

Reserves Policy and Guidance

Audience:	REAch2 Staff Local Governing Bodies Trustees and Members
Ratified:	Finance and Resources Committee
Other related policies:	Financial Scheme of Delegation
Policy owner:	Kelly Johnson, Director of Finance
Review:	November 2027

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



Policy Overview	4
Overarching Principles	4
Roles and Responsibilities	5
Policy in Detail	6
Types of Reserves	6
Reserves Targets	7
School Contribution Calculations	8
Contingency Fund	8
Contingency Fund Requests	9
Investment Reserves	9
Accessing free reserves	9
Budget Deficits	10
Policy Review	10

Policy Overview

REAch2 Academy Trust (the Trust) is a leading multi-academy trust managing 62 schools, with annual income exceeding £130m and a commitment to delivering high-quality education to over 21,000 children. The Trust's large scale enables financial stability through pooled resources and enables it to meet educational objectives effectively, while managing funds prudently and transparently. This Reserves Policy provides a structured approach for building financial resilience, managing risks, and positioning the Trust to capitalise on future opportunities.

This policy is informed by guidance from the Department for Education on maintaining reserves, which underscores the importance of financial foresight in educational institutions. By managing reserves centrally, the Trust provides a stable financial foundation for all schools while ensuring a fair allocation of resources to meet each school's unique needs and challenges.

The objectives of this policy are to:

- Ensure the Trust maintains an appropriate level of reserves in line with Department for Education recommendations.
- Enhance financial resilience across the Trust through centralised reserves management.
- Support schools with temporary funding needs, enabling them to focus on delivering great educational outcomes.
- Establish clear parameters for building, maintaining, and using reserves to support the Trust's priorities and strategies.

Overarching Principles

To uphold a transparent and equitable approach to reserves management, the policy is guided by the following principles:

- **Transparency:** Maintain clear communication regarding reserve levels, utilisation and decision-making processes.
- **Equity:** Work toward achieving equitable resource allocation, aiming to distribute resources in a way that represents value for money, supporting schools as they strive for financial stability.
- **Flexibility:** Provide the Trust and schools the agility to respond to unforeseen events, while retaining sufficient reserves for strategic opportunities.
- **Efficiency:** Simplify reserves processes and avoid unnecessary administrative burdens.
- **Sustainability:** Support the long-term financial health of the Trust and its schools by ensuring responsible financial planning and spending.

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.

This policy is approved by the Finance and Resources Committee on behalf of the Board of Trustees. It applies to all REAch2 employees and Trustees.

As an exempt charity, REAch2 is governed by both company and charity law, mandating that the Trust's Trustees establish a reserves policy that both safeguards the organisation's financial stability and

advances its charitable mission. Trustees are tasked with determining an appropriate reserves level that sustains REAch2's operations: maintaining sufficient reserves to absorb unforeseen expenses or fluctuations in income, yet not so high as to detract from resources dedicated to delivering high-quality education to pupils.

Under this framework, all individual academy reserves are centrally pooled and managed by the Trust. As the single legal entity and responsible body, REAch2 oversees these reserves to ensure compliance with financial governance requirements to optimise resource allocation across the Trust, and to uphold its fiduciary responsibilities effectively.

Roles and Responsibilities

Role	Responsibility
Headteachers	Lead school budget planning with input from their senior leadership team, Finance Business Partner/Finance Support Officer, and Deputy Director of Education. Headteachers will have a clear understanding of the short, medium and long-term financial needs of the school and plan accordingly.
Head of Service / Director	Lead departmental budget planning with input from their team(s), and Finance Business Partner/Finance Support Officer. Head/Director of Service will have a clear understanding of the short, medium and long-term financial needs of their departments and plan accordingly.
Finance Business Partner / Finance Support Officer	Work directly with Headteacher and Head/Director of Service to prepare detailed budgets, offering financial insights and assumptions, and helping manage financial risks and opportunities at the school level.
Deputy Director of Education	Provides strategic support to Headteachers, ensuring alignment between educational and financial planning. Works with Headteachers and Finance to ensure budgets reflect the Trust's educational goals and operational needs.
Executive Team	Holds ultimate responsibility for the development and approval of school and Trust budgets. The team ensures that budgets align with the Trust's overall strategic objectives and this Reserves Policy.
Finance and Resources Committee	Responsible for considering and approving the Trusts financial policies and procedures, including this Reserves Policy, to ensure robust governance and financial stewardship across the Trust.
Board of Trustees	Approves the overarching Trust budget.

Policy in Detail

Types of Reserves

The Trust's reserves are categorised into distinct types to manage funds according to specific financial and operational requirements. These different categories are:

- **Restricted General Fund:** These funds are allocated for specific operational purposes as designated by the funding source, usually government grants or other restricted income. The Trust can only use this fund for specific activities that align with the funder's requirements, such as educational programming and other directly related expenses. The main source of income that feeds into this fund is the General Annual Grant.
- **Pension Fund:** This reserve covers the pension obligations related to the Local Government Pension Scheme, which is the pension scheme for certain employees, typically those not in teaching roles. It is restricted to meeting current and future pension liabilities, ensuring that the Trust can fulfil its commitments to staff retirement plans. When evaluating the Trust's level of free reserves, the Pension Fund reserve should be excluded. It is highly unlikely that this debt will ever become an immediate liability. Similarly, for funds showing a net surplus position, this does not represent an asset that can be readily realised.
- **Restricted Fixed Asset Fund:** This reserve is used exclusively for acquiring, maintaining, or improving fixed assets, such as buildings, equipment, and infrastructure. It is typically funded through government grants or donations meant specifically for long-term physical investments. The main source of income feeding into this fund is the School Condition Allocation.
- **Unrestricted Fund:** These funds are not tied to any specific purpose and can be used flexibly to meet the Trust's needs. They provide the Trust with greater financial flexibility to cover general expenses, unforeseen costs, or new initiatives in furtherance to achieve its objectives. This fund can include, for example, self-generated income or donations where the donor has not stipulated how they should be spent.

The Finance and Resources Committee, Executive Team and senior REAch2 management will identify the need for access to reserve funds and confirm that the use is consistent with the purpose of the reserve as described in this policy. This step requires analysis of the reason for any shortfall, the availability of any other sources of funds before using reserves and evaluation of the time period that the funds will be required and replenished.

Authorisation to use reserves of any kind will be made in line with the Financial Scheme of Delegation at the earliest opportunity and to allow the correct procurement processes to be followed.

The Executive Team are responsible for ensuring that the funds are maintained and used only as described in this policy. Upon approval for the use of these funds, the Director of Finance will maintain a record of the use of the funds. The Executive Team will regularly monitor the progress of the use of these reserves.

Reserves Targets

For the purposes of this policy 'free reserves' refers to funds that are freely available for any of the Trust's objectives. For REAch2, 'free reserves' include:

- Unrestricted funds (provided these have not been used for the acquisition of fixed assets)
- General Annual Grant: Although a restricted fund, any unspent General Annual Grant is typically considered part of free reserves, as it can support the general operation of the trust's core educational activities.

The following are specifically excluded from classification as 'free reserves':

- Tangible fixed assets used in the Trust's operations, such as land and buildings
- Programme-related investments held solely to further the Trust's purposes
- Other restricted funds where external parties have specified the purpose to which the grant or donation must be applied
- Designated funds set aside to meet essential future spending, such as planned projects not covered by future income
- Commitments that have not been provided for as a liability in the financial statements

For clarity, this policy defines restricted funds as those with usage conditions set by external parties (where changing fund allocation would require outside agreement). In contrast, designated funds are internally allocated, with the Trust retaining full discretion to reassign these funds if necessary.

Whilst the Department for Education does not require any specific level of reserves, either a percentage or monetary amount, it is essential that trust reserves are not in a net deficit position. It is acknowledged that Trustees are best placed to decide on the appropriate level of reserves holding, which will likely depend on both short- and long-term factors that may affect the schools and pupils, including:

- The number, type and size of the schools within the Trust
- How the Trust's needs are reflected in the Trust's estates strategy
- Future plans
- Upcoming risks or opportunities

The Trust has set a target for free reserves at 5% of its annual General Annual Grant income, equating to approximately £5.7m for 2024/25, a reserve level that covers approximately two weeks of operating expenditure.

In the circumstances where the Trust's free reserves do not meet the established target, the Trust is committed to working towards achieving this goal. This will be done through strategic budget planning, including ongoing expenditure reviews, income maximisation initiatives, and careful resource allocation. These processes are integral to the Trust's short- and medium-term financial strategy, aimed at aligning reserves with the target over time.

For these purposes, General Annual Grant is defined as the total General Annual Grant allocation for schools, excluding any funds designated for pre-16 high-needs place funding. This also includes grants

intended as temporary supplements pending integration into future GAG funding, such as the Mainstream Schools Additional Grant or the Core Schools Budget Grant.

School Contribution Calculations

The Trust centrally manages all reserves but currently operates under a top-slice funding model, where each school contributes a percentage of its income to support central Trust operations. This top-slice is set at 6.5% of each school's General Annual Grant allocation, as defined above. Additionally, schools contribute to an in-year contingency and investment fund, designed to support collective Trust initiatives and manage any immediate, unforeseen needs.

Once these allocations are deducted, schools are expected to balance their remaining budgets to meet their operational and educational priorities. Through this centralised approach, the Trust takes on the responsibility for managing unexpected costs or risks at the organisational level, thereby allowing schools to focus their resources directly on delivering quality education without needing to absorb unexpected financial pressures independently.

Contingency Fund

Schools are required to contribute to a centralised contingency fund, set at 2% of each school's General Annual Grant allocation (calculation as detailed above). This fund is centrally managed by the Trust and serves as a financial reserve to address unanticipated operational expenses that arise throughout the year, such as covering unforeseen long-term staff absences or urgent repairs to essential equipment. By having this dedicated fund, schools and central departments can plan their budgets more precisely without inflating ("padding") their budgets to account for potential uncertainties.

Each school contributes an equivalent percentage of their General Annual Grant income to ensure consistency and equitability in building the contingency reserve. However, distribution from this fund is based strictly on need rather than on each school's individual contribution, ensuring that funds are allocated efficiently to areas with the most urgent/significant requirements.

Requests for contingency funds are reviewed and authorised by the Director of Finance, ensuring proper governance and alignment with the Trust's financial policies and priorities. This centralised approach promotes equitable support across all schools while enabling each school to maximise its primary operational and educational budget.

At year-end, if the contingency reserve, or part thereof, remains unspent, the Executive Team will evaluate the best strategic use for these funds. Options include: (1) transferring the balance to free reserves to strengthen the Trust's financial foundation; (2) retaining the amount within the contingency reserve for future unforeseen needs; or, (3) allocating it to investment reserves for projects or initiatives that advance the Trust's strategic objectives. This approach allows the Trust to adaptively support both immediate operational stability and longer-term growth and improvement initiatives across the schools.

Contingency Fund Requests

The procedure for requesting funding from the contingency reserve involves a formal communication process initiated by the Headteacher or Head/Director of Service. To initiate a request, the Headteacher or Head/Director of Service must send an email to their Finance Business Partner or Finance Support Officer outlining the specific business justification for the funding need. This email should include detailed information regarding the nature of the unforeseen expense, its urgency, and how it aligns with the school's operational priorities. The Finance Business Partner or Finance Support Officer will then submit the request to the Director of Finance for further review.

In addition, it is important for the Headteacher or Head/Director of Service to provide a clear rationale for why this expenditure cannot be covered through existing budgets. Supporting documentation, such as quotes or estimates, may also be included to substantiate the request.

Once the request is received, the Director of Finance will review it carefully and may seek further clarification if necessary. The decision will be communicated back to the Headteacher or Head/Director of Service promptly, ensuring transparency and accountability throughout the process.

Investment Reserves

Schools are required to contribute to a centralised contingency fund, set at 1.75% of each school's GAG allocation (calculation as detailed above). This fund is centrally managed by the Trust and serves as a financial reserve for longer-term, generally planned, strategic spending. Examples include supporting achievement of the Digital Transformation Strategy, or an essential capital project that cannot be met through either Devolved Formula Capital or School Condition Allowance funding sources.

Each school contributes an equivalent percentage of their General Annual Grant income to ensure consistency and equitability in building the investment reserve. However, distribution from this fund is based strictly on need rather than on each school's individual contribution, ensuring that funds are allocated efficiently to areas with the most urgent/significant requirements or that support achievement of the Trust's five-year strategy.

As with the contingency fund, at year-end, if the investment reserve, or part thereof, remains unspent, the Executive Team will evaluate the best strategic use for these funds.

Accessing free reserves

Access to free reserves is permitted only in the most critical circumstances, necessitating a robust business case to justify the need for such funds. This business case must comprehensively outline the rationale for accessing free reserves, detailing the specific financial requirements and the potential impact on both the free reserves and the overall target reserve holdings of the Trust.

In the first instance, the business case must be submitted to the Executive Team via the Director of Finance. The Executive Team will review the request and make recommendations based on the Trust's financial priorities and constraints.

In addition to justifying the immediate need for funds, the business case should also present a strategic plan for long-term financial sustainability. This plan must address how the financial challenges associated with the particular event or circumstance cannot be managed through existing school budgets, departmental allocations, contingency reserves, or investment funds as previously outlined.

Approval for accessing free reserves will adhere strictly to the established scheme of delegation, ensuring that all requests are evaluated and authorised by the appropriate level of authority within the Trust. This process not only fosters accountability but also aligns with our commitment to sound financial management practices. Each request will be assessed with careful consideration of its necessity, impact, and alignment with the Trust's broader financial objectives, safeguarding the integrity of the Trust's reserves for future needs.

Budget Deficits

Schools and departments are expected to submit a balanced budget that accurately reflects their specific needs. This budget should effectively manage risks while providing a fair representation of the resources required to support the school's or department's objectives.

A key benefit of managing reserves centrally is the ability to provide tailored support to schools and departments facing particular financial challenges. In instances where a school or department discovers it cannot meet its budget, identified during the budget-setting process, they may be permitted to carry a passported deficit, which means that the approved deficit will be accounted for within the overall financial framework of the Trust. This approach ensures that schools and departments receive the necessary support to address their financial challenges while upholding the integrity of the Trust's financial structure.

It is important to emphasise that while schools and departments may access support for temporary deficits, they will not be permitted to maintain recurrent deficit positions. This facility is intended solely to assist in navigating short- and medium-term financial challenges. The overarching objective is to promote long-term financial sustainability across all schools and departments within the Trust. By ensuring that schools are not reliant on ongoing deficits, we encourage a proactive approach to budget management, enabling each school or department to plan effectively for their financial future and align their resources with their objectives.

Policy Review

This policy will be reviewed by the Finance and Resources Committee **every 3 years** as per the REAch2 policy cycle or sooner if required.