



CAPITAL & REVENUE RESERVES POLICY

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(This policy supersedes all previous Capital & Revenue Reserves policies)

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Change Log

Date	Changes to Policy
July 2019	Addition of introduction paragraph. Updating of paragraphs relating to Background, Principles and Purpose of Reserves, Section 3.10.1 Managing surplus General Annual Grant (GAG) updated to be in line with the Academy Financial Handbook 2019 now section 5.28
January 2020	Reserve level increased from £250,000 to £400,000
August 2021	Section 7.2 Reference to Finance/Audit & Estates Committee amended to Finance, Audit & Risk Committee Section 10 & 11, references to Academies Financial Handbook amended to Academy Trust Handbook and section 11 updated with extract re surplus GAG
October 2021	Section 5 - Upper limit of reserves to be held added – 10% of GAG income for the current year. For 21/22 this equates to £726,337.
Autumn 22	Section 5 – minimum value £400,000 removed and replaced with amount to cover for 1 month's salary bill. Upper limit value of £726,337 removed and description of 10% of GAG remains
Autumn 23	Section 11 – Updated ATH extract regarding surplus GAG

*** Trust – Refers to all Schools, Academies & Business Support Team within the Learning Academy Partnership**

Contents

1.	Introduction	3
2.	Purposes for Reserves	3
3.	Principles.....	3
4.	Capital	3
5.	Revenue.....	4
6.	Procedure	4
7.	Use of Reserves	4
8.	Ownership of Funds.....	5
9.	Charities and Education Funding Agency Accounting Requirements.....	5
10.	Appendix 1	5
11.	Academy Trust Handbook Extract.....	6

1. Introduction

- 1.1 Charities are required to establish a reserves policy in order to protect their operations. However, regardless of the regulatory requirement, establishing reserves that protect the operation of the Trust and contribute to its smooth running is good practice and forms part of its overall financial control and governance framework.
- 1.2 Whilst the Trust does not wish to hold an excessive level of reserves, as it believes that funds should be expended on the pupils of today, it also recognises that a level of reserve is required to cover unforeseen events and areas of investment.
- 1.3 The Trust will ensure that sufficient resources are available so that unexpected events can be accommodated without causing current year problems, generating deficit or cash flow issues.
- 1.4 Whilst the DfE require reserves to be limited to a level where its use in the future is known, there is an overriding need to ensure value for money.

2. Purposes for Reserves

- 2.1 The following purposes are considered appropriate:
 - Current Reserves that are established to manage known risks which are not insurable or where insurance does not provide value for money
 - Equalisation reserves set up to smooth out irregular spending
 - Specific Capital Reserves established in order to maintain and improve premises

3. Principles

- 3.1 This policy sets out some principles that the Trust adopts. The regulatory framework within which the policy has to be set is explained in appendix 1.
- 3.2 The policy takes into account the following principles:
 - Reserves must have a specific purpose related to future spending or covering current and future risks.
 - The size of the reserves should balance the benefit of current spending with the risks the reserves cover.
 - They should be transparent and maintain the link with the purposes for which the income was given.
 - To fund capital expenditure and other investments that would not be affordable if financed from a single year's funding.
 - General Reserve to provide for unexpected and unpredictable needs.
 - Cash Flow Management Reserves used to enable variable cash demands across the Trust or specific parts of the Trust to be managed.

4. Capital

4.1 Purpose

The Trust intends to create a reserve from each academy's annual GAG funding based on pupil numbers. The DfE provides minimal funding in the way of Devolved Formula Capital Grants. In addition, the academies are able to bid for a share of the Capital Investment Fund (CIF).

The Trustees require a capital reserve to be created:-

- to fund future capital expenditure which cannot be met from the annual budget
- to fund large project spends such as facility development or building

5. Revenue

5.1 Purpose

The Trust will hold contingency reserves from the GAG funding or other income. These may comprise unrestricted and restricted reserves.

The Trustees require a revenue reserve to be created:-

- to fund future expenditure related to the Trust Development Plan's strategic long-term aims and developments
- to cover uncertainty, turbulence or expected reduction in funding arrangements

The Trustees have determined that the appropriate level of reserves should be a minimum of one month's salary bill. The reason for this is to provide sufficient working capital to cover delays between spending and receipt of grant income and to provide a cushion to deal with unexpected emergencies such as urgent maintenance or long term sickness where unforeseen costs are incurred.

An upper limit of 10% of GAG income is advised to ensure that funds are being appropriately used. The exception to this is where The Trust has a planned project that requires a larger amount of funds to be invested and a larger amount of reserves to be built up to fund the investment, this will be agreed by Trustees.

The Trust will monitor the level of reserves to ensure that they are maintained at the required levels. In the event that they are partly used the Trust will strive to rebuild reserves up to the level needed.

5.2 Scope

The Chief Financial Officer (CFO) and the Operational Finance Lead, in conjunction with the Chief Executive Officer (CEO) are responsible for ensuring compliance with Trust's Policies and Procedures.

6. Procedure

6.1 The Trustees will agree the level of reserves to be created as part of the budget process.

6.2 Expenditure from the capital reserve will only occur as agreed budgeted expenditure. It will be approved by the Trustees as part of the budget process or at the next available Audit, Risk & Resources Committee meeting in exceptional circumstances. The approval will be noted in the minutes.

6.3 Surplus funds should be transferred to an investment account at such a time that is clear that to do so would not create a deficit cash flow situation.

6.4 Any investment account should have instant access, unless otherwise agreed by the Audit, Risk & Resources Committee in order to ensure any "unknown" major expenditure can be covered if necessary by the movement of cash to the current account to ensure cash flow does not indicate a deficit.

7. Use of Reserves

7.1 Identification of appropriate use of reserve funds

The Trustees and staff will identify the need for access to reserve funds and confirm that the use is consistent with the purpose of the reserve as described in this policy. This step requires analysis of the reason for any shortfall, the availability of any other sources of funds before using reserves and evaluation of the time period that the funds will be required and replenished.

7.2 Authorisation of use of reserves

Authorisation to use reserves of any kind will be made by the Trustees at the next available Finance, Audit & Risk Committee meeting, subject to the restrictions which will remain attached to the Restricted Funds (Revenue and Capital) and their use. The approval will be noted in the minutes.

7.3 Reporting and monitoring

The Trustees are responsible for ensuring that the funds are maintained and used only as described in this policy. Upon approval for the use of these funds, the Trust will maintain a record of the use of the funds. The Finance, Audit & Risk Committee will regularly monitor the progress of the reserves.

8. Ownership of Funds

- 8.1 All reserves are held centrally. The only exceptions will be where academies explicitly provide contributions to Academy specific reserves as agreed with Chief Financial Officer/CEO and ratified by Trustees.

9. Charities and Education Funding Agency Accounting Requirements

- 9.1 The Trust is required to report in its accounts the level of reserves held split between the restricted general funds, restricted capital fund and unrestricted fund. The Trust has discretion to move resources from unrestricted to restricted funds but not in the other direction and can transfer from restricted general funds to restricted capital funds.
- 9.2 As the Trust's entire operations are for education services all resources whether restricted or not would be used to support the same purpose. Therefore, the distinction between them has not influenced the policy below. This may change in the future particularly if community activities increase. In which case, this policy will be reviewed.
- 9.3 A key judgement that is performed as part of the external audit of the Trust's accounts is that the Trust will comply with FRS18. The Trust must, in preparing the annual statement of accounts, undertake an assessment of the Trust's ability to continue as a going concern. The level of reserves held by the Trust will be a factor in judging whether the Trust will remain a going concern.

10. Appendix 1

10.1 Regulatory Framework

The rules established by the Department of Education in relation to reserves is set out in the Funding Agreement between the Trust and the Secretary of State for Education and in the Academy Trust Handbook. The relevant paragraphs are set out below.

10.2 Funding Agreement

73) At the beginning of any Academy Financial Year the Trust may hold unspent GAG for any Academy from previous Academy Financial Years amounting to such percentage (if any) as the Secretary of State may specify by notice in writing to the Trust prior to the beginning of that Academy Financial Year of the total GAG payable for the Academy in the Academy Financial Year just ended or such higher amount as may from time to time be agreed. The Trust shall use such carried forward amount for such purpose, or subject to such restrictions on its use, as the Secretary of State may specify by notice in writing to the Trust.

74) Notwithstanding clause 73 and additional grant provided over and above that set out in clauses 43-49 and made in accordance with clauses 50-52 may be carried forward without limitation or deduction until the Start-up Period or the circumstances set out in clause 52 come to an end.

75) Any savings of GAG not allowed to be carried forward under clauses 73-74 will be taken into account in the payment of subsequent grant.

76) The Trust may also accumulate funds from private sources or public sources other than grants from the Secretary of State for application to the benefit of the Academy as it sees fit. Any surplus arising from private sources or public sources other than grants from the Secretary of State shall be separately identified in the Trust's balance sheet.

80) It is the responsibility of the Trust to ensure that each Academy balances its budget from Academy Financial Year to Academy Financial Year. For avoidance of doubt, this does not prevent the Trust from:

- a) carrying a surplus from one Academy Financial Year to the next; or
- b) carrying forward from a previous Academy Financial Year or Academy Financial Years a sufficient surplus or sufficient cumulative surpluses on grants from the Secretary of State to meet an in-year deficit on such grants in a subsequent financial year; or
- c) incurring an in-year deficit on funds from sources other than grants from the Secretary of State in any Academy Financial Year, provided it does not affect the Trust's responsibility to ensure that the Trust balances its overall budget from Academy Financial Year to Academy Financial Year.

11. Academy Trust Handbook Extract

11.1 Managing General Annual Grant (GAG)

Managing surplus GAG

5.29 ESFA previously set limits on GAG carried forward by trusts from year-to-year. These limits have now been removed for eligible trusts (see section 5.60).