FIVE RIVERS Multi Academy Trust

Five Rivers Multi Academy Trust
Reserves Policy

Policy start date: January 2017
Policy review date: January 2018
Next review: January 2019

The Five Rivers Multi Academy Trust Reserves Policy

1) Introduction

1.1 Charities are required to establish a reserves policy in order to protect their operations. 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.

1.2 Whilst the Trust does not wish to hold excessive reserves, as it believes that funds should be expended on the pupils of today, it also recognises that a level of reserve is required to cover unforeseen events and areas of investment.

1.3 The EFA previously set limits on the amount of General Annual Grant (GAG) that could be carried forward from one year to the next. These limits have now been removed so that academy trusts have the freedom to keep money aside for when it is needed most and to build up reserves, for example for long term capital projects.

1.4 Reserves will be held by each academy in the Trust as well as by the Trust itself.

1.5 This document sets out the reserves policy for Five Rivers MAT. The policy takes into account the following principles:

- reserves must have a specific purpose related to future spending or covering current and future risks;
- they should be transparent and maintain the link with the purposes for which the income was given;
- they should ensure that sufficient resources are available so that unexpected events can be accommodated without causing current year problems, generating a deficit or cash flow issues.

1.6 The basis of a good reserves policy is in determining why some funds may need to be held back as reserves. This could include:

- the risk of an unforeseen emergency or other unexpected need for funds, e.g. an unexpected large repair bill or finding funding for an urgent project;
- covering unforeseen day to day operational costs, e.g. employing temporary staff to cover a long-term sickness absence (where an academy does not purchase staff sickness insurance);
- a failure in a source of income, e.g. a grant, not being renewed;
- planned commitments, or designations, that cannot be met by future income alone, e.g. plans for a major asset purchase or a significant project that requires the charity to provide ‘matched funding’;
- the need to fund short term deficits in a cash budget, e.g. money may need to be spent before a funding grant is received.

The one area that is likely to suffer from cash flow issues is the Trust operations. As its budget is relatively small compared to the academies', even modest fluctuations in demands on its resources will result in difficulties. The Trust will, over time, receive invoices which cover expenditure for several schools, for example for insurance premiums, where suppliers will expect a single payment. These should be paid initially from the Trust bank account. This will either be settled by invoice to the individual academies or covered as part of the Trust's top slicing arrangements.

1.7 A key judgement that is performed as part of the external audit of the Trust's accounts is that the Trust will comply with FRS18[1]. The Trust must, in preparing the annual statement of accounts, undertake an assessment of the Trust's ability to continue as a going concern. The level of reserves held by the Trust will be a factor in judging whether the Trust will remain a going concern.

2) The Five Rivers Multi Academy Trust Reserves Policy

2.1 The Trust is responsible for determining the level of financial reserves to be carried forward at the end of each financial year (31 August). The levels of reserves carried forward at the end of the financial year will be in line with the guidance received from the EFA on the treatment of GAG income and other grants.

2.2 Generally, reserves are to be maintained at 3% of the gross income of the Trust as a whole. This level will be reviewed annually by the Board. As the MAT enters into more Trust wide contracts, in order to achieve improved value for money, the demands on the Trust account will increase. As such, increases to reserves should be considered by the Audit, Finance and Staffing Committee (a sub-committee of the Trust Board).

2.3 Any in year deficits will be resourced from this fund as far as possible. If deficits result in the fund falling below the 3% threshold, resources must be set aside in the next year's budget to restore it. Exceptionally, where the size of the short fall is large, the local governing body may propose to the Trust Board that it is restored over more than one year.

2.4 Regardless of the bank accounts that hold them, the reserves will continue to be owned by the schools that provided the money to establish them.

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FRS 18 deals primarily with the selection, application and disclosure of accounting policies. Its objective is to ensure that for all material items:

- an entity adopts the accounting policies most appropriate to its particular circumstances for the purpose of giving a true and fair view;
- an entity should prepare its financial statement on a going concern basis, unless:
  a) the entity is being liquidated or has ceased trading; or b) the directors either intend to liquidate the entity or to cease trading, or have no realistic alternative but to do so.
- the accounting policies adopted are reviewed regularly to ensure that they remain appropriate, and are changed when a new policy becomes more appropriate to the entity's particular circumstances; and
- sufficient information is disclosed in the financial statements to enable users to understand the accounting policies adopted and how they have been implemented.

3) Implementation of the Policy

3.1 The planned use of reserves is to be captured as part of the budget process, and agreed by the Board.

3.2 Where unforeseen events occur in year that require the use of reserves, they must be agreed by the CEO.