

Unallocated Reserves Policy

This policy describes how the Trust calculates, targets and communicates unallocated reserves; the part of the Trust's funds which is freely available to spend on any of the Trust's purposes.

The unallocated reserve should provide sufficient security to the Trust to protect against uncertainty whilst not being too large to restrict the Trust's activities in the provision of education.

The principle (described by the Charities Commission <http://www.charity-commission.gov.uk/Library/guidance/cc19text.pdf>) is that a charity should set a fixed value for its reserve based on knowledge of its current and predicted circumstances. A charity would only move income to the reserve when the reserve had been depleted below the agreed fixed amount. The value of the reserve would be reviewed regularly to reflect any change in circumstances.

The predicted Trust's unallocated reserves as at 31/08/2022 are calculated as -

	Balance	Target
Unrestricted funds	£1,727k	£645k
Kevi sport & classroom expansion	£600k	£0
School Improvement Service	£150k	£0
Unrestricted reserve	£977k	£645k

The reserve amount will be decided and reviewed annually by the Board. The targeted reserve has been set at 4% of the General Annual Grant and each school is required to contribute to the Trust unrestricted reserve on this basis. If a school budget is set with an in year deficit they will retain a reserve of 5%.

Based on the current size and income streams for the Trust this calculation will fall between £600k and £800k in most years. The Board believes that this is sufficient to provide protection against the financial risks that may impact the Trust whilst also allowing the Trust and its schools to deliver effective education services.

The Board believes the size of the reserve is linked to the predictability and stability of income and expenditure -

- 89% of Trust funding comes from government grants which are calculated 12 months in advance based on a known formula and student roll
- Much of the remaining income is also linked to student roll such as catering income. If this type of income were to drop then expenditure would also drop although there may be a short lag
- Budgets are predicted 3 to 5 years in advance and 75% to 80% of costs are linked to staff expenditure which is also predictable
- The Trust has commercial insurance in place which covers unpredictable risks and further reduces the requirement for a more significant reserve

The Board believes an unrestricted reserve of £600k to £800k provides sufficient funds for unusual events such as -

- staff restructure costs
- fines or penalties linked to legal action
- employment tribunal claims
- other uninsured losses

The predicted Trust's unrestricted reserves as at 31/08/2023 are calculated as -

	Balance	Target
Unrestricted funds	£1,533k	£660k
Kevi sport & classroom expansion	£600k	£0
School Improvement Service	£100k	£0
Unrestricted reserve	£833k	£660k

The level of reserve will fall during this period as schools are being encouraged to spend their unallocated reserves on projects to develop their schools. This follows an SRMA visit and advice in 2021.

The current unrestricted reserve is above the Board's formulaic calculation. The reasons the Board feel this is appropriate are -

- The development of a school improvement service alongside growing the Teaching School Hub will be supported with £100k of reserves annually in 2021/22 and 2022/23
- The development of sports facilities and additional classroom spaces on the King Edward's site may require a contribution from the revenue reserves

Once these designated reserves are allocated the unallocated reserve drops closer to the 4% target. School leaders who benefit from school

reserves above 4% are being actively encouraged to spend this excess on school priorities.