

# RESERVES POLICY

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## 1. Purpose

The purpose of this policy and associated procedures is to ensure that the Two Counties Trust (TTCT) protects its operational activities by providing a financial comfort zone against unpredicted events and has sufficient funds to meet future cash flow requirements and capital expenditure plans.

The development and effective implementation of this policy will restrict the impact of both internal and external financial risk on operations and provide a framework for future strategic planning and decision making.

This policy and the establishment of a range of reserves which it stipulates is based upon an annual assessment of the internal and external operating environment of the Trust as well as having due regard for the nature of the activities undertaken by the Trust and its schools.

This policy relates to the Central Trust, its member schools and trading operations.

## 2. Overarching Principles

The Reserves applicable to the Trust can be identified as 3 key types: Pension Reserves, Fixed Asset Fund and Operating Reserves. The Trust does not hold any Endowment Funds.

For this policy, Operating Reserves will comprise of both Restricted and Unrestricted Funds.

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.

## 3. Pension Reserves

The risks surrounding the Trust'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 the Trust.

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

The Trust therefore continues to calculate its reserves without setting aside a Designated Reserve to cover its pension liability

## 4. Fixed Asset Fund

This fund consists of unexpended cash received for specific capital purposes imposed by the Education Skills Funding Agency (ESFA), the Department for Education (DfE) or other sources together with the carrying value of the funded fixed asset.

Application for access to the Fixed Asset Fund will be via business case to be approved by Trustees and any allocation of unspent cash will be administered and governed in line with the Trust Finance policy.

## 5. Operating Reserves

Operating Reserves are a revenue fund balance set aside to stabilize the Trust's finances by providing a "rainy day savings account" 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.

**The cumulative target range for the Trust's overall operating reserves is between 40-50% of the Trust's monthly expenditure. This equates to between 3 and 5% of the total income.**

### *Unrestricted Reserves*

Unrestricted Reserves are derived from income funds, grants or donations including trading activities that can be spent at the discretion of the Board in furtherance of any of the Trust's strategic objectives.

### *Restricted Revenue Reserves*

Restricted Revenue Reserves contain revenue (running cost) resources which can only be spent for specific purposes. This includes income and associated expenditure from the ESFA, DfE, local authorities, other restricted revenue grants and other donations with conditions attached.



## 6. Management of Reserves

The target range for operating reserves for each school is 3-5% of total income.

For a variety of reasons, often historical, schools may be holding operating reserves outside the target range. Where a school has reserves below the target range the medium term (maximum 5 years) budget should set a flight path which returns the school to the target range.

Reserves held in excess of the target percentage will be reviewed by the Trust Director of Corporate Services and reported to the Trust Board on a regular basis and an appropriate range of options will be considered. These options might include releasing the funds into the revenue budget over the short or medium term in furtherance of the Trust's strategic objectives or retaining the funds to support future identified projects.

Using the Trust reserves to continually 'bolster' schools which set a deficit budget is not appropriate or financially sustainable.

Trust reserves can be used to support schools that are facing the possibility of setting a deficit budget resulting in negative operating reserves only if all of the following criteria are met:

- that all possible cost saving interventions have been enacted by the school.
- the financial risks associated with the Trust have been reviewed.
- that the school has a clear plan to rebuild its reserves in the medium term
- the Board are satisfied that the Trust Reserves are sufficient to withstand a reduction.
- that as a result of helping a school, Trust Reserves will not fall below the 3% lower threshold set, and
- all other means of removing the deficit have been exhausted.

## 7. Review of policy

This policy will be reviewed on an annual basis by the Finance Committee for recommendation to Board.

