**SAMPLE Reserve Policies**

Please note that these are SAMPLE Reserve Policies, for up to date guidance, please consult the most recent Academies Accounts Direction (<https://www.gov.uk/guidance/academies-accounts-direction>) or your MAC Accountants.

Items in *italics* should be read/used in relation to your own MAC policies and procedures.

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**Sample 1**

**Purpose**

XXX Multi Academy Company is expected to create contingency reserves from their annual GAG funding or other income. It is the Board’s intention to ensure financial controls which will deliver surplus through joint procurement, economies of scale and additional income generation. The purpose of this policy is to outline the requirement for a revenue/capital reserve within XXX Multi Academy Company in order to ensure development plans and strategic long terms aims are achieved.

The reserves held are intended to carry forward a prudent level of resources designed to meet the long-term cyclical needs of renewal and any other unforeseen contingencies. This policy sets out how much the Company needs to hold in reserve and why, how and when the reserves can be spent and how often the reserves policy will be reviewed.

**Principles**

The following principles underpin this policy for the MAC:

1. Funding is passed from the DfE via the MAC’s bank account to *academies, less any contribution*.

2. The *Principals*, with support and challenge from the *Finance Team*, will develop an expenditure profile to deliver curriculum, teaching and learning needs.

3. Academy budgets will be submitted each year and signed off by *the MAC Board, via the Executive Board and Finance, Risk and Audit Committee, in accordance with the annual financial planning calendar (as outlined in the Scheme of Delegation and Financial Procedures Policy).*

4. Monthly reporting of academies’ *financial performance/results/Management Accounts* will be monitored and challenged *throughout the year/monthly by Hub Finance Managers and the Finance Director* to ensure *academies/schools* are on target to deliver their agreed budget.

5. *Any in year surplus becomes part of the central reserves*.

6. *Reserves of the MAC are considered to be funds that are deployed at the discretion of the Executive Board with appropriate Board approval, and within the MAC’s scheme of delegation.*

7. *In year surplus monies can be deployed at the discretion of the Executive Board based on the MAC’s Strategic Priorities, an assessment of local need, and in line with the MAC’s Value Partners. Business cases can be submitted by academies to the Executive Team to request investment which has not been budgeted for; these business cases are for capital investment rather than operational running of the school. The Finance, Risk and Audit Committee will have oversight of the business cases approved by the Executive Board.*

8. *Only in exceptional circumstances will the MAC be allowed to use reserves to support a short term deficit. This must be approved by the Board.*

9. It is believed that *£2,000,000* in reserves is deemed adequate to ensure the financial stability of the MAC at the date of this current policy. This figure will be reviewed on an annual basis.

**Investment Management & Cash Holding**

*Investment of cash will be managed by the central finance team.*

Cash is held for 5 main reasons :

a. Where the organisation is growing and needs to build capacity in advance of need.

b. As a safety net against reduced funding to allow time for correction of any organisation structure, paying for any short term deficit and subsequent restructuring costs.

c. To allow for investment in vital infrastructure and teaching/leaning equipment on a needs basis.

d. To meet any short term emergencies.

e. Cash flow management to ensure employees and suppliers can be paid.

The target level of cash held and deployment will be reviewed and documented as part of the annual budget.

**Investment of funds**

The priority is to avoid high levels of risk by ensuring any investment vehicle has adequate credit rating measured by Standard and Poor or another reputable credit rating agency. The MAC will avoid volatile investment instruments, ensuring security takes precedence over revenue generation.

The MAC, through its *Finance Committee*, will review investment of funds to ensure appropriate reflection of risk/reward at least an annual basis.

**Risk Management**

The MAC’s *Finance, Risk and Audit committee* will review the Investment / Reserves Policy on *an annual* basis and where appropriate make recommendations to the MAC Board.

**Sample 2**

**1. Introduction**

1.1 This policy sets out the reserves policy of the MAC

1.2 Under Charity SORP we must disclose our Reserves policy to stakeholders in our annual statutory accounts

1.3 The reserves policy is in place to protect its activities by providing a financial comfort zone against an unpredictable environment, fluctuations in funding or student numbers and to make sufficient provision for future cash flow requirements and capital procurement. The Board are mindful of the requirement that GAG funding should be spent on current pupils. The policy also provides the framework for future strategic planning and decision-making.

The reserves policy and the establishment of ranges is based upon an annual risk assessment of the internal and external operating environment, as well as having a due regard for the nature of activities under taken by the MAC for its beneficiaries.

**2. Purpose**

2.1 This policy sets out the minimum level of unrestricted reserves required in order that the Board is able to maintain a structure of prudent financial management whilst continuing as a going concern and is reviewed annually

2.2 The Board takes into consideration the future plans of each *Academy/School*, the uncertainty over future income streams and other key risks identified during the risk review. The most significant as with all Multi Academy Companies (MAC) being the Local Government Pension scheme (LGPS) deficit held as a long term liability

2.3 Unrestricted reserves support fluctuations in income, such as reduced student numbers or unexpected expenditure, such as urgent maintenance

2.4 To establish the policy for designation of reserves for specific projects or expenditure

2.5 To set out procedures for restricted funds where the funder or donor specifies how funds are to be spent.

**3. Policy**

3.1 We aim to maintain sufficient free reserves to meet the ongoing running costs of the MAC for *0.5-1.5 months*. This level of reserves ensure we can cover any gap between funds raised and the ongoing costs, as well as to cover for any emergency requirement for funding. It takes into account the nature of our funding from the ESFA.

3.1.1 The maximum use of reserves in any one year is *30% of the brought forward reserves* *of the school (this is assessed on a school by school basis)*. (*If the school requires the in year deficit to exceed this level then prior approval is required by the Board. This may be approved if there are strategic reasons for the in year deficit and the MAC are satisfied that in the long term the school is a going concern. This would be evidenced by future cash and reserves forecasts for the school and MAC.)* **Please note that BDES advice is that ALL Schools, VA or Academy should have an In-Year balanced budget, as a MINIMUM. Where an individual school is anticipating an In-Year Deficit, the school should contact the CFO of their MAC or the Diocesan Finance and Business Adviser in the case of VA schools, as soon as this becomes apparent.**

3.1.2 *The level and number of designated reserves are at the Boards discretion. We designate reserves for strategic priority areas.*

3.1.3 Restricted funds will be recorded separately. Controls must be in place to ensure the funds are used for the purposes set out by the donor, this includes all restricted income and expenditure are recorded as such. Any changes in use of restricted funds will be agreed with the donor in advance.

**3.2 Types of Reserves**

3.2.1 Unrestricted Reserves

Unrestricted Reserves (including Designated Reserves) are derived from income funds, grants or donations that can be spent at the discretion of the directors and in furtherance of any of the MAC's objectives.

Unrestricted Reserves will be achieved through operational efficiencies and any trading activities undertaken by the MAC.

Unrestricted Reserves are generally defined as funds held after excluding:

 Endowment funds (permanent & expendable);

 Restricted funds; and

 Funds that can only be generated on the sale of fixed assets used for charitable purposes.

**3.2.3 Designated Reserves**

If part of an unrestricted income fund is earmarked for a particular project it may be designated as a separate fund, but the designation has an administrative purpose only, and does not legally restrict the directors’ discretion to spend the fund.

Designated Reserves are reserves that have been set aside at the discretion of the Directors in furtherance of any of the MAC’s objectives. Where a designation has been identified, the purpose and timing of any expenditure must be explained.

The target range for any Designated Reserve will be determined by the nature of the designation itself; the reserves will be derived from unrestricted and restricted funds where applicable.

**3.2.4 Restricted Reserves**

Restricted Reserves may be restricted income funds, grants or donations that are spent at the discretion of the directors and in furtherance of some particular aspect(s) of the objects of the MAC where the nature of expenditure has been defined by the donor; or they may be endowment funds, where the funds or assets are required to be invested or retained for actual use, rather than spent. Normally restricted reserves are spent within 1-2 years of their receipt, unless for a longer term project agreed with the funder.

**3.2.5 Restricted Reserves – Fixed Asset**

Restricted Capital Reserves to be spent on capital items are defined as Restricted Fixed Asset Reserves. This reserve is specifically held once and spent to depreciate those restricted assets in the balance sheet rather than charge through unrestricted reserves in the income and expenditure account. If the asset purchased with restricted capital monies on delivery can be deemed to have negated the restriction, then there is a movement between restricted and unrestricted reserves for the purpose of capital depreciation.

**3.2.6 Pension “Reserve” is not a reserve but a long term liability**

*The presence of a pension surplus or deficit will generally result in a cash flow effect for the MAC in the form of an increase or decrease in employers’ pension shortfall/overpayments over a period of years. The MAC is confident that it can meet the current required pension deficit contributions from projected future income without significantly impacting upon its planned level of activities.*

*The MAC continues to calculate its reserves without setting aside a Designated Reserve to cover the pension liability, however, this will be reviewed each year, as the MAC is required to close the deficit shortfall over a period of 25 years by making cash payments to reduce the liability. The liability since the inception of the MAC has only risen.*

**3.3 Management of Reserves**

3.3.1 The target range for reserves (excluding Fixed assets and pension) is *0.5 – 1.5 months* of running costs

3.3.2 *The level of reserves is reported to the Finance and resources committee on a quarterly basis and to the full Board on an annual basis*

3.3.3 The triggers for action should be where the reserves are outside the range:

 At the year end

 Are forecast to be outside the range at the year end.

3.3.4 *No action should be taken as a result of fluctuations during the financial year if the year end forecast is still expected to be within range.*

3.3.5 *If the MAC is not meeting its targeted level of reserves, then it should take action to ensure it can return to its targeted level within a reasonable period.*

3.3.6 *If our reserves are too low then this will involve preparing plans and a budget to improve the reserves position within a required time frame agreed by the Trustees.*

3.3.7 *Reserves held in excess of the target amount will be reviewed by the MAC on a regular basis and an appropriate range of options will be considered which might include releasing the funds into the revenue budget in furtherance of the MAC's objectives, assigning funds to appropriate designated reserves as may be determined by the MAC, or investing the funds to generate further income to allow expansion of the MAC’s work.*

3.3.8 *The movement of funds to and from the reserves identified (other than movements from restricted to unrestricted) above will be at the discretion of the MAC, or the appropriate sub-committee where delegated authority has been provided by the Board of Directors, subject to the restrictions which will remain attached to Restricted Funds (Revenue and Capital) and their use. The movement of funds from restricted to unrestricted must be subject to obtaining appropriate consent from the original donor of the funds.*

**3.4 Relationship between the MAC and its schools**

3.4.1 *The MAC’s funds are allocated to individual schools within the MAC, excluding the restricted fixed asset fund and the pension reserve. There is no central funding therefore, should a school go into deficit, it is effectively being funded by all other schools within the MAC.*

3.4.2 The MAC and individual schools are expected to set a budget using the GAG and other grants reasonably foreseen and matching expenditure to that income.

3.4.3 *Should an individual school go into a deficit this must be approved by the Board in advance and a recovery plan be in place to repay the deficit over not more than 3 years.* **Please note that BDES advice is that ALL Schools, VA or Academy should have an In-Year balanced budget, as a MINIMUM. Where an individual school is anticipating an In-Year Deficit, the school should contact the CFO of their MAC or the Diocesan Finance and Business Adviser in the case of VA schools, as soon as this becomes apparent. MAC’s are advised to contact the Diocesan Finance and Business Adviser, if more than 1 school in the MAC is considering a deficit budget and if ANY school anticipates a recovery period of more than 2 years.**

3.4.4 *Local governing bodies can ask the Board for access to reserves but it is up to the Board to decide whether this is an appropriate use of reserves as they have the responsibility of securing the financial stability of the MAC as a whole.*

**3.5 Application**

3.5.1 This policy will be in force from the date of issue.

**4. Roles and responsibilities**

4.1 It is the responsibility of the Board to reassess every year the level of unrestricted reserves in order that the policy remains prudent and relevant.