

# Denefield School

## Financial Reserves Policy

Approved by Resources Committee on	5 October 2023
Date of next review	October 2024
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 2023/24**

### **Summary of changes**

The following changes have been made to the 2023/24 policy:

- Wording has been amended and simplified for clarity and understanding.
- The 'Definitions' section has been clarified.
- Added a new bullet point to the 'Considerations' section highlighting the School's obligation for ensuring that existing pupils receive maximum benefit from available funding.
- Changed the target level of reserves (and associated metrics) from £560k to £610k (22/23) to £420k to £560k (23/24) in line with a revised assessment of what is required.
- Provided an analysis of what the target level of reserves actually represents.

# Financial Reserves Policy

## **Purpose**

As an exempt charity regulated by the DfE, all academies are required under charity law to have a reserves policy. A reserves policy is also required under section 2.8 of the *Academy Trust Handbook 2023*<sup>1</sup>, and information on how to report on reserves is set out in the [Academy Accounts Direction](#).

The purpose of the reserves policy is to ensure that Denefield has a prudent level of resources to

- deal with financial uncertainties and emergency situations, such as the unbudgeted cost of emergency building repairs, a fall in student numbers, or a significant change in the cost of utilities
- to mitigate the risk of the school finding itself in a difficult financial predicament where it is unable to meet short term obligations,
- to help meet the cost of planned investment in school infrastructure where projects do not attract external funding and where ring-fenced funding needs to be accumulated over a number of years.

Deciding the level of reserves is an important part of the planning process. There is always a balance to be struck between the needs of today's pupils and those of the future. Having reserves that are too low can put the School's future and trustees' ability to deliver the strategic aims at risk. Holding too much money back in reserve, however, can disadvantage the pupils of today.

## **Definition**

"Reserves" or "working reserves" is a term that is commonly used to describe the balance of funds that are available at any given point in time to help meet short term financial commitments or to spend on the school's main objectives. For an academy, this is typically the total of the trust's "unrestricted funds" and "restricted funds" excluding any amounts which represent the academy's longer term capital assets or financial obligations.

---

<sup>1</sup> 2.8 The board of trustees must [...] set a policy for holding reserves and explain it in its annual report."

Longer-term assets or liabilities, such as those represented by the 'restricted fixed asset fund' and the 'restricted pension reserve'<sup>2</sup> are generally excluded from the calculation of working reserves. They are excluded in recognition of the fact that such assets are necessary for the delivery of education and cannot be sold to meet short term financial commitments, and the pension obligation is not immediately repayable, thus providing the academy with a greater degree of financial freedom in the short term.

"Unrestricted funds" are generally those funds derived from Denefield's activities for generating income, such as income from lettings or donations given freely with no conditions attached.

"Restricted funds" are those funds which Denefield receives from its main ESFA grant to deliver its main educational objectives, and other grants or donations that are received for a specific purpose. They also include 'designated funds' that have been designated for a particular purpose, (such as the 3G pitch). The fixed asset fund and the pension reserve, although they are 'restricted funds', are excluded from 'working reserves'.

### **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 as well as anticipated funding over the next three to five years
- cashflow considerations and month-on-month working capital requirements. For academies this is largely predictable given that monthly income from the ESFA and the largest outgoings, staff salaries, remain relatively stable over the year.
- the need to accumulate capital funding to support investment in large infrastructure projects such as facilities development or building condition needs
- to build a reasonable buffer for uncertainties, financial turbulence or to cover unforeseen and unexpected costs
- the School's obligation for ensuring that existing pupils receive maximum benefit from available funding.

### **Denefield's policy**

Mindful of the above considerations and principles, trustees aim to maintain working reserves in the range £420k to £560k at any given point in time. This equates to:

- approximately 85%-115% of the cost of one month's employment costs, staff salaries being the school's key monthly outgoing, or
- 5.5%- 7.4% of total annual income.

As academies don't generally need to hold one month's wage bill in reserve because their main income stream from the ESFA is both regular and secure, another way of looking at it is to analyse what the level of reserves might actually represent:

---

<sup>2</sup> This fund includes Denefield's share of the Local Government Pension Scheme deficit.

- £180k or 3% of total annual employment costs, to guard against the risk that staff pay rises are more than budgeted in any one year
- £120k to allow for a possible reduction in student numbers
- £100k to protect against unbudgeted emergency situations requiring significant outlay
- £120k as a contingency for uncertainties such as budgets not going to plan, or to support additional capital projects as needed
- £40k sinking fund for the replacement of the 3G pitch surface in 2031. We aim to increase the fund by £20k per year.

Trustees are of the opinion that reserves in the range £420k to £560k would provide sufficient buffer for Denefield to be able to manage short-term contingencies, and support capital development, whilst also ensuring that funding is being applied actively to support existing students.

### **Authorisation, monitoring and reporting**

This policy will be reproduced within the trustees' annual report accompanying the statutory audited accounts, in line with the Academy Accounts Direction. Trustees will also report on the actual financial position, i.e. the working reserves held at the balance sheet date, comparing this to the target set, and if necessary commenting on any actions being proposed to bring the level of reserves back in line with the target set.

Resources Committee will also monitor the actual 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.