



Reserves Policy

Policy Code:	F13
Policy Start Date:	July 2023
Policy Review Date:	September 2024

1. Purpose

- 1.1 As part of good governance, best practice and in compliance with the Academies Trust Handbook, the Trust has developed a framework for managing and maintaining its reserves. This will ensure that they are deployed in a meaningful time to benefit the pupils who are present in the Trust's schools during which time the reserves have accrued, while being balanced against effective stewardship of public funds.
- 1.2 The requirement for academies and multi-academy Trusts to set a reserves policy is developed from the Charity Commission guidance on reserves. Trusts must set a reserves policy and then report their reserves policy in the annual financial statements.

The Charity Commission reminds directors that:

- Charity law requires any income received by the Trust to be spent within a reasonable period of receipt.
- A good Reserves Policy considers the Trust's financial circumstances and other relevant factors.
- It is good practice to monitor the level of reserves throughout the year.

- 1.3 The Academies Accounts Direction develops these requirements applicable to academies.
- 1.4 The Trust Board are encouraged not to hold back funds and to ensure that today's pupils receive the benefits of the grants received. Holding back excessive funds for a rainy day may damage the education of the current pupils. Conversely, fully spending all current funds leaving no money for investment in the future of the academy can damage the education of tomorrow's pupils.
- 1.5 The directors have the responsibility to manage the assets of the Trust which is a single legal entity. Setting a reserves policy is a central part of managing the Trust's finances and safeguarding the Trust's assets in uncertain times. Directors must ensure that the Trust holds enough reserves to implement its future strategy. The level of reserves therefore depends on the level of funds required to implement the future strategy.
- 1.6 It is the purpose of this policy to ensure the stability of the Trust's organisational operations so that it has the ability to adjust quickly to changes in financial circumstances, such as large unbudgeted expenditure, cyclical maintenance and working capital.

2. Scope

- 2.1 This document is to be used as a basis for setting out some principles that the Trust is recommended to adopt and presents a detailed policy that is approved by the Trust Board.

3. Responsibilities

- 3.1 It is the responsibility of the Board of Trustees for the spending of the Trust's funds in that it is utilised for the purpose intended and there is probity in the use of public funds.

4. Principles and Policy Objectives

Community Inclusive Trust - Reserves Policy

- 4.1 This policy takes into account the following principles:
- 4.1.1 Reserves must have a specific purpose related to future spending or covering current and future risks;
 - 4.1.2 The size of the reserves should balance the benefit of current spending with the risks the reserves cover;
 - 4.1.3 The reserves should be transparent and maintain the link with the purposes for which the income was given;
 - 4.1.4 Reserves should ensure that sufficient resources are available so that unexpected events can be accommodated without causing issues within the current year, generating a deficit or cash flow concerns.
- 4.2 Whilst the DfE require reserves to be limited to a level where its use in the future is known, there is an overriding need to ensure that there is value for money.
- 4.3 The Trust's Reserve Policy is not regarded as a static policy as circumstances will change with time. Therefore, this policy will be reviewed at least annually as part of the Trust's schedule of review.
- 4.4 This policy takes into account the following objectives:
- 4.4.1 The Trust's approach to management of each of its reserves will be defined in order to meet the strategic aims and objectives.
 - 4.4.2 The process for management of reserves between each of the Trust's identifiable components will be defined.
 - 4.4.3 The process for in-year release of reserves will be defined.

5. Purposes and Setting of Reserves

- 5.1 Reserves are the representation of the cash balances available at the period end. In charity accounts (the format used for Academies) this cash is transferred into fund balances. These balances can be for "restricted" or "unrestricted" purposes depending on their source.
- 5.2 Community Inclusive Trust has four primary reserve categories for which their purpose is detailed below:
- 5.2.1 **Free Revenue Reserve** – these are unrestricted and may be used however the Trust sees fit as part of achieving its strategic objectives, while still complying with the Academies Trust Handbook and the furtherance of the Trust's charitable objects. If part of an unrestricted income fund is earmarked for a project, it may be 'designated' as a separate fund. However, 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.
 - 5.2.2 **Restricted Revenue Reserves** – these are reserves that are restricted in certain ways, whether they be relating to the Teaching Centre, Pupil Premium etc. While they may be used, the restrictions on the income initially received remain in place.

5.2.3 **Restricted Fixed Asset Reserve** – This represents the current carrying value of all fixed assets that have transferred to the Trust from the Local Authority as a result of School conversions, donated and granted fixed assets and any other fixed asset purchased from Free and Restricted Reserves.

5.2.4 **Restricted Pension Reserve** – This represents the Trust's share of the deficit on the Local Government Pension Scheme (LGPS) transferred to the schools on conversion from Local Authority control.

The following setting of reserves are considered appropriate for Community Inclusive Trust:

5.3 Free Revenue Reserves are to be maintained at a level that are at least 3% of the gross income of the schools within the Trust. The aim is to increase this to a maximum of 5%. However, this level will be reviewed annually by the Board.

6. Utilisation of Reserves

6.1 The Trust may not actively utilise the Restricted Fixed Asset Reserve or the Restricted Pension Reserve as these simply represent the carrying value of all fixed assets and the present value of the Local Government Pension Scheme obligation. The Restricted Fixed Asset Reserve will increase or decrease depending upon what fixed assets are purchased or received through conversion, donation or granting and what depreciation, amortisation or impairment is incurred.

6.2 The Restricted Pension Reserve will change depending upon the annual valuation of the obligation which is recognised at 31 August each year.

6.3 The Trust is able to actively utilise the Free Revenue Reserve and the Restricted Revenue Reserves, observing restrictions where appropriate, to achieve its strategic objectives. The utilisation of these reserves will fall broadly into three methods:

6.3.1 Non-recurrent capital expenditure (i.e. the purchase of new fixed assets outside of the existing capital programme);

6.3.2 Non-recurrent revenue expenditure (i.e. one-off projects); or

6.3.3 Recurrent revenue expenditure overspends (i.e. the Trust's annual expenditure exceeds its annual income).

6.4 The Trust aims to set its budget so that its annual revenue expenditure does not exceed its annual revenue income. Ideally this would be the case and the Trust will cumulatively increase the level of its Free Revenue and Restricted Revenue Reserves over time, for the purpose tactically deploying the reserves through the first two methods, in ways that support the achievement of the Trust's strategic objectives. However, in instances where setting a balanced budget would be detrimental to service provision outcomes, a deficit budget will be set drawing from revenue reserves, with notification provided to the ESFA as required.

6.5 Release of reserves may take place either as part of budget setting or via an in-year release.

6.6 Unspent income and/or grants not specifically identified for other purposes will be added to the Free Revenue Reserve. Any in-year deficits will be resourced from this fund as far as possible. If deficits result in the fund falling below the 3% threshold, resources will need to be set aside in the following years budget.

7. Release of Reserves: Budget Setting

- 7.1 As part of the budget setting process, specific projects or capital works may be identified that require the release of reserves due to their non-recurrent nature. Examples include capital works or high value educational improvement plans which are revenue in nature but will have a long-term effect.
- 7.2 Where a release of reserves is required, this will be included as part of the budget setting process for that school or the Trust itself. Authorisation for release of Trust Central Reserves will be through the normal budget sign off process; Headteacher/Head of School, Chief Finance Officer/Chief Executive and finally Board of Trustees. Since projects requiring the use of reserves as part of the budget setting process would be an inherent part of a School Development / Improvement Plan or Premises Plan, no Application for Use of Reserves form is required.

8. Release of Reserves: In-year

- 8.1 In-year utilisation of reserves is controlled through a two stage application process.
- 8.2 An Initial Application for Use of Reserves (see Appendix 1) is completed and submitted to the CFO and CEO for approval at a plan level.
- 8.3 If this is approved, a Final Application for Use of Reserves (see Appendix 2) is completed and submitted to the Finance, Audit and Estates Committee for approval which, at this point, will include a detailed costing, timeline and risk assessment to support the plan.
- 8.4 Upon authorisation the appropriate level of Reserves will be released from the Trust's Central Reserves into the budget of the school to be expensed solely against the application project costs. This will be monitored as part of normal budget monitoring with any eventual underspend returned back to the relevant reserve. For capital projects this will result in a transfer between funds from revenue to capital.

9. Strategic Management of Reserves

- 9.1 The Trust's model for funding central services is at cost, with central services breaking even and therefore not generating any central reserves themselves. Central services is funded each year through the central apportionment model.
- 9.2 To ensure that the Trust has central reserves available to respond to unforeseen costs across the Trust, support asset replenishment and projects, a minimum balance of 3% of overall Trust income will be held centrally within a Trust central pooled reserve for tactical deployment. Each year at budget setting, the Trust will decide what level needs to be added to the schools' central apportionment charge to maintain and/or grow the levels of the Trust central reserve. The Trust will proactively seek to deploy these reserves to support individual school projects and the furtherance of the Trust's strategic objectives in line with this policy.
- 9.3 Any surplus revenue reserves balances held in Free revenue reserves at the inception of this policy will be kept as pooled Trust central reserves and utilised for strategic purposes by the Trust Board.
- 9.4 At the inception of this policy, all Schools Reserves start at zero. The Teaching Centre Reserves will be held separately from the inception of the policy, and not be held in the Trust central pooled reserve.

Community Inclusive Trust - Reserves Policy

- 9.5 Where a school creates an in-year revenue surplus balance at 31 August, where the school have paid the full allocation of their central apportionment, their surplus will be held in the Schools Reserve which may be applied for through the application for use of reserves form in-year. These will be included as Free revenue reserves, but earmarked for the specific school, and held centrally by the Trust for use for the aforementioned reasons for that specific school. Where a school had not paid the full allocation of their central apportionment, this will be paid out of any surplus balance achieved by the school in the first instance prior to any Schools reserve balances being held.
- 9.6 Where a school creates an in-year deficit balance at 31 August, where the school have paid the full allocation of their central apportionment, their deficit will be held in a Schools Reserve whereby the expectation will be for a plan to be produced to bring the School Reserve back into a balanced position in the following academic year, and where future surplus revenue reserves are available, these will firstly be allocated to the Trust pooled central reserves before any school central reserves are held.
- 9.7 In exceptional circumstances, the Board of Trustees may decide to exclude an individual school from this mechanism for managing reserves, and they also reserve the right to change any of the procedures within this Reserves policy at any time, should the overall level of free revenue reserves drop below 3%. If this is put in place, all school leaders will be notified as soon as this is actioned, as and when required.

Appendix 1: Initial Application for Release of Reserves

Initial Application for Use of Reserves				
School Name:				
Applicant Name:				
1. Application Objective (delete as required):	Increase School capacity	Recurrently increase income	Recurrently reduce expenditure	Improve educational outcomes
2. Title and brief outline of the application:				
3. Aim of the application:				
4. Circumstances that make this a priority for receiving support:				
5. Intended outcomes and impact: (Clear, concise and evidence based)				
6. How does this application link into your SIDP priorities:				
Summary Financial Information – to be completed with Finance				
7. Capital/Revenue/Combination:				
8. Future Cost Implications:				
9. Reserve to be utilised:				
Application Assessment				
Reviewed by:..... CEO and CFO				
Date reviewed:				
Authorised: Yes / No				

Appendix 2: Final Application for Release of Reserves

Final Application for Use of Reserves				
School Name:				
Applicant Name:				
1. Application Objective (delete as required):	Increase School capacity	Recurrently increase income	Recurrently reduce expenditure	Improve educational outcomes
2. Title and brief outline of the application:				
3. Timeline and delivery:				
4. Identified Risks and Mitigation:				
5. Detailed Costing (ex VAT)	Item Description	Non-recurrent Capital (£s)	Non-recurrent Revenue (£s)	Recurrent Revenue (£s)
		Total	£	£

Application Authorisation & Reserve to be Utilised		
Reserves available	Proposed	Authorised
School Revenue Reserve		
Trust Central Reserve		
Teaching Centre Reserve		

Community Inclusive Trust - **Reserves Policy**

Reviewed by: On behalf of the FAE Committee

Date reviewed:

Authorised: **Yes / No**

10. Charities and Education and Skills Funding Agency Accounting Requirements

- 10.1 The Trust is required to report in its accounts the level of reserves held split between the funds noted above. For the purposes of clarification regarding the different types of reserves above, the free revenue reserve and the capital reserve referred to in this policy are both unrestricted funds. The Trust has discretion to move resources from unrestricted to restricted funds but not in the other direction and can also transfer from restricted free revenue funds to restricted capital funds.

11. Academies Trust Handbook

- 11.1 Any employee as part of their roles and responsibilities that are referring to this document must also have an understanding and knowledge of the Academies Trust Handbook. If the Academies Trust Handbook differs from these procedures, please bring it to the attention of the Central Finance Team. The link to the Academies Trust Handbook is below:

https://assets.publishing.service.gov.uk/media/61018f99e90e0703b58e8c79/Academy_trust_handbook_2021.pdf

12. References

- 12.1 CIT Finance Policy 2021/22.
12.2 CIT Financial Operating Procedures Handbook 2021/22.

13. External References

- 13.1 Academies Trust Handbook 2021.

14. Amendments to the Document

September 2020 – hyperlinks and references updated to 2020.

October 2021 – updated Reserves Policy to reduce the level of minimum revenue reserves held to 3% to be in line with ESFA guidance. Changed the length of time the Board wishes to take to increase reserves level to 5% in line with the existing Strategic Plan. Updated for hyperlinks and references updated to 2021.

June 2022 – complete re-write of policy to combine other reserves policies that hadn't been completed, and to bring policy up to date in line with sector practices.

July 2023 – amended to reduce level held in Trust central pooled reserve from 3.5% to 3% to be in line with ESFA reserves held by a Trust.