



# **LIFE Education Trust**

## **FINANCIAL RESERVES POLICY**

### **1. Introduction**

Where reserves are held, it is a requirement of the charity accounting regulations that charity trustees must state their reserves policy in their annual report.

Guidance on reserves is found on the Charity Commissions website and from within the SORP 2005.

Further guidance on reserve policies and their reporting requirements is contained in the ESFA annual Academies Accounts Direction. This policy provides the basis for Trustees and Directors to ensure adequate reserve levels matching the needs of the organisation are held to continually operate as a going concern.

### **2. Purpose**

The purpose of the reserves policy is to provide a guide for making informed decisions about holding reserves and the amount to be held in ensuring the stability and sustainability of the Academies' operations. This is aimed at enabling the Trust to adjust quickly to financial circumstances, such as large unplanned expenditure, cyclical maintenance and working capital requirements.

Whilst it is not mandatory to hold reserves, it is generally considered good business practice to do so. LIFE Education Trust holds reserves in order to provide sufficient working capital to cover any delays between spending and receipt of grant income, to provide a cushion to deal with unexpected emergencies such as urgent maintenance, the cost of long-term sickness absences and to build up funding for planned future capital projects.

### **3. Disclosure of Reserves**

A charity's purpose in reporting on its reserves is to disclose and set out why it needs to retain them at that level.

Paragraph 55(a) of SORP 2005 requires Trustees to include in their Annual Report information about their charity's reserves policy and the level of reserves held. In particular, trustees should:

- 2.1. describe their charity's reserves policy;
- 2.2. explain why they hold or do not hold reserves;
- 2.3. quantify and explain the purpose of any material designated funds, and where set aside for future expenditure, the likely timing of that expenditure; and
- 2.4. give the level of reserves at the last day of the financial year to which the report relates.

### **4. Types of reserves**

Unrestricted funds represent those resources which may be used towards meeting any of the charitable objects of the academy trust at the discretion of the trustees.

Designated funds are part of unrestricted funds that have been set aside to be used for a particular future project or commitment. Although earmarked, a designated fund remains part of the unrestricted funds of the charity. This is because the designation does not legally restrict the trustees' discretion in how to apply the unrestricted funds that they have earmarked.

Restricted fixed asset funds are resources which are to be applied to specific capital purposes imposed by funders where the asset acquired or created is held for a specific purpose.

Restricted general funds comprise all other restricted funds received with restrictions imposed by the funder/donor and include grants from the ESFA.

## **5. Reserves targets**

The trustees review the reserve levels of the Trust annually. This review encompasses the nature of income and expenditure streams, the need to match income with commitments and the nature of reserves. The trustees expect to see the revenue budget for the coming financial year to be balanced within that year's income and not to utilise any of the previous year's underspend in order to balance the budget. Reserves, from any previous year's underspend, may be utilised for infrastructure, academy improvement, or for urgent health and safety matters.

The expectation is that schools maintain reserves of at least 5% of their annual GAG income. This requirement does not apply to or include unrestricted income where academies have more freedom; but the unrestricted income accounts must still remain in surplus.

This level of reserves is intended to provide sufficient working capital to cover delays between spending and receipts of grants and to provide a cushion to deal with unexpected emergencies such as urgent maintenance and health and safety concerns.

### **i Contingencies**

As an added measure to ensure the deliver its approved budget, Trustees expect each Academy allow a contingency allocation equivalent to 1% of its GAG funding, to serve as a cushion to help minimise the impact of any financial shocks during the year.

Trustees may also identify the need for a separate designated reserve to be created to build up a target amount required for future repairs and maintenance, e.g. the 5-yearly refurbishment cycle of the 5G Astro Turf pitch at Frances Bardsley Academy for Girls.

## **6. Use of reserves**

### **i Identification of appropriate use of reserve funds**

The Trustees 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.

Apart from reserves, academies must hold enough capital income to cover fixed assets purchased and any imminent capital spend. General fund income may be used to fund capital purchases, subject to the prior approval of the Chief Operating Officer.

### **ii Authorisation of use of reserves**

Academies are expected to forecast accurately, based on prudent assumptions. A budget may be set which requires the use of reserves, but in such circumstances, a clear commentary is required in order for this to be agreed by Trustees.

### **iii Reporting and monitoring**

The trustees are responsible for ensuring that the funds are maintained and are used only as described in this policy. Academies are expected to forecast accurately, based on prudent assumptions.

Where a budget deficit is expected, a clear plan must be presented showing how the academy will get back to an in-year surplus/breakeven position, within a reasonable period.