

RESERVES POLICY 2020-22

Potteries Educational Trust



Policy Family	Finance
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Responsible Manager	Chief Financial Officer
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Aim

The Potteries Educational Trust (PET) has established a Reserves Policy to protect its activities by providing a financial provision which mitigates for the unpredictable external environment and to make sufficient provision for future cash flow requirements and capital investment. 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 ranges 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.

Scope

This policy and associated Financial Regulations and Procedures apply to the Potteries Educational Trust, which includes a number of member and associate member organisations. Collectively, the member organisations within the trust are referred to as the Trust.

Policy

1. 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 in furtherance of any of the Trust's objectives.

If part of an unrestricted income fund is allocated 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 Directors' 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:

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

2. Restricted Reserves

Restricted Reserves (including Designated Reserves) may be restricted income funds, grants or donations that are spent at the discretion of the directors in furtherance of some particular aspect(s) of the objects of the 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 the Trust has met its commitments and other planned expenditure and is in accordance with the limitations outlined in the original funding allocation.

Restricted Reserves also are inclusive of capital items and are defined as Restricted Fixed Asset Reserves. This reserve is specifically held for capital purposes in furtherance of some particular aspect of the objectives of the Trust.

All Restricted Reserves will be generated through improved operational efficiencies and effective manpower planning and resourcing, in addition to a proactive programme to identify relevant sources of grant funding.

3. Designated Reserves

Designated Reserves are reserves that have been set aside at the discretion of the Directors in furtherance of any of the Trust's objectives. Where a designation has been identified, the purpose and timing of any expenditure must be explained.

The target range for any Designated Reserve will be determined by the nature of the designation itself; the reserves will be derived from unrestricted and restricted funds where applicable.

4. Conversion Balances

Any academy that joins the Trust may be holding a balance on conversion. This balance will be ring fenced at the discretion of the Local Governing Body of the individual institution. Balances will not be pooled unless agreed by all Directors and relevant institutions LGBs.

If an academy within the Trust has an emergency need for funding, the institutions leadership team and LGB may request for an amount to be borrowed. These funds would be required to come from another institution within the Trust to support. In this case, a clear business plan will be required from the institutions leadership team, with agreed repayment terms. Transfers of this nature will be considered and approved by the Trust Board in conjunction with the Chief Executive Officer and Chief Financial Officer.

5. Pension Reserve

The risks surrounding the Trust's pension liability have been taken into consideration when producing this policy. The presence of a pension surplus or deficit does not constitute an immediate liability or realisable asset and does not mean that the equivalent amount is already committed or no longer

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

6. Management of Reserves

Reserves held by The Potteries Educational Trust will be reviewed by Local Governing Bodies and the Board of Trustees on a regular basis and an appropriate range of options will be considered which may 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.

The movement of funds to and from the reserves identified (other than movements from restricted to unrestricted) above will be at the discretion of the Trust, or the appropriate sub-committee where delegated authority has been provided by the Board of Trustees, subject to the restrictions which will remain attached to Restricted Funds (Revenue and Capital) and their use.

The movement of funds from restricted to unrestricted must be subject to obtaining permission from the originator of the funds.

Trust reserves can be used to support academies that are facing the possibility of setting a deficit budget (which is prohibited for Academy Trust's as a whole) **only in the event that all of the following criteria are met:**

- that all possible cost saving interventions have been enacted by the academy;
- the financial risks associated with the Trust have been reviewed;
- that Trustees are satisfied that the Trust reserves are sufficient to withstand a reduction;
- all other means of removing the deficit have been exhausted.

7. Appropriate levels of Reserves

When considering an appropriate level of reserves, the trustees should 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 sick absence
- a fall in a source of income, such as lettings, or the ending of a funding source
- planned future commitments, that cannot be met by future anticipated income alone, for example plans for a major capital investment project
- the need to fund potential deficits in a cash budget, for example money may need to be spent before a funding grant is received

The financial risks identified determine the amount of reserves the academy trust targets to hold.

When deciding on the reserves amount trustees will take into account the following:

- A minimum of one month's salary bill - currently approximately £930,000
- within the Trust's annual budget - currently approximately £13,900,000; a contingency amount of between 1% = £139,000 and 3% = £417,000 should be built into the overall budget which should be held as contingency to support future requirement and any in year uncertainties.

- These contingency amounts should be built up proportionately across all academies within the trust where possible.
- the need to create budget surpluses to plan for any future large project investment such as facilities development or building condition improvement, not funded by other ESFA grants
- any uncertainty, turbulence or expected reduction in funding arrangements as a result of future planned changes or funding cuts

8. Annual financial statements

The Reserves Policy is disclosed in the Trust's annual financial statement report and will include the following information:

- why reserves are held
- what amount of reserves is considered appropriate for the academy trust at the point of setting the overall budget
- what the actual level of reserves are at the year end
- how the academy trust intends to achieve or maintain the desired level of reserves

9. Target range of reserves for the financial year

The level of reserves will be reviewed and set on an annual basis as part of the budget setting plan, taking the above points into consideration.

The current target level of reserves assessed and approved by trustees is set as a minimum of 7.5% of annual funding. This currently equates to £1,042,500.

Implementation

Implementation of this policy will be the responsibility of the Chief Financial Officer, who will act on behalf of the Trust in all matters relating to the management of reserves.

Communication

This policy will be circulated to appropriate staff across the trusts academies and is also available on the Potteries Educational Trust website.

Monitoring

The responsible manager named on the front of this policy is responsible for ensuring that this document is kept up to date and revised as appropriate, seeking management and/or trustee approval in advance of the review date so that a new version can be communicated to staff and stakeholders in a timely fashion.

The Charity commission recommends that charities develop their reserves policy and their financial plans at the same time, recognising that strategic and financial planning informs the development of reserves policies and vice versa. For example, budgets will identify peaks or troughs in cash flow and the reserves policy will need to ensure the troughs in funding can be met from reserves held.

The Reserves Policy will be regularly reviewed in light of the changing funding and financial climate and other emerging risks. The Trust publish their assessment of the risks they are facing as part of our trustees report and annual financial statements.

Associated Information and Guidance

The Policy will also be amended in line with governmental guidance 'Charity reserves: building resilience'.

See this link: <https://www.gov.uk/government/publications/charities-and-reservescc19/charities-and-reserves>