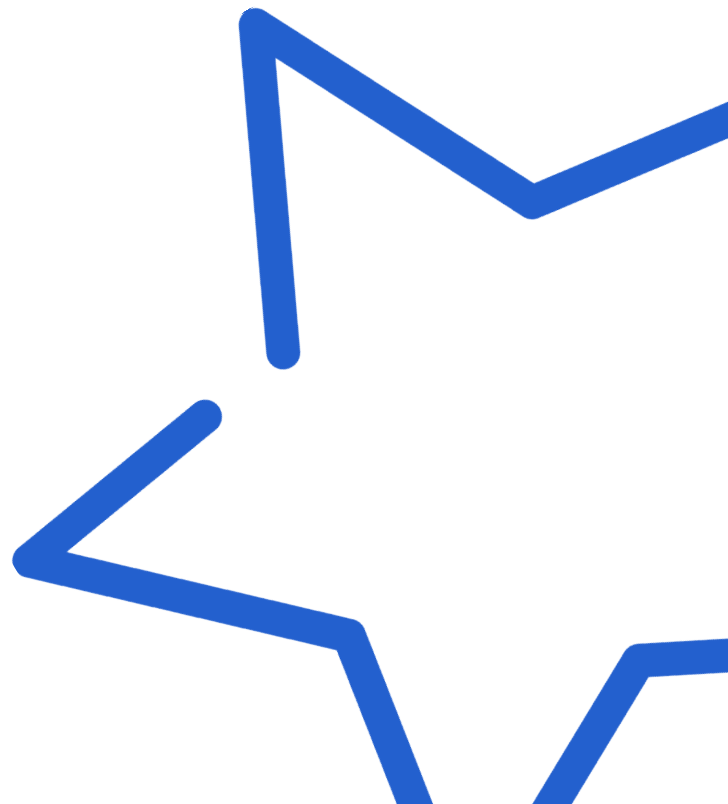




Reserves Policy

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1. Aims

This policy aims to ensure that the trust protects its activities by providing financial buffers against an unpredictable environment and to make sufficient provision for future cash flow requirements.

The policy also provides the framework for future strategic planning and decision making. An effectively implemented reserves policy will mitigate the impact of any risk upon the continuing operations of the trust and its academies caused by funding uncertainty.

In general, the trust holds reserves for the following reasons:

- To fund unexpected expenditure, for example when projects overrun, or unplanned events occur.
- To fund shortfalls in income when income does not reach expected levels.
- To fund approved projects, for example capital programmes.
- To protect against short-term cash flow issues.

A helpful way to view reserves is to see them as the funds they will use to cover expenditure to “buy some time” in the event of reduced income or changes in circumstances.

The objectives of this policy are to:

- Ensure robust procedures are in place to manage financial viability for the trust and its academies.
- Hold trust leaders accountable for management of the reserves.
- Support academy leaders in managing the use of reserves.
- Ensure trust leaders make strategic decisions based on knowledge of the reserves position.
- Make all staff and stakeholders aware of:
 - Why money is being kept aside.
 - How much the Trust holds in reserves.
 - What the reserves can be spent on.

2. Legislation and guidance

This policy is guided by the Academies Trust Handbook (ATH), the Academies Account Direction, the Charity Commission, national guidance and the GAET vision and values. This policy complies with our funding agreement and articles of association.

This policy will ensure that adequate financing is in place which allows the trust to achieve the vision and values. It will embody an ethos of excellence through proactive management of finances.

Adequate funding and financing will in turn be deployed to ensure all our academies can achieve their objectives and put into place their strategies which allow our pupils to achieve their aspirations.

The Academy Trust Handbook states that:

- The trustees must ensure regularity and propriety in use of the trust’s funds, and achieve economy, efficiency, and effectiveness – the three elements of value for money. The trustees must also take ownership of the trust’s financial sustainability and its ability to operate as a going concern.
- The board of trustees must:



- ensure that financial plans are prepared and monitored, satisfying itself that the trust remains a going concern and financially sustainable.
- take a longer-term view of the trust's financial plans consistent with the requirement to submit three-year budget forecasts to ESFA.
- as part of its management of the trust's funds, set a policy for holding reserves and explain it in its annual report.

The Academies Accounts Direction (AAD) states that:

- The trustees' report must explain the academy trust's policy for holding reserves, in particular stating:
 - The level of reserves identified by the trustees as being appropriate.
 - The reason for holding reserves.
- It should also contain a review of the academy trust's reserves which:
 - States the amount of total funds held at the balance sheet date.
 - Identifies the amount of any restricted funds that are not available for the general purposes of the academy trust. The trustees may determine, as good practice, to disclose their policy in relation to such reserves (for example restricted general funds, including GAG).
 - Identifies any amounts that have been designated, when material, and explains the purpose they have been designated for.
 - Identifies the amount of any fund that can only be realised by disposing of tangible fixed assets.
 - States the amount of reserves held at the balance sheet date after making allowance for any restricted and designated funds, and where plans for the future use of reserves are made, both the purpose and the likely timing of the expenditure should be explained.
 - Compares the amount of reserves held at the balance sheet date with the academy trust's reserves policy and explains any steps being taken to bring the level of reserves held into line with the level set out in the policy.

The Charity Commission guidance states that:

- Trustees are expected to decide, publish, implement and monitor their charity's reserves policy so that they can comply with their legal duties.
- In practice, this means that trustees should develop a reserves policy that:
 - fully justifies and clearly explains keeping or not keeping reserves.
 - identifies and plans for the maintenance of essential services for beneficiaries.
 - reflects the risks of unplanned closure associated with the charity's business model, spending commitments, potential liabilities and financial forecasts.
 - helps to address the risks of unplanned closure on their beneficiaries (in particular, vulnerable beneficiaries), staff and volunteers.
- Charities should publish the reserves policy (even if not required to by law) and ensure it is tailored to the charity's circumstances – it should not be just a standard form of wording. It should explain to funders, beneficiaries, the public and the Commission exactly what reserves are kept (or not kept) for and when they are to be used.
- Charities should make sure that their reserves policy is put in place and operated.
- Charities should regularly monitor and review the effectiveness of the policy in the light of the changing funding and financial climate and other risks

3. Definitions



Reserves are the representation of the balance available at the period end which is not otherwise designated for any other purpose and so is freely available to spend on any of the trust's purposes. In charity accounts, which are used for academies, this cash is transferred into fund balances. These balances can be for "restricted" or "unrestricted" purposes depending on their source.

Unrestricted Reserves

Unrestricted reserves are derived from income funds, grants or donations that can be spent at the discretion of trustees in furtherance of any of the trust's objectives.

If part of an unrestricted income fund is earmarked for a particular project, it may be 'designated' as a separate fund. However, the designation has an administrative purpose only and does not place restrictions on how the fund is eventually spent. Unrestricted reserves will be generally achieved through operating efficiencies and any from trading company profits.

Restricted Reserves

Restricted reserves are mainly derived from government grant funding through the ESFA (Education and Skills Funding Agency) but may also include other grants or donations provided for a specific purpose. Restricted reserves must be used in accordance with the limitations outlined in the original funding (in the case of ESFA funding, this is as detailed in the funding agreements).

4. Roles and responsibilities

4.1 Academy trustees

Academy trustees will:

- Ensure regularity and propriety in the use of the trust's funds and achieve economy, efficiency and effectiveness, the three elements of value for money.
- Take ownership of the trust's financial sustainability and its ability to operate as a going concern.
- Review and approve plans for expenditure from reserves.
- Regularly review trust reserves balances and ensure these are in line with trust policy and vision.
- Hold trust leadership to account for the implementation of this policy and good financial management.

4.2 The CEO and Accounting Officer (AO)

The CEO/AO is responsible for:

- Ensuring that staff are aware of and understand this policy, and that it is being implemented consistently.
- Being able to assure Parliament, and the public, of high standards of probity in the management of public funds, particularly regularity, propriety and value for money.

4.3 The Finance Director

The Finance Director is responsible for:



- Maintaining an accurate record of trust reserves balances and spend from these reserves and reporting this to the Trust Board.
- Ensuring that Principals' manage to the academy in-year budgets.
- Oversight of business case submissions for approval for expenditure from reserves.
- Reporting on individual academy reserves balance in the annual statutory accounts.

4.3 The Principal

The Principal will ensure that:

- The academy sets an in-year revenue budget annually and manages its finances to meet this set budget.
- Any additional in-year surpluses over and above the budgeted reserves contribution are spent in line with trust financial procedures and processes.
- All trust financial procedures and processes are followed.

5. Accumulation and use of reserves

5.1 Key principles

The following principles underpin the Trust's approach to reserves management:

- The trust will set a balanced in-year revenue budget every year
- The trust's reserves balance should only decrease due to capital investment and/or other organisational needs which shall at all times be approved by the Trust Board via business case
- All reserves are trust reserves, however individual academy reserves balances will be reported in order to facilitate administrative requirements and for the purposes of statutory accounting
- The Trust's general reserves balance may be comprised of restricted or unrestricted reserves.

5.2 General reserves balance

The trust general reserves balance will be maintained at a level equivalent to 10% of the total General Annual Grant anticipated in the relevant financial year. This is the percentage that trustees regard as an appropriate level of reserves for the following reasons:

- Mitigates the risk of unforeseen emergency or other unexpected need for funds.
- Reduces unnecessary stockpiling of surplus balances.
- Allows the trust to cover significant unforeseen operational costs, for example employing temporary staff to cover significant sick absences trust wide.
- Provides a buffer against a fall in a source of income, such as lettings.
- Allows the trust to accommodate planned commitments, which cannot be met by future income alone, for example plans for a major capital project.
- Eases any cash-flow problems as it may fund potential deficits in a cash budget, for example money may need to be spent before a funding grant is received.



A general reserves balance higher or lower than this figure must be supported by an appropriate plan. For reserves balances higher than the target rate, the trust will indicate how any excess balances will be spent/invested and within which timeframes. For reserves balances lower than the target rate, the trust must detail how the shortfall will be filled. Any cost saving initiatives must also give consideration to and discuss any associated impact on the quality of education being provided to pupils. Recovery timeframes must also be highlighted with milestones to assess progress.

The amount that academies are required to contribute to reserves will vary from year, as this amount is based on the GAG which varies every year. The reserves contributions by academy will be set annually for the following year as part of the budget setting for the year, this will be approved by the Trust Board.

5.3 Academy in-year surplus balances

An academy in-year revenue surplus balance over and above its agreed reserves contribution, may normally be spent as determined by the academy once the previous year's accounts have been closed. The agreed reserves contribution for the year will be determined in the budget setting process and therefore will be the revenue surplus which is set and approved by the Trust Board. This amount will be communicated to academy Principals no later than September of the relevant financial year, and will be subject to changes for any outstanding pay awards. Academies may use these surpluses for any in-year projects in line with the trust finance procedures and policies, and subject to the approval of the FD and the CEO. These reserves will not be carried forward into the next financial year without express approval from the Finance and Resources Committee.

During the course of the year any significant cost savings made should be discussed with the CEO and the FD before commitments are made to reallocate these savings to other priorities, particularly where this may include the appointment of permanent staff or has an impact on future budgets. All spend should be in line with the trust financial procedures include approvals to recruit staff, and any reallocation of funds must have the approval of the CEO and the FD in accordance with the Scheme of Delegation.

As the overall trust reserves balance must take priority however, the Finance & Resources Committee may at its discretion require all or part of an academy's remaining surplus in the current financial year to be added to general reserves to compensate for a shortfall elsewhere, either from previous years or for the current year.

5.4 Academy in-year deficit balances

In exceptional circumstances, individual academies may propose a deficit in-year budget. The trust will only approve an individual in-year deficit budget if this can be covered by cumulative brought forward trust reserves (as required by the Academies Trust Handbook).

Such a budget must be accompanied by a detailed rationale approved by the Finance & Resources Committee as part of the usual budget setting process, this should include how and when the academy would return to an in-year surplus budget.

5.5 Endowment funds

Any endowment funds must be managed in line with the original agreement for the fund.

5.6 New academies joining the trust



A surplus balance brought forward into the trust by a joining academy shall be deployed as follows, in priority order:

- To address urgent compliance and health and safety issues at the time of joining, as well as other urgent requirements determined by due diligence, e.g., school improvement, compliance issues
- Any remaining balance brought forward will be designated to the academy to be spent at its discretion.

A deficit balance brought forward into the trust by a joining academy would in the first instance be discussed with the Education and Skills Funding Agency (ESFA) and the relevant Local Authority in order to seek a write off of this deficit on transfer. Any remaining deficit shall be managed as followed:

- Identify steps and timelines to ensure an in-year surplus revenue budget for the academy.
- Agree with the joining academy how the remaining cumulative deficit will be dealt with.

5.7 Requests for expenditure from reserves

Any requests for expenditure from reserves must be submitted via the business case process, this will include approval from the CEO and FD, and from the Education Director where relevant.

The business case must then be submitted to the relevant committee for review before final submission to the Trust Board for approval.

Following approval, any spend must be reported to the Finance and Resources Committee and to the Trust Board regularly to ensure this continues to meet the aims and objectives of the trust and that the spend is not over budget.

Any plans which are intended for school improvement must be reported on to the Outcomes Committee including an assessment of the impact of the programme.

5.7 Reporting on reserves

The FD will ensure that reserves are reporting on annually in line with statutory requirements as part of the annual accounts. These will be approved by the Trust Board annually.

The FD will ensure that the reserves position is reported regularly to the Finance and Resources Committee and the Trust Board throughout the year, and in particular as part of the annual budget setting process.

Any spend from reserves will be reported on to the Finance and Resources Committee and the Trust Board regularly throughout the year.

6. Links to other policies or documents

This policy should be read in conjunction with:

- Finance Procedures and Processes
- Investment Policy
- Academies Trust Handbook (ATH)
- Academies Accounts Direction
- GAET's Scheme of Delegation