



Transforming Lives  
EDUCATIONAL TRUST

# Reserves Policy

<b>Category:</b>	Finance	
<b>Authorised By:</b>	Audit & Risk Committee	
<b>Author:</b>	M. Goodey	
<b>Version</b>	2	
<b>Status:</b>	Under Review:	
	Approved:	✓
	Adopted:	✓
<b>Issue Date:</b>	September 2020	
<b>Next Review Date:</b>	September 2021	
<b>Statutory Policy:</b>	Yes	
	No	✓

# Contents

<u>Section</u>	<u>Page</u>
1. Scope	3
2. Policy Statement	3
3. Principles	3
4. Definition of Terms: Types of Reserves	4
5. Annual Budget	4
6. Trust General Reserve Contribution	4
7. Academy in Year Surplus Balances	5
8. Trust General Reserves Balance	5
9. Trust General Reserve Strategic Plan	6
10. Sinking Funds	6
11. Joining Schools	6
12. Schools in Deficit	6
13. Expenditure Against Reserve Balances	6
14. Non-Charitable Subsidiary Companies	7
15. Monitoring	7

## **1 – Scope**

1.1 This policy applies to all academies within the Transforming Lives Educational Trust (“TLET”).

## **2 – Policy Statement**

2.1 Transforming Lives Educational Trust has established this reserves policy to protect its activities by providing financial buffers against an unpredictable environment and to make sufficient provision for future cash flow requirements. The policy also provides the framework for future strategic planning and decision-making. An effectively implemented reserves policy will mitigate the impact of any risk upon the continuing operations of TLET caused by funding uncertainty.

2.2 This policy and the establishment of reserve targets should be based on a continual assessment of the internal and external operating environment.

2.3 The policy takes into account the Academies Financial Handbook (“AFH”) and guidance from the Charity Commission. Whilst the 2020 AFH is relatively silent on the issue of reserves, it does state the following:

*ESFA previously set limits on the amount of GAG that could be carried forward by trusts from year-to-year. These limits have now been removed for eligible academy trusts. ESFA will report to DfE any trusts where it has serious concerns about a long-term substantial surplus with no clear plans for its use.*

and

*The board of trustees **must** notify ESFA within 14 days of its meeting if it is proposing to set a deficit revenue budget for the current financial year, which it cannot address after unspent funds from previous years are taken into account.*

2.4 The Charity Commission reminds directors (Trustees) that:

- Charity law requires any income received by the Trust to be spent within a reasonable period of receipt;
- A good reserves policy takes into account the Trust’s financial circumstances and other relevant factors;
- It is good practice to monitor the level of reserves throughout the year.

## **3 – Principles**

3.1 The following principles underpin the Trust’s approach to reserves management:

3.1.1 Trust and academies set balanced budgets and work to these in year;

3.1.2 The Trust will set a balanced in-year revenue budget every year;

3.1.3 The Trust’s reserves balance should only decrease due to capital investment and/or other organisational needs which shall at all times be approved by the TLET Audit and Risk Committee;

3.1.4 All reserves are Trust reserves, however individual academy reserves balances will be reported in order to facilitate administrative requirements and for the purposes of statutory accounting;

3.1.5 The Trust’s general reserves balance may be comprised of restricted or unrestricted reserves.

## **4 – Definition of Terms: Types of Reserves**

### 4.1 Unrestricted Reserves

Unrestricted reserves are derived from income funds, grants or donations that can be spent at the discretion of Trustees 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. However the designation has an administrative purpose only and does not place restrictions on how the fund is eventually spent. Unrestricted reserves will be generally achieved through operating efficiencies and any from trading company profits.

### 4.2 Restricted Reserves

Restricted reserves are mainly derived from government grant funding through the Education and Skills Funding Agency (ESFA) but may also include other grants or donations provided for a specific purpose. Restricted reserves must be used in accordance with the limitations outlined in the original funding (in the case of ESFA funding, this is as detailed in the Trust's funding agreement).

## **5 – Annual budget**

5.1 Each year each academy will be expected to set a balanced annual budget that anticipates a surplus of 3% of General Annual Grant (GAG).

5.2 The aim of setting a balanced budget that provides a surplus of 3% is that, in the event of any unforeseen circumstances, the annual budget should have enough scope to be able to out-turn in a neutral or surplus position.

5.3 Each academy will be supported by the Trust's Finance Department in order to manage their budget to meet this expectation.

## **6 – Trust General Reserves Contribution**

6.1 The Trust's target general reserves balance and combined academies contribution will be set annually for the following year in line with the ESFA Budget Forecast Return (BFR) timetable, and will be based on the forecasted current year-end reserves balance at that point, together with estimated combined GAG for the following year. Contributions will then be included in academies budgets for the following year.

6.2 Whilst the actual values may change year on year, dependent upon the current circumstances of each academy, there is an expectation that every year each academy will contribute to the Trust General Reserves any surplus up to the level of 3% of the General Annual Grant of that academy.

## **7 – Academy in Year Surplus Balances**

7.1 The in-year management of finances for each academy is a critical factor in their success, and this process is supported by the Trust through the Finance Department.

7.2 During the year, and significant deviations from the agreed budget, either positively or negatively must be discussed with the Chief Financial Officer to agree an appropriate course of action.

- 7.3 Where an academy generates an in-year surplus balance in excess of its agreed reserves contribution, it may normally be spent as determined by the academy, once the previous year's accounts have been closed. This discretionary expenditure is restricted to the value of 1% of in-year allocated GAG funding.
- 7.4 Academies may designate these reserves to specific short-term projects that will be completed within two years but reserves may not be carried forward for more than two years without the express approval of the Audit and Risk Committee. If reserves are not spent within this time, they will revert to the Trust General Reserve.
- 7.5 As the overall Trust reserves balance must take priority however, the Audit and Risk Committee may, at its discretion, require all or part of an academy's surplus to be added to the Trust General Reserves to compensate for a shortfall elsewhere.
- 7.6 Where the in-year surplus in excess of the academy's agreed reserves contribution is greater than 1% of the in-year allocated GAG funding, a proposal must be made to the Audit and Risk Committee if the academy wishes to keep these reserves and spend them on projects.

## **8 – Trust General Reserves Balance**

- 8.1 The long-term aim is for the Trust's general reserves balance (excluding pension reserve) to be maintained at a minimum level **equivalent to 3% of combined General Annual Grant for all academies** subject to 50% tolerance either way (so between 1.5% and 4.5% of GAG).
- 8.2 This is the percentage that Trustees regard as an appropriate level of reserves, given the current operating environment, and is in line with ESFA expectations. For the avoidance of doubt, the 3% of GAG target reserves does not include any carry forward of unspent capital funding.

	Trust GAG	Target Reserves 3%	Maximum Reserves 4.5%	Minimum Reserves 1.5%
Example	£10m	£300,000	£450,000	£150,000

- 8.3 Where there is a deficit against the required Trust general reserve balance a medium-term plan will be developed by the Trust in order to recover the required reserves balance.
- 8.4 With an annual budget being set at the level of 3% of GAG at academy level, it is expected that Trust General Reserves will grow over time.

## **9 – Trust General Reserve Strategic Plan**

- 9.1 The Trust will develop a long-term Strategic Plan, in consultation with the Principal of each academy, that sets out the desired use of the Trust General Reserve over time.
- 9.2 The Strategic Plan will show how, over time, the Trust General Reserve will be utilized in order to improve the educational opportunities offered within the Trust.
- 9.3 The Strategic Plan will follow the regulation and guidance from the ESFA for the proper use of reserves.

## **10 – Sinking Funds**

- 10.1 Sinking funds for specific regeneration projects, for example the replacement of an all-weather pitch, fall outside of the general reserves balance and should be agreed annually by the Audit and Risk Committee. Contributions to sinking funds should be derived from trading profits (e.g. rental of pitches) or the Audit & Risk Committee may at its discretion allocate funds from the general reserves balance.

## **11 – Joining Academies**

11.1 A surplus balance brought forward into the Trust by a joining school/academy shall be deployed as follows, in priority order:

11.1.1 To address urgent compliance and health & safety issues at the time of conversion, as well as other urgent requirements determined by due diligence, e.g. school improvement. Compliance and health & safety issues will normally be determined by a condition survey commissioned by the Trust.

11.1.2 90% of any remaining balance brought forward will be designated to the school/academy to be spent at its discretion and 10% will be added to Trust General Reserves. Any spend must be properly planned and follow regulation and guidance from the ESFA for the proper use of reserves.

## **12 – Academies in Deficit**

12.1 In exceptional circumstances, individual academies or Trust Central Services may propose a deficit in-year budget. Such a budget must be accompanied by a recovery plan approved by the Audit and Risk Committee, resulting in the deficit being 'repaid' within a timeframe deemed acceptable by the Committee.

12.2 Academies with a cumulative deficit shall continue to contribute all in-year surpluses to reserves until it has achieved a cumulative surplus position.

## **13 – Expenditure Against Reserve Balances**

13.1 Trustees may temporarily decide to increase the reserves balance over the 3% of GAG target, for example to fund a specific school improvement initiative that is not within the Reserves Strategic Plan. The Audit and Risk Committee must approve expenditure that subsequently draws on reserves in advance.

13.2 In exceptional cases, for example where expenditure is necessary to comply with a statutory requirement, reserves may be spent without prior approval (but subject to purchasing authority limits within the Finance Scheme of Delegation) but must be reported at the next Audit and Risk Committee meeting.

13.2 All other expenditure against reserve balance should be in line with the Reserves Strategic Plan.

## **14 – Non-charitable subsidiary companies**

(including Innovation and Leadership Teaching School Alliance)

14.1 The target in year profit for each non-charitable subsidiary company will be set on an annual basis during the budget setting process. The aim of profit generating enterprises is to generate an income stream to support the Objects of the Trust as a whole.

14.2 Any profit generated by non-charitable subsidiary company is to be remitted to Transforming Lives Educational Trust Limited by tax efficient means. At present this means via a Gift Aid donation.

14.3 Any non-charitable subsidiary with a cumulative deficit shall continue to contribute all in-year surpluses to reserves until it has achieved a cumulative surplus position.

## **15 - Monitoring**

15.1 It is the responsibility of the Board of Trustees, and those they delegate authority to, to ensure that the principles and procedures of this policy are adhered to. The use of this policy will be subject to routine monitoring by the Audit and Risk Committee including review of management accounts to ensure its fidelity in practice. The evidence gathered from monitoring at regular intervals shall inform any reviews and future revisions to the policy, and no later than that stated on Page 1 of this policy.