

Denefield School

Financial Reserves Policy

Approved by Resources Committee on	06 October 2021
Date of next review	October 2022
Review cycle	Annual
Policy control sheet updated	Yes
Type of policy	Required by Academy Trust Handbook
Policy owner	Finance and Business Director
Location of policy	Denefield School website

Financial Reserves Policy

Purpose

As an exempt charity regulated by the DfE, all academies are required under charity law to have a reserves policy. The purpose of the reserves policy is to ensure the School has a prudent level of resources to adjust quickly to changes in financial circumstances, such as large unbudgeted expenditure, and other unforeseen contingencies, to meet the cost of planned capital projects and the cyclical needs of renewal.

Deciding the level of reserves that the School should hold is an important part of the planning process. Reserves which are too high unnecessarily prevent funding being used to benefit current students. Reserves which are too low potentially put the future activities of the school at risk.

Annual review of the reserves policy assists in financial planning by focusing on how new initiatives will be funded and whether or not funds need to be built up. It is also essential in protecting the school from financial risk resulting from, for example, reduction in Government funding, a fall in student numbers, or high-cost emergencies.

Definition

Restricted Reserves

Restricted reserves are those funds which Denefield receives from its main ESFA grant, and other grants or donations that are received for a specific purpose. These funds are restricted according to the terms and conditions of the grants and the donors' instructions. Restricted reserves include the fixed asset fund and the pension reserve.

Unrestricted Reserves

These are derived from Denefield's activities for generating income, for example lettings and donations given freely in furtherance of Denefield's objects.

Designated Funds

These are funds that have been allocated by the Governors for a particular purpose.

Working reserves

Working or 'useable' reserves are that part of Denefield's funds which are available to spend on the School's main objectives. Working reserves exclude the fixed assets fund and the Pension Reserve.

Considerations in setting the level of reserves

The trustees will determine annually the level of reserves that Denefield needs having regard to financial risks and future spending plans. Trustees will take into account the following:

- the school's annual budget
- the amount needed for any large capital project such as facilities development or building condition needs
- any uncertainty, turbulence or expected reduction in funding
- anticipated funding over the next three to five years.
- the risk of any need for funds to cover unforeseen and unexpected costs
- planned commitments which cannot be met from future income streams
- cashflow considerations such as the need to spend money before a grant is received.

Denefield's policy

Denefield's policy is to maintain a prudent level of working reserves sufficient to meet unforeseen contingencies and to fund future expenditure related to its strategic long-term aims.

Reserves need to be set at a level which ensures the stability of educational operations and enables Denefield to react quickly to changes in financial circumstances. Subject to this, funding received in any one year should primarily be used to support current students on roll unless planned future expenditure requires the accumulation of funding over more than one year.

The level of reserves can fluctuate depending on operational needs but the trustees have determined that Denefield should aim to have:

- a minimum of one month's salary costs (currently £424k) to provide a cushion to deal with unexpected emergencies, plus
- an additional £200k - £300k to help cover extra costs arising from the Covid 19 pandemic, and to help fund one-off potential spending initiatives such as:
 - Essential boiler repairs / replacement
 - Contribution to the construction costs of the 3G football pitch
 - Capital costs arising from the Denefield site development plan not funded by ESFA and other grants
 - Other initiatives supporting the development and well-being of students and staff

£624k to £724k equates to 9% to 11% of current annual income.

Authorisation, monitoring and reporting

Resources Committee will monitor the level of working reserves in regular financial reports provided by the Finance and Business Director and in the annual financial statements. Such reports will provide explanations for any shortfall or excess in reserves

against target, and the action being taken or planned to bring reserves back in line. The trustees will be informed:

- when there is a need to access reserves and the impact of this on the level of reserves. Trustees should satisfy themselves that the use is consistent with the purpose of the reserve as described in this policy. This step requires analysis of the reason for use of the reserves, and evaluation of the time period that the funds will be required and, if relevant, replenished.
- when the level of reserves deviates significantly from target so that trustees can understand the reasons and consider any necessary corrective action.

Any use of reserves will be authorised by Resources Committee and approved by the full Trust Board at the next available meeting.