



Reserves Policy

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No change

1. Introduction

Together Learning Trust has established a reserves policy to protect its activities by providing a financial comfort zone against an unpredictable environment and to make sufficient provision for future cash flow requirements and capital procurement. The policy also provides the framework for future strategic planning and decision-making. The development of an effective reserves policy will restrict the impact of any risk upon the continuing operations of the Trust.

The Reserves Policy and the establishment of minimum reserves amounts, is based upon an annual risk assessment of the internal and external operating environment, as well as having a due regard for the nature of activities under taken by the Trust for its beneficiaries. The Trust has a responsibility to meet both the needs of the current pupils as well as that of future pupils in setting its level of expenditure and ultimately its reserves.

In line with the Academies Financial Handbook the Trust has the freedom to keep money aside for when it is needed most and to build up reserves, for example for long term capital projects. The Department for Education (DfE) expects the Trust to use their allocated funding for the full benefit of their current pupils and that it is important that if the Trust has a substantial surplus we have a clear plan for how it will be used to benefit our pupils.

Maintaining an appropriate level of financial reserves is considered essential in protecting the Trust from financial risk generated by, for example;

- income reduction due to Government funding changes
- unexpected falls in student numbers
- cash flow issues due to delays in receipt of funding
- emergencies
- Building up a reserve to pay for large capital projects

2. Types of Reserves

Unrestricted Reserves

Unrestricted Reserves (including Designated Reserves) are derived from income funds, grants or donations that can be spent at the discretion of the Directors and Governors in furtherance of any of the Trust's objectives.

If part of an unrestricted income fund is earmarked for a particular project it may be designated as a separate fund, but the designation has an administrative purpose only, and does not legally restrict the trustees' and governors' discretion to spend the fund. Unrestricted Reserves will be achieved through operational efficiencies and any trading activities undertaken by the Trust.

Unrestricted Reserves are generally defined as funds held after excluding:

- Endowment funds (permanent & expendable)
- Restricted funds
- Funds that can only be generated on the sale of fixed assets used for charitable purposes.

Restricted Reserves

Restricted Reserves (including Designated Reserves) may be restricted income funds, grants or donations that are spent at the discretion of the directors and governors in furtherance of some particular aspect(s) of the objects of Together Learning Trust; or where the nature of expenditure has been defined by the donor; or they may be endowment funds, where the funds or assets are required to be invested or retained for actual use, rather than spent.

Restricted Reserves are only available for expenditure once Together Learning Trust has met its commitments and other planned expenditure and is in accordance with the limitations outlined in the original funding.-

Restricted Fixed Asset Reserves.

This reserve is specifically held for capital purposes in furtherance of some particular aspect of the objectives of the Trust.

Pension Reserves

The presence of a pension surplus or deficit does not constitute an immediate liability or realisable asset. The presence of a pension surplus or deficit will generally result in a cash flow effect for the Trust in the form of an increase or decrease in employers' pension contributions over a period of years. The Trust manages its budget to ensure that it can meet the required pension contributions from projected future income without significantly impacting upon its planned level of activities.

The Trust continues to calculate its reserves without setting aside a Designated Reserve to cover the pension liability.

3. Why does the Trust hold free reserves?

Academies are expected to hold contingency reserves from their annual GAG Funding or other income, which may be both capital and revenue reserves.

The Trustees require a **revenue reserve** to be created to cover:

- the future development needs of the trust, and long term strategic plans
- to provide a contingency to meet unforeseen risks and contingencies
- to provide working capital for the Trust to meet its liabilities as they arise
- to provide a reserve to assist school budgets to meet the possible shortfall of in year revenue funding due to reductions in national education funding, a fall in pupil numbers, a drop in income or increases in expenditure not covered by national funding

The reserve would provide time to adjust expenditure to balance budgets.

In addition the trustees may require a **capital reserve** to fund future capital expenditure. Devolved Formula Capital funding is minimal and the Schools Condition Allocation (SCA) is not always sufficient to meet large capital projects. A reserve is therefore required to meet both unforeseen capital expenditure as well as future development plans.

The Trustees are required to consider what level of reserves to hold in order to demonstrate prudent financial management, stewardship and sustainability. The Trusts policy for reserves is also an integral part of the Trustees consideration of the Trust's going concern presumption. The level of reserves held by the Trust demonstrate that the Trust is a going

concern and is able to meet its liabilities and has a level of reserves available to meet reasonable contingencies, risks and the future development of the Trust.

4. Revenue and Capital Reserve and Management of Reserves

The Trustees consider that the appropriate level of **revenue reserves for the Trust is a minimum of 4% and a maximum of 12% of total income** at the year-end. These levels are in respect of the combined restricted and unrestricted revenue reserves of all schools in the Trust.

The Trustees consider that the appropriate level of reserves to earmark for **capital reserves for the Trust is a minimum of £150,000** or above at the year-end.

It is noted that the above reserves are included as part of each schools' balance carried forward into the following year's budget and will be monitored and controlled at a total level for the Trust.

Reserves held in excess of the above amounts will be reviewed by the Trust on a regular basis throughout the year and an appropriate range of options will be considered which might include releasing the funds into the revenue budget in furtherance of the Trust's objectives, assigning funds to appropriate designated reserves as may be determined by the Trust or investing the funds to generate further income to allow expansion of the Trust's work. Understanding the movement in the reserves is key to ensuring corrective action can be taken in a timely manner if required and to ensure the policy remains relevant over time.

If any school within the trust needs to borrow reserves in excess of the reserves they hold (usually for a large capital project). This needs to be agreed by the Trust board. The school will be required to agree to a repayment period and be charged for any lost interest.

5. Policy Review

This policy will be actively reviewed during the year and, if necessary, changes applied to reflect the nature of the Trust's operations, beneficiaries, and operating environment.

6. Reserves – Disclosure

The Trust's annual accounts report should state the level of reserves on the last day of the financial year and the future needs, opportunities, contingencies and risks relevant to the level of reserves.

The Charities SORP requires trustees to include in their annual report:

- a statement of their policy on reserves
- the level of reserves held and an explanation of why they are held
- where material funds have been designated, the amount and the purpose of the designation should be explained
- where designated funds are set aside for future expenditure, the likely timing of that expenditure.