



Osborne
Co-operative Academy Trust

Self-help
Self-responsibility
Equity
Equality
Democracy
Solidarity

Policy/Procedure: Reserves

Review Frequency: Two Years

Date of last review: July 2019

Date of next review: July 2021

Osborne Co-operative Academy Trust is a multi-academy trust (MAT) incorporated around the principles and values of the international co-operative movement. These are Equality, Equity, Democracy, Self-help, Self-Responsibility and Solidarity, along with the ethical values of openness, honesty, social responsibility and caring for others. These values and principles underpin all our actions.

1. Principles

The Trust Reserve Policy is based on the following principles:

1. Reserves must have a specific purpose related to future spending or covering current and future risks;
2. The size of the reserves should balance the benefit of current spending with the risks the reserves cover;
3. They should be transparent and maintain the link with the purposes for which the income was given;
4. They should ensure that sufficient resources are available so that unexpected events can be accommodated without causing current year problems, generating a deficit or cash flow issues;
5. The Trust is required to ensure its reserves are limited to a level where its use in the future is known.

2. ESFA - Academies Financial Handbook

The ESFA now provides little guidance on the establishment and use of reserves. However, it does say Academy Trusts:

“Must recognise and manage **present and future risks**, including contingency and business continuity planning, to ensure the academy trust’s **continued and effective operation** “

This confirms that Trusts should use their assessment of risk to determine the type and size of reserves it maintains.

The ESFA does not prevent Trusts holding reserves for other purposes. However, the overarching requirements for managing public money impose a duty to act reasonably and ensure value for money.

3. Reserves to be Held by the Trust

3.1 School Reserves Held Centrally by the Trust

3.1.1 General Revenue Reserves

A General Revenue Reserve for each school is to be maintained at a minimum of 5% of the revenue grant income budgeted by each of the schools with a cap of £400,000.

The level will be reviewed annually by the Board.

If deficits through overspending or as a result of the need to respond to emergencies in a year result in the reserve falling below the 5% threshold, resources will need to be set aside in the next year’s budget to restore it.

Exceptionally, where the size of the short fall is large, the Local Governing Body (LGB) may propose to the Chief Executive Officer (CEO) that it is restored over more than one year. If agreed by the CEO, such arrangements will require approval of the Trust Resources Committee

Cash equivalent to the value of these reserves will be transferred to and held by the Trust. It may be used by the Trust to assist schools to manage their cash flow. In addition, the CEO may use these funds to finance responses to any emergencies and unforeseen demands that arise across the Trust.

In each case, the use of the funds must be reported by the CEO to the Trust Resources Committee along with plans to replenish the cash.

3.2 School Held Reserves

3.2.1

As part of the Trust cash flow management, each school is required to hold one month's salary costs with a cap of £300,000 to support the fluctuations in cash flow in the school's bank account. This will also support potential unforeseen emergency expenditure that could not have been planned for by the school which could then affect the monthly payroll expenditure.

3.2.2 Specific Revenue and Capital Reserves

As part of the trust's risk management process, schools may identify the need to set aside funds in order to meet future expenditure needs that would not be able to be met through normal annual funding. Proposals will be included as part of the budget setting process and must take into account the cash flow fluctuations planned for by the school.

These reserves would normally be identified for capital projects such as the replacement of all-weather sports facilities. However, revenue reserves may be established in order to equalise fluctuating future grant funding such as for resource bases in schools.

In establishing these reserves, regard must be taken as to whether they will be established in the Trust's capital or other funds. The Trust is not able to spend capital grants and income for restricted and unrestricted fund purposes.

3.2.3 Accumulated Reserves

Any in year surpluses will result in unspecified reserves accumulating. These need to be reviewed by the LGB and Trust Resources Committee and plans considered as to using them in the following year. Where their emergence provides opportunities to invest in the school in the future, the Head teacher or Head of School may submit proposals to the LGB and Trust Resources Committee to allocate them to Specific Revenue or Capital Reserves. Schools will transfer unspecified reserves to the Trust that are more than 8% of the revenue grant income.

3.2.4 Reserves over 8% of GAG

The trust will claw back to the centre any reserves held in excess of 8% of GAG.

3.3 Central Trust Reserves

In addition to the cash reserves held on behalf of schools identified above, the Trust may hold specific reserves for specific Trust wide purposes. They may include:

- investing in central services
- funding Trust wide facilities
- implementing Trust wide standards

3.3.1 Identifying Specific Reserves

The annual Trust's Strategic Development Plan review process may generate proposals for making investments in staff, systems, equipment and building in order to deliver the Trust's objectives. To deliver them may require establishing specific central reserves, potentially accumulating over more than one year.

As part of the CEO's consultation with the Head Teachers Group on the Trust Development Plan, the CEO will outline the case for the investments and the funding required.

The Trust Development Plan and annual budget including the impact of the investment proposals will be presented to the Trust Resources Committee and Board in the summer term for approval.

Whilst the planning process will be the normal route for establishing Specific Trust Reserves, proposals may emerge outside this cycle. After the appropriate consultation, CEO will present them to the next Trust Resources Committee together with the impact on Trust budgets.

3.3.2 Accumulated Reserves

Any in year surpluses will result in unspecified reserves accumulating as is the case with schools. The same approach should be taken in order to identify how they will be dealt with.

The activity that will generate the greatest accumulated reserves, will be the management of the school capital allocation. The timing differences between central government and Trust accounting year will ensure that substantial reserves will be in place at year end. In addition, unavoidable delays in building works, etc will add to the size of the year end balances.

The School Capital Allocation will be managed separately from other Trust funding and the COO will monitor, analyse and report on the use of the funding regularly to the Trust Resources Committee.