

# Hartismere Family of Schools



## Reserves Policy

## Background

The Department for Education (DfE) understand that Trustees are best placed to assess trusts' individual circumstances and ensure that reserves are used in ways that deliver best outcomes for pupils. The level of reserves held by Hartismere Family of Schools is informed by the trust's estates strategy, its development and growth strategy and its risk management processes.

This policy has been written in accordance with:

DfE Guidance on Academy Reserves

<https://www.gov.uk/government/collections/academy-trust-financial-management-good-practice-guides#:~:text=Around%2090%25%20of%20trusts%20hold,trusts%20or%20trusts%20without%20significant>

Academy Trust Handbook

<https://www.gov.uk/guidance/academy-trust-handbook>

Charity Commission's guidance on reserves

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

## Reserves

The Charities Statement of Recommended Practice (SORP) defines reserves as “that part of a charity's unrestricted income fund that is freely available to spend on any of the charity's purposes. These are often referred to as ‘free reserves’”.

In the context of an academy trust, reserves can mean the balance of unspent, unrestricted funds (to the extent that they have not been used for the acquisition of fixed assets), plus the balance of unspent general annual grant (“GAG”). Although GAG is a restricted fund, *unspent* GAG can usually be considered for reserves as it can be used to help fulfil the trust's main objective: delivering education.

Key funding streams:

Funding stream	Description
Restricted fixed asset fund	This represents the total amount carried forward from restricted funding received for fixed assets in use on an ongoing basis (as the carrying or net book value which includes any depreciation). It will predominately be derived from government funds but may include other funds from a sponsor, a local authority or other donations, as well as any unspent capital funds.

Funding stream	Description
Restricted general fund	The amount included in this fund represents the total amount carried forward from funding received for specific purposes (excluding fixed assets). It would predominantly be government funds (for example, general annual grant) but may include other funds from sponsors/other donors.
Unrestricted general fund	This includes any amounts not included in the above funds and which are available for general use at the discretion of the trustees to further the charity's purpose.

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## Purpose

Under the Academy Trust Handbook, trusts are expected to hold reserves to mitigate future financial risks and to fund specific future projects. The ability to direct funds to areas of need and priority helps trusts to set their strategic direction and meet their vision. This reserves policy is fundamental to the transparency of decision making and reporting and reassures trust stakeholders that funds are being allocated in a way which is mindful of the best interests of our children.

This policy is designed to:

- Assist with strategic planning by considering how new projects or activities will be funded;
- Inform budget setting at Trust Board level by considering whether reserves will be allocated to specific projects this financial year or carried forward to the next financial year;
- Enable investment decisions to be made at Trust Board level; and
- Inform budget and risk management by identifying any uncertainty in future income streams.

## What might reserves be used for?

### Cashflow

Trusts can be susceptible to fluctuations in income, which can be influenced by pupil numbers, government funding decisions and initiatives and lagged funding arrangements, for example. Trusts are also susceptible to the rising costs of the economy, such as increased interest rates, increased energy rates and increases in the costs of goods and services. Reserves can ensure expenses are paid for as they fall due. However, reserves cannot be used to pay ongoing costs, such as staffing costs.

<sup>1</sup> Academy trust reserves <https://www.gov.uk/government/publications/academy-trust-financial-management-good-practice-guides/academy-trust-reserves#:~:text=Around%2090%25%20of%20trusts%20hold,trusts%20or%20trusts%20without%20significant>

### Estates management and capital projects

Good estates management is crucial to the trust fulfilling its objectives. Reserves may help support the cyclical maintenance and renewal of school buildings and infrastructure, as well as unforeseen contingencies.

The trust will submit bids to the Condition Improvement Fund (CIF) or other streams of grant funding, in order to keep school buildings safe and in good working order. These funding sources are fully spent and cannot be considered for reserves. However, capital projects which may be significant in size may also be restricted by payment schedules which do not align with contractor payment schedules. Reserves can ensure sufficient cash available to pay expenses as they fall due.

Reserves may also be allocated to capital projects which have not been supported with grant funding, allowing for rapid improvements to school buildings and services, including expanding schools' physical footprints.

### Development and growth

Reserves can support improvements to the estates of new schools joining the trust. Reserves can also be used to make improvements to the infrastructure of existing and new schools in the Trust. This extends to staff training and continuous professional development, as well as investing in trust central services, to support schools with specialist services such as finance, estates management, HR and compliance.

### Investments

Academy trusts are permitted to invest their reserves. In making the decision to invest, Trustees are informed by:

- The minimum level of reserves needed to meet the criteria below
- Liquidity of investment (how quickly the funds might be accessed if needed)
- Acceptable level of investment risk

Investment decisions are made at Trust Board level.

### **Minimum trust reserves**

The Academies Accounts Direction (paragraph 6.2.7) requires academy trust financial statements to be prepared on a 'going concern' basis. Although trusts have long-term funding agreements with the Secretary of State, accounts are prepared with future risks and uncertainties in mind. The trust maintains a Risk Register, which is reviewed by Trustees on a termly basis.

The level of reserves identified by the trustees as being appropriate are informed by the following:

- One month staff salary bill
- The Trust's annual budget
- The need for any large project spend such as facilities development or building condition needs
- Any uncertainty, turbulence or expected reduction in funding arrangements
- Any uncertainty, turbulence or anticipated cost increases in the wider economy
- Anticipated pupil numbers over the next three years

- Anticipated funding over the next three years.

### **Monitoring and reporting**

All charities must include in their annual report, their policy on reserves, stating the level of reserves held and why they are held. For academy trusts, the annual report must also include:

- Where funds are restricted and not available for the general purpose of the trust
- Any amount designated and the reason why
- Any amount that can only be realised by disposing of a tangible fixed asset
- The amount of reserves held after making these allowances, what plans are in place for the future use of these reserves, and a likely expenditure date
- How the amount of reserves held compares to the trust's reserves policy and explains any steps being taken to bring the level of reserves held into line with that set out in the policy

This policy is reviewed by the Board of Trustees on an annual basis.