

Reserves Policy

Version 3

This policy applies to all NCLT education settings.



Wingfield Academy



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1.0 Introduction

- 1.1 This Reserves Policy (the policy) forms part of the Trust's internal control and corporate governance arrangements. The policy explains the Trust's underlying approach to how it will manage the Trust's reserves and to justify and explain the level of reserves which the Trust retains. It also aims to reflect and mitigate against the risk of unplanned closure or insolvency associated with the Trust being unable to meet its financial obligations or commitments due to unforeseen circumstances or variation in financial forecasts. It aims to ensure that resources are available for the renewal and replacement of Trust buildings and assets

2.0 Purpose of this policy

2.1 The Trust's reserves policy

- Assists in strategic planning by considering how new projects or activities will be funded across the Trust
- Informs the budget process at education setting and at Trust level by considering whether reserves need to be used during the financial year or built up for future projects
- Enables investment decisions to be made at a Trust level, where necessary utilising reserves across the Trust
- Informs the budget and risk management process by identifying any uncertainty in future income streams.

3.0 Definitions

3.1 The Trust holds the following reserves:

- **Restricted Income Fund** – these reserves are represented by the main income for the Trust which comes from the ESFA in the form of a General Annual Grant (GAG) less the running costs excluding fixed assets. It may also contain funds from other sponsors/donors where restrictions on the use of that funding have been set out.
- **Unrestricted Income Fund** – these reserves come from income and donations which are expendable at the discretion of the Trustees in furtherance of the objectives of the Trust.
- **Restricted Fixed Asset Fund** – this represents the cumulative amount carried forward in respect of restricted funding received for fixed assets required to be used on an on-going basis. It is predominately government funds received by the Trust.
- **Pension Reserve** –this reserve reflects the surplus or deficit on the defined local authority pension scheme. The presence of a surplus or deficit does not constitute an immediate liability or realisable assets and does not mean that the equivalent amount is already committed or no longer available. 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 contribution over a period of years. Parliament has agreed, at the request of the Secretary of State for Education, to a guarantee that, in that event of an academy Trust closure, outstanding Local Government Pension Scheme liabilities would be met by the Department for Education. This guarantee came into force on 18 July 2013.

4.0 Reserves Targets

4.1 When considering an appropriate level of reserves, the Trust Board considers:

- 1) The risk of unforeseen emergency or other unexpected need for funds;
- 2) A fall or rise in sources of income;
- 3) Planned commitments, or designations, that cannot be met by future income alone, for example plans for a major capital project
- 4) The need to fund potential deficits in a cash budget, for example money may need to be spent before funding is received; and
- 5) The full range of financial risk identified.

4.2 The Trust has determined that an adequate amount of reserves is required to ensure that the Trust has sufficient working capital to cover the day-to-day expenditure, any deficits that may arise and contingency finance for unforeseen expenditure. It seems therefore appropriate to maintain cash reserves for working capital of around 6% of total annual income. Total annual income is calculated excluding Private Finance Initiative (PFI) funding, where applicable.

5.0 Balanced Budget

5.1 Education settings within the Trust are expected to set and maintain a balanced budget where costs are met from income in a given year. Accumulated reserves can be utilised, subject to the provisions of this policy.

6.0 Resource Allocation

6.1 The holding and release of reserves is a key responsibility of the Trust Executive Team and the Finance Risk and Audit Committee. The Board of Directors is legally responsible for all assets and liabilities.

6.2 The individual education setting approach, which has also been adopted by many successful trusts sees consolidation of individual reserves of settings but a 'notional' retaining ownership of individual reserves to encourage local accountability.

6.3 Each education setting has a notional reserve balance base equal to its free financial assets when it joins the Trust. These reserves are available to be used by the education setting subject to the agreement of the Board of Directors and the need for the Trust to maintain adequate reserves. If a setting does not have any, or has negative, notional reserves, the Board of Directors may need to redistribute unutilised reserves from other colleges/academies. This will only be done in exceptional circumstances where the Trust deems the relevant setting does not have the capacity to resolve the position. Where an education setting does not have sufficient funds to cover an emergency or where capital expenditure is proposed that is not covered by the setting's accrued reserves, the Board of Directors may need to draw funds from other education settings balances to fund the scheme i.e. 'an internal loan'. This will only be done in important or critical circumstances.

6.4 If individual education settings have 'internal loans' then these are ring fenced for the education setting involved and are serviceable from the General Annual Grant (GAG) after top slicing for the duration of the loan repayment. It is envisaged that this

repayment period would be agreed within a period of time up to a maximum of 5 years.

6.5 Applying for additional funds from the reserves

6.6 Education settings are able to apply to the Trust to use additional resources as identified in 6.3 above subject to:

- The Trust being able to maintain the required minimum level of reserves in aggregate across all the schools/colleges;
- The education setting is able to provide a five-year budget which shows how the deficit and repayments will be met and a satisfactory business case submitted to TET and the Audit Committee for approval.

7.0 School or College Improvement

7.1 In order to ensure that the Trust can fully support each of its schools and colleges educational outcomes we reserve the right to ringfence 5% of each education setting reserve balances (for schools or colleges where these are above £300k - the first £300,000 of reserves is ineligible to protect education settings who just go above this threshold) to be used at the discretion of the CEO for college or school improvement. This can be used to appoint consultants or interim specialist staffing/additional leadership support/subject expertise staff etc but is not intended to be for re-occurring staffing expenditure with the expectation that any permanent staffing would be absorbed by the education setting budget as soon as possible.

8.0 Appeals

8.1 In order to ensure The Academy Trust Handbook stipulates that there must be an appeal process in place. The appeals process is as follows:

- The Head teacher/Principal should write to the Chief Executive Officer (CEO) outlining why they feel they have been unfairly treated and what action they would expect to be taken to rectify the situation.
- The TET will review the appeal and reply to the education setting within 10 days of receipt of the appeal.
- Should the headteacher/Principal still feel that their academy has still been unfairly treated by the CEO they have the right to appeal to the Finance Risk and Audit Committee who will discuss this at the next meeting and write back within 10 days of that meeting.
- The final recourse would be to the Secretary of State whose decision is final.

9.0 Schools or colleges joining the Trust

9.1 Schools or colleges joining the Trust will normally bring in accumulated reserves and will be able to qualify for additional funds as outlined in 1.6 above.

- 9.2 Any school or college joining the Trust with negative reserves or in-year budget deficits must demonstrate a coherent plan for achieving a balanced budget, within 3 years, in line with these reserves requirements.

10.0 Schools or colleges leaving the Trust

- 10.1 Should any school or college have to be re-brokered then their notional reserves would be calculated at the time of leaving. Any 'internal loans' would have to be repaid prior to them leaving the Trust.