



## RESERVES POLICY

**Version No:** 1.0

**Date to be reviewed:** December 2021

**Policy status:** Approved

**Last updated:** December 2019

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### Introduction

The Board of Trustees needs to consider the level of reserves the Trust should hold. Levels of reserves which are too high without strategic purpose tie up funds which could be spent on improving current educational outcomes. Levels of reserves which are too low may put the future activities of the Trust at risk.

The Reserves Policy:

- Assists in strategic planning by considering how new projects or activities will be funded.
- Informs the budget process by considering whether reserves need to be used during the financial year or built up for future projects.
- Informs the budget and risk management process by identifying any uncertainty in future income streams.

### Types of reserves

#### Unrestricted Funds

Unrestricted funds represent those resources which may be used towards meeting any of the charitable objects of the Trust at the discretion of the Board.

#### Restricted General Funds

Restricted general funds comprise all other restricted funds received with restrictions imposed. These would predominantly be government funds but may include other funds.

#### Restricted Fixed Asset Reserves

On conversion the Trust inherited land, buildings and equipment from the local authority. The Trust also receives funding for the explicit purpose of purchasing items of a capital nature. As this income should not be used to fund fluctuations in revenue funding, it is held separately from other reserves.

#### Target reserves for the financial year

The level of reserve and this policy will be reviewed by the Board on an annual basis as part of the budget setting plan. To ensure strategic and operational risks and opportunities are mitigated/maximised, a minimum Trust reserves figure of between 0.70 - 1.0 of gross monthly payroll costs is considered optimal.

The cash balance must be managed to not fall below £300,000. If there is ever a need for the balance to fall below this level, two Trustees including the Chair of either the Finance Audit and Resources Committee or the Board of Trustees must be informed.

The financial risks identified determine the amount of reserves the Trust targets to hold. When considering an appropriate level of reserves, the Board consider:

- The risk of unforeseen emergency or other unexpected need for funds.
- Covering unforeseen day-to-day operational costs, for example employing temporary staff to cover a long-term sickness absence.
- A fall in a source of income.
- Planned commitments that cannot be met by future income alone, for example the three year capital expenditure plan.
- The need to ensure sufficient working capital to cover delays between spending and receipt of grants.
- Fluctuations in income caused by changes in student numbers or fluctuations caused by changes to the funding formula.

### **During the financial year**

In-year reports to the Board:

- Compare the amount of reserves held with the budget.
- Explain any shortfall or excess in reserves against budget.
- Explain any action being taken or planned to bring reserves into line with budget.