JOHN LEGGOTT COLLEGE

RESERVES POLICY

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1. Background

1.1. The Charity Commission is advising all charities to have a Reserves Policy. This is to help charities secure their viability beyond the immediate future and provide reliable services over the longer term.

1.2. In addition, the new SORP FRS102 requires a statement from the college on its Reserves Policy to be included in the Financial Statements.

1.3. Charitable organisations can typically allocate unspent money to three different types of fund in the accounts at the end of the year.

1.3.1. **Restricted funds** - This relates to unspent money from restricted grants. The donor has specified what the money must be spent on and the trustees normally do not have the power to spend the money on anything else. For example a grant for child day care could not be spent on health advice.

1.3.2. **Unrestricted funds** - This is money that can be spent on anything which furthers the objectives of the charitable organisation.

1.3.3. **Designated funds** - If part of an unrestricted fund is ear-marked for a particular project it may be designated as a separate fund. Funds could be designated for a project that the charitable organisation is saving up for, such as refurbishing their buildings. Designation does not legally restrict the Board of Governors, they can change their minds, but their initial decision should be a genuine one, not a method for hoarding funds.

1.4. The funds listed above can also be called reserves. So the designated fund for refurbishing the building might be called a building reserve.

2. Reasons for Creating Reserves Policy

2.1. When creating a reserves policy, the college is particularly concerned in creating a fund that is available to cover gaps in income, including government funding; cash flow and meeting costs such redundancy payments to staff if the college were to close. These types of items are called contingent liabilities - they are liabilities that occur if specific events like closure were to happen in the future.

2.2. When looking at the level of free reserves that it would be prudent for the college to hold, considerations include:

2.2.1. How secure is the present funding?

2.2.2. How long would it take to secure alternative sources of funding?

2.2.3. What risks and opportunities may arise which could not be met out of income?

2.2.4. Meeting the banking covenants.

2.2.5. If the college had to close, how long would it take to transfer students to other organisations and wind up in an orderly manner causing least hardship to users?

2.3. What costs could be involved in winding up:

2.3.1. Redundancy costs.

2.3.2. Legal and accountancy costs.

2.3.3. Crystallisation of pension liabilities.

2.4. The purpose of this policy is to allow the college to draw on the reserve in emergencies and to take advantage of unexpected opportunities. The Board of Governors would then seek to rebuild the fund.

3. Policy

3.1. The college recognises that it is heavily reliant on a single major source of income and this is not guaranteed. It is crucial therefore to ensure there are sufficient reserves to support the college while other sources of income are secured and fundraising is considered or to allow the college to wind up while meeting its obligation to staff and service users, if existing sources of income are lost.

3.2. The college is dependent on EFA funding to sustain its activities, as other streams of income alone would not allow the college to continue operating. This means that if there were to be a significant fall in these funding sources it is likely that the college would have to restructure or close down.

3.3. To avoid closure if funding difficulties were to occur the Board of Governors has agreed to keep a certain level of financial reserves to ensure that main operations can continue for a period of 3 months.

3.4. The main concerns of the Board of Governors are to ensure:

3.4.1. That banking covenants are MET, current covenants require a minimum reserves level for Revenue and Revaluation reserves of £3M, which excludes the Defined Benefit Pension Fund Liability.

3.4.2. That staff can continue working.

3.4.3. That there is time to secure new funding.

3.4.4. That students are supported to move on to other services.

3.4.5. It has sufficient resources to meet its liabilities.

3.5. Funding is determined annually and this has exposed the college to quite significant falls in income in the past. It has been calculated that reserves of £4.5m would be needed to continue running for at least 3 months.

3.6. The reserves will be built up from the unrestricted (earned) income.

3.7. The level of reserves will be monitored and reported on within the monthly management accounts and reviewed by the Board of Governors.

3.8. The Board of Governors will review this policy annually or whenever there are significant changes in income or operating costs.

3.9. The Liability for the Defined Pension Scheme is calculated annually by the scheme actuary's. The Reserves policy excludes this liability however given that the liability is in line with market conditions it could be that over time the liability erodes overall reserves into a negative state in terms of the balance sheet.

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