'Engaging learners to enhance their life opportunities and outcomes'

BEST
BELIEVE ENGAGE SUCCEED TRUST

CAPITAL AND REVENUE RESERVES POLICY

Approved	
Signature of CEO	
Date:	
Signature of Chair of Board	
Date:	
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This policy is a mandatory policy for all BEST schools and must be implemented with no amendments.

CONTENTS

1. INTRODUCTION

1.1 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.

1.1 A Multi-Academy Trust (MAT) is an exempt charity, regulated by the DfE. The Education and Skills Funding Agency (ESFA) expects such charities to have a reserves policy.

1.2 MATs should follow Charity Commission guidance when setting a reserves policy. Their guidance is based on the requirements of charity law, the Charities Statement of Recommended Practice (SORP) and good practice.

1.3 Where reserves are held, it is a requirement of the charity accounting regulations that charity trustees must state their reserves policy in their annual report.

1.4 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.

1.5 This document sets out the principles that the Trust has adopted and provides a detailed policy for the Board of Trustees to consider when making financial decisions about reserves. ESFA annual Academies Accounts Direction sets out guidance on academies' reserves policies and reporting requirements with which this policy also complies.

2. PRINCIPLES

2.1 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. 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.

2.2 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.

2.3 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.

2.4 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
- 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
- It is good practice to monitor the level of reserves held throughout the year

2.5 BEST's Trustees need to consider the level of reserves the schools 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 schools' at risk.

3. HOLDING RESERVES

3.1 MATs are therefore expected to hold contingency reserves from their annual GAG funding or other income, which may be both capital and revenue reserves.

3.2 The Trustees require a **revenue** reserve to be created to fund future expenditure related to the Trust Development Plan's strategic long-term aims and developments. BEST's policy is to carry forward a prudent level of resources designed to meet the long-term cyclical needs of renewal and any other unforeseen contingencies, subject to the constraint that the level of resources does not exceed the level permitted by the DfE.

3.3 In addition, the Trustees may require a **capital** reserve to be created to fund future capital expenditure, as the DfE provides minimal funding in the way of Devolved Formula Capital Grant, at present. In addition, academies are able to bid for a share of the Academies Capital Maintenance Fund.

3.4 BEST is required to consider what level of reserves it is appropriate to hold in order to demonstrate appropriate financial management, stewardship and sustainability. The Trustees wish to do this to provide assurance to all BEST's stakeholders that it is being managed in a prudent manner for the best interests of its beneficiaries.

3.5 The Trustees also want to provide confidence that there is a strong justification for the reserves held by each school, and that they wish to be open and transparent on all aspects concerning its reserves policy.

3.6 BEST'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.

4. WORKING CAPITAL

4.1 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.

4.2 For the schools within BEST, the receipt of core High Needs grant funding from ESFA at the start of the each month underpins their working capital. The remainder of the schools' funding comes from High Needs Top up funding invoiced to the LA, again monthly.

5. FINANCIAL RISK MANAGEMENT

5.1 All academies are subject to a wide range of risks, many of which have financial implications. Contingency funds are appropriate to be held as mitigation against the effect of such risks. The Trust has a formalised approach to risk management which identifies major risks that it faces, assesses their severity in terms of impact and likelihood, identifies mitigating actions and the residual risk post mitigation actions.

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

- Drop in income due to lower number of pupils on roll at census date or low take up of nursery places;
- Changes to High Needs Top-up rates / bandings;
- Potential of discontinued grants;
- Increase in expenditure when special projects are undertaken (e.g. professional fees incurred in relation to capital bid preparation);
- 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 other 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.

6. FUTURE DEVELOPMENT

6.1 As part of their strategic planning the Trustees also consider the need for funds to develop their activities or to consider new opportunities to assist their beneficiaries (e.g. extension of school)

7. GOING CONCERN AND PENSION CONSIDERATIONS

7.1 BEST's policy for reserves is linked to, and part of, its formal consideration of the Trust's going concern presumption. An appropriate level of reserves underlies the forecasts and cash flow projections that are used by the Board to confirm that BEST is a going concern and is able to meet its liabilities, as they arise.

7.2 The risks surrounding the BEST's pension liability have been taken into consideration when calculating the target ranges. The presence of a pension surplus or deficit does not constitute an immediate liability or realisable asset and does not mean that the equivalent amount is already committed or no longer available to the BEST.

7.3 The presence of a pension surplus or deficit will generally result in a cash flow effect for BEST in the form of an increase or decrease in employers' pension contributions over a period of years. BEST is confident that it can meet the required pension contributions from projected future income without significantly impacting upon its planned level of activities.

7.4 BEST continues to calculate its reserves without setting aside a Designated Reserve to cover the pension liability.

7.5 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.

8. RESERVE LEVELS

8.1 The Board of Trustees has established that the appropriate level of the:

- Working Capital reserve for each school is a minimum of one month of its expenditure averaged over the preceding six months. Ideally, the Working Capital reserve will be two months of its expenditure averaged over the preceding six months.
- Cumulative target range for Revenue and Capital Reserves at any year-end is between 2% and 5% of unrestricted income for each financial year of the combined General Annual Grant (GAG) and Top-Up funding across all schools in BEST

9. MANAGEMENT OF RESERVES

9.1 The management of reserves, through the monitoring and oversight of the reserves, held by the Trust is undertaken throughout the year. This is achieved through monthly management accounts, monthly cash flow monitoring, and termly financial forecasts.

9.2 Reserves held by each school and the Trust will be RAG rated against the Reserve Levels established by the Board. Variances below the Reserve Levels will be RAG rated as AMBER or RED. Variances above the Reserve Levels will be RAG rated as BLUE.

9.3 Variances below and above the Reserve Levels will be considered for corrective action; both for the short and medium term. A broader review of the school's / trust's finances might be triggered by such variances.

9.4 Termly reports on reserves from the Trust LGBs will:

- RAG rate the reserves held against the levels;
- Explain any shortfall or excess in reserves against the levels;
- Explain any action being taken or planned to bring reserves into line with the levels.

9.5 The movement of funds to and from the reserves identified (other than movements from restricted to unrestricted) will be at the discretion of the Board, or the appropriate sub-committee where delegated authority has been provided by the Board, subject to the restrictions which will remain attached to Restricted Funds (Revenue and Capital) and their use.

10. EXPLANATION OF THE POLICY IN THE ACCOUNTS

10.1The Charities SORP (FRS102), as amended in Update Bulletin 1 (Jan 2016) requires disclosure of the Trust's policy on reserves in the Trustees' Annual Report ('TAR') – 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.

10.2A summary of this policy will therefore be included in the TAR, as required, each year. The wording shall be considered by the Board as part of their consideration of the annual financial statements. Where actual reserves held are significantly different to the required policy level, an explanation will be included, outlining how the Trust 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.

11. REVIEW

11.1The Board will approve all major changes to this policy. The policy will be promoted and published throughout the Trust.

11.2At least on an annual basis, the reserves policy is reviewed formally by the Executive Team and the Board, as part of its strategic and business planning process.

11.3This policy will be monitored regularly for any changes in legislation or directions from the DfE, which may have an impact and evaluated in the light of any comments made by the DfE, ESFA, auditors and any other interested parties.