Guidelines for the treatment of school cash reserves

Introduction
Local decision-making has strengthened the capacity of Victorian government schools to manage their own affairs and to serve their communities in a flexible and responsive way.

A school’s Strategic Plan, as the school’s key planning document, provides the platform for a school council to establish clear links between the educational needs of students, the programs necessary to meet those needs and the resources required to deliver successful outcomes. A transparent budgetary nexus between programs and cash resources is also of fundamental importance in relation to school Strategic Plan goals and objectives that have end-purposes and financial obligations extending into future school years.

The annual budget of each school reflects the school’s education priorities and represents the catalyst for integrating student needs, programs and resources at the local level. Budget decisions, within the framework of the school Student Resource Package, establish the key directions of the school in the current and future years. Important resource management decisions also flow from the budgetary processes.

A key issue for schools is the method of arriving at the level of cash reserves that should be maintained to meet unplanned budget variations in conjunction with the level of cash reserve that is available for investment in educational programs.

In the business model there is a significant focus on the management of all assets and liabilities, whether of a financial or non-financial nature. The relationship between cash or near cash holdings and liabilities that will require cash withdrawals is a matter of quite some importance to private sector managers as well as to managers in government business undertakings.

The importance of having cash available to meet financial obligations when they fall due is as important to schools as it is to business.

As outlined above the critical question for many schools is the level of funds that should constitute the safety net to meet unplanned budget variances of one type or another, together with the cash that is required to pay normal financial obligations as they fall due.

Having identified the level of the safety net, the school is then in a much better position to confidently commit cash reserves that are over and above the safety net requirements.

The identification of an appropriate cash safety net will considerably improve the capacity of school councils to commit other cash reserves to school charter priorities. It will result in a more productive use of cash reserves overall.
School reserves
A survey of schools in 2002, confirmed later in discussions with major stakeholders, indicated that a number of schools required advice in regard to the budget treatment of reserves. Reserves were defined broadly to include cash funds held by schools in the form of bank balances and investment accounts.

A key question for schools involved the level of reserve funds that should remain uncommitted to meet their day-to-day financial obligations, together with other obligations that may arise throughout the course of a school year due to unexpected budget variations and/or unplanned events. The latter includes educational commitments or opportunities not apparent at the time the budget was developed.

During 2008, Pricewaterhouse Coopers conducted a review of the School Cash Reserve Benchmark. The key recommendation of this review was that the current benchmark should be increased to better reflect the current fiscal environment. As a result, the benchmark is now calculated by obtaining the average of two months of schools calendar year recurrent expenditure excluding expenditure related to building and grounds works, and asset write downs.

Schools may vary the amount of their cash reserve to a lower amount. Where the amount nominated is lower than the calculated cash reserve the school must be confident that their reserve is sufficient to meet their short term financial commitments. The minimum cash reserve is still set at $10,000.

There is no requirement for schools with a cash reserve below the benchmark to put away more cash to meet the benchmark provided that the school believes the cash it currently holds in reserve is sufficient to meet financial obligations as they fall due.

It is important for schools to link all available school funds with educational opportunities that will benefit students while also retaining safe levels of cash to meet financial obligations as they fall due. In this context, the Department expects that schools with cash reserves in excess of the benchmark will work towards adoption of the benchmark at the earliest practicable time.

The identification of the committed and uncommitted elements of school reserves will be beneficial for school councils in their planning processes. It should also enhance the transparency and accountability of decisions taken in respect of cash funds held by schools in the form of bank and investment balances.

Process
Every school is required to complete a ‘Financial Commitment Summary’ annually as part of the CASES21 Finance End of Year Procedures.

The cash reserve will be calculated automatically as part of the process and the minimum reserve will be set at $10,000 unless the bank balances are less than $10,000, in which case the cash reserve will be set at a level equal to the total funds available. The system calculated reserve can be reduced (no lower than $10,000) but not increased by the school user.

A copy of a new worksheet to assist with this process has also been developed and this is structured in line with the CASES21 Finance Chart of Accounts.


Detailed instructions for completing the Financial Commitment Summary are included in Section 11 - End of Year of the CASES21 Finance Process Guide.

The ‘Financial Commitment Summary’ must be tabled at school council for approval and be included with the school’s financial statements that are required for audit purposes.

Schools without any short/long term commitments, where the accumulated funds reflect the school operating reserve only, will still be required to table the completed form at school council.