



'Committed to improving the life chances of all children, wherever they may be'

Reserves Policy

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1. Introduction and Background

- 1.1 Orchard Community Trust Board is responsible for the effective and efficient use of available resources in order to achieve our moral purpose of ensuring that all children and young people in our schools achieve their very best.

These responsibilities are outlined by the Charities Commission in their published guidance:

<https://www.gov.uk/government/publications/charities-and-reserves-cc19>

- 1.2 The Board is responsible for the allocation of resources to deliver the Trust's vision and mission: "we strive to create an inclusive environment that values diversity and equality, where all beliefs are respected. We are committed to providing our children with an exceptional education, inspiring them to cultivate a love of learning and empowering them with a strong foundation to thrive and accomplish their goals in life".

Within this context the Board delegates responsibility for the management of available finances and reserves to local school governing boards as outlined in the scheme of delegation, and within the constraints of budgets approved by the local governing board and the Trust Board.

- 1.3 School Governing Boards remain accountable to the Trust Board for the level of reserves at any particular time.

2. Principles and Purpose of this policy

2.1 The policy is based on the following principles:

- Transparency, fairness and clarity;
- Drawing on best practice and in line with regulations;
- Clearly linked to our vision, moral purpose and MAT and school strategic priorities;
- Use of funds is focused on improving quality of education and outcomes for all pupils and on supporting effective business operations;
- The available funds ensure that we continue to operate as a going concern.

2.2 Purpose of the Policy:

The Trust's reserves policy:

- Aims to facilitate the Trust's strategic priorities to ensure that all the learning needs of the diverse range of children and young people we serve are effectively met via high quality provision, great leadership and outward facing developments;
- Assists in strategic planning by considering how new projects or activities will be funded;
- Informs the budget process at both school and 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;
- Minimises financial risk across the Trust whilst ensuring that existing pupils are not disadvantaged through retention of excessive reserves.

3. Application of the Policy

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

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

4. A Balanced Budget

4.1 Schools 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 and the financial regulations (including the scheme of delegation).

5. Definition of Reserves

5.1 **Restricted Reserves:** funds received by the school either from its main ESFA funding grant, other grant contributions or donations that are received for a specific project or purpose. These funds are restricted for use according to the funding agreements or donors' instructions.

5.2 **Unrestricted Reserves:** these are derived from the school's activities for generating funds, for example hirings and donations which are expendable at the discretion of the Trustees to achieve the objectives of the school.

5.3 **Designated Funds:** these are unrestricted funds that have been allocated by the Trustees for a particular purpose.

6. Maintaining a minimum/maximum level of reserves

6.1 Individual schools are required to maintain, as a minimum, a reserve balance equal to a **10% threshold for special schools and an 8% threshold for primary schools** of their respective total annual income (excluding PFI funding where applicable).

6.2 Individual schools should not exceed a maximum reserve's balance equal to a **15% threshold for special schools and a 13% threshold for primary schools** of their respective total annual income (excluding PFI funding where applicable).

6.3 For the purpose of this policy, reserves are deemed to exclude restricted fixed assets funds, pension reserves (see note 10 below) and any other specifically designated funds (e.g. funds held for particular, board approved projects).

6.4 The minimum level of reserves is ultimately limited by the need to maintain a positive net assets position for the Trust.

6.5 The Trust will:

- Maintain the aggregate of individual school reserves, amounting to a minimum of **10% threshold for Special Schools and an 8% threshold for primary schools** of total annual income (excluding PFI funding where applicable);
- Maintain an additional central contingency of **£100,000** in order to fund any short-term resource needs;
- Review the opportunities and risks at a Trust level to assess the required level of resources needed to meet anticipated and unanticipated needs in the short and long-term; and
- Require a business case from schools which maintain a reserves level in excess of the maximum threshold limit, or below the minimum threshold (see 7.1 and 7.3 below).

7. Additional funds available to support individual schools

7.1 The Trust fully supports schools in achieving their strategic development plans. Where schools wish to earmark reserves for identified projects, taking reserve levels over their respective maximum % threshold, a business case or plan would be required detailing the nature of the project, the extent of reserves to be earmarked and the timeframes involved. Any business case or plan would require Trustee approval and be reviewed periodically.

7.2 If, following the above review process, schools are unable to execute plans for earmarked reserves, or bring unallocated reserves in line with this policy the Board may, after due consideration, reallocate excess reserves held in schools which are above the upper threshold target. Reserves would be moved centrally to support the Trust in delivering its vision and wider strategic priorities.

7.3 Schools are able to apply to the Trust to use additional resources which would reduce their reserves below the **8% or 10%** level stated above, subject to the following:

- The Trust is able to maintain the required minimum levels of reserves in aggregate across all schools, as outlined above;
- The school is able to provide a 3-year budget which shows a return to a minimum reserves level of 8% (Mainstream), 10% (Special) by the end of a 3-year period; and
- The Board, in its discretion, approves the use of additional funds based on a business case submitted by the school.

7.2 The policy is the responsibility of the Trust and decisions involving the use of reserves will be made in accordance with the governance documents of the Trust.

8. Schools joining the Trust

8.1 Schools joining the Trust (or upon conversion) will normally bring into the Trust accumulated reserves. When joining, the school will make a levy to central Trust reserves of up to £50k or a maximum of 25% of the school/schools unrestricted reserves, after specific designations at the point of conversion or transfer. In such cases future reserves should be maintained in accordance with this policy. This levy will contribute towards the legal and due diligence costs incurred in the successful conversion or transfer.

9. Monitoring and Reporting

9.1 Each year, the Trust will report in the financial statements:

- The level or range of reserves considered appropriate for the Trust;
- The level of reserves at year-end;
- How the Trust is going to achieve the desired level or range of reserves; and
- How often the reserves policy is reviewed.

10. Pensions Liabilities

10.1 The risks surrounding the Trust's pension liability should be taken into consideration. The presence of a pension's surplus or deficit will result in a cash flow effect for the Trust in the form of an increase or decrease in the Trust's future pension contributions over a number of years. The Board will assess the ability of Trust in aggregate (and by individual school) to meet the required pension contributions from projected future income without significantly impacting upon its planned level of activities or reserves.

10.2 The above relates only to the Local Government Pension Fund as Teachers' Pensions are underwritten by the Government.