



Reserves Policy

Richard Huish Trust



Policy owner	Director of Finance
Approving board/ committee	RHT Board
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Richard Huish Trust
Company registration number 09320523
Reserves Policy

1. Introduction

Richard Huish Trust is a company limited by guarantee and an exempt charity. The Charitable Company's Memorandum and Articles of Association are the primary governing documents of our Academy Trust.

Each academy within our Trust is allocated funds from the Education Skills Funding Agency (ESFA), funding levels being derived through a national funding formula with pupil numbers and demographic context for each academy being primary factors – the General Annual Grant (GAG). We do not pool this grant. Each of our academies generate income from other sources but their GAG income represents by far the highest proportion.

From April 2023, Richard Huish Trust qualified for the ESFA School Condition Allocation Grant. Using our Trust-wide estate and facilities condition report, condition related projects are prioritised such that high priority works (generally Health and Safety, Security, Safeguarding or issues of a structural nature) take precedent over projects that may include an element of improvement. Where a project includes an element of improvement, we may ask that academy to contribute to the cost of delivering the whole project.

We have a Scheme of Delegated Authority (SODA) in place with each academy, financial management and control being a key factor. In assessing the level of financial delegation afforded to each academy Trust Directors consider several factors: -

- A proven track record of sound financial management at both institution and Local Governing Body level
- Resilience to future adverse events, usually derived through each institution having an appropriate level of accumulated restricted and unrestricted reserves
- Accuracy of financial forecasts and in-year reporting
- Comparisons with sector benchmarks where available
- Future pupil number expectations and the impact that growth or decline might have on the financial sustainability of the institution
- Local factors that could impact the financial stability of the institution
- Buildings condition and investment in the wider learning infrastructure (IT)

In compiling our reserves policy, we must balance the needs of current pupils with the need to provide for the future stability of each academy and their future pupils. We recognise that this policy will undoubtedly create a tension between doing all that we can for today's pupils with the expectation that we plan for an uncertain future.

2. What do we mean by the term 'Reserves'?

It is important that we all understand what we are referring to when we use the term 'Reserves'. In the context of this policy, we include the cumulative balance for each academy held within restricted and unrestricted reserves, commonly referred to as 'Free Reserves' although that term can be misleading as only the unrestricted element can be considered as 'free'.

Each academy receives an annual capital grant allocation from the ESFA – the Devolved Formula Capital Grant (DFCG). The grant is calculated using student numbers, the amount per student depends on the education phase. The ESFA publish the allocations for the forthcoming year in May of each year. The Trust finance team will inform you of your allocations once published. The accounting treatment for this grant is prescribed in that it can only be used to

fund capital expenditure. The grant is added to the academy restricted fixed asset reserve; any unspent balance being carried forward. There may be instances where an academy wishes to build up a credit balance on their fixed asset reserve, usually where they are planning a major capital investment that will need an academy contribution. Academies are free to build up this balance, being mindful of the conditions of grant published annually by the ESFA. We would not expect an academy to ask for funds to be transferred back to their general reserve, save for where a capital project is not taken forward that the funds were earmarked for.

Restricted reserves derive from unspent funds received by the institution where there is a clear and specific purpose, the ESFA GAG is an example. Any balance of income received from an organisation or individual where the 'donor' imposes restrictions on how the funds can be used will form part of this balance. Donations received that are specifically to fund capital expenditure will be automatically transferred to the academy fixed asset reserve.

Unrestricted reserves tend to be formed from income sources where there is no specific, imposed conditions attached. Good examples of this could be surpluses from Nursery activity, lettings income etc.

3. What are we hoping to achieve by having a reserves policy and what can academy reserves be used for?

Retaining a level of reserve at academy level allows each institution to: -

- Meet future challenges in the knowledge that they have a high degree of financial resilience and independence,
- Cope with unexpected downturns in pupil numbers and any cost reduction liabilities that might arise,
- Meet the financial burden of any unforeseen event, an uninsured property risk crystallising for example,
- Overcome the in-year/short term financial impact of inflationary pressures outside of our control by giving institutions an opportunity to smooth out the year-on-year financial challenge that such a situation might present. Increases in pension and national Insurance contributions or higher than forecast pay settlements being examples,
- Manage the impact of cash outflows and inflows timing differences,
- Maintain/increase investment in their teaching, learning and improvement infrastructure,
- Provide for appropriate levels of planned and preventative maintenance, including contributing to works funded by the Trust's ESFA School Condition Allocation,
- Contribute towards future capital works, campus improvements, expansion, or Carbon Footprint reduction,
- Fund any liability that arises from an employee dispute that is uninsured,
- Generally, have a level of contingency that helps manage the impact of a future negative unforeseen event.

4. What level of reserve are we expecting each academy to hold?

In the Summer of 2023, the DfE published guidance for the Academy Trust sector on reserves policy compilation. As part of that guidance, a range of between 5% and 20% was established as being 'acceptable', with a range of between 6% to 8% being generally accepted as being sensible to protect cashflow. The guidance makes clear that it remains the responsibility of

Trust Directors to reflect the context within which the Trust and its academies operate when determining an appropriate level of reserves. Richard Huish Trust Directors recognise that there is a fine balance to be struck between building up reserves weighed against individual academy improvement plans and the impact on the experience and outcomes of existing pupils and students.

Reserves in our Trust, generated by each institution, are held at academy level. They are not pooled save for the maximisation of returns in line with our Investment Policy.

RHT provides a range of central services to our academies. Each year the cost of these services is forecast, a charge is levied using a uniform percentage of GAG such that each institution contributes proportionally the same. The income from recharges is broadly commensurate with the costs associated with providing the services to which the charge relates. Consequently, the Central Trust does not look to create a reserve from this service charge approach.

Trusts are free to set the basis of their reserves policy. Some choose to use costs as a reference point, be that a percentage of the total salary costs for the year, or of total costs. Others use a percentage of GAG (the DfE have removed the cap on how much GAG can be carried forward to future years). Others use total income as a basis, particularly where institutions generate significant levels of income from non-core activities (including but not limited to Nursery activity, breakfast and after institution clubs, sports, summer camps).

We expect each academy to achieve a reserve level of 8% of total income.

Unless agreed in advance by Directors, all our academies will have a reserve level equivalent to 5% of total income by the end of the 2026/27 year.

Institutions that wish to set aside additional funds to support future fixed asset investment are free to do so.

In setting this level, Directors recognise that each member institution is starting from a different point. Directors have established a target trajectory for each academy starting from 2024, head teachers and LGBs are expected to set annual budgets that achieve their respective annual target. Where an academy's current development plan requires a longer timeframe, Directors will consider proposals on a case-by-case basis. In any event, each academy must not develop plans that lead to achievement of agreed reserves level beyond five years, with an expectation that the first three years of any forward plans show an acceptable level of progress towards the achievement of the target reserve level. No academy will be allowed to carry a deficit reserve balance for more than two consecutive years.

Once the target reserve level is met academies are free to set their own reserves appetite. We expect that academy will be looking forward on a two to five-year time horizon and plan for a level of reserve that allows them to meet any challenges they foresee or achieve any ambitions they might have.

5. What happens when an academy dips below the agreed reserve level?

We have set out why holding a reserve is so important in section 3. If an academy finds that it needs to utilise its reserve to manage the impact of a fall in recruitment, an unforeseen exceptional cost or to contribute towards a major capital investment the head teacher, supported by their LGB, should inform Trust Directors of their intentions. Preferably, this will

form part of the budget submission made by the academy each year. We do recognise that sometimes an exceptional genuinely unforeseen event can (and will) happen. In such an instance the head teacher must inform the Trust CFO as soon as there is a reasonable expectation that a liability will crystallise.

We expect that each academy will plan to return to the agreed reserves level in line with section 4.

6. What happens if the academy's level of reserves is not enough to manage a change in circumstances?

If one of our academies suffered a material/catastrophic event that led to a significant decline in financial health, such that their level of reserves was insufficient to meet the immediate challenge faced, clearly there would be a need to provide support. This financial support, in the short term, will come from fellow Trust academies by 'lending' a proportion of their reserves to be used to address any shortfall. The recipient academy will be expected to repay any amount borrowed before contributing to their own reserve accumulation. In such a circumstance, it may be appropriate for Directors to review the Scheme of Delegated Authority (SODA) for that academy.

7. Expectations of new academies joining Richard Huish Trust

We recognise that each new academy joining our Trust will have their own local context and challenges. Quite often the true level of reserves transferring can take some time to establish. If an academy joins us part way through a financial year, there is no expectation that they adhere to this policy in that year. The next complete financial year will be counted as the first year that the compliance with this policy is anticipated.

As with our existing academies, there may be extenuating circumstances that make achieving the reserves target within three years overly burdensome. When compiling their budget and forecast, senior leaders will need to demonstrate how their financial planning is supporting the implementation of their improvement plan and what steps are being taken to ensure that they can meet the reserves target within the maximum five-year timeframe.