



Calday Grange
Grammar School

FINANCIAL RESERVES POLICY

Date of Review:

June 2023

Member of staff responsible:

Miss Sofia Palios

Approval by Full Governing Body:

13th July 2023

Date of next review:

June 2025

Summary

The Trustees need to consider the level of reserves the Academy should hold. Levels of reserves which are too high tie up funds that should be spent on current school activities. Levels of reserves that are too low may put the future activities of the school at risk.

The policy sets out a framework for Trustees to use in determining the target level of reserves and how this target will be monitored and reported to the Board.

Background

- 1.1 This policy should be read with reference to the document Charities and Reserves (CC19) from the Charity Commission.

<https://www.gov.uk/government/publications/charities-and-reserves-cc19>

- 1.2 An Academy Trust is an exempt charity, regulated by the DFE. The Education Funding Agency (EFA) expects charities to have a reserves policy. An academy should follow Charity Commission guidance when setting a reserves policy. Their guidance is based on the requirements of charity law, the Charities SORP and good practice.

- 1.3 Charity Commission guidance states that:

'Reserves are 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. The starting point for calculating the amount of reserves held is therefore the amount of unrestricted funds held by a charity. However, some or all of the unrestricted funds of a charity may not be readily available for spending. This is because spending those funds may adversely impact on the charity's ability to deliver its aims. The items that should be excluded from reserves are:

- *tangible fixed assets used to carry out the charity's activities, such as land and buildings*
- *programme-related investments those held solely to further the charity's purposes*
- *designated funds set aside to meet essential future spending, such as funding a project that could not be met from future income*
- *commitments that have not been provided for as a liability in the accounts'*

- 1.4 Deciding the level of reserves that a charity needs to hold is an important part of financial management and forward financial planning. Reserves levels which are higher than necessary may tie up money unnecessarily. Holding excessive reserves can unnecessarily limit the amount spent on charitable activities, reducing the potential benefits a charity can provide. However, if reserves are too low then the charity's solvency and its future activities can be put at risk. All charities need to develop a policy on reserves which establishes a level of reserves that is right for the charity and clearly explains to its stakeholders why holding these reserves is necessary.

- 1.5 The Charity Commission reminds trustees that:

- Charity law requires any income received by a charity to be spent within a reasonable period of receipt. Trustees should be able to justify the holding of income as reserves;
- Reserves are that part of a charity's unrestricted income funds that is freely available to spend;

- Where the trustees have a reserves policy, this policy must be set out in the trustees' annual report;
- If the trustees have not set a reserves policy, this should be stated in the trustees' annual report;
- A good reserves policy takes into account the charity's financial circumstances and other relevant factors;
- It is good practice to regularly monitor and review the effectiveness of the policy in the light of the changing funding and financial climate and other risks

Introduction

- 2.1 The Trustees need to consider the level of reserves the Academy should hold. Levels of reserves which are too high tie up funds that should be spent on current school activities. Levels of reserves that are too low may put the future activities of the school at risk.
- 2.2 The Academy's reserves 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.
 - informs the budget and risk management process by identifying any uncertainty in future income streams.

During the financial year

- 3.1 The Trustees identify:
- When reserves are drawn on, so that they understand the reasons for this and can consider what corrective action, if any, needs to be taken.
 - When reserve levels rise significantly above target so that they understand the reasons and can consider the corrective action, if any that needs to be taken.
 - Where the reserves level is below target, and considers whether this is due to short-term circumstance or longer term reasons which might trigger a broader review of finances and reserves.

Development of the academy's reserves policy

- 4.1 When considering an appropriate level of reserves, the trustees consider:
- The risk of unforeseen emergency or other unexpected need for funds;
 - Covering unforeseen day-to-day operational costs, for example employing temporary staff to cover a long-term sick absence;
 - A fall in a source of income, such as changes in EFA funding methodology;
 - Planned commitments that cannot be met by future income alone such as major capital projects as informed by the long-term capital investment plan;

- The need to fund potential planned deficits as part of the annual budget approved by Trustees.
- The financial risks identified and considered as part of the three year budget determine the amount of reserves the Trust targets to hold.

4.2 This is subject to the overriding considerations that reserves will not be built at the expense of maintaining educational standards.

In-year reports to governors

5.1 In-year reports to governors:

- Compare the amount of reserves held with the target amount or target range set for reserves;
- Explain any shortfall or excess in reserves against target set;
- Explain any action being taken or planned to bring reserves into line with target.

Annual financial statements

6.1 The reserves policy disclosed in the trustees report will include the following information:

- why reserves are held;
- what amount/range of reserves is considered appropriate for the Trust;
- what the level of reserves is at the year end;
- how the Trust is going to achieve the desired level or range of reserves;
- how often the reserves policy is reviewed;
- target range of reserves for future years.

6.2 The level of reserve will be reviewed and set on an annual basis as part of the annual budget.

Monitoring and evaluation of the policy

7.1 This policy will be monitored regularly for any changes in legislation or directions from the DFE which may have an effect and evaluated in the light of any comments made by the DFE, EFA, auditors and any other interested parties.

Reviewing

8.1 The Headteacher and Trustees will carry out a review of this policy on an annual basis to ensure that any new or changed legislation is adhered to.

Appendix I – Reserves policy for disclosure in the financial statements

The School's primary purpose is to use its income to provide high quality, cost effective education. It broadly aims to break-even each year. However, given current funding constraints and uncertainties it would seem prudent for the School to endeavor to maintain a reserve fund of no more than 20% of annual grant income without a review of this policy by the Trustees' Finance & Audit Committee.

The purpose of this reserve would be:

- To provide a buffer against future funding uncertainties, which could be called on in the event of a funding shortfall in any year;
- To provide an emergency fund for unforeseen items of expenditure;
- The accretion of funding, over a pre-determined period, for a specific capital project approved by the Governing Body.

These purposes are subject to the overriding considerations that reserves will not be built at the expense of maintaining educational standards.