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POLICY DOCUMENT

Reserves and Investment Policy

ST JOHN BOSCO CATHOLIC ACADEMY



Introduction

The St John Bosco Multi Academy (SJBCA) has established this reserves policy to protect its activities by providing financial buffers against an unpredictable financial environment and to make sufficient provision for future cash flow requirements. The policy also provides the framework for future strategic planning and decision-making. An effectively implemented reserves policy will mitigate the impact of any risk upon the continuing operations of SJBCA caused by funding uncertainty.

The Board of Directors is able to hold reserves to further the MAC's charitable aims. The ESFA (The Education and Skills Funding Agency) previously set limits on the amount of GAG (General Annual Grant) that could be carried forward from year to year, but these limits have now been removed. The ESFA Academies Trust Handbook does state that trusts should use their allocated GAG funding for the full benefit of their current pupils. If there is a substantial surplus, they should have a clear plan for how it will be used to benefit the pupils.

Types of reserves

Reserves are the representation of the cash balance available at the period end. In charity accounts, which are used for academies, this cash is transferred into fund balances. These balances can be for "restricted" or "unrestricted" purposes depending on their source.

Unrestricted reserves

Unrestricted reserves are derived from income funds, grants or donations that can be spent at the discretion of Directors in furtherance of any of the MAC's objectives. If part of an unrestricted income fund is earmarked for a particular project it may be 'designated' as a separate fund. However, the designation has an administrative purpose only and does not place restrictions on how the fund is eventually spent. Unrestricted reserves will be generally achieved through operating efficiencies and any from trading company profits.

Restricted reserves

Restricted reserves are mainly derived from government grant funding through the ESFA but may also include other grants or donations provided for a specific purpose. Restricted reserves must be used in accordance with the limitations outlined in the original funding (in the case of ESFA funding, this is as detailed in the MAC's funding agreement).

Reserves Policy

The Reserves policy and the establishment of ranges is based upon an annual risk assessment of the internal and external operating environment, as well as having a due regard for the nature of activities undertaken by the St John Bosco MAC for its beneficiaries.

The Board of Directors of the MAC has determined that the appropriate level of free reserves should be equivalent to one month's payroll as a minimum in our primaries and two months in our secondaries, in some cases it will be higher, that meets with the plans for the individual academy. It is judged that this will provide sufficient working capital to cover delays between spending and receipt of GAG income, and to provide a cushion to deal with unexpected emergencies such as urgent maintenance, or long-term sickness where unforeseen costs are incurred.

Management of Reserves

Reserves held in excess of the target amount will be reviewed by the MAC Board on a regular basis and an appropriate range of options will be considered with advice from the Chief Operating Officer (COO); these might include releasing the funds into the revenue budget in furtherance of the MAC's objectives, assigning funds to appropriate designated reserves as may be determined by the Board, or investing the funds to generate further income to allow expansion of the MAC's work.

Directors are mindful of the Academy Trust Handbook requirement that GAG funding should be spent on current pupils, however, they are also aware of the significant volatility in the funding of education, and are responsible for the proper financial management of the Company

Individual Local Governing Bodies (LGB) within the MAC are required to set a budget each year based on the allocated GAG, and any other grants reasonably foreseen; they also have a duty to ensure wherever possible that their expenditure does not exceed the income. The LGB and the Board will receive termly financial management information to enable close financial management of individual Academy budgets and the overall MAC financial position.

The following principles underpin the MAC's approach to reserves management:

- the MAC will set a balanced in-year revenue budget every year
- The MAC's reserves balance should only decrease due to capital investment and/or other organisational needs which shall at all times be approved by the Finance, Audit and Risk Committee.
- All reserves are MAC reserves; however individual school reserves balances will be reported in order to facilitate administrative requirements and for the purposes of statutory accounting
- the MAC's general reserves balance may be comprised of restricted or unrestricted reserves.

Should an individual Academy in the MAC go into deficit (negative fund balance) at the end of the year, the LGB must at first seek permission from the Board and then will be required to enter into a recovery plan with the Board that repays the deficit over not more than 5 years.

If any LGB has significant reserves they should have a plan for their use on the Academy's pupils.

Reserves at the end of each year are generally held in support of:

- Contribution to capital projects planned or in development
- Financial commitments made but not yet invoiced/paid.
- Investment in future educational initiatives
- Cash-flow requirements - Contingency against unforeseen events

MAC general reserves balance

The MAC's general reserves balance will be maintained at a level equivalent to 1.5% of combined General Annual Grant, Nursery and Post 16 funding for all schools. This is the percentage that Directors regard as an appropriate level of reserves, given the current operating environment. It also takes into account that the MAC is only eligible for Condition Improvement Fund bids, therefore schools reserves will be required to support up to 30% of these bids to enable them to stand their best chance of success.

The combined amount that schools are required to contribute to reserves will vary each year, as this amount is defined by what is required to make the reserves balance up to the 1.5% of income target. If for example the target is £1m and the current reserves balance is £900,000, the combined schools' contribution will be £100,000. The combined schools' contribution will be set annually for the following year once March Management Accounts are completed and will be based on the forecasted current year - end reserves balance at that point, together with estimated combined GAG for the following year. This will be communicated at the Finance, Audit and Resources committee in May where the committee considers the March accounts and forecast end-of-year balances. Contributions will then be included in schools' budgets for the following year and communicated to LGBs and Principals.

School revenue balances

It is considered prudent to maintain a level of useable reserves sufficient to cover unexpected and unplanned events so that the school's primary objective is preserved. An unexpected or unplanned event could be defined as (but not limited to) unavoidable expenditure necessarily incurred to ensure the safety of pupils and staff or to ensure a school can remain open and education not disrupted. It must reflect a need that could not reasonably be expected or anticipated by a school. For example, all schools should reasonably expect to have to maintain their premises or to have some staff absence. Maintaining an appropriate level of financial reserves is considered essential in protecting the school from financial risk generated by, for example;

- income reduction due to Government funding changes
- unexpected changes in student numbers
- cash flow issues due to delays in receipt of funding
- emergencies

Joiner schools

A surplus balance brought forward into the MAC by a joining school shall be deployed as follows, in priority order:

1. to address urgent compliance and health and safety issues at the time of conversion, as well as other urgent requirements determined by due diligence, eg school improvement. Compliance and health & safety issues will be normally be determined by a condition survey commissioned by the MAC.
2. 90% of any remaining balance brought forward will be designated to the school to be spent at its discretion and 10% will be added to MAC general reserves for the first year only.

Expenditure against reserves balances

Directors may temporarily decide to increase the reserves balance over the 1.5% of GAG target, for example to fund a specific school improvement initiative. Expenditure that subsequently draws on reserves must be approved in advance by the Finance, Audit and Risk Committee. In exceptional cases, for example where expenditure is necessary to comply with a statutory requirement, reserves may be spent without prior approval (but subject to purchasing authority limits within the Financial Scheme of Delegation and Financial Procedures but must be reported at the next Finance, Audit and Risk committee

Monitoring of reserves

Directors will monitor the levels of reserves from audited Annual Financial Statements and financial reports provided by the Senior Operations Manager. Directors will look to ensure that a prudent level of reserves is maintained, bearing in mind the recurrent spending needs of the MAC schools to ensure high quality educational provision.

Investment policy statement

Investments should be made to further the MAC's charitable aims, but must ensure that investment risk is properly managed. The MAC's investment objectives are: - To achieve the best financial return available for cash reserves, while ensuring that security of deposits takes precedence over revenue maximisation; - To only invest funds surplus to operational need, based on all financial commitments being met without the MAC bank account becoming overdrawn; and - To exercise all investment decisions with care and skill and consequently be in the best interests of the MAC.

Directors reserve the right to vary this policy in the event that a MAC school requires emergency funding in excess of the 1.5% retained.