



East Midlands  
Education Trust

# RESERVES POLICY

September 2022

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Document No:	POL-FIN-006	<i>The information contained on this document is considered proprietary to East Midlands Education Trust in that these items and processes were developed at private expense. This information shall not be released, disclosed, or duplicated.</i>	

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## 1. Introduction and background

- 1.1 The East Midlands Education Trust (EMET) Board of Trustees is responsible for the effective and efficient use of available resources. These responsibilities are outlined by the Charities Commission in their published guidance: <https://www.gov.uk/government/publications/charities-and-reserves-cc19> and in Section 2.8 of the Academy Trust Handbook
- 1.2 The Trustees are ultimately responsible for the allocation of resources to deliver the vision and strategic plan of the Trust.
- 1.3 Within this context the Trustees delegate responsibility for the management of available finances and reserves to local academy governing bodies as outlined in the scheme of delegation and within the constraints of budgets approved by the governing body and the EMET Board.
- 1.4 Local governing bodies are accountable to the Trustees for the level of reserves at any particular time.

## 2. Purpose of this policy

### 2.1. The Trust's reserves policy:

- 2.1.1 assists in strategic planning by considering how new projects or activities will be funded;
- 2.1.2 informs the budget process at both a school and a Trust level by considering whether reserves need to be used during the financial year or built up for future projects;
- 2.1.3 enables investment decisions to be made at a Trust level, where necessary utilising reserves across the Trust;
- 2.1.4 informs the budget and risk management process by identifying any uncertainty in future income streams; and
- 2.1.5 provides for unexpected cash flow shortages, expenses, or losses. These might be caused by but not limited to, delayed payments, unexpected building repairs, or economic conditions.

## 3. Application of the policy

### 3.1. When considering an appropriate level of reserves, the Trustees consider:

- 3.1.1 the risk of unforeseen emergency or other unexpected need for funds;
- 3.1.2 a fall or rise in sources of income;
- 3.1.3 planned commitments, or designations, that cannot be met by future income alone, for example plans for a major capital project;

- 3.1.4 the need to fund potential deficits in a cash budget, for example money may need to be spent before funding is received; and
- 3.1.5 the full range of financial risks identified.

#### 4. A balanced budget

- 4.1. Academies 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.
- 4.2. It is not the Trust's primary intention to fund deficit budgets through its reserves however accepts there may be circumstances where this is necessary in the short term.

#### 5. Types of reserves

- 5.1. For the purpose of this policy, the reserves referred to comprise of Operating Reserves.
- 5.2. The other types of reserves are Pension Reserves and the Fixed Asset Fund. The Trust does not hold any Endowment Funds.
- 5.3. Operating Reserves will comprise of both Restricted and Unrestricted Funds.
  - 5.3.1 Unrestricted reserves are derived from income funds, grants or donations that can be spent at the discretion of Trustees in furtherance of any of the Trust's objectives. If part of an unrestricted income fund is earmarked for a particular project it may be 'designated' as a separate fund. However, the designation has an administrative purpose only and does not place restrictions on how the fund is eventually spent. Unrestricted reserves will be generally achieved through operating efficiencies and trading activities.
  - 5.3.2 Restricted reserves are mainly derived from government grant funding through the ESFA but may also include other grants or donations provided for a specific purpose. Restricted reserves must be used in accordance with the limitations outlined in the original funding (in the case of ESFA funding, this is as detailed in the Trust's funding agreement).
- 5.4. The Fixed Asset fund is specifically held for capital purposes in furtherance of some particular aspect of the objectives of the Trust. This does not form part of the Operating Reserves of the trust.
- 5.5. The Pension Reserves is the deficit on the Local Government Pension Scheme. 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 period of years. The Trust should assess the ability to meet the required pension

contributions from projected future income without significantly impacting upon its planned level of activities.

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

## 6. Maintaining a minimum level of reserves

- 6.1. Individual academies must maintain as a minimum a reserves balance equal to 5% of total annual General Annual Grant (GAG) funding (excluding PFI funding where applicable).
- 6.2. The minimum level of reserves is ultimately limited by the need to maintain a positive net assets position for the Trust.
- 6.3. The Trust will:
  - 6.3.1 maintain the aggregate of individual academy reserves, amounting to a minimum of 5% of all annual GAG income;
  - 6.3.2 maintain an additional central contingency of £100,000 in order to fund any short term resource needs;
  - 6.3.3 review the opportunities and risks at a Trust level in order to assess the required level of resources needed to meet anticipated and unanticipated needs in the short and long term; and
  - 6.3.4 require a business case from academies which maintain a reserves level in excess of 10% of all annual GAG income for a period of 24 months or more, to set out how they intend to use these excess reserves to further the vision and objectives of the Trust
- 6.4. If an academy does not hold the 5% reserves level, the local governing body will be expected to produce a plan to build up these reserves over a period of 3 years.

## 7. Additional funds available to support individual academies

- 7.1. Academies are able to apply to the Trust to use additional resources which would reduce their reserves below the 5% level stated above, subject to:
  - 7.1.1 The Trust is able to maintain the required minimum levels of reserves in aggregate across all schools, as outlined above;
  - 7.1.2 The academy is able to provide a 3 years' budget which shows a return to a minimum reserves level of 5% by the end of a 3 year period;
  - 7.1.3 The Trust Board, in its discretion, approves the use of additional funds on the basis of a business case submitted by the academy; and
  - 7.1.4 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. Academies joining the Trust

- 8.1. Academies joining the Trust (or upon conversion) will normally bring in accumulated reserves.
- 8.2. If an academy does not hold the 5% reserves level, the local governing body will be expected to produce a plan to build up these reserves over a period of 3 years.
- 8.3. If an academy holds above the 10% reserves level, the Trustees will require a business case from the academy as detailed in section 6.4.

## 9. Monitoring and reporting

- 9.1. Each year, the Trust will report in the financial statements:
  - 9.1.1 The level or range of reserves considered appropriate for the Trust;
  - 9.1.2 The level of reserves at year-end;
  - 9.1.3 How the Trust is going to achieve the desired level or range of reserves; and
  - 9.1.4 How often the reserves policy is reviewed.