Reserves Policy

Approved by:	Finance, Audit & Resources	**Date:** 29 September 2021
Last reviewed:	September 2021	
Next review due by:	September 2024	

1. Introduction

This policy establishes a framework within which decisions will be made regarding the level of reserves held by the Trust and the purposes for which they will be used and maintained. The DfE expects Academy Trusts to use their allocated funding each year for the full benefit of the schools 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.

2. Definitions

Reserves are sums of money held by the Trust to meet future expenditure. There are two principal types of reserves:

(a) Uncommitted reserves (or free reserves) which are kept to meet short term, unforeseeable expenditure and to enable significant changes in resources or expenditure to be properly managed over the period of each school's 5 Year Plan.

(b) Committed reserves which are held for specific purposes.

Details of all reserves and year-end balances are contained in the Trust's annual Statement of Accounts.

3. Uncommitted Reserves

The Trust will maintain a level of uncommitted reserves to:

- Provide a ***short term working balance*** to cushion the impact of uneven cash flows. Currently this is assessed as one month's payroll bill and operating costs for Advantage Schools.
- Support the continued expansion and development of the Trust
- Plan for potential major items of expenditure for example capital works or emergency repairs;
- Provide a contingency to cushion the impact of unexpected events, emergencies and large shortfalls in budgets for example fluctuations in student numbers;

The appropriate level of reserves for this purpose will be determined by Advantage Schools Strategic Plan, which will be reviewed annually and will be subject to approval by the Trustees.

The adequacy of the uncommitted reserves balance will be determined by assessing the financial risks associated with meeting continuing obligations to provide services and improve student outcomes. To this end the Risk Register of the Trust will be reviewed at least annually.

4. Committed reserves

Committed reserves are not available to the Trust for use in its budget setting process.

They are required for specific purposes and are a means of building up funds to meet known or predicted liabilities. These reserves should have no specific limit set on them but they should be reasonable for the purpose held and it must be agreed that they are used for the item for which they have been set aside and transferred to the uncommitted reserve if it is found they are not required. In order to establish that they are fit for purpose, there will be a review of balances at least annually.

5. Factors Determining Reserves

Factors which should be taken into account in determining the overall level of reserves and balances are:

- Development and growth of the Trust
- Changes to funding formula that impact on the school
- Pupil numbers
- Cash flow issues due to delays in receipt of funding
- Assumptions regarding inflation
- Each school's condition survey/capital projects
- Each school's track record in budget management
- Each school's capacity to manage in year budget pressures e.g. syllabus changes or information technology developments
- The adequacy of insurance arrangements
- An assessment of external risks
- Impact of major unforeseen events and likely level of Government support

The uncommitted reserve balance will be reviewed and projections on future balances will be made as part of the budget setting process and update of the Strategic Plan.

6. Note

In accounting for the Local Government Pension Scheme, the Trust recognises that there is a pension fund deficit which is included in restricted funds. This could in theory result in a deficit in restricted funds, however it must be stated that an immediate liability for this amount is not crystallised. Whilst the deficit might not be eliminated, there should be no actual cash flow deficit on the fund, or direct impact on the uncommitted reserves of the Trust because of recognising the deficit.

7. Monitoring and Evaluation

This policy will be reviewed every 3 Years, or more frequently if required, by the CFO and approved by the Finance, Audit and Resources Committee.