



Thomas Deacon Education Trust

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Policy:	Reserves Policy
Owner:	Director of Resources
Approving Board:	Trust Board
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Relevant to:	All TDET

## Reserves Policy

### 1 Purpose

- 1.1 The purpose of this policy is to guide the Trust in setting appropriate level of reserves to protect the Trust financially against risks arising from government policy and long-term requirements of the Trust, whilst providing sufficient available funds to meet short term need.
- 1.2 Levels of reserves to be held take account of a risk assessment that considers the ongoing expenses of the Trust, capital requirements to maintain and upgrade the estate, funding and pay decisions made by government, and strategic need to further educational outcomes.

### 2 Legal framework

- 2.1 This policy has due regard to all relevant legislation and statutory guidance including, but not limited to, the following:
  - ESFA (2024) 'Academy trust handbook 2024'
  - ESFA (2024) 'Academy trust financial management good practice guides'
  - Charity Commission (2023) 'Charity reserves: building resilience'
- 2.2 This policy operates in conjunction with the following policies and documents:
  - Articles of Association
  - Funding Agreement
  - Financial Strategy
  - GAG Pooling Policy

### 3 ESFA Guidance on appropriate levels of reserves

- 3.1 ESFA guidance does not prescribe a required level of reserves. It states that trustees and trust leaders are best placed to set the level of reserves that reflects the needs and particular circumstances of their individual trust and agree a reserves policy and plan to show how they intend to use those funds to meet the needs of their pupils.
- 3.2 However, ESFA identifies its role in supporting trusts to manage their reserves and will take the level of reserves into account in its assessment of a trust's financial health.
- 3.3 ESFA considers that while some trusts are financially sustainable with reserves below 5% of income, the majority of the agency's proactive engagement with trusts has been with those with reserves below that level as it might indicate financial vulnerability.
- 3.4 Similarly, the majority of their focus on trusts with substantial reserves has focused on those holding more than 20% of total income (as defined in discussion with the National Audit Office and Public Accounts

Committee). In these cases, the agency will seek to ensure that appropriate plans are in place for the total funds held.

## 4 Roles and Responsibilities

### 4.1 The Board of Trustees is responsible for:

- Ensuring the trust's reserves are maintained and used only as described in this policy.
- Ensuring that appropriate financial controls and risk management procedures are in place.
- Identifying when reserves need to be drawn on, so that they understand the reasons for this and can identify any corrective actions that need to be taken.
- Identifying any broader, long-term financial problems that mean the reserves are frequently used or are below the minimum level.
- Seeking appropriate advice as required for the use of reserves.
- Maintaining the trust as a going concern.
- Adhering to and implementing this policy.

### 4.2 The Director of Resources, together with the Chief Executive is responsible for:

- Regularly monitoring the trust's reserves and reporting to the board of trustees.
- Reporting the explanations for any shortfall or excess in reserves.
- Comparing the amount of reserves held with the minimum and maximum limits set out in this policy and within the Financial Strategy.
- Reporting any actions being taken or planned to bring reserves in line with the minimum and maximum limits.

## 5 The purpose of reserves

### 5.1 Reserves will have a specific purpose, in line with the trust's objectives, relating to future spending or covering current and future risks. The purposes for holding reserves will be kept transparent.

### 5.2 Reserves will be held to ensure that unexpected financial events do not cause problems in the current year or cash flow issues, or generate a deficit. The purposes for holding reserves may include the following:

- Managing cashflow and ensuring that the trust can manage fluctuations in income by making sufficient cash available to pay bills and expenditure items as they fall due.
- Setting aside a contingency amount to cover any unforeseen issues or extra costs throughout the year.
- Building, estates, or non-building capital projects and growing savings to enable maintenance, development and improvement of the trust's infrastructure.
- Developing and growing the trust and ensuring the trust's financial health.
- Preparing for future change and uncertainty.

## 6 Types of reserves

### 6.1 *Unrestricted Reserves*

- Unrestricted reserves, which include income funds, grants and donations, will be spent at the discretion of the board of trustees in furtherance of the trust's objectives
- Not all of the trust's unrestricted funds, however, will be readily available for spending due to potential adverse impact on the ability of the trust to deliver its aims. In line with this, the following items will be excluded from unrestricted

reserves:

- Tangible fixed assets used to carry out the trust's activities, e.g. land and buildings
- Programme-related investments held solely to further the trust's purposes.
- Other restricted funds where the donor or grantor has specified the purpose to which the grant or donation must be applied.
- Designated funds set aside to meet essential future spending, e.g. funding a project that could not be met from future income
- Commitments that have not been provided for as a liability in the accounts

#### 6.2 *Restricted Reserves:*

- Restricted reserves, which may include restricted income funds, grants or donations, will be spent or invested in furtherance of the trust's objectives or assets, or spent where the donor has expressed the nature of expenditure.
- Restricted reserves may be endowment funds, where the funds or assets are required to be invested or retained for actual use, rather than spent.

#### 6.3 *Designated Reserves:*

- A sum of unrestricted or restricted reserves may be separated and designated a particular purpose, therefore becoming a 'designated reserve', e.g. to purchase a new asset.
- Designated reserves are labelled this way for administrative purposes only and can still be spent at the discretion of the board of trustees.
- Where a designated reserve has been created, the board of trustees will provide a purpose and a timeframe for spending it.

#### 6.4 *Pension Reserves:*

- The risks surrounding pension liabilities will be taken into account when calculating the minimum and maximum levels of reserves stated in this policy.
- The board of trustees will assess the required pension contributions from projected future income and build this into budget and medium term financial planning, so that the impact of pension liabilities is managed.
- The trust aims to calculate its reserves without the need to set aside a designated reserve to cover pension liability.

## 7 Managing reserves

#### 7.1 The board of trustees will identify why the trust should hold reserves and, having identified its needs, will decide how much should be held to meet them.

#### 7.2 In deciding the level of reserves to maintain, the board of trustees will consider:

- The size of the trust.
- The trust's estates strategy.
- The trust's future plans.
- Upcoming risks and opportunities.

#### 7.3 The target level of reserves will be informed by:

- The trust's forecasts for levels of income for the current and future years, taking into account the reliability of each source of income and the prospects for developing new income sources.
- The trust's forecasts for expenditure for the current and future years on the basis of planned activity.
- Analysis of any future needs, opportunities, commitments or risks, where future income alone is likely to fall short of the amount of the anticipated costs.

- An assessment, on the best evidence reasonably available, of the likelihood of a shortfall arising which means that reserves are necessary, and the potential consequences for the trust of not being able to make up the shortfall.

7.4 The financial risk to the trust will be balanced alongside our vision to maintain the highest levels of education.

7.5 Reserves will be reviewed and monitored by the board of trustees on an ongoing basis to identify any trends in spending and to rectify issues where they arise. Where reserves during the year are below target or exceed target, the board of trustees will consider whether this is due to a short-term situation or a longer-term issue. A broader review of finances and reserves will be undertaken if necessary, and action will be taken where appropriate to replenish or spend reserves.

7.6 As part of the normal monitoring and budgetary reporting processes, the board of trustees will:

- Identify when reserves are drawn on so that they understand the reasons and can consider the corrective action, if any, that needs to be taken.
- Identify 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.
- Regard the ongoing review of the reserves target, the reserves level and the reserves policy as part of managing the trust.
- Ensure that this policy continues to be relevant as the trust develops or changes its strategy and activities.
- Review the statement on reserves in their annual report where there have been significant changes in this policy or the level of reserves held.

7.7 Any deviation from this policy, where necessary and appropriate, will be minuted by the trustees.

## 8 Target level of reserves

8.1 With reference to the ESFA guidance on appropriate levels of reserves, the trustees believe that the appropriate level of revenue reserves should be equivalent to a minimum of 5% of total income of the Trust.

8.2 The reason for this is to provide sufficient working capital to cover delays between spending and receipt of grants and to provide a cushion to deal with unexpected emergencies such as urgent maintenance.

8.3 Target levels of reserves for individual academies are set with reference to this overall target, and are managed in accordance with the Financial Strategy.

## 9 Reporting

9.1 The board of trustees will disclose in its annual report its policy for building and maintaining reserves and investments, and will include the information required in line with the Academies Accounts Direction for the relevant reporting year.

9.2 The trust will disclose information about reserves in its annual report. This will include a review of reserves and details of:

- 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 allowances, the plans in place for the future of these reserves, and the likely expenditure date.

## 10 Pooling Reserves

10.1 The Trust has a GAG Pooling Policy which sets out the Trust's approach to pooling reserves, as well as circumstances in which reserves may be pooled.

## 11 Monitoring and Review

- 11.1 The Board of Trustees will review this policy every 3 years – the date of the next review is set out on the cover sheet of this policy.
- 11.2 It may however review this policy earlier than this if the government produces new regulations, if it receives recommendations on how this policy might be improved, or if otherwise it is felt to be necessary and appropriate to best serve the interests of the Trust and its academies.