

# The Newman Catholic Collegiate



## Reserves and Investment policy 2020-2021

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## Table of Contents

<b>1. Introduction</b> .....	<b>3</b>
<b>1.1. Managing Surplus General Annual Grant (GAG)</b> .....	<b>3</b>
<b>1.2. Pooling of GAG</b> .....	<b>3</b>
<b>2.0 Definition of Reserves</b> .....	<b>4</b>
<b>3.0 Types of Reserves</b> .....	<b>4</b>
<b>3.1 Unrestricted Reserves</b> .....	<b>4</b>
<b>3.2 Restricted Reserves</b> .....	<b>4</b>
<b>4.0 Financial Risk Management</b> .....	<b>4</b>
<b>5.0 Management of Reserves</b> .....	<b>5</b>
<b>6.0 Reporting and Monitoring Reserves</b> .....	<b>5</b>
<b>7.0 Investment Policy</b> .....	<b>6</b>

## Reserves and Investment policy

### 1. Introduction

The Newman Catholic Collegiate Board of Directors are responsible for the effective and efficient use of resources to deliver the vision of the Collegiate. This reserves policy will mitigate the impact of any risk upon the continuing operations of the collegiate caused by funding uncertainty and make sufficient provision for future cash flow requirements.

Academies are expected to hold contingency reserves from their annual GAG (General Annual grant) funding or other income, which may be both capital and revenue reserves. The Directors require a revenue reserve to be created to fund future expenditure related to the Collegiate strategic long-term aims and developments.

The purpose of the reserve policy is to ensure the stability of the Collegiate and individual academies operations, to protect it so that it has the ability to adjust quickly to financial circumstances, such as large unplanned expenditure, cyclical maintenance and working capital requirements. It is considered good practice to hold reserves and to monitor the level of reserves throughout the year.

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 and take into account the Academies Financial Handbook in relation to the GAG:

#### 1.1. Managing Surplus General Annual Grant (GAG)

The DfE expects academy trusts to use their allocated funding for the full benefit of their current pupils. Therefore, it is important that, if the collegiate has a substantial surplus, they have a clear plan for how it will be used to benefit their pupils.

The ESFA will also verify the sums of unspent funds when it checks the collegiate accounts and highlight and report, to the DfE, any cases where it has serious concerns about a long-term substantial surplus with no clear plan for use.

#### 1.2. Pooling of GAG

The Collegiate has the freedom to amalgamate a proportion of GAG funding for all its academies to form one central fund. This fund can then be used to meet the normal running costs at any of the academies within the collegiate in accordance with its funding agreement and the guidelines that govern the use of GAG funding. The collegiate **must not** pool PFI funding.

The collegiate must be aware of the funding needs and allocations of each individual academy and an appeals mechanism must be in place. The principal should first appeal to the Board of Directors and if the grievance is not resolved then they may appeal to the Secretary of State for Education, via the ESFA, who will have the final decision. This can result in the pooling provisions being dis-applied.

## **2.0 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”

## **3.0 Types of Reserves**

### **3.1 Unrestricted Reserves**

Unrestricted Reserves (including Designated Reserves) are derived from income funds, grants or donations that can be spent at the discretion of the Directors. If part of an unrestricted income fund is earmarked for a particular project it may be designated as a separate fund, but the designation has an administrative purpose only, and does not legally restrict the Collegiate discretion to spend the fund. Unrestricted Reserves will be achieved through operational efficiencies and any trading activities undertaken by the Collegiate.

Unrestricted Reserves are generally defined as funds after excluding:

- endowment funds (permanent & expendable);
- restricted funds; and
- funds that can only be generated on the sale of fixed assets used for charitable purposes.

### **3.2 Restricted Reserves**

Restricted Reserves may be restricted income funds, grants or donations that are spent at the discretion of the SEL, Business Director or Principals in accordance with the Scheme of Delegation, Collegiate funding agreement and the Academies Financial Handbook.

Restricted reserves are mainly derived from government grant funding through the ESFA (Education and Skills Funding Agency) but may also include other grants or donations provided for a specific purpose.

## **4.0 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 Collegiate 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 pupils on roll at census date or low take up of nursery places and/or Sixth Form

- Potential of discontinued grants
- Increase in expenditure when special projects are undertaken (e.g. professional fees incurred in relation to capital bid preparation)

## **5.0 Management of Reserves**

5.1 The minimum target for the reserves should be equal to one month's payroll costs. The reason for this is to provide sufficient working capital to cover delays between spending and receipt of grant income and to provide a cushion to deal with unexpected emergencies such as urgent maintenance or long term sickness where unforeseen costs are incurred.

5.2 The collegiate will set a balanced in-year revenue budget every year and the reserves balance should only decrease due to capital investment and/or other organisational needs which shall at all times be approved by the Resources and Services Committee.

5.3 All reserves are collegiate reserves, however individual academy reserves balances will be reported for the purpose of the statutory accounts.

5.4. The Central Team will monitor the level of reserves to ensure they are maintained or above the required level.

## **6.0 Reporting and Monitoring Reserves**

6.1 The Board of Directors are responsible for ensuring that the reserves are maintained and are used only as described in this policy. Upon approval of the use of the funds, the Central Team will maintain a record of the use of the funds. The Resources and Services Subcommittee should regularly monitor the progress of reserves.

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

6.3 At the year end the reserves policy, 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.

6.4 The Collegiate has delegated to the Resources and Services Subcommittee the responsibility for reviewing the implementation and effectiveness of this policy. The Board of Directors will approve all major changes to this policy.

## **7.0 Investment Policy**

The Board of Directors may invest to further the collegiate charitable aims but must ensure that investment risk is properly managed. The collegiate 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, ensuring the collegiate bank account does not become overdrawn and all financial commitments are being met;
- Funds will only be placed with banking institutions that are regulated by the Financial Conduct Authority and with good credit ratings.
- Prior to investing funds, the Resources and Services Subcommittee must be satisfied that the cash flow predictions provided by the Central team are accurate and that the amount/time period of the investment will not compromise the viability and sustainability of the activities of the Collegiate

When considering making an investment the Board of Directors must:

- act within their powers to invest as set out in their articles of association
- have an investment policy to manage, control and track their financial exposure, and ensure value for money
- exercise care and skill in all investment decisions, taking advice as appropriate from a professional adviser
- ensure that exposure to investment products is tightly controlled so that security of funds takes precedence over revenue maximisation
- ensure that all investment decisions are in the best interests of the collegiate and command broad public support
- review the collegiate investments and investment policy regularly

**This policy will be reviewed annually following the year-end accounts by the Resources and Services Subcommittee.**