



Reserves Policy

Who is responsible	Finance & Resources Committee
Statutory policy	No
Review timescale	Annual
Last review	
Created on	9 th October 2017
Next review	October 2018

1.0 Introduction

Wellsway Multi Academy Trust (WMAT) has established this reserves policy to protect 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 WMAT caused by funding uncertainty.

This policy and the establishment of reserve targets should be based on a continual assessment of the internal and external operating environment.

The policy takes into account the Academies Financial Handbook (AFH) and guidance from the Charity Commission. Whilst the 2017 AFH is relatively silent on the issue of reserves, it does state the following:

Trusts should use their allocated GAG funding for the full benefit of their current pupils. If a trust has a substantial surplus they should have a clear plan for how it will be used to benefit their pupils, for example a long-term capital project... ESFA will report to DfE any trusts where it has serious concerns about a long-term substantial surplus with no clear plans for its use.

The Charity Commission reminds directors that:

- Charity law requires any income received by the Trust to be spent within a reasonable period of receipt.
- A good reserves policy takes into account the Trust's financial circumstances and other relevant factors.
- It is good practice to monitor the level of reserves throughout the year.

2.0 Types of reserves

Reserves are the representation of the cash balance available at the period end. 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.

2.1 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.

2.2 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 Trust’s funding agreement).

3.0 Key policy 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 Finance Committee.
- All reserves are Trust reserves, however individual school 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.

4.0 Trust general reserves balance

The Trust general reserves balance will be maintained at a level **equivalent to 5% of combined General Annual Grant for all schools** subject to 10% tolerance either way (so between 4.5% and 5.5% of GAG). Therefore if the combined GAG for the following year is forecasted to be £20m, the Trust's reserves balance should be £1m but can remain between £900,000 and £1,100,000. This is the percentage that Trustees regard as an appropriate level of reserves, given the current operating environment. It also takes into account that the Trust is eligible for an annual School Condition Allocation (SCA), therefore Trust reserves will not normally be required to fund capital projects. For the avoidance of doubt, the 5% of GAG target reserves does not therefore include any carry forward of unspent SCA.

A general reserves balance higher than this figure must be supported by an appropriate plan, for example for expenditure on school improvement or capital works, or to mitigate a specific foreseen risk.

The combined amount that schools are required to contribute to reserves will vary from year, as this amount is defined by what is required to make the reserves balance up to the 5% of GAG target. If for example the target is £1m and the current reserves balance is £900,000, the combined schools contribution will be £100,000.

The combined schools' contribution will be set annually for the following year once February (half year) Management Accounts are completed and will be based on the forecasted current year - end reserves balance at that point, together with estimated combined GAG for the following year. Contributions will then be included in schools' budgets for the following year.

5.0 School in year surplus balances

A school in - year surplus balance over and above its agreed reserves contribution, may normally be spent as determined by the school, once the previous year's accounts have been closed. Schools may designate these reserves to specific short term projects that will be completed within two years but reserves may not be carried forward for more than two years without the express approval of the Finance Committee. As the overall Trust reserves balance must take priority however, the Finance Committee may at its discretion require all or part of a school's remaining surplus to be added to general reserves to compensate for a shortfall elsewhere.

6.0 Sinking funds

Sinking funds for specific regeneration projects, for example the replacement of an all-weather pitch, fall outside of the general reserves balance and should be agreed annually by the Finance Committee. Contributions to sinking funds should be derived from trading company profits or the Committee may at its discretion allocate funds from the general reserves balance.

7.0 Joiner schools

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

1. to address urgent compliance and health & safety issues at the time of conversion, as well as other urgent requirements determined by due diligence, eg school improvement. Compliance and health & safety issues will normally be determined by a condition survey commissioned by the Trust.
2. 90% of any remaining balance brought forward will be designated to the school to be spent at its discretion and 10% will be added to Trust general reserves

8.0 Academies in deficit

In exceptional circumstances, individual schools may propose a deficit in - year budget. Such a budget must be accompanied by a recovery plan approved by the Finance Committee, resulting in the deficit being 'repaid' within a timeframe deemed acceptable by the Committee.

Schools with a cumulative deficit shall continue to contribute all in - year surplus to reserves until it has achieved a cumulative surplus position.

9.0 Expenditure against reserves balances

Trustees may temporarily decide to increase the reserves balance over the 5% of GAG target, for example to fund a specific school improvement initiative. Expenditure that subsequently draws on reserves must be approved in advance by the Finance Committee. In exceptional cases, for example where expenditure is necessary to comply with a statutory requirement, reserves may be spent without prior approval (but subject to purchasing authority limits within the Finance Policy) but must be reported at the next Finance committee meeting.