Extend Learning
Academies Network

Reserves Policy

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1.0	25/09/18		Board approved
2.0	26/06/19		Minor changes to format
3.0	31/03/20		Updated to reflect levels of reserves and authorisation process for accessing free reserves
4.0	July 2021		Annual review no updates
5.0	June 2022		Introduction of capping of reserves in line with ESFA guidance. New section for new schools joining the trust and the pension reserve.
6.0	June 2023		Annual review no updates
7.0	June 2024		Annual review against new guidance on Trust reserves issued by the DfE. Expansion of the need for reserves in line with this guidance. Reserve levels already in-line with guidance.

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1. Introduction

There are a number of constraints placed upon academies in terms of financial management. One of these constraints is the inability to borrow funds. This constraint represents a key risk to the Trust in relation to financial planning and monitoring.

One of the ways in which the Trust mitigates this risk is through the effective management of reserves, which provide alternative temporary funding streams should there be a delay in grant receipts or a sudden unforeseen increase in expenditure.

Setting a reserves policy helps inform the way in which the Trust manages its cash and debt.

2. Need for reserves

Financial risks exist and these have been reviewed in terms of impact and likelihood as part of the risk management process. The holding of reserves is necessary to help trustees mitigate financial and other risks and put aside specific funding for future projects. For academy trusts, reserves can be held for a range of reasons, these include:

Cash flow – enabling the trust to manage fluctuations in income by ensuring sufficient cash is available to pay bills and expenditure items as they fall due

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.

Building/estates/non-building capital projects – growing savings to enable maintenance, development, and improvement of the trust's infrastructure to deliver the trust's capital and estates strategy. This could include sinking funds that set aside money each year to grow funds for premises projects and building plans, but could also be significant investment in the curriculum, IT or school improvement strategies.

Development and growth – providing for the trust's financial health. This could include preparing for new schools to join the trust, for existing schools to expand, training for staff or investing in the central services of the trust to improve delivery or increase capacity.

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 Trust considers itself to have a strong cash flow position due to the profile of incoming resources, particularly the receipt of core Education & Skills Funding Agency (ESFA) funding at the start of each month, cash flow risks are not therefore considered a major risk for the Trust.

3. Restrictions/Level of Reserves

The EFSA are able to set limits on the sum of GAG that can be carried forward from one year to the next, however, there are currently no limits in place for the Trust.

The Department for Education (DfE) does expect schools to use their allocated funding for the full benefit of their current pupils and therefore, the Trust will not build up a substantial surplus without having in place a clear plan for how it will be used to benefit our pupils.

The maximum level of free reserves the Trust can hold without detailing its plans for use is set at 8.5% of annual gross income. Across the Trust a minimum level of free reserves (unrestricted and GAG) equal to 5% of the Trust's annual gross income should be maintained for a sustainable financial position.

Individual school free reserves are capped at 4% of GAG and if a school does exceed the upper range the balance will be transferred to the Trust designated reserve. Access to the Trust designated reserve will be upon approval by the Trust Board.

If a school requires access to their free reserves prior approval must be sought from the Finance, Audit and General Purposes Committee.

Schools can access other restricted reserves to spend in accordance with grant conditions without trustee approval and subject to procurement guidelines.

Please refer the purchasing policy for further details.

4. Academies joining the Trust

Academies joining the Trust (or upon conversion) will normally bring in accumulated reserves. Where these are higher than in accordance with this policy, a plan for the use of reserves will be agreed with the academy including a period of transition of up to 2 years from conversion. Thereafter, reserves should be held in accordance with this policy.

Academies joining the trust with negative reserves or in-year budget deficits must demonstrate a plan for achieving compliance with this policy.

5. Review of the policy

The reserves policy will be reviewed by the Finance, Audit and General Purposes Committee on at least an annual basis. The Chief Finance Officer will review the adequacy of reserves based on monthly budget monitoring and cash flow forecasting during the year.

6. Pension liability

The risks surrounding the Trust's pension liability have be taken into consideration when identifying the target reserve ranges. The presence of a pension surplus or deficit does not constitute an immediate liability or realisable asset. It generally results in an increase or decrease in cash flow over a period of years which is managed via the annual budgeting process.

The Trust's pension liability relates only to the Local Government Pension Scheme (LGPS) pension scheme as the Teachers' Pension Scheme (TPS) liability is held by the government.