Capital & Revenue Reserves Policy

Ludlow Junior School

Date of last review: Feb 2025

Date of next review: Feb 2026

Date approved:

Approved by:

1. Background

1.1 The requirement for the Trust to set a reserves policy is developed from the Charity Commission guidance on reserves. Trusts must set a reserves policy and then report their reserves policy in the annual financial statements.

1.2 The Charity Commission reminds directors that:

• Charity law requires any income received by the Trust to be spent within a reasonable period of receipt.

• A good Reserves Policy considers the Trust's financial circumstances and other relevant factors.

• It is good practice to monitor the level of reserves throughout the year.

The Academies Accounts Direction develops these requirements which are applicable to academy schools

1.3 The Trust Board are encouraged not to hold back funds and to ensure that today's pupils receive the benefits of the grants received. Holding back excessive funds for a rainy day may damage the education of the current pupils. Conversely, fully spending all current funds leaving no money for investment in the future of the schools can damage the education of tomorrow's pupils.

1.4 The directors have the responsibility to manage the assets of the Trust which is a single legal entity. Setting a reserves policy is a central part of managing the Trust's finances and safeguarding the Trust's assets in uncertain times. Directors must ensure that the Trust holds enough reserves to implement its future strategy. The level of reserves therefore depends on the level of funds required to implement the future strategy.

2. Reserves Policy

2.1 Ludlow Junior School (LJS) has established this Reserves Policy to protect its activities by providing financial buffers against an unpredictable environment and to make sufficient provision for future cash flow requirements and capital investment. The policy also provides the framework for future strategic planning and decision-making. The development of an effective reserves policy will restrict the impact of any risk upon the continuing operations of LJS.

2.2 This policy and the establishment of reserve targets will be based upon an annual assessment of the internal and external operating environment.

2.3 The policy takes account of the Academies Financial Handbook and guidance from the Charity Commission.

3. Reserves

3.1 Reserves are the representation of the cash balance available at the period end. In charity accounts (the format used for Academies) this cash is transferred into fund balances. These balances can be for "restricted" or "unrestricted" purposes depending on their source.

4. Unrestricted Reserves

4.1 Unrestricted 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 Trust's objectives.

4.2 If part of an unrestricted income fund is earmarked for a project, it may be 'designated' as a separate fund. However, 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.

4.3 Unrestricted reserves include "school" or "governor" funds where the donor has not stipulated how they should be spent.

5. Restricted Reserves

5.1 Restricted reserves are mainly derived from government grant funding through the ESFA (Education and Skills Funding Agency) but may also include other grants or donations. Restricted reserves must be used in accordance with the limitations outlined in the original funding (in the case of ESFA funding, this is as detailed in the academy's funding agreement).

If any income is restricted to a particular area of expenditure, then the Trust must put procedures in place to monitor its use and ensure compliance with any donor restrictions.

5.2 There are many types of restricted reserves including;

• GAG restricted reserves represent unspent General Annual Grant funds. They are restricted only because they are given by the government for educational provision in the Trust. The restrictions are no more onerous than the limitations of the funding agreement. GAG reserves will generally represent the bulk of total reserves.

• Capital restricted reserves represent the value of all fixed assets. These are therefore not cash reserves but represent the depreciated value of the building and its capitalised contents.

• Other restricted reserves represent unspent donations from other sources that must be spent in line with the donor's explicit wishes.

• Pension reserves represent the Trust's share of assets in relation to the local government pension scheme. For most Trusts, this will be a negative reserve as the schemes are largely in deficit. This figure, although worked out by the local authority's actuaries is a notional figure and should not be included when assessing the level of free reserves, as the debt is unlikely to crystallise. Pension reserves relate only to the Local Government Pension Fund as Teachers Pensions are underwritten by the government.

6. Reserves contributions

6.1 The Trust is largely funded by grants from the Education and Skills Funding Agency, the use of which is regulated by its Funding Agreement. LJS expects to use funding received from the ESFA in the accounting year for which it is given, with the following exceptions.

• **School Restricted Revenue Reserves**; LJS should have a minimum of £217,000 held back in revenue reserves. This is to provide for any exceptional expenditure which may occur in the following budget year. Other than specific reserves detailed below, the maximum restricted revenue reserves held are reflective of the identified financial risks and commitments of the School.

• **Sinking funds – named facilities**; Schools should consider whether there are specific assets in schools which have a limited useful life and build a sinking fund to replace them. An example of this would be all weather sports pitches. The annual contribution towards these funds should be assessed each year depending on the condition and replacement value of the asset and approved by the Trust's Finance and Resources Committee.

• Specific Capital Projects; Where schools have identified the need to invest in specific capital projects they may set aside funds to do so. This must be approved by the Trust Finance & Resource committee as part of the annual Asset Management Plan and in line with budget approval processes.

7. Reserves levels

7.1 Reserves will be expended at the discretion of Directors in accordance with approved Business Plans.

7.2 It is the policy of the Trust that at no time will the level of total reserves fall below the equivalent of the Trust payroll for one month. This figure is currently £209,000

and represents approximately 7.5% of GAG.

7.3 Similarly, unless monies are being set aside for specific projects, it is not anticipated that total reserves will exceed 10% of GAG, currently £2,771,852.

7.4 The Trust needs to consider what an appropriate level of reserves should be to minimise the risk of entering a deficit position following unforeseen circumstances. That target should be recommended by the Trust Finance & Resource Committee as part of the annual budget setting process.

7.5 It is not anticipated that the annual budget should show a large surplus of funds. Irrespective of the carry forward calculation it is not deemed responsible to try and build up significant reserves unless there is a project that requires savings to fund over many years.

7.6 Whilst prudence dictates that a reserve is required, funding has been granted for the provision of education to existing pupils, and it would be inappropriate to salt away too much for future years if that detrimentally impacts on current cohorts.

8. Expenditure against school reserves balances

8.1 Expenditure that draws on reserves is subject to the same purchasing authority levels as contained within the Trust Finance Policy and Scheme of Delegation.

9. Banking

9.1 It is a requirement that all cash reserves are recorded on the Trust's accounting system and administered by Trust staff. All accounts should subject to regular reconciliation in accordance with the Trust's finance regulations.