Policy for Academic Departmental and Faculty Level Reserves

Contents

- Background in relation to General Academic Departmental Reserves
- Specific Points on Project Accounts
- New Specific Reserves for Academic Departments and Faculties

Background in relation to General Academic Departmental Reserves

Academic Departments have been given access to their General Departmental Reserves by the release of the greater of 20% or £50,000 per Department into annual expenditure budgets in each financial year since 2006/07. As a result of this release, the financial value of the residual balance in these General Departmental Reserves has been reducing. However, reserves remain an important aspect of financial planning and following the establishment of faculties and the need to carefully consider future funding pressures, it is now appropriate to reconsider ways by which new reserves may be established and utilised.

The introduction of uBASE on 1 August 2007 saw the creation of core cost centres to replace the previous GE and DF accounts. The distinction between Discretionary and General Departmental Reserves disappeared and Academic Departments simply had to manage how much of their overall core budget would be attributed to each cost centre, including those cost centres that effectively replaced individual's DF accounts.

Although Discretionary Accounts no longer exist in uBASE and the accounts are no longer recognisable as, say, DF4567, many of the former DF accounts have simply been replaced with an equivalent separate account known as cost centres. Cost centres can still be held in the name of individual members of staff and they can still spend sums of budget that are attached to the code. Currently there are four ways in which available budget can be added to a cost centre:

1. An element of the core budget is attributed to the cost centre at the beginning of the financial year or a sum of budget is moved in during the year.

2. An academic conducts some consultancy but their fee is not paid to them personally and is “waived” instead. The “waived fee” is credited to the individual's cost centre when approved by the Head of Department.

3. An academic has a Research account where a residual credit balance remains as a result of an under spend on the direct costs headings, but the work was done for a fixed price/income. This typically arises on commercially funded research. The residual credit balance may be returned to the individual’s cost centre when the research account is closed.

4. An academic has a project account where a residual credit balance remains as a result of an excess of income over expenditure. It could be that only the direct costs of performing the work have been charged to the account hence there should always be a “surplus” where the price is set above direct costs. The residual credit balance may be returned to the individual’s cost centre when the account is closed.
Although many staff did see their DF account replaced by a cost centre in uBASE, and budget can be placed into these accounts for their expenditure, there are concerns with the current position and a perceived lack of access to “flexible funding”. The reasons for this are:

- When we reach the financial year end in uBASE, any unspent budget in any departmental cost centre does not automatically carry forward in that account to the next year. Instead, the aggregate balance on all departmental cost centres is included in the Departmental level and then Faculty level Prior Year Adjustment calculation. This means that, for example, if the department has overspent its staffing budget or other individuals have overspent their cost centre budget, no single individual has any residual budget balance automatically protected to be spent in the future. The Head of Department is able to honour an individual’s closing cost centre balance if they choose to do so, but this must be done from within the total budget available in the following year.

- It is not possible to credit income to cost centre codes and, although most staff can probably understand why the University must be able to separately record external income and related expenditure according to the type of activity that is being funded, this is still perceived as a “lack of flexibility” by some staff.

**Specific points on Project Accounts**

When external income and related expenditure is recorded in a separate project account we need to be clear whether any residual credit balance on the account at 31 July can be spent in the next financial year (i.e. if the income is received in advance of the actual service or supply for which it has been given). The necessary procedures for reviewing project account balances came as a direct result of the Auditors review of our 2006/07 financial accounts and, in 2007/08, many of the credit balances held in project accounts could not be justifiably deferred from one year to the next. The surpluses were recognised in the 2007/08 and this resulted in a very large positive Prior Year Adjustment for Academic Departments, which was released as additional budget in 2008/09 and the residual released in 2009/10.

If the project surplus were to be ring-fenced for an individual member of staff, the Faculty Pro Vice Chancellor or the Head of Department would not be given the opportunity to determine whether an element should be appropriately retained to reflect the projects indirect costs. Also, the sum would be outside the overall Prior Year Adjustment calculation and the influence of the faculty in the planned timing of its future use.

The need for access to “flexible funding” is acknowledged, but this does not mean that these funds are held in, and spent from, the original project account. The expenditure that an academic colleague may wish to incur often does not relate to the project activity itself. For example, the funding of travel to a conference from the “surplus” generated from a piece of Services Rendered testing work. Project accounts must only record the expenditure that actually arises in the course of generating the income i.e., “directly related expenditure”. This is because of the need to be properly accountable for the financial aspects of project account activity and to separate this for any funder or Her Majesty’s Revenue and Customs disclosure requirements. Any residual credit balance needs to be transferred from the project account and placed elsewhere for the academic colleague to access.

The net contribution on a project account does not necessarily represent a profit and there is a benefit in understanding the attribution of overheads to individual projects as well as seeking to correctly state the amount which may properly become liable to Corporation Tax. Accordingly, every encouragement must be made to attribute appropriate overheads by the consideration of the full costs of an activity and by the regular review of project accounts.
New Specific Reserves for Academic Departments and Faculties

Departments and Faculties need to make financial plans for future expenditure that requires the creation of reserves that are separate to the General Departmental Reserves as described above.

At the 2009/10 financial year end (and hence the beginning of the 2010/11 financial year), in addition to the existing General Academic Departmental Reserves, the following three new types of Specific Reserves accounts are available to be created for funding expenditure beyond the immediate financial year ahead (ie for use from 2011/12 onwards):

1. Faculty Level – Capital (Infrastructure investment >£50,000 or single equipment items >£20,000)
2. Faculty Level – Revenue (Faculty wide planned revenue expenditure schemes e.g. PGR studentships)
3. Department Level – Revenue (For planned and defined revenue expenditure that needs to be recorded separately from the General Departmental Reserve). The revenue reserves need to have a minimum financial value set to justify their management and creation and it this is set at £20,000.

New Specific Reserve accounts can only be held at Faculty or Departmental level (i.e. not held by individual academic staff). Faculty Pro Vice Chancellors must approve all new Specific Reserve accounts and their planned use in each ensuing financial year.

Specific Reserve accounts need to have a defined purpose and timescale for use when created. For Faculty Capital reserves it may be possible that a change to the originally intended item of equipment to be replaced occurs and this would be acceptable provided that the expenditure was still of a capital nature and appropriately authorised by the Faculty.

Specific Reserve accounts can only have funds placed into them from actual Prior Year Adjustment generated or new core budget. It is not possible to “drip feed” contributions into a new reserve account, either from individual project account or from an individual’s cost centre. This is to prevent the PYA calculation being distorted and to allow the Faculty to determine whether the transfer of an element of PYA into a new Specific Reserve is both affordable and aligned with its strategy. It also helps maintain the concept of a minimum financial value being needed to open a Specific Reserve.

Following the creation of a Specific Reserve at the beginning of the financial year by the partial use of PYA or core budget, it is not possible to then access the sum in that same financial year. By planning to defer the use of these funds, the University as a whole can set clear defined forecasts and report actual performance accordingly. If PYA funds are required in the following financial year, it is not possible or necessary to ring fence them in a Specific Reserve as the PYA will be carried forward anyhow.

When a Faculty or Department needs access to the funds held in the Specific Reserve, this should be planned in advance of the financial year in which the expenditure is to take place. Funds are then taken from the specific reserve and made available to spend as a budget in a cost centre.

Therefore, the addition of funds to and the withdrawal of funds from a Specific Reserve account can only take place once each year. This will be considered as part of the planning and budget setting process and affected in the August/September of each year when the finalised value of the Departmental and Faculty PYA is known.

Useful links for additional guidance

Contact the Finance Manager for your Academic Department for further information on this topic.