



# MARISH

## Academy Trust



# Financial Reserves Policy

**Date:** 20/06/17

#### FINANCIAL RESERVES POLICY

This policy should be read with reference to the document Charities and Reserves (CC19) from the Charity Commission. <http://www.charitycommission.gov.uk/publications/cc19.aspx>.

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## 1. Introduction

An academy is an exempt charity, regulated by the DFE. The Education and Skills Funding Agency (ESFA) 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. However, 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. This paper sets out some principles that the Trust is recommended to adopt and presents a detailed policy for the Board of Trustees to consider.

## 2. Principles

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. Reserves will also normally exclude tangible fixed assets held for the charity's use and amounts designated for essential future spending.

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.

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 monitor the level of reserves held throughout the year

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

### 3. Implementing Reserves Policy

#### 3.1 Purpose

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.

#### 3.2 Monitoring

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 consider whether this is due to short-term circumstance or longer term reasons which might trigger a broader review of finances and reserves.

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, ESFA, auditors and any other interested parties.

Risk	Level of reserves	Action
<b>Low</b>	More than £170,000	Report monthly at the Strategic Board meeting
<b>Medium</b>	From £100,000 to £170,000	Report monthly at the Strategic Board meeting and discuss with the audit and finance committee how to bring it back to the sustainable levels
<b>High</b>	Less than £100,000	Report monthly during the Strategic Board meeting, discuss with the audit and finance committee and immediately notify the executive headteacher and the chair of Trustees

### **3.3 Development of the academy's reserves policy**

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 lettings
- Planned commitments, or designations, that cannot be met by future income alone, for example payroll costs and 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 a funding grant is received.

The financial risks identified determine the amount of reserves the academy targets to hold.

### **3.4 In-year reports to governors**

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

### **3.5 Annual financial statements**

At Marish Academy Trust, 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 academy trust.
- What the level of reserves is at the year end
- How the academy trust is going to achieve the desired level or range of reserves
- How often the reserves policy is reviewed. Target range of reserves for the financial year

### **3.6 Level of reserves**

The Marish Academy Trust has decided that the reserves level for **the financial year 2016/17 will be £200,000** based on analysis of the points above and the likelihood that they may occur and the

amount of funding that would be required if they did. The level of reserve will be reviewed and set on an annual basis as part of the budget setting plan.

#### 4. Reviewing

The Executive Finance Lead and Trustees will carry out a review of this policy on a regular basis to ensure that any new or changed legislation is adhered to. Next school review due: June 2018

##### Revision History

Version	Date	Author(s)	Comments
1.0	05/10/15	Executive Finance Lead	
1.1	12/09/16	Executive Finance Lead	The same level of reserves
1.2	20/06/17	Executive Finance Lead	The level of reserves has been revised down from £500,000 to £200,000.

##### Approval History

Version	Approved	Comments
1.0		
1.1		
1.2		