



## Reserves Policy

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The Fallibroome Trust, Priory Lane, Macclesfield, Cheshire, SK10 4AF  
Telephone: +44 (0) 1625 813510 | Email: [info@fallibroometrust.com](mailto:info@fallibroometrust.com) | Web: [www.fallibroometrust.com](http://www.fallibroometrust.com)

The Fallibroome Trust (Company number: 07346144). A company incorporated as private limited by guarantee.  
Registered Office situated in England and Wales

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# POLICY

## BACKGROUND

Charities are required to establish a reserves policy in order to protect their operations. However, regardless of the regulatory requirement, establishing reserves that protect the operation of the Trust and contribute to its smooth running is good practice and forms part of its overall financial control and governance framework.

## CHANGES IN THIS VERSION

- Minimum reserves level over time (years 2&3 of the 3 year forecast) to be decided by the Trust Board on an annual basis and cases for exception can be put the Finance Committee in the summer term

## PRINCIPLES

The policy takes into account the following principles:

- Reserves must have a specific purpose related to future spending or covering current and future risks
- The size of the reserves should balance the benefit of current spending with the risks the reserves cover
- They should be transparent and, in the case of restricted reserves, maintain the link with the purposes for which the income was given.
- They should ensure that sufficient resources are available so that unexpected events can be accommodated without causing current year problems, generating a deficit or cash flow issues.

## PURPOSES FOR RESERVES

The following purposes are considered appropriate for each school in the Fallibroome Trust:

- Current reserves that are established to manage known risks which are not insurable or where insurance does not provide value for money
- Equalisation reserves set up to smooth out irregular spending
- Specific capital reserves established in order to fund capital expenditure and other investments that would not be affordable if financed from a single year's funding
- General Reserve to provide for unexpected and unpredictable needs.

- Cash Flow Management Reserves used to enable variable cash demands across the Trust or specific parts of the Trust to be managed

# RESERVES HELD BY SCHOOLS IN THE FALLIBROOME TRUST

## CURRENT RESERVES

In planning an appropriate level for current reserves, consideration should be given to the following:

- Staff sickness (uninsured element)
- Ill health retirement under LGPS (if uninsured)
- Contingent liabilities (e.g. a grant whose conditions have not been met which may be repayable, or a dispute over a contract for supply of services)
- Closure costs/redundancy costs for extended school facilities or services that are dependent upon the continued agreement of the buyer or funder e.g. Local Authority Resource Provision or a school to school support arrangement.
- Any anticipated restructure and redundancy costs
- Anticipated deficits in future years

## EQUALISATION RESERVES

Requirements for equalisation reserves include elements of the school budget that do not occur every year, such as a 5 yearly fixed wire electrical inspection, IT hardware refresh, or other non-annual cost. It is then appropriate to plan a higher end of year reserve one year in anticipation of this higher cost in the following year.

## SPECIFIC CAPITAL RESERVES

At the end of each year, every school's balance sheet should include a fixed asset reserve balance that is equal to the net book value of all fixed assets plus any unspent capital funds. The only exception to this is where a loan has been received to fund a capital investment (e.g. Salix), in which case there may be a negative variance between the fixed asset reserve and the net book value of all fixed assets (with the fixed asset reserve being lower). When this occurs an amount must be transferred from general reserves to capital reserves each year, equivalent to the loan repayments. Alternatively the full amount can be transferred in the year the loan is taken out.

## SCHOOLS CAPITAL ALLOCATION (SCA) RESERVES

The trust will receive all SCA funding into its central account. This fund will be administered by the Estates Committee. The day to day administration of the fund will be handled by the Facilities Director. The fund is not allowed to hold more than one year's allocation in reserve at the end of a financial year. The trust expects to issue instructions for schemes to the total value of the fund less a working

amount of approximately £100k to be held for emergency capital works. All schemes will be based on priorities originating from the condition surveys for each site. The scheme list will be agreed and ratified by the Trustees at the spring term meeting.

## MINIMUM AND MAXIMUM RESERVES

Minimum reserves	3% of each school's GAG	If the actual reserves balance in any school falls below this level the Local Governing Body and Headteacher must devise a plan to restore reserves to this level within a 3 year timeframe. This should be communicated to the Board of Trustees together with an assessment of the relative financial and operational risks
Target reserves – budget year	5% of each school's GAG	Each year's budget for each school should include a review of what changes would be required to achieve this level and assessment of the relative financial and operational risks of increasing the reserves or maintaining the minimum level.
Target reserves over time	3% of each school's GAG for years 2 and 3 of the 3 year forecast	Each year's 3 year forecast for each school should include a review of what changes would be required to achieve this level across years 2 and 3, and assessment of the relative financial and operational risks of maintaining the target level.
Minimum reserves over time (years 2-3 of the forecast period)	Up to 3% to be determined annually by the Board of Trustees in their March meeting	The Finance Committee will recommend an appropriate minimum reserves level to the Board of Trustees for years 2-3 of the forecast period. This will take into account external factors relating to funding and pay costs and it will be communicated to schools before Easter. Appropriate plans must be put in place by schools to arrest any ongoing operational deficit where this threatens to reduce reserves below minimum levels in the forecast period. Where a school can demonstrate that the operational risks of achieving the minimum reserves level are too high, they can make a case for an exemption to the Finance Committee meeting before the final budgets are agreed by the Board at the end of the summer term.
Maximum reserves	8%	If the level of reserves exceeds the maximum in the school's annual budget, it should include a justification for maintaining the higher level of reserves, unless the 3 year forecast plainly requires it in order to achieve the target reserves over time.

## CASH FLOW MANAGEMENT RESERVES

Each school must manage its own cash flow within its own bank account. The Trust does not hold central funds to protect against cashflow issues within the schools. It is therefore imperative that each school considers, in advance, its need to fund annual prepayments and capital costs, where applicable, at the time they are required.