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**Southwark Diocesan
Board of Education
Multi-Academy Trust**
Developing Church of England Education

FINANCE POLICY HANDBOOK

FINANCIAL RESERVES POLICY

1. Introduction

In order to ensure a sustainable future and mitigate risk from any economic 'shocks' all public organisations need to hold appropriate levels of reserves to ensure financial safety. Guidance on reserves is found on the Charity Commissions website and from within the SORP 2005.

Paragraph 55(a) of the SORP 2005 requires that Directors include a statement in their Annual Report about the level of reserves held and the reasons for this.

The rationale for this is to ensure that Trustees and Directors can be confident that reserve levels match the needs of the organisation. If the company is holding reserves that are too high, it could be in breach of DfE requirements, and could be accused of not spending grants intended for use on the students in the academies at that point. Reserves that are too low may result in academy improvement plans not being fulfilled or result in academies not being financially sustainable.

2. Disclosure of Reserves

A charity's purpose in reporting on its reserves is to disclose the level of them and to explain convincingly why it needs to retain them at that level.

Paragraph 55(a) of SORP 2005 requires Trustees to include in their Annual Report information about their charity's reserves policy and the level of reserves held. Trustees should:

- 2.1. describe their charity's reserves policy.
- 2.2. explain why they hold or do not hold reserves.
- 2.3. quantify and explain the purpose of any material designated funds, and were set aside for future expenditure, the likely timing of that expenditure; and
- 2.4. give the level of reserves at the last day of the financial year to which the report relates.

3. Academy Reserves Policy

Academies are funded monthly by DfE grants and income fairly matches expenditure, where around 75-80% is spent on teaching and other staffing.

The Master Funding Agreement allows academies to retain revenue reserves of the General Annual Grant, plus any further monies for capital purposes. Pupil Premium funding can be carried forward without restriction. Start-up Grants can be carried forward during the period of years that they are paid.

The Local Government Pension Scheme (LGPS) liabilities are recognised in the accounts as a deficit within restricted funds. This does not mean there is an immediate obligation to find the total amount. It is intended that the deficit will be funded through increased annual employer pension contributions. The SDBE MAT does not have recourse to significant revenue other than contributions from member schools, therefore maintaining a level of reserves is essential.

Trustees want to see academies maintaining a reasonable level of reserves to enable them to cope with unexpected expenditure or income shortfalls and will support academies to prepare financial forward plans for at least the coming three years alongside their annual budget.

3.1. Managing Reserves

The determination of an appropriate level of reserves within the SDBE MAT is informed by schools' budgeting and forecasting. All academies in the MAT forecast monthly, and the annual budget setting exercise will look not only at the next financial year ahead but subsequent years. This is intended to enable potential risks to be highlighted and action plans put in place, ensuring that all academies remain financially stable and reserve levels are maintained at an appropriate, healthy level.

There may be changes in circumstances, in the future, which will require the academy to increase levels of reserves.

3.2. Unrestricted Reserves

The SDBE MAT academies are permitted to accumulate unrestricted reserves arising from income from source, such as lettings, donations etc. Any funds generated must be used and enhance education for the children of the SDBE MAT academies or facilitate community use of the SDBE MAT academies in accordance with the SDBE MAT's charitable objects. Unrestricted reserves may, when necessary, be used to cover direct educational costs and hence the unrestricted reserve can be moved to restricted reserve if that is deemed necessary by Trustees.

Reserves balances cannot move from a restricted fund to an unrestricted fund without the approval of the SDBE MAT Board and/or the Education and Skills Funding Agency (ESFA).

3.3. Using Reserves

Academies are expected to forecast accurately, based on prudent assumptions. A budget may be set which requires the use of reserves, but in such



circumstances, a clear commentary is required for this to be agreed by Trustees. If it is expected that there will be a deficit in a financial year a clear plan must be presented showing how the academy will get back to an in-year surplus/breakeven position, within a reasonable period.

3.4. Reserve Amounts Held

The expectation is that schools maintain reserves of at least 5% of their annual GAG income.

This requirement does not apply to or include unrestricted income where academies have more freedom; but the unrestricted income accounts must remain in surplus.

Apart from reserves, academies must hold enough capital income to cover fixed assets purchased and any imminent capital spend. General fund income may be used to fund capital purchases, subject to the prior approval of the Chief Operating Officer.

4. Trust Central Reserves Policy

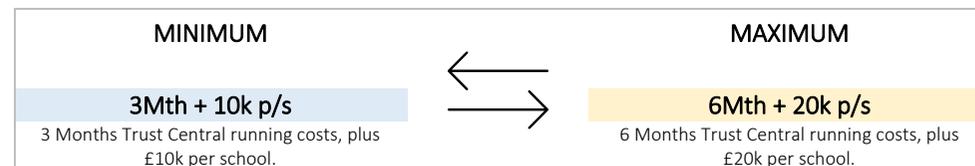
The Trust Central Reserves Policy is designed to be scalable and grow with the organisation, seeking to mitigate risks should they arise whilst ensuring the continual improvement of the Trust’s offer in order to drive and secure standards across all schools.

Whilst we cannot predict the level of intervention a school may require that should be funded centrally, it is sensible to hold a proportion of our income in reserves as a contingency which could be used to support an individual school or pooled in the event that a school required significant or intensive support.

For Trust Central, we operate a hybrid approach to our reserves policy which combines sufficient funds to cover the complete running of Trust Central for a given period, and one which recognises the need to hold a percentage of reserves for urgent school interventions.

It should be noted that Trust Central Reserves will fall within a range, often falling to the lower end of the range as posts are created to build internal capacity in advance of new schools joining.

Trust Central Reserves Policy Range



Indicative Range Values

Based on Trust Central’s 2020-2021 budgeted expenditure and our current profile of 10 schools, the range values are detailed below:

Trust Central Running Costs (2020-2021 Financial Year)		£10k (Per School)	£20k (Per School)
3 Months	£210,000	£310,000	£410,000
6 Months	£420,000	£520,000	£620,000
Annually	£840,000	£940,000	£1,040,000

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