



PENNINE TRUST

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RESERVES POLICY

Document Control

This document has been approved for operation within	All Trust Establishments
Date Effective from	October 2020
Date of next review	September 2022
Review period	Annually
Status	Statutory
Owner	The Pennine Trust
Version	1.4

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1 Introduction and background

- 1.1 The requirement for academies and multi-academy Trusts to set a Reserves Policy is defined by the Charity Commission guidance on reserves. This is further developed in the Academies Accounts Direction which outlines the accounting and reporting requirements.
- 1.2 This policy is relevant at Trust level and to all Academies in The Pennine Trust, currently:
 - Blacko Primary School
 - Colne Park High School
 - Laneshaw Bridge Primary School
 - Lord Street Primary School
- 1.3 The Pennine Trust Board 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>
- 1.4 The Trust Board is encouraged not to hold back funds and to ensure that today's pupils receive the benefits of grants received. However, the Trustees must also ensure that the Trust holds enough reserves to implement its future strategy and to provide a financial buffer for any unforeseen circumstances that impact on cashflow.

2 Purpose of this policy

- 2.1 The purpose of the Trust's reserves policy is to ensure the financial stability of the Trust and each Academy's operations, to protect its activities against unforeseen financial risks and to make sufficient provision for future cash flow requirements and capital investment.
- 2.2 The policy explains to external stakeholders why the Trust is holding reserves and provides assurance that its finances are actively managed and its activities are sustainable.
- 2.3 The policy is also important to the internal financial management of the Trust whereby it:
 - assists in strategic planning by considering how new projects or activities will be funded;
 - 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;
 - enables investment decisions to be made at a Trust level, where necessary utilising reserves across the Trust; and
 - informs the budget and risk management process by identifying any uncertainty in future income streams.

3 Definition of Reserves

3.1 The Trust's accounting reserves/funds represent the accumulation of surpluses generated by the Trust, including the transfer of assets and liabilities at conversion. They are analysed in the annual statutory accounts between restricted, designated and unrestricted funds.

3.2 The types of funds are explained in the Academies Accounts Direction as follows:

- **Restricted fixed asset fund** – *this represents the cumulative amount carried forward in respect of restricted funding received for fixed assets required to be used on an ongoing basis. It will predominately be government funds received but may include other funds from a sponsor or other donations. This fund can represent unexpended cash received for capital purposes or the carrying value of a funded fixed asset.*
- **Restricted general fund** – *the amount included in this fund represents the cumulative amount carried forward in respect of funding received for the specific purpose of the academy trust's running costs excluding fixed assets. It would predominantly be government funds but may include other funds from sponsors/other donors.*
- **Pension reserve** – *this reserve will relate to restricted funds, on the basis that the income funding the activity is restricted. When there is a surplus or a deficit on a defined benefit pension scheme that results in an asset or a liability being recognised, the recognition of the pension asset or liability will result in the creation of a pension reserve. This reserve will be negative in the case of a liability.*
- **Unrestricted fund** – *include in this fund 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*

3.3 In the Trust's balance sheet the Restricted fixed asset fund and the Pension reserve are identified separately and the other net assets therefore represent the Restricted general fund and the Unrestricted fund combined. The reserves policy is relevant to the management of these funds and effectively governs how much cash the Trust should hold, taking account of any restrictions placed on grant funds, and funds agreed for designated purposes as well as movements in other working capital balances (debtors and creditors) that will affect cashflow.

3.4 The Trust is largely funded from grants from the Education and Skills Funding Agency, the use of which is regulated by its Funding Agreement. The major source of such funding is the General Annual Grant (GAG) which is restricted only because it is given by the government for educational provision. In practice it can therefore be managed by the Trustees alongside Unrestricted funds.

4 Reserve Levels

4.1 Each Academy within the Pennine Trust holds a separate bank account. The reserves policy will therefore be applied at both Academy and Trust level.

4.2 For the purpose of this policy, as explained in section 3 above, reserves are deemed to exclude restricted fixed assets funds, pension reserves (see note 9 below) and any other specifically designated funds (e.g. funds held for particular board approved projects).

4.3 Academy Level

- Each Academy will aim to maintain, mid to long term, as a minimum, a reserves balance equal to 8% of their total GAG income which will also cover approximately one month's payroll.
- Academy reserve balances will not exceed 16% of their total GAG income. Any excess above this level will be transferred to the Central Trust reserve at year end unless the Trustees approve a business case presented by the Academy to retain the funds for a specific/designated purpose.

4.4 Trust Level

- The Trust will maintain a total reserves balance of between 8% and 16% of the Trust's total GAG income.

5 Application of the Policy and Use of Reserves

5.1 The Trust Board is ultimately responsible for the allocation of resources to deliver the vision of the Trust. Within this context the Trust Board delegates responsibility for the management of available finances and reserves to the Trust Resource Committee as outlined in the scheme of delegation and terms of reference and within the constraints of budgets approved by the Trust Resources Committee.

5.2 The Trust Resources Committee are accountable to The Pennine Trust Board for monitoring the level of reserves in line with this policy and for recommending any future changes to it to the Trust Board.

5.3 Academies within the Trust are expected to set and maintain a balanced budget where costs are met from income in a given year.

5.4 In approving the annual budget the Resource Committee will review the level of reserves held in each academy and at Trust level. They will identify the need for access to reserve funds and confirm that the use is consistent with the purpose of the reserve as described in this policy. This step requires analysis of the reason for any shortfall, the availability of any other sources of

funds before using reserves and evaluation of the time period that the funds will be required and replenished.

5.5 A record will be kept of all excess reserves held centrally by the Trust from each academy. This information will be used on reviewing any future requests from academies to access central reserves.

6 Monitoring and Reporting

- 6.1 The Resource Committee will regularly monitor reserves levels and ensure that reserves are maintained and are used only as described in this policy.
- 6.2 Where reserves held are in excess of the policy level the Resource Committee will consider how the excess reserves will be utilised to further the Trust's objectives.
- 6.3 If an academy's reserve level falls below the policy level the academy must provide a written explanation to the Resource Committee together with a plan showing how they will recover reserves back to the minimum policy level.
- 6.4 The annual Trustees' Report must explain the Trust's reserves policy, in particular stating the reasons for holding reserves, the amount of reserves held, and where relevant, an explanation of any steps being taken to bring the level of reserves held into line with the level set out in the policy.
- 6.5 Recognising that the environment in which the Trust operates will change over time, the reserves policy should not be regarded as a static policy. It will be reviewed annually by the Resource Committee alongside the Trust's strategic planning and operational budgeting processes which will identify changes in the funding and financial climate and any other emerging risks which may affect cash flow.

7 Treasury and Cash Management

- 7.1 All cash reserves must be recorded in the Trust's accounting system and all accounts must be reconciled on a monthly basis in accordance with the Trust's Finance Manual.
- 7.2 Each Academy holds a separate bank account and a central bank account is held at Trust level.
- 7.3 The Trust's reserves will be held as cash and excess balances deposited in interest bearing accounts.
- 7.4 A monthly Cash forecast will be prepared by the Trust's Finance Manager for review by the Resource Committee.

8 Academies joining the Trust

- 8.1 Academies joining the Trust (or upon conversion) will normally bring in accumulated reserves. Where these are higher than in accordance with this policy, a plan for the use of reserves will be agreed with the academy including a period of transition of up to 2 years from conversion. Thereafter, reserves should be held in accordance with this policy.
- 8.2 Academies joining the Trust with negative reserves or in-year budget deficits must demonstrate a plan for achieving compliance with this policy.

9 Pension Liability

- 9.1 The risks surrounding the Trust's pension liability have be taken into consideration when identifying the target reserve ranges. The presence of a pension surplus or deficit does not constitute an immediate liability or realisable asset. It generally results in an increase or decrease in cash flow over a period of years which is managed via the annual budgeting process.
- 9.2 The Trust's pension liability relates only to the Local Government Pension Scheme (LGPS) pension scheme as the Teachers' Pension Scheme (TPS) liability is held by the government.