POLICY DOCUMENT

Reserves Policy

Approved by FRAC
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Document Control	
Title	Reserves
Purpose	To justify reserves held and explain how reserves are used to manage uncertainty
Supersedes	Previous version
Amendments	Change to paragraph in section 3 to state that the scheme of delegation must be adhered to. Amendment to core reserves percentage from 7% to 6%
Related Policies/Guidance	Financial Scheme of Delegation
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Signature of Chair	Jim Battle.

Wise Owl Trust
is a Multi Academy Trust
Registered in England and Wales number 8053288
Registered Office: Trust House, c/o Seymour Road Academy, Seymour Road South, Clayton, Manchester, M11 4PR

The Wise Owl trust has a number of Trust-wide policies which are adopted by all the academies in the Trust to ensure an equitable and consistent delivery of provision. The Trust Board has responsibility for the operation of all academies and the outcomes of all students; however, responsibility is delegated to the Local Governing Body of each school via the Scheme of Delegation.

Within our policies reference to:

- Governing Body/Governors relate to the members of the Local School Committees representing the Trust Board.
- School/Academy will be used throughout the policies in reference to Academies within the Trust.
- Headteacher/Principal will be used interchangeably throughout policies and will relate to the Principal of the Academy.

Contents

1. Introduction

The Trust must be able to justify reserves held and explain how reserves are used to manage uncertainty. The Trust must also explain when reserves are to be spent and how it will fund future activity. The Trust, including the schools within it, are required to adhere to:

- The Trust's Master Funding Agreement with the Secretary of State;
- The Academies Trust Handbook
- Charity law

In practice, this means the Trust 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 Trust's business model, spending commitments, potential liabilities and financial forecasts; and
- helps to address the risks of unplanned closure on their beneficiaries (in particular, vulnerable beneficiaries), staff and volunteers.

Reserves will be split into three separate categories:

1. **Core Reserve –** minimum operating funds
2. **Contingency reserve** – "rainy day" – operational issues
3. **Investment reserves –** future planned savings

Splitting reserves in this way allows the Trust to maintain a core reserve of money to ensure the financial viability of the Trust and for schools to be able to respond to operational issues and save for the future. Existing school reserves will be split amongst these three reserves categories with Core reserves needing to be at the minimum level for the school before other reserves are created.

It should be noted that reserves form part of the cash balance for each school. The total cash balance across all schools is managed centrally and invested prudently in interest earning bank accounts. The interest earned is passed back to schools based on their average cash balance. Example: If a school has a consistent reserves balance of £150k, which represented 3% of total Trust reserves, it would receive 3% of the interest income generated. If interest income for the year were £100k for the year, this would total £3k.

2. Core Reserves

This reserve is the minimum reserve of money that the Trust requires as a financially sustainable organisation. It is common practice and recommended for all organisations to have a healthy reserve that is only accessed in the most critical and exceptional circumstances. Examples of this include significant, urgent school capital issues that could not be foreseen (not covered by School Condition Allocation or Direct Formula Capital funding) or redundancy payments due to school closure. There is no specific legal rule which states what proportion of a charity's funds may be held as a reserve.

The Trust has proposed to set a core reserve of 6% of annual GAG income (this equates to approx. £436k at the forecasted 23/24 levels, or between 2 to 3 weeks' worth of operating expenditure). From GAG funding, each school will allocate 6% of their total income. Schools will be able to build up their contribution over a pre-agreed timeframe that takes account of their context and financial situation, as agreed by Executives. Once the collective reserve has been achieved, schools will not be required to further contribute towards it.

As a school's income changes, for example through increasing or reducing pupil numbers, the amount of Core Reserves required will vary accordingly. This should be reflected and planned for through the annual budget process, and will only be addressed 'in-year' in the most exceptional of circumstances. *Example: A school with GAG income totalling £2.2m pa will require £154k of Core Reserves. If the school's GAG income reduces to £2.0m, the required Core Reserves will reduce to £140k and the freed up funds may be used elsewhere by the school.*

It must be noted that this money remains in schools' financial statements whilst being ring fenced as a minimum reserve of money that schools and the Trust need for financial sustainability. If, in extreme circumstances, a school needs to access these funds, pre-approval will be required and the money will be repaid over an agreed period of time so that the reserve returns to its full amount. Due to the nature of this reserve and the infrequency that schools will access it, a business case will be required to access this reserve. This is the only reserve that will require a business case to access funding once all schools have reached their Core Reserves target.
In simple terms, the Core Reserve must be seen as a last resort and will only be made available to schools in extreme, unforeseeable circumstances. It helps ensure the long-term financial viability of the Trust and, therefore, its ability to continue to operate.

The contribution amount is 6% of the school's total annual GAG income and must be maintained at this level as a school's GAG income increases due to inflation, and may vary as a result of changes in pupil numbers. If a school cannot achieve the Core Reserves immediately, they are expected to plan to achieve the Core Reserves figures as part of the budget setting process. The time taken to achieve the balance will be subject to scrutiny and should not normally exceed 3 years. Once a school has achieved a Core Reserve of 6% of its GAG income, it need only ensure that the balance remains at 6% as part of the annual budgeting process.

Example: The figures below are for illustrative purposes only; a school's core reserves will be based on its actual GAG income.

- A 1FE school, assuming £1.2m of GAG income – Core Reserves will be £72k.
- A 2FE school, assuming £2.2m of GAG income – Core Reserves will be £132k.
- A 3FE school, assuming £3.2m of GAG income – Core Reserves will be £192k.

If a 3FE school were to reduce to a 2FE school, the required Core reserves would reduce, in the above examples, by £60k, and this could be used to fund a restructuring.

3. Contingency Reserves

Contingency reserves are held within schools' budgets as an unallocated reserve of money that schools require to respond to unforeseen operational costs. This would previously have been known as a virement – a process of transferring from one account to another. This allows for schools to be flexible during the academic year and avoid 'padding' their budget as contingency. Examples of this include unforeseen long-term absence cover, or boiler and other repairs.
There is no set amount for this reserve but it is recommended that schools account for at least 4%. The context of the school and the specific challenges it faces will also help to adjust the amount of this reserve. For example, schools who have high mobility may have less stable pupil numbers and will need flexibility to respond accordingly.

Examples:

- Maternity / paternity leave or Sickness absence – average cost of a teacher £45,000 PA
- Unplanned recruitment – up to £500
- Boiler repairs – between £5,000 and £10,000
- Boiler replacement – up to £100,000
- Pupil number reduction – average £4,500 per pupil

Schools are free to spend this money as they see fit (without the need for a business case) but may be challenged retrospectively if this reserve is spent in a way that results in the school not being able to cover unforeseen costs. An example of this would be purchasing non-essential educational resources from this reserve before the year-end and then not being able to cover long-term absence. However, it should be noted that any expenditure must still be in accordance with the Trusts Financial Scheme of Delegation/Financial Regulations and in adhere to purchasing procedures within the Financial Regulations. Measures, set out below, will be in place in such circumstances. If, at the end of the year, the reserve has not been spent, it may be used towards core reserves, kept as contingency reserve for the future, spent or allocated as investment reserves. In simple terms, this reserve may be seen as a "rainy day" fund. It protects the school from lower level, unforeseen expenditure or reductions in income that history tells us will occur.

If this reserve is used at any point during a year, the school will need to ensure that plans are put in place to replenish this reserve to the required level over the next couple of years. Any "recovery" plan will again need to be agreed with the Chief Executive Officer (CEO) and Chief Finance & Operations Officer (CFOO)

4. Investment Reserves

Investment reserves are held centrally by the Trust and are an unallocated reserve of money that the Trust and schools will use for longer-term, generally planned, strategic spending. Examples include saving to improve the EYFS area in a school or a rolling programme of IT hardware replacement. There is no set amount that this reserve will be and it is linked closely with both the Trust's and each school's development plan.

It has been suggested that this amount be a minimum of 6% of the school's GAG income annually. The school's longer-term strategic goals, in consultation with the central team (CEO, Director of Education and CFOO), should be used to set the amount of this reserve and agree the priorities for the school including when the money will be spent.

The central team will help schools plan what may be most beneficial for children and how this also contributes to the Trust's 5-year plan. There is no upper limit set on this reserve but schools may be challenged if large amounts begin to accrue without a plan of how it will be spent to benefit children within the school. It is worth noting that this reserve will ebb and flow as money is saved and spent. Schools must agree any capital spend from this reserve with the central Team and must be approved in accordance with the Trusts' Financial Scheme of Delegation

It is also necessary for schools to adhere to their plans of when they intend to spend the money as it helps the Trust account for the spend. Where frameworks have been implemented and preferred suppliers agreed, schools will be expected to ensure that expenditure is in line with those agreements. In simple terms, this reserve should be seen as a 'savings account'. It allows the trust/schools to plan for future projects that take time to save up for, whilst allow schools to be agile in responding to emerging need.

5. Approval process

Core reserves may only be accessed in the most critical circumstances and a business case will be required to access these reserves. The business case will set out why the money is required, how the money will be repaid and a plan for long-term sustainability of finances.
Core reserves may be accessed under two broad headings of:

(i) critical unforeseen costs; and
(ii) licensed deficits.

Critical unforeseen costs

These are generally those which would lead to the closure of a school or immediate serious harm to staff or children. An example of this may be gas pipes within the school needing urgent repair. It must be noted that these are issues that cannot be foreseen or are unreasonable to be monitored very regularly. Issues such as boiler repair do not fall within this category as the maintenance of a boiler can be monitored and schools should be making allowance for potential boiler issues within their contingency reserve.

Due to the unlikely possibility that the core reserves will be accessed in this way, an urgent business case will be submitted directly to the CEO & CFOO by the school principal. In the case of an essential capital project that cannot be covered by Devolved Formula Capital, the school must submit with its business case an agreed action plan and recovery strategy that demonstrates a non-deficit budget at the end of a specified period (the maximum is normally three years). A recommendation will be made to the appropriate committee/board, in line with the Trusts Financial Scheme of Delegation.

Once approved, a business case will be valid for a period of one year which will take into account the works required, project duration and work commencement date. If funds have not been spent during this time, a new business case will need to be submitted to reapply for funds. If funds have been spent but only in part, this will need to be communicated to the CFOO, with an agreed time frame for the works to complete. This would be escalated to the Finance Risk & Audit Committee (who in turn may need to consult with other Committees) to consider if a pricing and re-tendering exercise is required.

Licensed deficits

These are circumstances where a school will have to submit a deficit budget. The aim of the Trust is that no school will operate with a deficit budget. However, due to a variety of reasons such as challenging educational issues (sudden drop in pupil numbers), facilities circumstances and /or inherited historical or current financial mismanagement, a minority of schools are operating with a deficit budget. For those who have inherited historical or current financial mismanagement, specific support will be put in place – see below for further details.

Budget deficits

A school should submit a realistic budget for approval by Trustee's, which balances risks to ensure sufficient contingency exists within that budget, and takes account of the use of investment reserves which the school has previously put aside. Budgets must ensure that sufficient reserves are in place to (i) meet its future investment needs, (ii) meet any changes to Core Reserves, and (iii) allow for contingency.

Subject to budget approval by Trustees, the school may carry out expenditure in line with the budget, continuing to maintain the necessary reserves. During the transitional period, whilst schools strive to contribute to the Core Reserves and build up appropriate Investment and Contingency reserves, it will be necessary to limit schools' access to Investment reserves in order to maintain sufficient reserves across the Trust. Schools who subsequently discover they are unable to achieve their budget, and who have no investment or contingency reserves, should submit a business case for a budget deficit. The budget deficit, if approved, would be supported through an "internal loan" from the Core Reserves held across the Trust. Approval of a deficit budget is for the purpose detailed in the business case only. It is worth reiterating that deficits will not be written off and that schools with reserves are not funding financial management issues within other schools or the central team. Deficits will be paid back to the core reserve over the timeframe that has been agreed.

Support for schools with financial issues

The Accounting Officer (Sophie Murfin) is accountable for value for money, regularity and propriety of finances in the Trust. To achieve this, in the majority of schools, budgets are delegated to Principles and their team with support from the finance team. The Trust has a responsibility to ensure that those who are responsible for managing finances within schools have received appropriate training to not only meet their legal obligations but also make the most of the money that the school has.

Oversight and quality assurance

To provide transparency and clarity of spending, schools' budgets will be scrutinised and ratified across all tiers of governance. Further to this, details of spending by the central team will be available to schools within the Trust. This helps support schools in good financial health as well as helping schools better understand how the money that the central team retains is spent to help achieve the Trust's aims. It is right and proper that schools are able to challenge the Trust in how it spends money.