

# Reserves Policy



ORCHARD  
—Community Trust—

Reviewed by: Trustees  
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## **Introduction**

The MAT Trust Board and Local Governing Bodies need to consider the level of reserves the school should hold. Levels of reserves which are too high tie up money which should be spent on current school activities. Levels of reserves which are too low may put the future activities of the school at risk.

### **Purpose:**

The purpose of the reserves policy is 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. Specific purposes include:

- Assists in strategic planning by considering how new projects or activities will be funded.
- Informs the budget process by considering whether reserves need to be used during the financial year or built up for future projects.
- Informs the budget and risk management process by identifying any uncertainty in future income streams.
- Cash flow management; to protect against cash flow issues at school and central level.

### **During the financial year**

The trustees identify:

- When reserves are drawn on, so that they understand the reasons for this and confirm the use is consistent with the purpose of the reserve policy. Consideration will be given to what corrective action, if any, needs to be taken.
- When reserve levels rise significantly above target so that they understand the reasons and can consider the corrective action, if any that needs to be taken.
- Where the reserves level is below target and consider whether this is due to short term circumstance or longer term reasons which might trigger a broader review of finances and reserves.

### **Definition of reserves**

- Restricted Reserves; are those funds received by the school either from its main ESFA funding grant, other grant contributions or donations that are received for a specific project or purpose. These funds are restricted for use according to the funding agreements or donors' instructions.
- Unrestricted Reserves; these are derived from the school's activities for generating funds, for example hiring's and donations which are expendable at the discretion of the Trustees to achieve the objectives of the school.
- Designated Funds; these are unrestricted funds that have been allocated by the Trustees for a particular purpose.



### **Development of the academy's reserves policy**

When considering an appropriate level of reserves, the trustees will consider factors identified in the Trust Risk Register and also:

- The risk of unforeseen emergency or other unexpected need for funds.
- Covering unforeseen day-to-day operational costs, for example employing temporary staff to cover a long-term sick absence.
- A fall in a source of income, such as lettings.
- Planned commitments, or designations, that cannot be met by future income alone, for example plans for a major capital project.
- The need to fund potential deficits in a cash budget, for example money may need to be spent before a funding grant is received.

The financial risks identified determine the amount of reserves the academy targets to hold.

### **In-year reports to the MAT Board and the Local Governing Bodies**

In-year reports:

- Compare the amount of reserves held with the target amount or target range set for reserves.
- Explain any shortfall or excess in reserves against target set.
- Explain any action being taken or planned to bring reserves into line with target.

### **Annual financial statements**

The reserves policy disclosed in the MAT report will include the following information:

- Why reserves are held.
- What amount/range of reserves is considered appropriate for the academy trust.
- What the level of reserves is at the year end.
- How the academy trust is going to achieve the desired level or range of reserves.
- How often the reserves policy is reviewed.

### **Target range of reserves for the financial year**

The MAT Trustees have decided that the reserves level for the current financial year will be equivalent to a **minimum of 1 months operational costs** based on analysis of the points above and the likelihood that they may occur and the amount of funding that would be required if they did. The level of reserve will be reviewed and set on an annual basis as part of the budget setting plan.



### **Monitoring and evaluation of the policy**

This policy will be monitored regularly for any changes in legislation or directions from the DFE which may have an effect and evaluated in the light of any comments made by the DFE, EFA, auditors and any other interested parties.

The SEL, CFO and trustees will carry out a review of this policy on a regular basis to ensure that any new or changed legislation is adhered to.