

2023-24 RESERVES POLICY, PROCEDURE & GUIDANCE

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1.0 POLICY STATEMENT

The Board of Directors (trust board) of SHARE Multi Academy Trust recognise that the Reserves Policy must address the management of financial risk across the trust, be in line with the trust's vision and values whilst being mindful that existing pupils are not disadvantaged through the retention of excessive reserves.

The board is responsible for the policy and approval of expenditure of reserves in line with the Financial Authorities in the Scheme of Delegation. The Chief Executive Officer is responsible for the implementation of the policy in conjunction with the Chief Finance Officer and the Principals/Heads of Academies.

2.0 POLICY AIMS

The policy aims are as follows:

- 2.1 To ensure a consistent reserves policy across the trust.
- 2.2 To identify an appropriate range of reserves for the trust.
- 2.3 To identify an appropriate level of reserves for each academy and the central fund.
- 2.4 To explain the reason for holding reserve balances.
- 2.5 To ensure internal control arrangements within the trust are operating effectively and ensure proper stewardship over public funds.
- 2.6 To ensure that the board receives oversight of the reserves position of the trust and challenge this position as required.
- 2.7 To ensure that the trust adopts a structure of prudent financial management and maintains sufficient reserves to meet the future needs of the trust and its academies.
- 2.8 To inform the budget and risk management processes by considering whether reserves need to be used during the financial year to address an in-year deficit budget.
- 2.9 To assist strategic planning by considering how new projects or activities will be funded.

3.0 SCOPE OF THE POLICY

This policy has been formulated in accordance with the ESFA Academies Trust Handbook (ATH), the Academies Accounts Direction (AAD) and guidance issued by the ESFA on academy trust reserves.

As documented in the ATH:

Part 2: Main Financial Requirements

*2.10 The board of trustees **must** approve and minute their approval of a balanced budget, and any significant changes to it, for the financial year to 31 August, which can draw on unspent funds brought forward from previous years.*

*2.17 The board of trustees **must** notify ESFA within 14 calendar days of its meeting if proposing to set a deficit revenue budget for the current financial year, which it cannot address after taking into account unspent funds from previous years, as this would be non-compliant with the funding agreement and this handbook.*

Part 5: Delegated Authorities

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.



3.0 SCOPE OF THE POLICY / continued

5.30 The ability to amalgamate and direct funds to meet improvement priorities and need across the trust's schools can be integral to a trust's successful financial operating model. A trust with multiple academies can amalgamate GAG for its academies to form one central fund. This practice can enhance a trust's ability to allocate resources in line with improvement priorities and running costs across the trust's constituent academies.

5.31 If a trust decides to pool GAG, it **must** consider the funding needs and allocations of each constituent academy. The trust **must** have an appeals mechanism and an appeal can be escalated to ESFA, if not resolved. ESFA's decision will be final and can result in the pooling provisions being dis-applied. A trust **must** not pool PFI funding, in accordance with its funding agreement.

Academy trusts are required to prepare their financial statements as set out in the AAD. The AAD sets out what information trusts must include about their reserves policy in their annual report, in particular the level of reserves identified by the trustees as being appropriate, and the reason for holding reserves.

4.0 TRUST LEVEL OF RESERVES

- 4.1 The reserves policy applies to the free reserves of the trust. The trust considers its free reserves to be made up of funds permitted to be used for the general running of the trust's main activity of delivering education. These are the balance of the unspent unrestricted funds of the trust plus the balance of unspent General annual grant ("GAG").
- 4.2 The trust aims to ensure that there is a minimum 10% of free reserves at any given point in time. This equates to approximately the cost of one months' revenue expenditure for the trust, staff salaries being the key monthly outgoing which the trust, under no circumstances, would be willing to default on.
- 4.3 The trust aims to ensure that the maximum level of free reserves at any given point in time is 18%. By setting a maximum range the trust aims to ensure that it remains protected from financial vulnerabilities whilst ensuring funding is utilised to benefit current pupils.
- 4.4 A comparative between the current level of free reserves and the reserves range detailed in this policy should be reviewed by the trust, annually.
- 4.5 The range of free reserves set out in this policy should ensure that sufficient funds are held to enable the trust to manage financial risks in the short to medium term. General reserves are held to cushion additional cost or losses in income in the short term as the forecast cost of each individual risk is difficult to measure. This buys some time to implement changes that mitigate the risk. Current areas of risk identified are:
 - Short term fluctuations in income e.g. reduced pupil numbers.
 - Longer term changes in income due to local falling birth rates.
 - Funding of unforeseen expenditure e.g. urgent maintenance work.
 - Funding of material capital projects e.g. building improvement works.
 - Delivering a robust program for renewal and replacement of academy assets.
 - Funding of staffing costs that cannot reasonably be reduced within the required timeframe, up to the point that procedures can be implemented to reduce costs moving forward.



4.0 TRUST LEVEL OF RESERVES / continued

- Funding of redundancy costs/severance payments to facilitate cost reductions moving forward.
- Funding of staffing costs to support additional resources in teaching and learning as considered necessary by the trust.
- Strategic development and growth. This includes preparing for new schools to join the trust, or for existing academies to expand; and
- Investing in the central services of the trust to improve delivery to academies within the trust or preparing to increase central capacity for new schools joining the trust.

4.6 The trust may decide to designate reserves for capital projects in accordance with the trust's capital investment strategy.

4.7 The trust will endeavour to ensure funds which are being held for future projects are invested to generate extra income for the trust. This investment will be within the trust's investment policy and allow for access to the funds should they become needed.

4.8 Reserves relating to the trust's pension liability should be taken into consideration. The trust should assess its ability to meet the required pension contributions from projected future income without significantly impacting upon its planned level of activities.

5.0 ACADAMEY LEVEL OF RESERVES

5.1 It is anticipated that all trust academies, will hold a prudent level of free reserves to meet short term financial commitments.

5.2 Each academy will be reviewed on an individual basis and set an individual free reserves range with reference to the trust wide reserves strategy and their individual needs and requirements.

5.3 The individual ranges for academies are set after taking into consideration the following:

- the trust wide reserves policy, the total free reserves held by the trust should be between 10% and 18%.
- free reserves should have a specific purpose related to future spending or covering current and future risks.
- the financial position of each academy, the size of individual free reserves should balance the benefit of current spending with the long-term risks and plans of the academy.
- the use of any reserves should be transparent and maintain the link with the purposes for which the income was given and sufficient resources should be available so that unexpected events can be accommodated without causing current year problems, leading to deficit or cash-flow issues.



5.0 ACADAMEY LEVEL OF RESERVES/continued

- 5.4 Academies are expected to hold sufficient reserves levels throughout the medium term (3 year) plan. Free reserves at an academy level falling outside the specified range will require headteachers to provide trustees with a rationale for approval, with a plan (in writing) of how reserves will be maintained at the agreed levels over the next 3 years.
- 5.5 Central services should maintain a minimum of £50k within free reserves at all times (reviewed annually based on risk).
- 5.6 A comparison between the current individual academy free reserves and the specified range set should be reviewed regularly by the trust.
- 5.7 It is expected that all academies within the trust will set a balanced budget for the year. Any forecast in-year surplus will be reviewed by the board, Chief Executive Officer and Chief Finance Officer to ensure that existing students are not disadvantaged through the retention of excessive reserves.

6.0 EXPENDITURE UTILISING CARRIED FORWARD FREE RESERVES

- 6.1 Any request for expenditure against the free reserves balance must be notified by the academy to the Chief Executive Officer and Chief Finance Officer, using the **Request Against Reserves Form** found at appendix A.
- 6.2 This request will be presented to the central team for scrutiny and passed to the board for approval if required by the scheme of delegation.

7.0 POOLING RESERVES

- 7.1 The ESFA is flexible in its approach to pooling of reserves (which can be fully, partially or not pooled) by trusts.
- 7.2 For the financial year 2023-24, the trust board specified trust reserves of each academy would remain with the relevant academy and will not be pooled by the trust, and individual academies take responsibility of managing their own revenue reserves within the context of budgets agreed with central services.
- 7.3 The trust board review this decision annually during budget setting. There may be instances where pooling of reserves may be considered necessary, such as for a major capital project. In such circumstances the central team would consult with individual academies and a case be presented for authorisation by the trust board.
- 7.4 Any reserves accumulated in the trust will be spent at the discretion of the trust board.

8.0 REPORTING RESERVES

- 8.1 Reserves are reported annually in the Annual Report and Financial Statements delivered to the Education & Skills Funding Agency (ESFA), Companies House and published on the trust's website in line with the requirements of the AAD & ATH. The wording of the reserves policy within the financial statements is included in appendix B.
- 8.2 In addition, reserves will be reported as part of periodic spending review reporting.



Appendix A

SHARE MULTI ACADEMY TRUST APPLICATION FOR EXPENDITURE AGAINST RESERVES

EXECUTIVE SUMMARY

Academy:
Project details:
Amount requested:
Current year budget position:
Free reserves b/fwd from previous year:

RESERVES PERCENTAGE SUMMARY

Range set: ____% to ____%

Current projected reserves percentage:

This is: $\frac{\text{the value of reserves carried forward plus/minus your projected budget surplus/deficit}}{\text{total income of the academy less any one-off capital income}} \times 100$

projected reserves percentage after amount requested:

as calculated above adjusted for the requested expenditure from reserves.

BUSINESS CASE

Introduction & project scope:

Summary of cost / Tenders received:

Submitted by:

Date:

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Approved by:

Date:

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Chief Executive Officer

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Chief Financial Officer



Appendix B

RESERVES POLICY WORDING FOR INCLUSION IN THE YEAR END FINANCIAL STATEMENTS ANNUAL REPORT

The DfE expects academy trusts to use their allocated funding each year for the full benefit of the current pupils. Therefore, it is important that if the trust has a substantial surplus there is a clear plan how it will be used to benefit the pupils and to fulfil the trust's charitable objectives.

The trust is mainly funded by grants from the ESFA, the use of which is regulated by its Funding Agreement.

As a trust we set aside funds for future use in both revenue and capital to ensure we have adequate headroom for cashflow, as a contingency for future changes and uncertainties, for planned capital investments and improvements, and to facilitate strategic development and growth. Our policy on reserves recognises the difficult financial climate we are in, uncertainties surrounding ESFA income and future pupil numbers and the fact that there is less capacity to build up capital funds for longer term needs.

The trust reserves can be split into 3 types. Fixed asset reserves which include funds tied up in fixed assets which cannot be easily liquidated along with unspent restricted capital funding. The pensions reserve which relates to the Local Government Pension Scheme inherited from the local authority on conversion. This reserve is required to cover the trust's share of the pension scheme liabilities. The trustees do not consider the pension liability to be part of the short to medium term reserve requirements, providing the trust can meet its monthly pension contributions. Finally, the general reserves, also known as the free reserves of the trust, which are made up of unrestricted and restricted revenue funds and are available for the general objectives of the trust subject to restrictions imposed by the funding provider.

The purpose of the reserves policy is to establish a framework within which decisions will be made about the level and intended use of the trusts free reserves. This policy also provides the framework for future strategic planning and decision making. Our reserves policy informs the management of financial risk and restricts the impact of any risk upon the continuing operations of the trust. It serves to ensure the stability of the trust's organisational operations and to protect them, so it has the ability to make sufficient provision for future cash flow requirements and adjust quickly to any financial circumstances.

The trust holds reserves to inform the budget and risk management process by identifying uncertainty in future income streams, for funding new projects, e.g. premises and infrastructure and achieving a balanced budget in the longer term. The ESFA do not impose any restriction on the level of reserves held but can challenge the level if deemed to be either insufficient or excessive. To avoid such challenge, full disclosure is made in the trustees' report to explain the level of reserves retained by the trust.

After careful consideration of the guidance issued by the ESFA and charity commission along with the assessment of the risks faced by the trust the trustees feel that the trust wide level of reserves should aim to be between 10% and 18% of recurring income. Setting the trust's free reserves within this banding will ensure it remains protected from financial vulnerabilities whilst ensuring funding is utilised to benefit pupils.

Free reserves are also monitored and reviewed at an academy level. A detailed breakdown of the free reserves by school is available in the notes to the financial statements. The level of reserves held at an academy level is set by the central leadership team and approved by the trustees.

The individual ranges for academies are set after taking into consideration the following:



- the trust wide reserves policy, the total funds held by the trust should be between 10% and 18%.
- reserves should have a specific purpose related to future spending or covering current and future risks.
- the financial position of each academy, the size of reserves should balance the benefit of current spending with the long-term risks and plans of the academy.
- the use of any reserves should be transparent and maintain the link with the purposes for which the income was given; and
- sufficient resources should be available so that unexpected events can be accommodated without causing current year problems, leading to deficit or cash-flow issues.

Free reserves at an academy level falling outside the specified range will require headteachers to provide trustees with a rationale for approval, with a plan (in writing) of how reserves will be maintained at the agreed levels over the next 3 years.

As of the 31 August 2023 the free reserves of the trust were £8.1m, equating to 20% of income, after adjusting for non-recurring conversion income received during the year. The board has reviewed this balance and agree that it is adequate to meet future needs, although it is higher than the reserves policy range of 10% to 18%. Currently the trust is carrying reserves in excess of its reserves policy in order to support a number of planned infrastructure projects including the installation of 3G sports pitches at two secondary schools and major mechanical and electrical maintenance work. The percentage of reserves available after allowing for approved capital projects is 14.4% which is within the trusts reserves policy range.

It is planned that general free reserves will be used to ensure financial viability in the short to medium term as we face uncertainty in the national funding framework. It will also be used for funding building and refurbishment projects outlined in our capital plan.