



Academies Trust

Reserves Policy

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Reserves Policy

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1. Introduction and background

The Co-operative Academies Trust Board (Trust Board) is responsible for the effective and efficient use of available resources. These responsibilities are outlined in guidance published by the Charities Commission available here:

<https://www.gov.uk/government/publications/charities-and-reserves-cc19>

The Trust Board is ultimately responsible for the allocation of resources to deliver the vision of the Trust.

Purpose of the Policy

The purpose of the Reserves Policy is to:

- assist in strategic planning by considering how new project, initiatives or activities will be funded;
- inform the budget process at both academy and Trust level by considering capacity and the availability of resources;
- encourage utilisation of available resources at academy level to improve pupil experience and learning outcomes;
- enable prioritisation of resource allocation when considering investment decisions at Trust level;
- facilitate utilisation and distribution of available resources across the Trust to provide targeted interventions where required to meet Trust objectives;
- define expectations for reserves management and inform risk management processes by identifying forecast shortfalls and/or uncertainties; and
- define the mechanisms whereby surplus reserve holdings will be centralised and redistributed, including how academies can apply to access central reserve funds.

2. Application of the Policy

The Policy applies to all academies within the Co-Operative Academies Trust.

Reserves forecasts and planned expenditure will be monitored throughout the year through the preparation of management accounts and periodic reforecasts in line with the Trust's accounting timetable.

When considering the appropriate levels of reserves, the Trust Board considers:

- the risk of unforeseen emergencies or other unanticipated requirements for funds;
- The optimal balance between holding funds in reserves and utilising available resources to achieve Trust objectives and improve learning outcomes;
- variations in sources of income, both in absolute terms and relative to decisions around staff pay;
- planned commitments that cannot be met by future income streams, such as major capital projects;
- the need to fund potential deficits in cash budgets (such as new academies joining the Trust in deficit) or provide working capital support (where monies must be spent in advance of receipt of funding); and
- the full range of financial risks identified through risk management processes.

Compliance (or otherwise) with the Reserves Policy thresholds set out below will be undertaken annually as part of the financial year-end process. Any transfers to the central reserve will take place following completion of the year-end external audit.

3. A balanced budget

Academies are expected to set and maintain a balanced budget where costs are met from income in a given year. Academy budgets should be set to achieve and maintain academy reserves levels as set out in this Policy. Furthermore, academies are expected to aim to utilise available resources within a given year, and not build up accumulated reserves in excess of the thresholds set out below.

Rather than build up accumulated reserves for future projects or initiatives, academies are expected to target in-year resources towards improving pupil experiences and learning outcomes. Funding for such projects and initiatives can be accessed through applications for School Condition Allocation (SCA) funding (separate policy) and / or central reserves fund (set out below) and are subject to approval following consideration of Trust-wide competing priorities.

4. Maintaining an appropriate level of reserves - academies

For the purposes of this Policy, references to (general) reserves are deemed to exclude restricted fixed assets funds, pensions reserves and any other specifically designated funds (such as funds held for specific approved projects). Individual income streams which are accounted for through general reserves are included within the remit of this Policy (including but not limited to General Annual Grant (GAG), Mainstream Schools Additional Grant (MSAG), Devolved Formula Capital (DFC), School Supplementary Grant (SSG) and other ad-hoc grant funding provided by the Department for Education (DfE).

Individual Secondary academies, Special academies and large Primary academies are required to maintain general reserves equivalent to 5% of total annual income; smaller Primaries (defined as 1- or 1.5-form entry), requirement is 4% of total annual income. In all cases total annual income is calculated excluding Private Finance Initiative (PFI) funding where applicable. The level of reserves held may fluctuate during the year and should be met at the end of each financial year, ie 31 August.

For the purposes of this Policy, the 5% requirement for Secondaries, Special academies and large Primaries, and 4% requirement for smaller Primaries, will be referred to as “the required threshold” collectively.

Where academies hold reserves below the required threshold, a three-year business plan should be produced which demonstrates achievement of, or progression towards, this requirement.

Academies are not permitted to hold excess reserves for aspirational future plans / projects which do not meet the committed criteria set out below.

Academies are not permitted to utilise surplus funds to create provisions or sinking funds to be held on the academy Balance Sheet. Where there is a contractual requirement to hold a sinking fund (such as a condition of grant funding) or a future funding requirement is identified through capital forecasting in excess of SCA capacity, these will be held centrally and separately identified on the Trust Balance Sheet and required contributions from individual academies determined each year.

It is recognised that managing to a specific balance equal to exactly the required threshold is impractical. A minor permissible variance above the required threshold is therefore set per academy as the lower of:

- £15,000; or
- 0.5% total income

Where the year-end reserves balance exceeds the required threshold but within this tolerance, transfers to central reserves will not be undertaken.

The treatment of reserve balances in excess of the required threshold (plus minor tolerance) is set out in the following sections.

The required level of reserves ultimately underpins the requirement for the Trust to maintain a net assets position.

4.1. Exceptions to Policy threshold - academies

As stated above, the Reserves Policy required threshold applies to all academies within the Trust.

Where academies hold reserves below the required threshold, or for new academies joining the Trust with reserves below this threshold, a business plan will be developed as part of the normal business planning cycle which sets out how the

academy will achieve or progress towards the required threshold relevant to their academy size. In such cases, the academy will be required to maintain financial performance in line with the annual outcomes defined within the business plan until such time as the reserves required threshold is met and then maintained.

There are instances where academies are permitted to hold reserves in excess of the required threshold. These are:

- New, growing academies: surplus reserves can be retained to support future projected growth up to the year following the school reaching an intake in all years (for example a new secondary school could retain surplus reserves up to and including year 6 following its opening). In such cases, reserves of up to 5% of the following year's projected income (per the business plan) can be retained, after which the usual transfer to central reserves would be undertaken (as set out below).

Growing academies are defined as new schools that have not yet reached intake in all years, or academies increasing the number of forms as part of a planned expansion in capacity.

- Schools joining the Trust: Local Authority maintained schools joining the Trust, or existing academies joining the Trust in the second half of the financial year, will be exempt from any transfer of surplus reserves to the Central Reserve at the first year-end following their date of establishment as a Co-op Academy.
- Academies with declining pupil numbers that experience unexpected growth: if an academy's business plan is projecting falling pupil numbers, but there is an unexpected upwards 'blip' in pupil numbers at the October census date, surplus reserves up to the equivalent GAG funding for the additional pupils can be retained to alleviate the cost pressures these additional pupils will create in the forthcoming year.
- Deferred expenditure outside academy control: where expenditure was expected to take place within the financial year but circumstances outside the academy's control prevented this from occurring, for example fit-out costs following capital works which are delayed due to contractor availability. In such cases it must be agreed by the CEO and Deputy Chief Executive Officer (DCEO) that the deferral was non-controllable.
- Committed capital expenditure: where an academy has committed to a capital project to be funded from reserves, this can be retained. As well as formal commitment (as denied by accounting guidance) through the signing of a contract or work in progress, in this context expenditure will also be deemed to be committed if:
 - approval has been granted, quotations / tenders received and any necessary planning consents obtained;

- a purchase order was raised prior to 31 August; or
- negotiations with suppliers / contractors are well progressed and expect to enter into a formal contract imminently (ie within the first term of the new financial year).

Where there is commitment that meets the criteria above but does not meet the accounting definition of committed, these will be considered on a case-by-case basis by the CEO and DCEO to confirm the threshold for commitment has been met. Should expected formalisation of contractual commitment not be completed at the point the external audit is signed off, such approval may be reconsidered.

- Committed revenue expenditure: similarly to capital commitments above, as well as formal commitment in this context expenditure will also be deemed to be committed if:
 - criteria listed above under capital commitment are met; or
 - in the case of staffing costs, individuals have been interviewed and have either commenced in post or an offer of appointment has been made.

Again, where the accounting definition of committed is not met, these will be considered on a case-by-case basis by the CEO and DCEO to confirm if the threshold for commitment has been met. Should expected formalisation of contractual commitment not be completed at the point the external audit is signed off, such approval may be reconsidered.

A flow chart is provided at Appendix 1 to support identification of permitted reserve retention above the required threshold.

If there are other exceptional circumstances not set out above, an academy can request that their specific circumstances be considered. In such cases, a meeting will be held between the Academy Lead or Academy Finance Lead, the CEO and the DCEO. The academy representative will be required to present their business case as to why an exception should be granted, this will then be considered by the CEO and DCEO.

5. Maintaining an appropriate level of reserves - central

The Trust will maintain a central reserve of at least £1.5m minimum threshold to ensure there is sufficient capacity to fund any unforeseen or emergency expenditure requirements.

At 31 August, and following completion of the external audit, any funds held by an individual academy in excess of the relevant required threshold will be transferred to a central reserve (subject to minor tolerance and exceptions as set out above). This enables the redistribution and / or allocation of surplus unutilised funds across the Trust in furtherance of the Trust's objectives, and to support academies with limited capacity where necessary.

6. Distribution and utilisation of central reserves

Funds held within the central reserve in excess of the £1.5m minimum threshold are intended to be utilised in furtherance of the Trust's strategic objectives by:

- supporting academies experiencing financial difficulties;
- supporting academies to improve learning outcomes particularly where Trust targets are not being met;
- supporting academies to improve pupil experience, particularly in respect of PP cohorts;
- supporting academies with local community initiatives;
- providing top-up funding for SCA-funded projects; or
- supporting capital investment outside of SCA-funded projects that cannot be fully met from annual income.

Central reserve funds will be allocated to individual academies in the following ways:

- targeted intervention: decision by CEO and / or SLT to provide proactive support as a result of an identified issue, such as financial shortfall or low learning outcomes; or
- Business case: individual academies can submit a business case for consideration by the CEO and DCEO as set out below.

6.1. Applying for central reserve funding - business case

Academies can apply to receive a distribution of funds from the central reserve for projects, initiatives or activities that meet one or more of the criteria set out above.

Applications to fund property-related capital projects should be submitted through the annual SCA bidding process. Upon assessment of the SCA applications, SLT may decide to supplement SCA funding via a reallocation of central reserve funds if there is insufficient SCA funding available to fund all high priority projects.

Applications for central reserve funds should be documented using the business case template provided at Appendix 2, and discussed with the relevant Regional Director and Regional Finance Director. At the time of writing, business cases can be submitted at any point during the year; this may be subject to change at the discretion of the CEO and DCEO subject to availability of funds and / or volume of submissions received. All business case submissions must be approved by the Academy Lead and Executive Headteacher/Regional Director where applicable prior to submission. This is in accordance with the Trust's Financial Regulations. Once approved, business case submissions should be provided to the relevant Regional Finance Director who will submit the business case to the CEO and DCEO on behalf of the academy.

The CEO and DCEO will consider each business case individually. Relevant personnel from the applicant academy may be invited to a meeting to discuss the business case in more detail if further information is required to inform the decision-making process. Each business case will be considered on its individual merit, and in the wider context of competing priorities and other applications received. The CEO and DCEO will then need authorisation from the Trust Board Finance committee in approving the Academy's Business Case.

The historic values of excess reserves balance transfers from an individual academy does not provide any automatic guarantee that a business case will be approved.

A tracker of allocations from the central reserve will be maintained centrally by the Finance Team. Approved allocations will be logged and monies transferred to the academy in advance of incurring expenditure once the academy is ready to proceed.

If the central reserves balance reaches £1.5m after deduction of approved allocations, the application process will be suspended until such time that the central reserves balance is replenished through year-end transfers.

7. Academies joining the Trust

Academies joining the Trust (or upon conversion) will typically bring accumulated reserves. Upon joining the Trust a levy to the Trust's central reserve of up to £50,000 or a maximum of 25% of the academy/ies unrestricted reserves will be applied. This levy will contribute towards the legal and due diligence costs incurred in the successful conversion or transfer.

If an academy joins the Trust with a zero balance, forecasting deficit reserves within the first three years, or is below the required threshold relevant to the size of the incoming academy, this levy can be waived at the discretion of the CEO.

8. Monitoring and reporting

Each year in the financial statements the Trust will report:

- the level or range of reserves considered appropriate for the Academy Trust;
- the level of reserves at year-end;
- how the Trust intends to achieve the desired level or range of reserves; and
- The frequency of review of the Reserves Policy.

9. Pensions liabilities

Risks associated with the Trust's pension liabilities should be taken into consideration when setting the required reserves thresholds. The presence of a

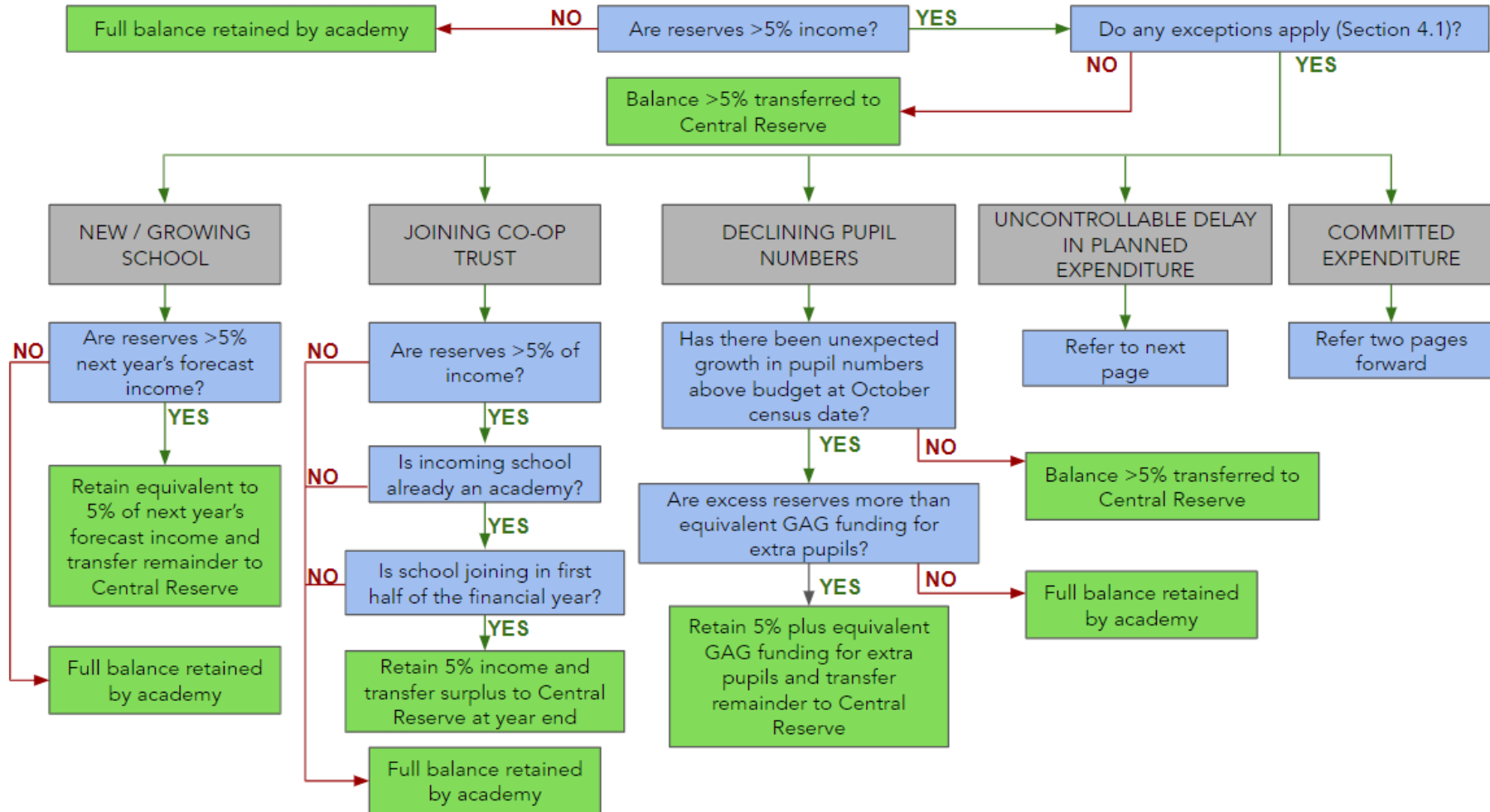
pension surplus or deficit will result in a cash flow effect through decreases or increases in the employer pension contributions payable by the Trust over a number of years.

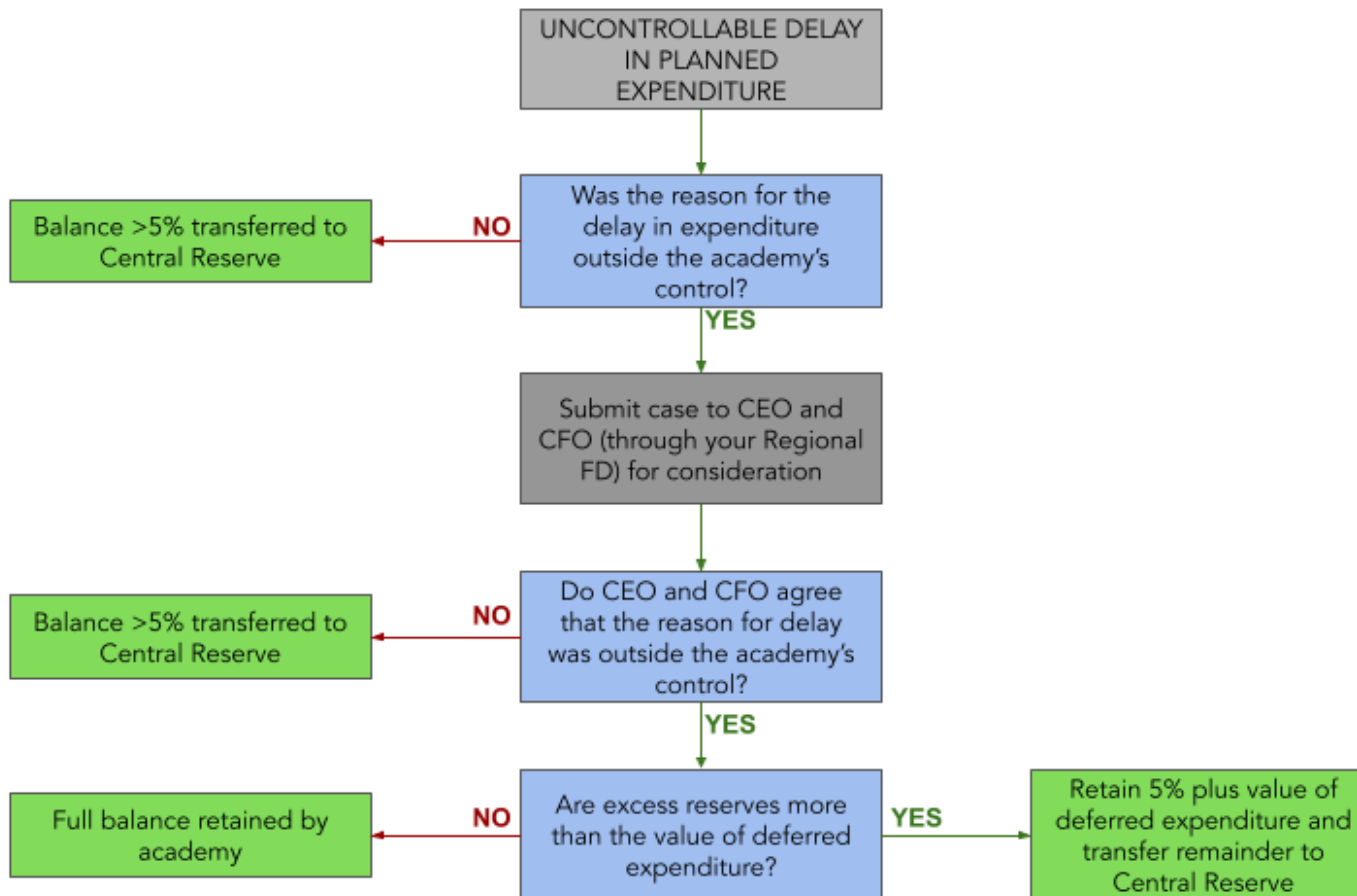
In reviewing the Reserves Policy and defining the minimum level of reserves required, the Trust Board will assess the ability of the Trust in aggregate, and that of individual academies, to meet the required pension contributions from projected future income without significantly impacting on planned levels of activities or reserves.

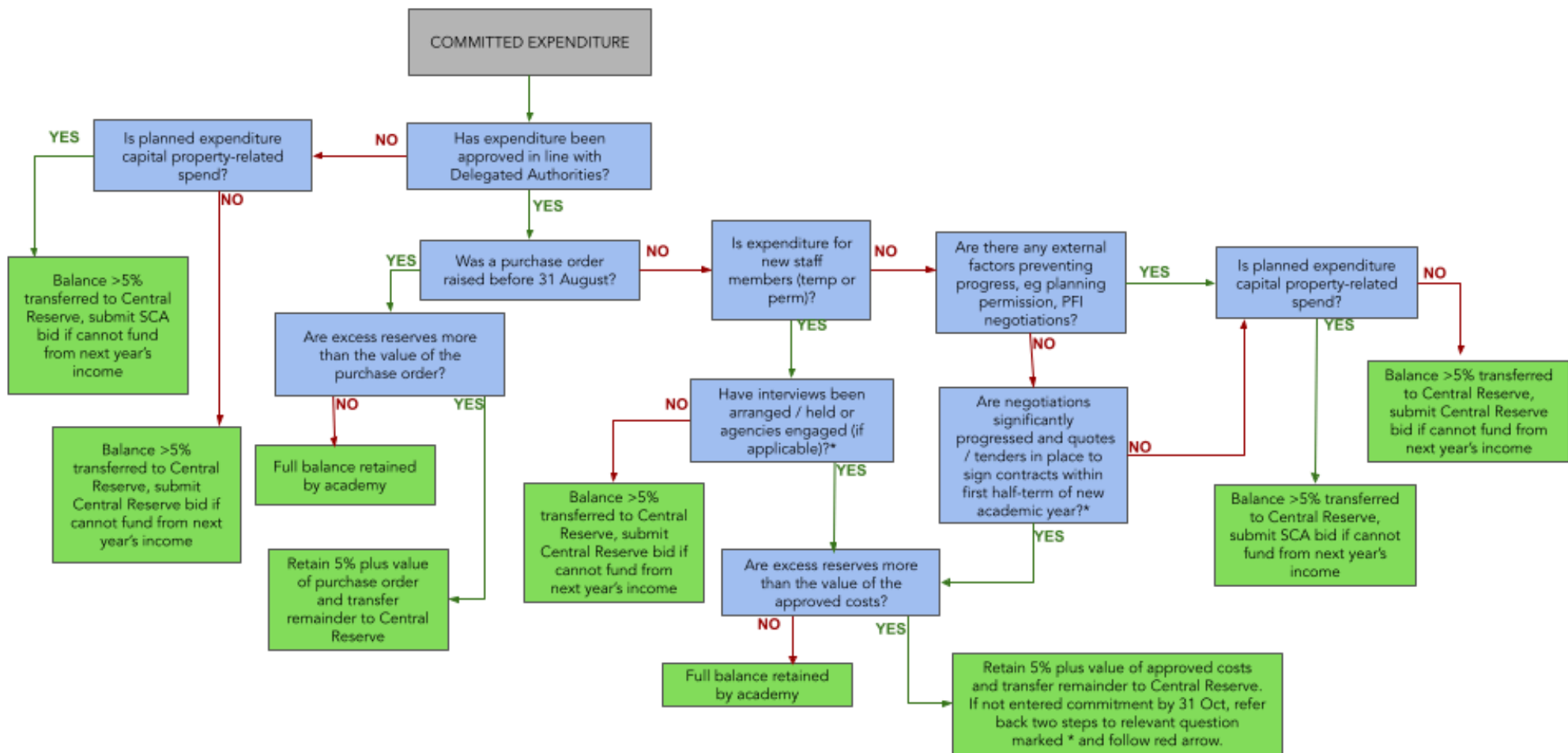
This requirement relates solely to Local Government Pensions Schemes; the Teachers' Pension Scheme contributions are underwritten by the Government.

Appendix 1: Reserves Policy Retention Flowchart

The flowchart below should be used to determine whether the exceptions set out at Section 4.1 can be applied to year-end reserves balances. Note references to 5% apply to Secondaries, Special academies and larger Primaries; for smaller Primaries this should be replaced with 4% in accordance with the required thresholds defined in the body of the Policy document.







Introduction and Background

Provide any context relevant to the proposal here.

Project Proposal

The following section should set out the details of the proposed project or initiative for which Central Reserve funds are being sought. Please provide as much detail as possible to facilitate effective decision-making.

Academy Name:

Which Trust objective / priority is being targeted through this application (tick all that apply):

- | | |
|---|--|
| <input type="checkbox"/> Academy financial difficulties | <input type="checkbox"/> Improved learning outcomes |
| <input type="checkbox"/> Improved pupil experience | <input type="checkbox"/> Community initiatives |
| <input type="checkbox"/> Non-SCA eligible capital project | <input type="checkbox"/> Top-up SCA capital funding |
| <input type="checkbox"/> Other (please state) | <input style="width: 300px; height: 20px;" type="text"/> |

Value of Central Reserves funds requested:	£
Are there any other funds contributing to the total cost of this project (eg academy's own income / reserves, SCA grant, etc)	YES / NO
<i>If yes, please provide details of value and source of additional funds below:</i>	

Project description

Please provide as much information as possible regarding the activities to be undertaken, timescales, how the requested funds will be utilised and (where relevant) how the project will be resourced and managed:

Project beneficiaries

Please detail who will be the main beneficiaries of the planned activity, including any particular target groups such as Pupil Premium eligible children, BAME pupils, etc:

Project outcomes

Please detail the expected outcomes to be delivered through the planned activity. Provide specific measures where applicable, eg x% improvement in Progress 8 scores:

Measures of success

Please provide details of how the effectiveness of planned activities will be measured, including any relevant KPIs and/or benchmark data:

Does the project involve any changes to staffing complement?	YES / NO
<i>If yes, please provide details of roles, salaries and proposed length of appointment:</i>	
If yes, are any staff to be appointed on a permanent contract?	YES / NO
<i>If yes, please provide details of how salary costs will be met beyond the period covered by this proposal:</i>	

Approvals

This proposal has been approved as follows:

Academy Lead: Approval
Date:

Executive Head: Approval
Date:

Regional Director: Approval
Date:

Signed:

Print name: Date:

The above signatory is signing to certify that the required approvals have been sought in advance of submitting this proposal. Signatures are not required for all approvers.