

THOMAS MILLS HIGH SCHOOL



POLICY DOCUMENT 79 – APPROVED 21/10/2021

RESERVES POLICY

Vision Statement

***We, the staff and governors, aspire
to ensure that all our students,
irrespective of ability
and regardless of anyone's doubts,
achieve their potential in full;
and we aspire in this way to make Thomas Mills High School
the best in the country.***

Thomas Mills High School is an Academy and a company limited by guarantee incorporated in England & Wales under number 7605059

1. Context

1.1 The purpose of this statement is to ensure that Thomas Mills High School maintains systems of financial control which conform to the requirements both of propriety and of good financial management. The trustees aim is to ensure that there are sufficient reserves to enable the charity to fulfil statutory and legal obligations, a contingency to meet unforeseen expenditure (and to allow for the orderly wind up of the charity if required).

1.2 Our Financial Policies are designed to be consistent with:

- Companies Act 2006;
- Accounting standards;
- Charities SORP 2015;
- Academies Accounts Direction (ESFA)
- And other Government directives as issued from time to time

1.3 Thomas Mills High School has a strong track record of financial management as a stand-alone academy. In running the academy, the main income is ultimately from the Government. Main expenditure could be summarised around staffing, educational resources, and non-educational costs. Managing future risks around income and expenditure is essential to our ongoing sustainability and success.

2. Regulatory Requirements

2.1 In accordance with Charities SORP FRS102, academy trusts are expected to comply with the following 'reserves' regulatory requirements;

'The charity must explain any policy it has for holding reserves and state the amounts of those reserves and why they are held. If the trustees have decided that holding reserves are unnecessary, the report must disclose this fact and provide the reasons behind this decision.'

2.2 The Charities Commission published guidance on charity reserves (CC19) states 'Trustees who act in breach of their legal duties can be held responsible for consequences that flow from such a breach and for any loss that the charity incurs thus.'

In real terms this means the trustees must:

- Act in the charity's best interests.
- Manage charity resources responsibly.
- Act with reasonable care and skill.
- Implement appropriate financial controls.
- Manage Risk.

3. Reserves Strategy

- 3.1 To comply with the trust's regulatory requirements, financial management and forward financial planning is essential. Funding that the trust receives is provided to meet the charitable aims and activities. The trust must adequately manage the level of reserves to mitigate risk, prevent excessive or insufficient reserves being held.
- 3.2 The reserves strategy should consider information gathered from the risk management process with regards to future uncertainties.
- 3.3 Excessive reserves held by the trust may limit the activities or benefits that the charity could offer. Excessive reserves could be equated to a figure more than 15% of total trust annual income (approximately £900K). This figure would represent, approximately, three months operating costs (and could be used if there was a delay in income). If the reserves are held for strategic development, a disclosure in the trustees' annual report must be made. If no plans exist for the excessive reserves held, it is recommended that the charitable trust is to review its purpose and develop further expansion of activities or diversification of the trust.
- 3.4 The investment of excess reserves is a consideration with the proviso that the reserves are readily available as cash as and when the trust require access to the funds. The investment could raise a financial return for the trust, however the risks associated must be analysed. Charitable trusts have a regulatory requirement to set out their investment policy alongside the objectives and performance in the trustees' annual report.
- 3.5 Insufficient reserves may increase the risk to the charity and limits the trusts ability to continue to offer its activities in the future. In the event of insufficient reserves, the trust intends to set aside a target of 1.5% (approximately £90K) or more of GAG Income over a 5 to 10-year period to replenish the reserve balance. In this instance please refer to The Charities Commission guidance 'Managing a charity's finances: planning, managing difficulties and insolvency (CC12).' To achieve this the trust may need to:
 - Raise necessary funds
 - Expand the trusts funding base.
 - Mitigate the risks.
- 3.6 The School is aware that there are a number of priorities for its budgets. This includes the curriculum as well as improving the facilities for staff and students. If the Government delivers on its 'levelling up' agenda, previously under funded authorities should gain and this will enable expenditure on priorities as well as developing a suitable level of reserves.

4. Reserve Funds

Capital

- 4.1 The ideal minimum rolling capital reserve balance of £100,000 is to be held to fund future capital expenditure.

- 4.2 The Schools Business Manager regularly provides a Capital Reserve Schedule to the trustees. This schedule has been calculated based on the forecasted value of asset replacement and improvement.
- 4.3 The capital reserve balance held by the trust should not exceed **£500K** subject to the medium term plan. If excess capital reserves are held a Special Purpose Fund is required with supporting documentation.
- 4.4 Capital reserve expenditure will only occur in line with the annual budget, medium term plan, Capital Reserve Schedule or Special Purpose Fund directive as agreed and documented with the Board of Trustees.

Revenue

- 4.5 An ideal minimum rolling contingency revenue reserve is to be maintained to the value of £300K. This revenue reserve can be met from limited surplus monies from the annual GAG funding or other trust income. This figure is based on at least one month's operating costs.
- 4.6 Revenue reserve expenditure will only occur in line with the annual budget or the academy trusts medium term development plan. The revenue reserve value is held to meet the cyclical long term operational needs of the trust and in case of unforeseen circumstances. Where unforeseen circumstances occur, revenue reserve expenditure is to be reviewed and approved by the Board of Trustees.

Restricted and Unrestricted Reserves

- 4.7 These reserves are related to either capital or revenue reserves as above. Unrestricted reserves are available for general use. Restricted reserves can only be used for a purpose or remit within the overall charitable aims. Restricted funds can only be carried forward as reserves if the terms of the funding apply. Restricted reserves would most commonly be classified as Special Purpose Fund Reserves.

Special Purpose Fund Reserves

- 4.8 These reserves are related to either capital or revenue reserves as above and are derived by segregating restricted reserves. Unrestricted reserves may also be earmarked to support this reserve Special Purpose Fund.
- 4.9 This directive must be recorded in the minutes of the appropriate committee and disclosed in the trustees' annual reports.

Designated Reserves

- 4.10 These reserves are related to either capital or revenue reserves as above and are unrestricted in nature as determined by the trust. The original funding source of these monies would have been derived from unrestricted funds in their entirety. This directive must be recorded in the minutes of the appropriate committee and disclosed in the annual reports.

5. Exclusions

5.1 Exclusions include;

- Tangible Fixed Assets such as Land, Buildings.
- Current Assets.
- Monies designated for essential future expenditure and investments.
- Investments to further the purposes of the charity.
- An asset balance on Defined Pension Benefit Schemes.

6. Disclosures / Publication

5.2 If the Academy Trust prepares accrual accounts, the academy trust must set out the reserve's policy in the trustees' annual reports. The disclosure should include:

- A Reserves Statement.
- The Level of Reserves & Explanation.
- Designated Funds, Purpose, and Timing
- Special Purpose Funds, Purpose, and Timing.

5.3 In the event of excess reserves held, full disclosure will be made in the trustees' annual report to identify the basis in which the reserves will be used as part of strategic planning.

5.4 If the Board of Trustees apply a zero level of reserves policy, a disclosure and explanation is required to be published in the trustees' annual report.

5.5 Where significant changes occur in the balance of reserves during a financial period, a statement on reserves is required to be disclosed and published in the annual report.

5.6 When the Trust applies for funding, it is prudent for the trust to disclose and direct the funder to the reserves policy. This is to provide reassurance to the funder of the urgency of the funds and is not misinformed of the financial position of the trust during the application process.

7. Review

7.1. The Academy Trust will review its Reserves Policy annually.

7.2. The Capital Reserves Schedule should be reviewed regularly and amended accordingly.

7.3. The value of revenue reserves held should be reviewed as part of the monthly budget monitoring and cash flow forecast process as per the academy's Finance Policy.