that the charity 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 charity, and that they wish to be open and transparent on all aspects concerning the charity's reserves policy. In doing this the University of Chichester (Multi) Academy Trust 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.

Financial risk management

All charities are subject to a wide range of risks, many of which have financial implications. “Rainy day” funds are appropriate to be held as mitigation against the effect of such risks. The University of Chichester (Multi) Academy Trust 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. For example, as a service providing charity The University of Chichester (Multi) Academy Trust is reliant on top-slice income as a significant source of unrestricted income. Should service demand drop the charity will require time to restructure its operations and to implement any necessary staff redundancy plans.

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

- Variability of income – the recovery of top-slice income from our academies is sensitive to their financial situation and over the course of the next year we may need to negotiate with some of our schools that they will pay their top-slice in future years once they have either increased their pupil numbers or carried out a cost reduction exercise. Although multi-academy trusts are permitted to use the funds generated from one academy for use in another this can only happen to a limited extent where we have a small number of academies. We therefore need to hold funds to ensure that we have sufficient resources to invest in school improvement even if the top-slice does not cover this cost in the first year.
- Variability of expenditure – most of the trust’s expenditure is made up of staffing costs which are borne by the University and charged to the loan account. This is therefore not a high area of risk.
- Other financial risks noted in risk register –if CAT does not improve its academies at a fast enough rate then academy recruitment will slow and income generated from the top-slice will increase at a slower rate. We therefore need to hold funds to ensure that we will be able to continue to invest in school improvement.
- Receipt of grant income – CAT receives grant income for three of its schools (Frogmore, Mill Chase and Flying Bull) and it pays the salaries for each of these schools. If there were ever a delay in the grant income being received then the level of cash required to pay the salaries for our employees in these schools is £350,000. This is a low risk, but one which would be mitigated by the holding of reserves.

Future development

As part of their strategic planning all charity Trustees should also consider the need for funds to develop their charity’s activities or to consider new opportunities to assist their beneficiaries.

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; at the present time the free reserves are all held as cash or cash equivalent.

University of Chichester

When deciding on the level of reserves to hold CAT must be mindful of the cash requirements of the University who are providing the funds to CAT until the loan is paid back.

Explanation of the Policy in the Accounts

The Charities Statement of Recommended Practice (SORP) requires disclosure of The University of Chichester (Multi) Academy Trust’s policy on reserves in the Trustees’ Annual Report – 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 Finance and Audit Committee and Board as part of their consideration of the annual financial statements. Where actual reserves held are significant different to the required policy level an explanation will be included as to how the charity 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 charity's policy for reserves is linked to and part of its formal consideration of the charity's going concern presumption. An appropriate level of reserves underlies the forecasts and cashflow projections that are used by the Board to confirm that The University of Chichester (Multi) 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.

Required level of reserves

It is common practice to state the level of reserves as either an absolute amount, or a figure representing the number of months' worth of expenditure.

The trustees have considered the purposes for which the trust needs to hold reserves. They believe that sufficient funds need to be held to enable the trust and its academies to manage their day to day operations and to meet their liabilities as they fall due.

The trustees believe that the level of reserves should be sufficient to:

- Enable the academies to manage their central day to day operations and absorb any forecast deficits due to falling rolls over a period of three years.
- Provide sufficient working capital to enable the trust to manage its central day to day operations.

The level of reserves to meet total academy requirements should be between 2 and 4 months' worth of academy expenditure.

The level of reserves to meet the trust's central requirements should be between £150,000 and £275,000.

When does the charity consider its reserves policy?

Monitoring and oversight of the reserves held by the charity is undertaken throughout the year. This is achieved through monthly management accounts, cash flow monitoring on a monthly basis, and regular 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.

Approved by CAT Board 15 December 2014