RESERVES POLICY

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POLICY STATEMENT

This policy sets out the College's approach to reserves to support its financial resilience and comply with Charity Commission guidance. The College will report on this policy in its annual Financial Statements to provide assurance that it is appropriate for the accounts to be prepared on a going concern basis. The limits in the policy would normally be based on the charitable nature of the College with a focus on cash reserves and the extent to which these are restricted or unrestricted in their use. This policy is broader than just the cash position to ensure that all elements and requirements are included.

2. DEFINITIONS

Cash Balances – amounts held in cash at the end of a period

Reserves – the amount of reserves stated on the balance sheet as total reserves which include Unrestricted reserves from the income and expenditure account, revaluation reserves and any restricted reserves, but excluding FRS102 pension figures.

Free Reserves - those reserves which are freely available to spend on any of the College's objects and as such exclude unexpendable reserves, reserves applied to tangible fixed assets and reserves designated for or restricted to a certain purpose or purposes.

As part of the Statement of Recommended Practice for charities, the College is required to include a statement in the Financial Statements on the College's Reserves Policy. It is possible to provide a generic statement, but this does not support the College in being open and transparent about its approach. The Reserves Policy considers the following areas:

- The nature of charitable funds held
- The identification of functional assets
- Understanding the financial impact of risk
- Reviewing sources of income
- Impact of future plans and commitments (including defined benefit pension schemes).

The nature of charitable funds held

Much of the funding the College receives has a specific purpose and conditions attached. This may be for general provision of education and training, for specific programmes or student groups, for specific project activities or commercial income. For some income streams, the release of income is related to specific outcomes or targets which have to be met for the full amount to be released. As the College accounts are on an accruals basis, any cash received in advance of requirements being met will be held in the balance sheet.

The identification of functional assets

The College's main asset base is owned assets across the estate. Specific grants are also received to support some of this asset base in terms of improvement, replacement or expansion. However, often the College contributes to the purchase of assets from its reserves as part of the ongoing process of improvement and development either as revenue or capital expenditure.

Understanding the financial impact of risk

The risk management process is fully embedded in the College and links to the approach regarding going concern and this Reserves Policy. There are formal review processes in place to identify areas of risk to enable mitigating actions to be put in place.

Reviewing sources of income

Sources of income are consistently under review and there is early indication each year to understand the shape of these and the potential risks to the larger elements of grant funding or fees received. Project related income is considered a higher risk due to the temporary nature of this source.

Impact of future plans and commitments (including defined benefit schemes)

The College has a significant defined benefit pension scheme in place which impacts on the values in the balance sheet and the revenue position in the Statement of Consolidated Income. Due to the volatility of any valuations, these can change the balance sheet significantly with the potential to create a negative reserve position if the regular actuarial revaluations produce a negative outlook. This can then switch to a positive position when the outlook changes. Due to the volatility of the actuarial revaluation process, it is necessary to consider this separately from the rest of the reserves.

The College has an Accommodation Strategy which identifies plans for investment in the College's Estate. It is likely that the capital investment requirements may impact on the College's reserve and cash position. This would be reviewed in advance of making the commitment to invest, identifying the impact on the reserve policy and understand the short- and long-term options.

Reserves Policy

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

- the security of present funding,
- how long would it take to secure alternative sources of funding,
- what risks and opportunities may arise which could not be met out of income,
- 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 students,
- how the College would meet the costs involved in winding up such as redundancy costs, legal and accountancy costs and the crystallisation of pension liabilities.

3. PRINCIPLES

The principles of the Reserves Policy are:

- to maintain sufficient free reserves to enable the College to meet its charitable purpose and continue to provide a public benefit to current beneficiaries
- to balance the expenditure of income on current beneficiaries against ensuring that facilities and services have sufficient investment to improve and endure for future beneficiaries,
- to maintain a level of reserves that are prudent for the College to be considered a going concern but may include unexpendable reserves such as reserves applied to tangible fixed assets and reserves designated for or restricted to a certain purpose.

4. SCOPE AND LIMITATIONS

This policy is focused on the reserves of the College to ensure that the College is financially resilient and accounts can be prepared on a going concern basis. The Reserves Policy is not the only means of assessing going concern but contributes to this.

5. RESPONSIBILITIES

The Governing Body is responsible for ensuring that the Reserves Policy of the College is approved as appropriate to securing the future sustainability of the College and ensuring that it is reviewed and updated as part of the process of reviewing the Financial Statements on an annual basis. Any areas where the policy is not met must be approved by Governors. This approval and review is delegated to the Finance & Resources Committee (F&R).

The Vice Principal – Finance & Resources is responsible for providing information to the Governing Body and F&R Committee as to whether the College is meeting the policy or if there are any issues.

6. IMPLEMENTATION ARRANGEMENTS

The College Reserves Policy will be reported in the annual Financial Statements. A review will be undertaken on an annual basis with a formal paper provided to F&R Committee detailing how the College is meeting the Reserves Policy.

Where there are decisions that might result in a breach of the Reserves Policy, then these will be specifically highlighted and documented as part of a decision making process. Examples of these would include major capital expenditure being undertaken which may impact on reserves, additional payments to the pension scheme to reduce the shortfall in scheme funds, specific revenue investment to achieve certain outcomes, acquisitions of businesses (these examples are not exhaustive).

7. MONITORING & REVIEW

This policy will be reviewed annually by F&R Committee which has delegated authority to approve minor changes or waivers and will recommend significant changes to the Governing Body for approval.

8. SUPPORTING/RELATED DOCUMENTS

The annual financial statements contain a statement in relation to the Reserves Policy of the College.

9. RESERVES POLICY DETAIL

To ensure that the College can meet its ongoing obligations the Reserves Policy will focus on the levels of cash balance available at the end of each financial year and the level of reserves. To ensure that the College is able to operate effectively, the impact on the Reserves Policy will be considered and any changes or amendments required for specific events will be notified to F&R Committee to request committee or chair's action to approve an exception to the policy. This may occur where strategically important capital or strategic developments mean that the College must expend its reserves beyond the limits in the policy to achieve a greater public benefit and/or enable future obligations to be met such as the funding of a new building, capital redevelopment of an existing building or the procurement of additional business resource.

Annex A details the current levels anticipated. Changes will be made to these as appropriate as part of the ongoing review which will be at least annually and more frequently where required.

Reserves – the College would wish to maintain a general reserve value of approximately 30% of the expected adjusted annual income at the end of the year to protect operations in the following year against in-year changes to funding rules, the uncertainties of student recruitment and commercial income generation.

ANNEX A

The following parameters are those by which the College measures the Reserves Policy in terms of meeting the requirements.

Cash Balances: retention of a cash balance greater than 40 days cash in hand at the end of the financial year. The target month and year end cash balances will be approved at £3.0m.

Reserves: a general reserve value of at least £10.0m which is approximately 30% of anticipated annual revenue income.

The College intends to increase its contribution to public life and benefit and intends to grow its reserves as it seeks opportunities to do so. The College has not therefore determined a maximum level of free reserves but will always seek to strike a balance between prudent financial management and investment in capital to ensure the college provides excellent sustainable facilities for staff, students and partners.