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

Contents

Reserves Policy

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. Level of reserves

The main financial risks have been reviewed in terms of impact and likelihood as part of the risk management process. These risks can be categorised in two main areas:

Cash flow – the need for working capital in case there is a delay in receiving major income streams such as monthly instalments of General Annual Grant (GAG) funding.

Financial risk management – a level of contingency funds required to mitigate risks including, reduced income from lower pupil numbers, increase in expenditure from special projects and capital investment needs that cannot be funded from other sources.

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

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.