# Reserves Policy




# The Stour Federation

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## 1. AIMS

The Stour Federation Multi Academy Trust is committed to ensuring sound financial management, long-term financial sustainability, and the highest standards of probity across all its schools. The Trust Board holds ultimate accountability for the financial performance and going-concern status of the Trust.

The Trust Board is required under charity accounting regulations and Department for Education (DfE) rules to set a clear Reserves Policy within its annual Trustees' Report. This policy establishes a prudent framework to manage reserves across the Trust, ensuring public funding provided for education is used effectively for current pupils while maintaining sufficient buffers for operational stability.

This policy is drawn up in accordance with statutory and regulatory guidance:

- Funding Agreement: Master and Supplementary Funding Agreements between the Secretary of State for Education and The Stour Federation.
- Academies Trust Handbook (ATH) & Academies Accounts Direction (AAD): Statutory requirements published by the DfE/ESFA.
- Charity Commission Guidance: Including CC8 (Internal Financial Controls) and CC14 (Investing Charity Money).
- The Stour Federation Governance Framework: Including the Financial Management Policy and Scheme of Delegation.

## 2. PURPOSE & OPERATIONAL RATIONALE FOR HOLDING RESERVES

**Purpose of Reserves**
The primary purpose of holding financial reserves is to ensure the stability of the Trust's operations and protect it and its constituent academies from the impact of unplanned or unexpected financial pressures. All reserves held by the Trust are used solely to benefit its academies and advance its educational objectives.

**Principles for Holding Reserves**
Reserves held across the Trust must have a clear, transparent purpose linked directly to managing identified operational risks or delivering planned strategic spending. The level of reserves maintained ensures that unexpected events can be accommodated without generating operational deficits or cash flow difficulties.

**Specific Operational Reasons for Retaining Funds**
In line with the Trust's risk management strategy, funds may be set aside or retained within reserves for purposes including:

- **Unforeseen Emergencies:** Managing urgent health and safety needs, building defects, or unexpected major repair bills.
- **Operational and Cash Flow Buffers:** Covering unexpected day-to-day operational expenditures, staffing changes, or short-term cash flow lags.
- **Income Lags and Fluctuations:** Protecting against short-term reductions or delays in

grant funding, local falling birth rates, or variations in pupil roll numbers.
- **Capital and Infrastructure Investment:** Funding planned capital works, building refurbishments, premises developments, or IT infrastructure replacements aligned with Trust estate and digital surveys.
- **Strategic and Educational Initiatives:** Investing in curriculum development, strategic growth, and school improvement priorities outlined in School Improvement Plans and the Trust's 2030 Strategy.

**Designated Reserves**
Funds set aside at the discretion of the Trust Board for a specific project or strategic objective are classified as Designated Reserves. Designations are maintained for administrative purposes, reviewed regularly by Trust Board Directors based on operational need, and reported transparently in the annual audited financial statements.

## 3. TARGET RESERVE LEVELS (3-YEAR BUDGET FORECAST RETURN)

**Minimum Reserves Level (5% Threshold)**
When setting the annual budget and rolling 3-Year Budget Forecast Return (BFR), each school must set and maintain a minimum free reserves balance of 5% of total annual income for each financial year. This minimum level ensures basic operational resilience and cash flow protection.

**Maximum Reserves Level (20% Threshold)**
To ensure public funds are deployed effectively for current pupils, the maximum free reserves held by an academy year-on-year must not exceed 20% of total annual income.

**Exception to Maximum Limit (Specific Earmarked Projects)**
A school or central function may hold free reserves in excess of the 20% upper limit only if there is a specific, formally documented, and Trust Board-approved project that the school is saving towards. Qualifying projects include:

- Major capital works or building refurbishments identified in premises surveys.
- Significant IT infrastructure upgrades aligned with DfE digital standards.
- Targeted curriculum or school improvement interventions outlined in the School Improvement Plan or Trust 2030 Strategy.

**Remediation and Recovery Plans**
If a school's 3-year budget forecast indicates reserves falling below 5%, the Headteacher and Local Academy Council must submit a written 3-year recovery plan demonstrating how the 5% target will be restored.

If reserves exceed 20% without an approved capital or strategic project, the Chief Financial Officer (CFO) and Resources and Audit Committee will query the surplus and require a clear deployment plan.

## 4. GOVERNANCE, ROLES AND RESPONSIBILITIES

In accordance with the Trust's Scheme of Delegation and Financial Management Policy, responsibilities for reserves management are allocated across key governance tiers:

**Headteachers:** Working with school office staff, CFO and CEO, Headteachers formulate draft annual budgets and 3-year rolling plans adhering strictly to the 5%–20% reserves parameters.

**Local Academy Councils (LACs):** Local Academy Councils scrutinise and formally approve the school's draft budget and 3-year forecast at local level, ensuring compliance with this policy prior to submission to the Trust Board for final ratification.

**Chief Financial Officer (CFO) & CEO (Accounting Officer):** The CFO and CEO review and challenge all school budget submissions, verify compliance across the 3-year cycle, monitor consolidated cash flows, and present budget proposals to the Board.

**Resources and Audit Committee:** Meets six times per year to maintain detailed financial oversight, review school and central reserves termly (3x per year), evaluate business cases for reserve expenditure, and advise the Trust Board.

**Trust Board:** Holds ultimate legal accountability for approving the consolidated annual budget and 3-year BFR, authorising reserve allocations, and minuting all formal approvals.

## 5. PERMITTED & PROHIBITED USES OF RESERVES

**Permitted Uses**
Reserves may be accessed for:

- Unforeseen operational emergencies or urgent health and safety premises repairs.
- Short-term buffers against sudden funding cuts or pupil roll reductions.
- Board-approved capital or revenue strategic improvement projects.

**Prohibited Uses**
Reserves must not be used to cover ongoing, routine operational deficits or to support recurring structural expenditure that cannot be sustained by core annual income. Every school is expected to set a balanced revenue budget year-on-year.

## 6. RELEASE AND EXPENDITURE OF RESERVES

**Planned Release During Annual Budget Setting**
Where specific non-recurrent capital works, building refurbishments, or strategic revenue projects are planned as part of an academy's rolling 3-year cycle, the release of reserves is incorporated directly into the annual budget submission. The submission of the annual budget—accompanied by the strategic narrative and 3-year financial forecast—serves as the formal proposal to executive leadership and governance. Formal approval of the annual budget by the Trust Board constitutes authorization for the release of those earmarked funds without requiring a separate application form.

**In-Year Release Requests and Surplus Expenditure Process**
If an unexpected requirement or strategic opportunity arises during the financial year to draw down reserves or spend unbudgeted surplus funds, the process is managed in accordance with The Stour Federation Scheme of Delegation rather than a rigid appendix template:

1. The Headteacher, working with school office staff and the CFO, prepares a written

business case setting out the clear rationale for the expenditure, supporting documentation, and the educational or estate benefit.

2. The proposal must demonstrate how the expenditure will be covered and include an updated 3-year budget forecast confirming that the academy will maintain (or return to) the mandatory 5% minimum reserves threshold by the end of the 3-year period.
3. All proposed spending must adhere strictly to the purchasing authorisation limits and quotation/tendering thresholds set out in Section 9 of The Stour Federation Financial Management Policy (e.g. 3 written quotations for purchases of £10,000 and above; formal tendering for contracts exceeding £50,000).
4. Proposals within local delegated limits are reviewed by the CFO and CEO and approved by the Local Academy Council.
5. Proposals exceeding local limits or involving capital contracts over £50,000 require formal review by the Resources and Audit Committee and final approval by the Trust Board.

## 7. MONITORING, REPORTING & REVIEW

**Monthly Management Accounts**
Monthly management accounts incorporating actual outturns and updated reserve projections are produced by the Accountants/CFO and shared monthly for analysis by the Trust Board, Headteachers and Local Academy Council Chairs and Finance Governors.

**Termly Monitoring**
The Resources and Audit Committee reviews school and central reserve balances at every meeting.

**Statutory Reporting**
The Trust publishes its approved Reserves Policy and reporting disclosures annually within its audited Financial Statements (Trustees' Report) and submits required reserve data to the DfE via the annual Budget Forecast Return (BFR).

**Annual Policy Review**
This policy will be reviewed annually by the Resources and Audit Committee and approved by the Trust Board.