



# HAYDON SCHOOL

## Reserves Policy

### **Mission Statement**

*Haydon School is committed to the achievement of individual excellence, encouraging students to be creative and considerate, confident of their role in society and capable of rising to the challenges of a diverse and rapidly developing global economy.*

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## 1.Introduction

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. Academy schools, as exempt charities, must comply with these regulations.

The Education and Skills Funding Agency's (ESFA's) annual Academies Accounts Direction sets out guidance on academies' reserves policies and reporting requirements, which this policy also aims to comply with.

## 2.Definition of Reserves

*The Charity Commission has provided a specific definition for “reserves” as “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.”*

This definition is intended to provide the charity (academy) with a way of identifying those reserves that are readily available in relatively liquid form if required.

The free reserves of Haydon School ('School') for which a policy is needed are represented by unrestricted general fund and exclude both the restricted funds held and funds that have been designated by the Trustees, the latter including a Tangible Fixed Asset Fund representing the net book value of tangible fixed assets held at the balance sheet date.

## 3.Why does the School hold free reserves?

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

The Trustees require a **revenue reserve** to be created to fund future expenditure related to the School Improvement Plan's strategic long-term aims and developments. The policy of the School is to carry forward a

prudent level of resources designed to meet the long-term cyclical needs of renewal and any other unforeseen contingencies.

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 Condition Improvement Fund.

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

The Trustees also want to provide confidence that there is a strong justification for the reserves held by the School, and that they wish to be open and transparent on all aspects concerning its Reserves Policy. In doing this the School has considered the following areas.

### ***Working capital***

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.

The receipt of core ESFA grant funding at the start of the each month means that reserves are not required for working capital purposes.

### ***Financial risk management***

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 School has a formalised approach to risk management which identifies major risks that it faces, assesses their severity in terms of impact and likelihood, and identifies mitigating actions.

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

- Drop in income due to lower number of students on roll at census date;
- Potential of discontinued grants (e.g. Pupil Premium)
- Increase in expenditure when special projects are undertaken (e.g. professional fees incurred in relation to capital bid preparation)

### ***Future development***

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/improvement of School).

### ***Reserve fulfilment***

By their nature free reserves are deemed to be readily available for application, however they are not required to be held in either cash or “near cash” assets. As a result there may be a need to convert underlying assets into cash in order to fulfil a reserve utilisation.

## **4.Explanation of the Policy in the Accounts**

The Charities Statement of Recommended Practice (SORP) 2005 requires disclosure of the School’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.

A summary of this policy will therefore be included in the TAR as required each year. Where actual reserves held are significantly different to the required policy level an explanation will be included how the School 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.

## **5.Reserves policy and Going Concern considerations**

The School’s policy for reserves is linked to and is part of its formal consideration of the School’s going concern presumption. An appropriate level of reserves underlies the forecasts and cash flow projections that are used to confirm that the School is a going concern and is able to meet its liabilities as they arise.

The Trustees consider that the appropriate level of revenue reserves for the School should be not less than one month of School expenditure.

At the year end the 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 of Trustees.

## **6. When does the Academy consider its Reserves Policy?**

Monitoring and oversight of the reserves held by the School is undertaken throughout the year. This is achieved through regular management accounts, cash flow monitoring, and financial forecasts.

At least on an annual basis the Reserves Policy is reviewed formally by the Trustees as part of its strategic and business planning process.

**Document History**

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