RESERVES POLICY
Approved by the Governing Body Reviewed by the Finance and Resources Committee
Date approved: 3 July 2024
Strategy/Policy Responsibility: Vice Principal, Finance & Resources
Review date: July 2025

Location:
The Hub\Policies (PDF)
Policies & Procedures Sharedrive (PDF & Word document)

Reserves Policy

1. Scope

1.1 As a charity, the College Board is obliged to decide, publish, implement and monitor the college's reserves policy so that they can comply with their legal duties to:

- Act in the interest of the college and its beneficiaries (students, employers, staff and stakeholders)
- Protect and safeguard the assets of the college
- Act with reasonable care and skill
- Ensure the college is accountable

1.2 In practice this means that the College Board should develop a reserves policy that

- fully justifies and clearly explains keeping or not keeping reserves
- identifies and plans for the maintenance of essential services for beneficiaries
- reflects the risk of unplanned closure associated with the college's business model, spending commitments, potential liabilities and financial forecasts
- helps to address the risks of unplanned closure on our beneficiaries (in particular, vulnerable beneficiaries) and staff
- publish the reserves policy, ensuring it is tailored to the college's circumstances. It should explain to funders, beneficiaries, the public and the Charities Commission exactly what reserves are kept (or not kept) for and when they are to be used.
- make sure the reserves policy is put in place and operated
- regularly monitor and review the effectiveness of the policy in the light of the changing funding and financial climate and other risks.

A link to the Gov.Uk website guidance on Charity Reserves: Building Resilience is as follows: Charity reserves: building resilience - GOV.UK (www.gov.uk)

1.3 In March 2024, the ESFA issued the College Financial Handbook 2024, effective from 1 August 2024. College financial handbook 2004 (publishing.service.gov.uk). Par 2.8, page 16 of the document states that the board should set and regularly review the college policy for holding reserves. It should refer to the expectations relating to the management of reserves set out in the FE and sixth-form college corporations: governance guide - GOV.UK (www.gov.uk) and the Charity Commission publications noted above.

1.4 This document outlines the College's Reserves Policy for the 2024-25 financial year and recommends an annual review in the summer term by the Finance and Resources Committee.

2. Why and how much does the College need to keep in reserves?

2.1. The College keeps **operating** cash reserves to pay for its monthly staff payroll, tax, National Insurance, pensions, purchases, staff agency costs and payments made on behalf of students e.g. bursary childcare and vulnerable bursary payments. It needs a minimum amount of cash to subsidise its operations on a monthly /daily basis when its daily payments exceed grant, sales and fee income for the month or when income is received late in arrears. The minimum monthly cash reserve required for this is no less than **£1.5m**.

2.2 The College requires **capital** cash reserves to replace and update its IT infrastructure on a regular basis, to improve the condition of its campus, particularly the Croydon campus, to purchase new equipment. The College bids for capital grants to assist with the funding of capital projects, however often claims are made in arrears and payment can be received up to 2 months after expense has been incurred. Net capital expenses can therefore be particularly high in September/October when the summer works invoices are paid and grant income claims are awaiting approval. The minimum capital cash reserve required for this currently is no less than **£2.0m** /month. Should capital grant income not be possible, due to lack of funding body grants or not being successful in bids, then the reserve should increase. The College should always plan ahead for its capital commitments, with the Estates Strategy identifying long term maintenance issues and developments.

2.3 The College requires **loan** reserves to repay its bank loan interest and capital up to the end of their fixed term periods in 2028 and 2030. Debt and interest repayments cost **£950k** per annum for the next 4 years, reducing thereafter.

2.4 The College require **opportunity** reserves to enable it to create new curriculum areas e.g. digital, or match fund capital grants, where 100% funding is not possible, ego to apply for new innovation grants in short time frames to decarbonise its estate e.g. Salix grants. Reserves of **£2m** should be kept for this.

2.5 The College requires **contingency** reserves for unforeseen operating cash deficits during inflationary periods, unforeseen global events triggering cost increases (such as utilities costs), political change to provision, project overspends for unforeseen issues, such as asbestos, or for disasters, such as floods, fire, crime or terrorism. Although the college has insurance for many threats, it maybe that the loss is greater than anticipated and emergency measures have to be put in place. A minimum ideally of £**1m** pa should be set aside for contingencies.

2.6 The Finance and Resources Committee has agreed that the College should have a minimum cash reserve of **£5m** and a maximum cash reserve of **£7m**. These figures will be reviewed annually.

3. Other calculations for setting the minimum level of cash reserves

3.1 Other methodologies used by the sector, is to ensure that minimum cash reserves cover the current liabilities less realisable assets from the balance sheet, with historic figures in this example, as at 31 July 2023:

	£'000
Current liabilities, excluding deferred capital grant	**5,418**
Less: realisable current assets, e.g. trade debtors	**(384)**
Recommended minimum cash reserve	**(5,034)**

3.2 Because of the focus on colleges' financial health, the Further Education Commissioner also sets a minimum guideline for cash days in hand at 25. For Croydon College that would be to the order of £2.5m, which would not really cover any more than the operational and loan reserves noted above in section 2 and would exclude any capital, contingency and opportunity reserves. A reserve of £7m would be more to the order of **68** cash days in hand.

3.3 Bank loan covenants should also be consulted to ensure that they are not breached when operating cash outflows occur for more than 1 year, as this will also reduce cash reserves.

4. What to do when the college has surplus cash reserves

4.1 The College's Treasury Policy, within the Financial Regulations should be referred to maximise the return on surplus cash reserves.

4.2 From time to time, the Finance and Resources Committee should assess whether loans should be repaid, comparing the penalty costs to interest savings over the remaining life. The impact of taking out future loans from the DfE should be taken into account too.

5. Review of this Policy

5.1 It is recommended that this policy is reviewed annually against forecast cashflows.