



Interaction &
Communication

— Academy Trust —

Reserves Policy

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1. Introduction

- 1.1 The Interaction & Communication Academy Trust (ICAT) Board is responsible for the effective and efficient use of available resources. These responsibilities are outlined by the Charities Commission in their published guidance: <https://www.gov.uk/government/publications/charities-and-reserves-cc19>
- 1.2 The ICAT Board is ultimately responsible for the allocation of resources to deliver the vision of the Trust. Within this context the ICAT Board delegates responsibility for the management of available finances and reserves to local governing bodies as outlined in the scheme of delegation and within the constraints of budgets approved by respective local governing bodies and the ICAT Board. When setting budgets local governing bodies are required to do so within the context of the overarching strategy of the trust as a whole as well as of their individual schools,
- 1.3 local governing bodies are accountable to the ICAT Board for the level of reserves at any particular time.
- 1.4 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.
- 1.5 Directors need to consider the level of reserves the Trust should hold. Levels of reserves which are too high tie up money which should be spent on current school activities. Levels of reserves which are too low may put the future activities of the Trust at risk. 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. Where there is a substantial surplus there should be a clear plan for how it will be used to the benefit of pupils, for example a long-term capital project.
- 1.6 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 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.
- 1.7 Reserves will be held by each school in the Trust as well as by the Trust itself.

2. Purpose

2.1 The Trust's reserves policy:

- assists in strategic planning by considering how new projects or activities will be funded;
- informs the budget process at both a school and a Trust level by considering whether reserves need to be used during the financial year or built up for future projects;
- enables investment decisions to be made at a Trust level, where necessary utilising reserves across the Trust; and
- informs the budget and risk management process by identifying any uncertainty in future income streams.

2.2 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.

2.3 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, eg an unexpected large repair bill or finding funding for an urgent project;
- covering unforeseen day to day operational costs, eg employing temporary staff to cover a long-term sickness absence (where a school does not purchase staff sickness insurance);
- a failure in a source of income, eg a grant, not being renewed;
- planned commitments, or designations, that cannot be met by future income alone, eg plans for a major asset purchase or a significant project that requires the Trust to provide 'match funding';
- the need to fund short term deficits in a cash budget, eg 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 individual schools', even modest fluctuations in demands on its resources could result in difficulties.

3. Implementation

- 3.1 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 ESFA on the treatment of GAG income and other grants.
- 3.2 It is the ultimate aim to consistently maintain reserves at 5% of the gross income of the Trust as a whole, plus an additional £100,000 in order to fund any short-term resource needs. This level will then be reviewed annually by the Board. As the Trust enters into more group wide contracts, in order to achieve improved value for money, the demands on the Trust account could increase. As such, increases to reserves should be considered by the Resources, Audit and Risk Committee (a sub-committee of the Trust Board).
- 3.3 The central fund will be achieved through the Trust's top slicing arrangements, with each school contributing the same percentage top slice. For 2020/2021 the top slice applied to each school will be 8% of its GAG funding for full time pupils' places/or pupils who are on the school roll, this to cover central support services, any agreed group purchasing and a contribution towards the central reserves fund. The level of top slice will be reviewed each year.
- 3.4 Once in place, any in year deficits will be resourced from the central fund as far as possible. If deficits result in the fund falling below the 5% 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.
- 3.5 In the short term, prior to the central fund being available, there may be the need to draw on the existing reserves of individual schools. Any such requests will be made by the Trust centrally whether on its own behalf or that of another school and will include detail of how any loaned funds will be repaid, what amounts and over what period. Where reserves are held in interest bearing accounts, any loan repayment will include recovery of any lost interest over the loan period. All other avenues for providing the funds will be explored prior to any loan request being made.
- 3.6 Regardless of the bank accounts that hold them, the reserves accumulated by each school over and above any centrally held reserves will continue to be maintained by the schools that provided the money to establish them.
- 3.7 The planned use of any reserves is to be captured as part of the annual budget process, and agreed by the Trust Board.

- 3.8 Where unforeseen events occur in the year that require the use of reserves, they must be agreed by the CEO and reported to the Trust Board via the Resources, Audit and Risk Committee.
- 3.9 Operational protocols will be agreed collectively by appropriate representatives from each school and from the ICAT central team and will be reviewed annually.

4. Monitoring & Reporting

- 4.1 Each year, the Trust will report in the financial statements:
 - the level or range of reserves considered appropriate for each school and the Trust overall;
 - the level of reserves at year-end;
 - how the Trust is going to achieve the desired level or range of reserves;
 - how often the reserves policy is reviewed.
- 4.2 A key judgement that is performed as part of the external audit of the Trust's accounts is that the Trust will comply with relevant financial regulations. 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.

5. Academies Joining the Trust

- 5.1 Schools or Academies joining the Trust (or upon conversion) will normally bring in accumulated reserves. When joining ICAT, the Trust will make a levy to the central ICAT reserves of up to £50,000 or a maximum of 25% of the school's/ academy's unrestricted reserves, after specific designations, at the point of conversion or transfer in such cases, thereafter reserves should be maintained in accordance with this policy. This levy will contribute towards the legal and due diligence costs incurred in the successful conversion or transfer.

6. Pension Liabilities

- 6.1 The risks surrounding the Trust's pension liability should be taken into consideration. The presence of a pension's surplus or deficit will result in a cash flow effect for the Trust in the form of an increase or decrease in the Trust's future pension contributions over a period of years. The Trust should assess the ability of ICAT (and individual schools) to meet the required pension

contributions from projected future income without significantly impacting upon its planned level of activities.

- 6.2 The above relates only to the Local Government Pension Fund as Teachers Pensions are underwritten by the government.