



# Education Trust

‘Inspiring the individuals of today, for a better society tomorrow,

“Aspire, Belong, Collaborate”

## RESERVES POLICY

Review Frequency	Annual
Reviewed	May 2025
Next Review	May 2026
Agreed by Trustees	23 <sup>rd</sup> May 2025



## Principle

The Trustees will review the actual reserve levels of the Trust annually and the forecast figure at termly Committee Meetings. This review encompasses the nature of income and expenditure streams, the need to match income with commitments and the nature of reserves. The Trustees take into consideration the future plans of the Trust, the uncertainty over future income streams and other key risks identified during the risk review

## Introduction

This policy establishes a framework within which decisions will be made regarding the level of reserves held by the Trust and the purposes for which they will be used and maintained. There are a number of constraints placed upon academies in terms of financial management. One of these constraints is the inability to borrow funds without seeking the approval of the Secretary of State. This constraint represents a key risk to Riviera Education Trust in relation to financial planning and monitoring.

Setting a reserves policy helps inform the way in which the academy manages its reserves, cash, liquid assets and debt.

## Definitions

Reserves are funds held by the Trust to meet future expenditure. There are two principal types of reserves:

- (a) Uncommitted reserves which are kept to meet short term, unforeseeable expenditure and to enable significant changes in resources or expenditure to be properly managed over the period of the Trust Three Year Plan.
- (b) Committed reserves which are held for specific purposes.

Details of all reserves and year-end balances are contained in the Trust Annual Statement of Accounts.

The Trust also monitors the cashflow on a daily basis to ensure there is sufficient working cash balances to meet both short and recurring expenditure (i.e. salaries, payments etc.)

## UNRESTRICTED RESERVES



Unrestricted Reserves (including Designated/Committed Reserves) are derived from income funds, grants or donations that can be spent at the discretion of the CEO in furtherance of any of RET's objectives.

If part of an unrestricted income fund is earmarked for a particular project it may be designated as a separate fund, but the designation has an administrative purpose only, and does not legally restrict the CEO's discretion to spend the fund. Unrestricted Reserves will be achieved through operational efficiencies and any trading activities undertaken by RET.

Unrestricted Reserves are generally defined as funds held after excluding:

Endowment funds (permanent & expendable); Restricted funds; and Funds that can only be generated on the sale of fixed assets used for charitable purposes.

The Trust will maintain an adequate level of unrestricted reserves to:

- Provide a working balance to cushion the impact of uneven cashflows and avoid unnecessary short term borrowing
- Provide a contingency to cushion the impact of unexpected events, emergencies and large shortfalls in budgets.

The Trust will not maintain levels of uncommitted reserves that are excessive compared with total income levels. In this context, "excessive" will be assessed and reviewed annually by the Trustees.

### **DESIGNATED/COMMITTED RESERVES**

Designated Reserves are reserves that have been set aside at the discretion of the Trustees in furtherance of any of the MAT's objectives. Where a designation has been identified, the purpose and timing of any expenditure must be explained. These could be whole Trust initiatives or school specific investment/improvements as identified in the Trust Plan. These could also result in restructuring costs.

The target range for any Designated Reserve will be determined by the nature of the designation itself; the reserves will be derived from unrestricted and restricted funds where applicable. These are reviewed annually and subject to approval by the Trustees.

These reserves should have no specific limit set on them but they should be reasonable for the purpose held and it must be agreed that they are used for the item for which they have been set aside and transferred to the uncommitted reserve if it is found they are not required. In order to establish that they are fit for purpose, there will be a review of balances at least annually.



## **RESTRICTED RESERVES**

Restricted Reserves may be restricted income funds, grants or donations that are to be for specific projects or purposes. The restricted reserves are by their very nature explicitly allocated to the Trust and no target reserve for this area excluding the impact of the Pension Deficit/Surplus.

Restricted Reserves also are inclusive of capital items and are defined as Restricted Fixed Asset Reserves. This reserve is specifically held for capital purposes in furtherance of some particular aspect of the objectives of the RET.

## **PENSION RESERVE**

The risks surrounding RET's pension liability have been taken into consideration when calculating the target ranges. The presence of a pension surplus or deficit does not constitute an immediate liability or realisable asset and does not mean that the equivalent amount is already committed or no longer available to RET.

The presence of a pension surplus or deficit will generally result in a cash flow effect for RET in the form of an increase or decrease in employers' pension contributions over a period of years. RET is confident that it can meet the required pension contributions from projected future income without significantly impacting upon its planned level of activities.

RET continues to calculate its reserves without setting aside a Designated Reserve to cover the pension liability.

## **TARGETTED LEVEL OF RESERVES**

The Finance, Audit and Risk Committee have agreed to set a target of 5% contingency of GAG funding. The reserves have been pooled where possible and are centrally managed, details of which can be found in the Trust's Pooling Policy.

The main financial risk to the Trust is that of managing its short-term cash flow effectively. One of the ways in which the Trust mitigates this risk is through the effective management of reserves, which provide alternative temporary funding streams should there be a delay in grant receipts or a sudden unforeseen increase in expenditure.

The adequacy of the uncommitted reserves balance will be determined by assessing the financial risks associated with meeting continuing obligations to provide services. The risk assessment will be reviewed annually.



Factors which should be taken into account in determining the overall level of reserves and balances are:

- Assumptions regarding inflation;
- Estimates of the level and timing of capital receipts;
- Treatment of demand-led pressures;
- Treatment of savings;
- The Trust track record in budget management and historic end of years position;
- The Trust capacity to manage in year budget pressures;
- The Trust virements and year-end procedures in relation to under and over-spends;
- The adequacy of insurance arrangements.
- An assessment of external risks
- Impact of major unforeseen events; and
- Likely level of Government support following major unforeseen events.

Trustees may choose to set an in-year budget deficit that would decrease reserves below the target level of reserves set out in the policy. In doing so, Trustees will consider the factors which have impacted this, and that the level of reserves budgeted still provide an adequate reserve balance when assessing the financial risks.

If the trust is working below the level of agreed reserves target the trustees will be notified and will need to be approved together with a detailed action plan of how the trust will return to the required level of reserves within a set time frame.

### **MANAGEMENT OF RESERVES**

Reserves held in excess of the target percentage will be reviewed by the Trustees, CEO and CFO on a regular basis and an appropriate range of options will be considered which might include:

- releasing the funds into the revenue income budget for the forthcoming academic year (in furtherance of Trust's objectives);
- assigning funds to appropriate designated reserves as may be determined by the Trust; or
- investing the funds to generate further income to allow expansion of the Trust's work, following the Trust investment policy.

The movement of funds to and from the reserves identified (other than movements from restricted to unrestricted) above will be at the discretion of the Trustees (via the Finance, Audit and Risk Committee), subject to the restrictions which will remain attached to Restricted Funds (Revenue and Capital) and their use. The movement of funds from restricted to unrestricted must be subject to obtaining appropriate consent from the original donor of the funds.



During the budget planning cycle, a prudent approach will be applied to add to the Trust reserve fund. Trusts should hold reserves sufficient to meet the unexpected and the general rule will be set out in this Reserves policy.

### CASHFLOW/RESERVE

The cash balances must be regularly reviewed in line with the Trust Investment policy with a view to maximising the benefit of investing surplus funds.

### LOCAL GOVERNMENT PENSION SCHEME

In accounting for the Local Government Pension Scheme, the Trust recognises that there is a pension fund deficit which is included in restricted funds. This could in theory result in a deficit in restricted funds, however it must be stated that an immediate liability for this amount is not crystallised. The pension deficit will be dealt with by an increase in the employers' pension contribution over a period of years and/or additional yearly payments. The Three-Year Financial Plan and annual budgets must take into account these additional contributions. Therefore, whilst the deficit might not be eliminated, there should be no actual cashflow deficit on the fund, or direct impact on the uncommitted reserves of the Trust because of recognising the deficit.

### DETAILS OF AMENDMENTS

#### **September 2019**

- Updated to include Trust terminology.



### September 2020

- Reviewed without changes.

### January 2022

- Changes to TTSA

### March 2023

- Update references from academy to Trust throughout
- Updated cashflow/reserve section

### May 2024

- Included reference to the fact reserves are pooled, in line with the Trust pooling policy
- Included additional narrative that Trustees may set budget below the target with an agreed in-year deficit, and that Trustees will be notified if reserves fall below target levels
- Section added on restricted reserves
- Section added on management of reserves above target levels

### May 2025

- Updated the definitions of reserve type

