



St Edmundsbury and Ipswich
Diocesan Multi Academy Trust

Reserves Policy

Date Approved and Minuted	Finance and Audit	25 June 2021
Date of Next Review	Finance and Audit	June 2022

RESERVES POLICY

Where reserves are held, it is a requirement of the charity accounting regulations that charity Trustees must state their reserves policy in their annual report. Further details may be found in Accounting and Reporting by Charities: Statement of Recommended Practice 2005 (Updated 2008); commonly referred to as the Charity SORP.) The St Edmundsbury and Ipswich Diocesan Multi Academy Trust, as an exempt charity, must comply with these regulations. Guidance on reserve policies and their reporting requirements is contained in the Education and Skills Funding Agency's (ESFAs) annual Academies Accounts Direction.

The purpose of the reserves policy for the MAT is to ensure the stability of the schools' operations, to protect it so that it has the ability to adjust quickly to financial circumstances, such as large unplanned expenditure, cyclical maintenance and working capital requirements. The MAT holds reserves in order to provide sufficient working capital to cover delays between spending and receipt of grant income, to provide a cushion to deal with unexpected emergencies such as urgent maintenance or long term sickness where unforeseen costs are incurred and to build up funding for planned future capital projects.

DEFINITIONS

Fund Accounting

The Trust follows fund accounting rules to allocate income and expenditure against the appropriate funds, identifying any imposed restrictions and showing accountability by type of fund.

Restricted fixed asset funds

This represents the cumulative amount carried forward in respect of restricted funding received for fixed assets required to be used on an ongoing basis. It will predominately be government funds received but may include other funds from a sponsor or other donations. This fund can represent unexpended cash received for capital purposes or the carrying value of a funded fixed asset.

Restricted general funds

The amount included in this fund represents the cumulative amount carried forward in respect of funding received for the specific purpose of the academy trust's running costs excluding fixed assets. It would predominantly be general annual grant (GAG) ESFA funds but may include other funds from sponsors/other donors.

Pension reserve

When there is a surplus or a deficit on a defined benefit pension scheme that results in an asset or a liability being recognised, the recognition of the pension asset or liability will result in the creation of a pension reserve. This reserve will be negative in the case of a liability.

Unrestricted fund

Included in this fund are any amounts not included in the above funds and which are available for general use at the discretion of the trustees to further the Trust's purpose.

MANAGEMENT OF RESERVES

Reserves held by Trust will be reviewed the Finance Committee on a regular basis and an appropriate range of options will be considered which may include releasing the funds into the revenue budget in furtherance of the Trust's objectives; assigning funds to appropriate designated reserves as may be determined by the Trust; or investing the funds to generate further income to allow expansion of the Trust's work.

APPROPRIATE LEVEL OF RESERVES

When considering an appropriate level of reserves, the trustees have considered:

- the risk of unforeseen emergency or other unexpected need for funds.
- covering unforeseen day-to-day operational costs, for example employing temporary staff to cover a long-term sick absence.
- a fall in a source of income or the ending of a funding source linked to anticipated pupil numbers.
- planned future commitments, that cannot be met by future anticipated income alone, for example plans for a capital investment project.
- the need to fund potential deficits in a cash budget, for example money may need to be spent before a funding grant is received.

To ensure that schools and the central MAT have sufficient funds to cover these risks, a balance needs to be made between:

- the probability of these events happening and the scale of financial risk, and
- the efficient use of funds to support education now, without needlessly saving for the future.

Measures of Reserves

- GAG funding supports a per pupil element as well as a lump sum payment for a school, using this as a basis for measuring reserves takes into account the fixed costs of maintaining a site and the variable element of the number of pupils.
- Salary costs are the largest costs across the budgets and have a predictable cashflow forecast, working capital needs to be maintained to cover these, however funding is paid in advance of these costs.

By considering both of these elements in deriving a reserves level, the factors that can influence financial stability can be linked to the reserves target. The calculation of the level of reserves held by the Trust is the average of 10% of GAG funding and 1 month's salary.

This is built into the overall budget which should be held as contingency to support future requirement and any in year uncertainties. This is considered as an amount to provide sufficient working capital to cover delays between spending and receipts of grants and to provide a cushion to deal with unexpected emergencies such as urgent maintenance.

The Directors will review the reserve levels annually when the budgets are set. All reserves across the MAT are reported to the Directors and reviewed throughout the year via budget monitoring.