

OUR LADY OF LOURDES CATHOLIC MULTI ACADEMY

Reserves Policy

Policy Date: April 2020

Policy Review Date: September 2021

Responsibility of: CFOO

1 Introduction

- 1.1 Charities are required to establish a reserves policy in order to protect their operations. However, regardless of the regulatory requirements, establishing reserves that protect the operation of the MAC and contribute to its smooth running is good practice and forms part of its overall financial control and governance framework.
- 1.2 Whilst the Board of Directors do not wish to hold excessive reserves, as they believes funds should be used on the pupils of today, they do recognises that a level of reserve is required to cover unforeseen events and areas of investment.
- 1.3 The ESFA 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 MAC's 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 School in the MAC as well as the MAC itself.
- 1.5 This document sets out the reserves policy for the Our Lady of Lourdes Catholic MAC. 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 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 a school does not purchase staff sickness absence)
 - 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

- 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 Central Services operations. As its budget is relatively small compared to the schools', even modest fluctuations in demands on its resources will result in difficulties.

The MAC 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 Central Services budget. This will be settled by part of the MAC's top slicing arrangements

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

2 The Our Lady of Lourdes Catholic MAC – Reserves Policy

- 2.1 The MAC 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 ESFA on the treatments of GAG income and other grants.
- 2.2 Generally, reserves are to be maintained at 6 weeks of staffing expenditure. This level will be reviewed annually by the Board of Directors.
- 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 threshold set in 2.2, resources must be set aside in the next years' budget to restore it.

3 Implementation of the Policy

- 3.1 The planned use of reserves is to be captured as part of the budget planning process and agreed by the Board of Directors with the Budget ratification.
- 3.2 Where unforeseen events occur in year that require use of reserves, they must be agreed by the Finance and Resource Committee.

*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.