





RESERVES POLICY

THIS POLICY WAS AGREED BY TRUSTEES ON (Date):	21 st November 2024
REVIEW DATE (every 3 years):	November 2027
CHAIR OF TRUSTEES:	
CEO:	

Introduction

Academy trusts are required to have a reserves policy and to include in their annual report and accounts. Trustees decide the level of reserves that are appropriate for the individual circumstances and priorities of the trust. Trust reserves are reported by the CFO in the monthly report to trustees so that they may determine whether the current reserves are sufficient for the financial health of the trust and to meet the needs of pupils.

The reserves policy:

- assists in strategic planning by considering how new projects or activities will be funded.
- informs the budget process by considering whether reserves need to be used during the financial year or built up for future projects; and
- informs the budget and risk management process by identifying any uncertainty in future income streams.

The ESFA does not set a required level of reserves but does have a role in supporting trusts to manage their reserves and will take the level of reserves into account in its assessment of a trust's health. The ESFA tends to consider trusts that have reserves between 5% and 20% of total income as being optimal and that is the measure that the EPA will now adopt (using free reserves). Previously, the measure was based on months of GAG with 0.5 months being used in 22/23 onwards.

What are academy trust reserves?

Reserves may come from several funding streams, some of which are restricted to particular types of spend. The three key funding streams are:

Restricted fixed asset funds: This represents the total amount carried forward from restricted funding received for fixed assets as the net book value of fixed assets.

Restricted general fund: The amount included in this fund represents the total amount carried forward from funding received for specific purposes (excluding fixed assets). It would predominantly be government funds for example GAG.

Unrestricted general fund: This includes any amounts not included in the above funds and which are available for general use to further the charity's purpose.

Usually, fixed asset funds are excluded from the amount designated as reserves and any designated or restricted funds where the donor has specified the purpose to which the donation must be applied.

Free reserves are the part of a charity's unrestricted income that is freely available to spend on any of the charity's purposes. Usually for academy trusts this would be unspent unrestricted funds including capital (to the extent that they have not been used for the acquisition of fixed assets) plus the unspent general annual grant (GAG).

Development of the academy's reserves policy

When considering an appropriate level of reserves, the Trustees consider:

- **cashflow** – enabling the trust to manage fluctuations in income by ensuring sufficient cash is available to pay bills and other expenditure items as they fall due such as capital projects.
- **Minimum trust reserves** – setting aside a contingency amount to cover any unforeseen issues or extra costs in-year. This could be to balance budgets where in-year expenditure exceeds income.
- **planned commitments**, or designations, that cannot be met by future income alone, for example plans for a major capital project; and
- **development and growth** – providing for the trust's financial health including for when new schools join the trust, school improvement, expansion of existing schools, or investing in central services etc.
- **Future change and uncertainty** – planning for a period of reduced pupil numbers or covering unexpected costs to ensure the trust's overall budget is balanced.

The financial risks identified determine the amount of reserves the academy targets to hold.

In-year reports to the Trustees

In-year reports compare the level of reserves held with the target amount considering any known capital projects or schools with in-year deficits etc. Any shortfalls or excess reserves are highlighted with the reasons for the variance and the actions being taken or planned to bring reserves into line with target. The EPA does not GAG pool so academies within the trust have capital and revenue reserves allocated to them. Each month scores for individual schools are reported to trustees to highlight schools in financial difficulty and as well as the consolidated reserve position using the 5% to 20% measure.

Given the current financial pressures on the academy sector the EPA would consider holding reserves at the lower end of the 5%-20% benchmark as suitable but would also take into account known major spends such as capital works or expansion when considering the adequacy of current reserves.

Annual financial statements

The Trustees' must include the academy trust's policy for holding reserves, the level of reserves identified by the trustees as being appropriate and the reason for holding reserves. It will also include a review of the academy trust's reserves comparing the amount held at the balance sheet date with the academy trust's reserves policy and any steps being taken to bring the level of reserves into line with the level set out in the policy. The disclosure in the annual accounts categorises reserves depending on whether they are designated for a specific purpose, restricted by trustees so that they are not available for the general purposes of the trust, any funds that can only be realised by disposing of fixed assets etc. Where plans have been made future use of reserves both the purpose and timing of these should be disclosed. The effect on reserves of the LGPS pension surplus or deficit should also be explained.

Monitoring and evaluation of the policy

This policy will be monitored regularly for any changes in legislation or directions from the DfE which may have an effect and evaluated in the light of any comments made by the DFE, ESFA, auditors and any other interested parties.

Reviewing

The CFO and directors will carry out a review of this policy every three years or when there are changes to legislation.