

Ormiston Academies Trust

Ormiston NEW Academy Reserves policy

Policy version control

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| Description of changes | <p>Amendments include changes to the following:</p> <ul style="list-style-type: none"> ▪ Change ranges from 4% to 7% to 5% to 10%. ▪ Changes of the reserves review by Trustees from March to December to enable this to happen in the context of going concern discussions, already scheduled for December, and ahead of budget guidelines being issued to academies in January/ February. |

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1. Introduction

- 1.1. The Trust Board of Ormiston Academies Trust (OAT) is responsible for the effective and efficient allocation and use of available resources in order to deliver the vision and supporting strategic plans of OAT.
- 1.2. At OAT, our focus is on our children of today and we believe that funds should be expended on them. As such, we do not wish or intend to hold excessive reserves. However, we recognize that Multi Academy Trusts are required to establish a reserves policy in order to protect their operations – to cover unforeseen events and areas of investments. Within OAT, all reserves are managed centrally.
- 1.3. A key judgement that is performed as part of the external audit of the Trust's accounts is that the Trust will comply with FRS102. The Trustees must, in preparing the annual statement of accounts, undertake an assessment of the Trust's ability to continue as a going concern. The level of reserves held by the Trust will be a factor in judging whether the Trust will remain a going concern.
- 1.4. Regardless of regulatory requirements, establishing reserves that protect the operation of the Trust and contribute to its smooth running is good practice and forms part of its overall financial control and governance framework. This will ensure financial sustainability, a key component of ensuring long term trust viability so that we can make the biggest difference both today and tomorrow.

2. Purpose and application

- 2.1. The development of an effective reserves policy will help to mitigate the impact of any risk upon the continuing operations of the Trust.
- 2.2. OAT's reserves policy:
 - 2.2.1. Provides a framework for future strategic planning and decision making in that it considers how new projects or activities will be funded.
 - 2.2.2. Informs the budget process at both a school and Trust level by considering whether reserves need to be used during the financial year or built up for future investment.
 - 2.2.3. Enables investment decisions to be made at a Trust level, where necessary utilising reserves from across the Trust; and
 - 2.2.4. Informs the budget and risk management process by identifying any uncertainty in future income streams.
- 2.3. The OAT 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 MAT for its beneficiaries.
- 2.4. As such, OAT's Reserve Policy is set so that reserves are held as follows:
 - 2.4.1. To cover working capital requirements

- 2.4.2. As a contingency to meet unforeseen expenditure (forming part of restricted and unrestricted general funds) e.g., an unexpected large repair bill.
- 2.4.3. To fund planned and specific future capital expenditure (forming part of the restricted fixed asset fund).
- 2.4.4. A fall or rise in sources of income e.g., non-renewal of a grant.
- 2.4.5. Planned commitments, or designations, which cannot be met by future income alone, e.g., plans for a major asset purchase or a significant project that requires the charity to provide 'matched funding;' and
- 2.4.6. The need to fund potential deficits in a cash budget, for example money may need to be spent before funding is raised or received.
- 2.5. The level of reserves is kept under review by the Trustees, and they assess it in relation to these purposes and the full range of financial risk identified.

3. Scope

- 3.1. This policy relates to all academies with OAT and supersedes any local policies and procedures that may have been in use prior to this policy being issued.

4. Types of reserves

4.1. Unrestricted reserves

- 4.1.1. Unrestricted Reserves (including Designated Reserves) are derived from income funds, grants or donations that can be spent at the discretion of the directors in furtherance of any of the OAT's objectives and in accordance with our normal protocols, processes, and procedures.
- 4.1.2. If part of an unrestricted income fund is earmarked for a particular project it may be designated as a separate fund (a Designated Reserve), but the designation has an administrative purpose only, and does not legally restrict the directors' discretion to spend the fund. Unrestricted Reserves will be achieved through operational efficiencies and any trading activities undertaken by the Trust.
- 4.1.3. Unrestricted Reserves are defined as funds held after excluding:
 - 4.1.3.1. Endowment funds (permanent & expendable).
 - 4.1.3.2. Restricted funds; and
 - 4.1.3.3. Funds that can only be generated on the sale of fixed assets used for charitable purposes.

4.2. Restricted reserves

- 4.2.1. Restricted Reserves (including Designated Reserves) may be restricted income funds, grants or donations that are spent at the discretion of the directors in furtherance of some aspect(s) of the objects of the Trust; or 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.

- 4.2.2. As such, the Restricted Fund is represented by the main income for the academy which is the General Annual Grant (GAG), other grant contribution or donations that are received for a specific project or purpose.
- 4.2.3. Restricted Reserves are only available for expenditure once the Trust has met its commitments and other planned expenditure and is in accordance with the limitations outlined in the original funding.
- 4.2.4. Restricted Reserves also are inclusive of capital items, and these are defined as Restricted Fixed Asset Reserves. The Restricted Fixed Asset Reserve Fund is specifically held for capital purposes and equates to the Net Book Value of the assets held by the Trust, plus any unspent Capital grants.
- 4.2.5. All Restricted Reserves will be generated through improved operational efficiencies, effective resource planning in addition to proactively seeking sources of grant funding.

4.3. Designated reserves

- 4.3.1. Designated reserves are reserves that have been set aside at the discretion of the Directors in furtherance of any of the Trust's objectives. Where a designation has been identified, the purpose and timing of any expenditure must be explained.
- 4.3.2. 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.

4.4. Pension reserve

- 4.4.1. The risks surrounding the Trust's pension liability have been taken into consideration when calculating the target ranges.
- 4.4.2. The presence of a pension surplus or deficit does not constitute an immediate liability or realisable asset and does not mean that the equivalent amount is already committed or no longer available to the Trust.
- 4.4.3. The presence of a pension surplus or deficit will result in a cash flow effect for the Trust in the form of an increase or decrease in employers' pension contributions over a period of years. The Trust is confident that it can meet the required pension contributions from projected future income without significantly impacting upon its planned level of activities.

5. Management of reserves

- 5.1. The Trust is responsible for determining the level of financial reserves to be carried forward at the end of each financial year (31 August).
- 5.2. The level of reserves is kept under review via the monthly management accounts, and regular reforecasts take place during the year to reassess the predicted year-end position. The plan around reserves is reviewed annually by the Trustees, in December, as part of the annual budget process. They assess it in relation to the purposes outlined above and the full range of financial risk identified.

- 5.3. The levels of reserves carried forward at the end of the financial year will also reflect guidance received from the ESFA on the treatment of GAG income and other grants.
- 5.4. Reserves are to be maintained between a range of 5 -10 % of the gross income of the Trust as a whole. In line with Department for Education guidance, reserves should not fall below 5% of the gross income of the Trust as a whole. A minimum reserves target of 5.5% should be adopted when setting in-year financial reserves targets.
- 5.5. Any in-year deficits, at an academy level, will be resourced from this fund as far as possible. However, in all such cases, a review must be undertaken between the CFO, Education Director, and Principal, to agree the actions required to return to an agreed surplus position in the following year(s).
- 5.6. Trust reserves can be used to support schools that are facing the possibility of setting a deficit budget only in the event of all the following criteria are met:
 - 5.6.1. That it makes sense to do so with regard to short-term and long-term outcomes of children and that this is supported by a robust 3-year holistic school improvement plan that demonstrates both academic and financial improvement over-time.
 - 5.6.2. That all cost and income streams have been reviewed to ensure risks have been mitigated and all value opportunities are being optimized.
 - 5.6.3. The financial risks associated with the Trust have been reviewed; and that Directors are satisfied that the Trust Reserves are sufficient to withstand a reduction and that because of helping an academy, Trust Reserves will not fall below the 5% lower threshold set.
- 5.7. Reserves may increase above 10% only in the rare circumstance where this is justified by significant investment planned to occur over the following year or years where it is supported by strategic planning.
- 5.8. Reserves held in excess of the target percentage will be reviewed by the trustees on a regular basis and an appropriate range of options will be considered which might include:
 - 5.8.1. releasing the funds into the revenue budget in furtherance of the Trust's objectives.
 - 5.8.2. assigning funds to appropriate designated reserves as may be determined by the Trust.or
 - 5.8.3. investing the funds to generate further income to allow expansion of the Trust's work.
- 5.9. 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 Board, 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.
- 5.10. Any decrease in reserves, below that approved in the budget, would need to be re-approved by the full board if there is a risk that it will lead to year end reserves decreasing below budgeted amount by £0.5m or below 5.25% reserves/ income [0.25% is equivalent to £0.5-0.75m].

- 5.11. In normal years, this should not be necessary, as the Trust should hold adequate in-year contingency to manage any in-year unforeseen circumstances. The CFO is responsible for monitoring and reporting on the use of this contingency and associated financial risks and opportunities. Information relating to this will be shared with the Executive Team and Trustees each month via the management accounts.
- 5.12. The movement of funds from restricted to unrestricted must be subject to obtaining appropriate consent from the original donor of the funds.
- 5.13. Using the Trust reserves to continually 'bolster' schools to ensure they achieve a balanced budget is not appropriate or financially sustainable.
- 5.14. Academies will be set surplus targets each year and there is an expectation that these will be delivered.
- 5.15. An element of this may be "ring-fenced" within the centrally held reserves for future use by the academy. This must be pre-agreed by the CFO and principal and will normally be linked to discussions around ICT and Estates lifecycle planning. Future use of this will still be subject to approval by the Trustees via the Financial planning processes (Budget and termly Forecast processes).
- 5.16. The central estates and finance teams are responsible for overseeing estates and ICT life-cycle financial planning across the Trust. Standard templates and procedures have been created. The consolidated outputs of these will be reviewed by the executive team prior to going to the Finance and Capital Committee to be reviewed and endorsed. Use of reserves will require approval by the full board approval via the Financial Planning process. The aim is to ensure optimal decision making that ensures the best use of public funds (value for money for all children in the trust in terms of outcomes) over time and for this to be supported by a consistent, fair, and transparent process.
- 5.17. The life-cycle financial planning process was introduced for Estates in Spring 2022, and for ICT during 2023/24. There will be a rolling process going forward. This will ensure:
 - 5.17.1. Improved estates and ICT planning across years
 - 5.17.2. Optimal investment decisions with consideration to the educational needs and both short-term and long-term financial management.
 - 5.17.3. Improved integrated planning between estates and ICT planning and CLFP planning (pupil numbers and curriculum assumptions).
- 5.18. Target surpluses must be achieved after settlement of the OAT partnership fee.
- 5.19. As such, it is reasonable to assume that each academy should allow up to 7.5%+ of GAG income to cover partnership fees; and surplus targets to cover re-investment requirements in future years. This percentage may change over time depending on the proportion of supplies purchased centrally and the volume of improvement work paid for centrally. The exact partnership fee %'s and surplus targets are reviewed by the Finance & Capital Committee each November and approved by the Board each December. Assumptions, for budget purposes, are communicated to Academies in February each year.

6. Reviewing the policy

- 6.1. OAT recognises that strategic and financial planning informs the development of reserves policies and vice versa. For example, the budgets will identify peaks or troughs in cash flow and the reserves policy will need to ensure the troughs in funding can be met from reserves held.
- 6.2. The Reserves policy will be reviewed annually and at other times considering the changing funding and financial climate and other emerging risks. Additionally, it will be amended as necessary to reflect any changes in Government guidelines.
- 6.3. OATs Reserves Policy and Assessment of the risks that we are facing form part of OAT's statutory accounts/annual report.

7. Monitoring and reporting

- 7.1. Each year, the Trust will report in the financial statements:
 - 7.1.1. The level or range of reserves considered appropriate for the Trust.
 - 7.1.2. The level of reserves at year-end.
 - 7.1.3. How the Trust is going to achieve the desired level or range of reserves; and
 - 7.1.4. How often the reserves policy is reviewed.
- 7.2. Meetings take place between OAT and the ESFA in which the level of reserves is discussed. The current range is considered acceptable by the ESFA.