

REAch2 Reserves Policy and Guidance

Audience:	School staff / Central Team / All REAch2 Employees Local Governing Bodies Cluster Boards Trustees
Ratified:	Trust Finance Committee 11 May 2020
Other related policies:	None
Policy owner:	Chris Perry, Head of Finance, REAch2 Academy Trust
Review frequency:	3 years



At REAch2, our actions and our intentions as school leaders are guided by our Touchstones.

- Integrity** We recognise that we lead by example and if we want children to grow up to behave appropriately and with integrity then we must model this behaviour
- Responsibility** We act judiciously with sensitivity and care. We don't make excuses, but mindfully answer for actions and continually seek to make improvements
- Inclusion** We acknowledge and celebrate that all people are different and can play a role in the REAch2 family whatever their background or learning style
- Enjoyment** Providing learning that is relevant, motivating and engaging releases a child's curiosity and fun, so that a task can be tackled and their goals achieved
- Inspiration** Inspiration breathes life into our schools. Introducing children to influential experiences of people and place, motivates them to live their lives to the full
- Learning** Children and adults will flourish in their learning and through learning discover a future that is worth pursuing
- Leadership** REAch2 aspires for high quality leadership by seeking out talent, developing potential and spotting the possible in people as well as the actual

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Policy Overview

With an annual income in excess of £100m and responsibility for over 18,000 children, REAch2 Academy Trust (the Trust) is one of the largest multi-academy trusts (MATs) in the country. Growing the Trust to this size has allowed it to achieve economies of scale and a financial viability that many other MATs aspire towards. However, in the broader context of the financial strain on the education system and narratives of other MATs' mismanagement of their finances, the need for greater care over our own financial health becomes ever more pressing.

The Trust continues to expand against a backdrop of funding cuts, developing legislative requirements and increasing demand for consistently strong educational outcomes. This presents challenges which require us to be better prepared for financial risk and in a position to exploit emerging opportunities. A well-developed reserves policy that works for the broader Trust and the schools within it will help build our resilience and our ability to deliver exceptional opportunities for all children within the Trust

Overarching Principles

In creating the reserves policy, a set of guiding principles were developed in response to challenges that schools and the Trust have faced in managing finances and their reserves with the previous policy. Although each principle has specific aims, together they create a culture of financial management that is open, fosters positive relationships and ensures the Trust's aims into the future.

Principle	Aims:
Transparency	<ul style="list-style-type: none">• Unhindered honesty• Clarity of process and intent• Clarity of how money is spent• Involvement of people in decision making• Trust in individuals to spend money for children's best interests and financial sustainability
Fairness	<ul style="list-style-type: none">• Equity• Value for money• Not funding inherited historical or current financial issues
Flexibility	<ul style="list-style-type: none">• Agility in responding to emerging issues• Taking account of each school's context, capacity and challenges• Headteachers to lead their schools by making the right decisions
Efficiency of process	<ul style="list-style-type: none">• No unnecessary bureaucracy• Fits with and accounts for other processes such as SCA funding• Timescales that work and are stuck to• Good practice and financial discipline
Capacity	<ul style="list-style-type: none">• More capability to create and manage effective budgets – better spending of the money we have• People in place with time to engage in process
Sustainability	<ul style="list-style-type: none">• Responsibility of everyone to use resources well• Managed spending• Economies of scale

Roles and Responsibilities

Role	Responsibility
Headteachers (HTs)	Will work with their senior leadership team, SBM and LGB to set the school budget. HTs will have a clear understanding of the short, medium and long-term financial needs of the school and plan accordingly.
Schools Business Managers (SBMs)	Support the HTs in preparing the detailed budget and completion of business cases. Maintain a record of the school's reserves, and the investments planned.
Regional Business Managers (RBMs) and broader finance team.	Assist HTs and SBMs in preparing the budget. Review each school's budget and advise the school and SLT as appropriate.
Local Governing Bodies (LGBs) & Chairs of Governors (CoGs)	Challenge budget and support HT in creating it. Budgets must be recommended to Trustees by LGBs.
Regional Directors (RDs) and broader regional team.	Agree long-term investment spending. Challenge and support HT.
Executive Directors	Approve the use of Core Reserves in line with delegated authority. Recommend budgets to Trustees for approval
Trust Board (TB)	Approve Budgets and the delegated authority for Executive Directors relating to use of Core Reserves

Policy in Detail

Reserves Management

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 Financial Handbook (AFH) and 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:



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.

Core Reserves

Core reserves are a 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 7% of annual GAG income (this is equivalent to £5,000,000 at 2018/19 income levels, or just over 2 weeks' worth of operating expenditure).

From GAG funding, each school will contribute 7% 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 £2m pa will require £140k of Core Reserves.

If the school's GAG income reduces to £1.8m, the required Core Reserves will reduce to £126k 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.

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.

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, our ability to continue to operate.

Contribution amount

The contribution amount is 7% 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 7% of its GAG income, it need only ensure that the balance remains at 7% 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 £0.8m of GAG income – Core Reserves will be £56k.

A 2FE school, assuming £1.6m of GAG income – Core Reserves will be £112k.

A 3FE school, assuming £2.4m of GAG income – Core Reserves will be £168k.

If a 3FE school were to reduce to a 2FE school, the required Core reserves would reduce, in the above examples, by £56k, and this could be used to fund a restructuring.

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 history gives us some idea of issues that may occur and, it has been recommended that schools account for at least 1.5%. 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 PA*

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. 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.

Investment Reserves

Investment reserves are held by schools and are an unallocated reserve of money that schools 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 each school's development plan. However, it has been suggested that this be between 1 - 5% of the school's income annually. The school's longer-term strategic goals, in consultation with the regional team at team around the school (TATS) meetings, 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 regional 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 are free to spend this money as they see fit (without the need for a business case once the Core Reserves target has been met in all schools) but may be challenged retrospectively if this reserve is spent in a way that results in the longer-term goals of the school not being met. 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 may be seen as a 'savings account'. It allows schools to plan for future projects that take time to save up for, whilst allow schools to be agile in responding to emerging need.

Approval process for accessing core reserves

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: critical unforeseen costs; and licensed deficits.

Critical unforeseen costs 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.

Licensed deficits 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.

Critical unforeseen costs

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 Head of Finance and the Chief Operating Officer. Business cases must, prior to submission, be reviewed by the Regional Director who may request further support from the regional team (HR Business Partner, Regional Maintenance Surveyor and/or Regional Business Manager).

In the case of an essential capital project that cannot be covered by Devolved Formula Capital and would not be covered under the centrally received School Condition Allocation (SCA) funding, 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 Executives of the Trust, who have delegated authority to approve such expenditure. The agreed turnaround is two working days from submission.

Executives are able to approve expenditure within their delegated authority up to [an agreed amount to be confirmed by trustees]. Expenditure that exceeds this will be referred to the Finance Committee

or the Trust Board for formal approval at the recommendation of the Executive Team. The agreed turnaround for the Finance Committee of the Trust Board is an additional two working days.

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 Head of Finance and Chief Operating Officer, with an agreed time frame for the works to complete. This would be escalated to the Finance Committee Trust Board (who in turn may need to consult with other Committees) to consider if a pricing and re-tendering exercise is required.

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 meet its future investment needs, meet any changes to Core Reserves, and 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.

The business case would be ratified and recommended by the Regional Team and submitted to the Head of Finance in the first instance. The business case would include a comprehensive budget deficit recovery plan, showing how their current 5-year budget will change to achieve the required reserves. The Executive team would take an initial decision on the business case and, if satisfactory, it would be recommended to the Finance Committee of the Trust Board for a final decision. The Finance Committee of the Trust Board meet once each term, and business cases will not be considered outside of these meetings during the transitional period.

Should the business case be deemed unsatisfactory by the Executive team, it will be returned to the school with reasons why and a plan of support will be created with the school if necessary and with the finance and Regional Team. If necessary, support for schools with issues related to financial management will be put in place. The school would be able to challenge this decision and the business case would be submitted to the Risk and Audit Committee of the Trust Board for a final decision. 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 (Sir. Steve Lancashire) 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

Headteachers and their team with support from the finance team. However, schools within the Trust are at different stages on their journey to great. This includes their ability to manage finances effectively and make best use of the 93.5% income they retain. For those schools that are currently unable to manage their finances effectively, the Trust will look at a number of options to assist, this may include:

- training;
- taking temporary control over budget and accessing of funds; and
- additional support from Regional / Central Teams.

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.

Policy Review

This policy will be reviewed by Trust Finance Committee every 3 years as per the REAch2 policy cycle or sooner if required. This includes the amount of core reserves the Trust requires.

