



**Permanent Secretary**

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Dame Meg Hillier MP  
Chair, Public Accounts Committee  
House of Commons  
London SW1A 0AA

13 September 2022

**42<sup>nd</sup> PAC Report of Session 2021-22 – Financial Sustainability of Schools in England**

Dear Meg,

I am writing further to my 23 March letter to update you on the actions the Department for Education is taking regarding academy trusts holding significant reserves as set out in the following recommendation:

***Recommendation 2 -The Department should:***

- *write to us, within a month of this report being published, with details of the specific actions it has taken where it has concerns about academy trusts holding significant reserves; and*
- *investigate those academy trusts with reserves equivalent to more than 20% of their income to establish whether the reserves are justified (including the extent to which they are designated for specific purposes), and write to us within six months with an update on the results of this work and any action it plans to take.*

By way of context, it is worth noting that wider circumstances have changed since the report and its recommendations were published. We appreciate the financial challenges that schools are currently facing: a combination of rising energy costs, inflation, pay awards, and other pressures. The financial health of the academies sector is, in general, strong and many trusts are well placed to respond to the current challenges; we understand that will mean adjusting plans in some cases and potentially using reserves which we know trusts have worked hard to build up and may well have been earmarked for other purposes.

Given the substantial amounts some trusts are holding at this time, it remains important to make sure that they are managing these in their pupils' interests and complying with the Academy Trust Handbook. We will be considerate though of the wider cost pressures as we work with academy trusts in relation to their revenue reserves and how their plans for these funds may be changing.

There will be some trusts that are facing more significant financial difficulty and our focus will naturally be on prioritising support for the most serious cases considering the financial, educational and governance aspects of the trust. Trusts can contact the ESFA through the online enquiry form for a supportive conversation to explore the issues so we can work together to find an appropriate solution and suggest the practical ways we may be able to support.

### Strengthening our understanding of academy trust reserves

As indicated in our March letter, we have used this summer's Budget Forecast Return (BFR) process to collect further information from trusts who were forecasting revenue reserves of over 20% of their income in August 2022. We asked academy trusts to give reasons for maintaining reserves at this level, and give details of planned projects in terms of expected cost and timing. As the BFR deadline was 26 July 2022, we are working through the data we have received but our initial assessment indicates that we have received a good level of detail from trusts setting out their plans.

For trusts who have indicated a revenue reserves position of 20% or higher of total income we will review the detail of the data from these trusts to ensure compliance with the Academies Trust Handbook (ATH). This will include:

- checks on whether the trust has a reserves policy (ATH para 2.8);
- whether their plans are clear enough for the reserves that they hold; and
- a calculation of the amount remaining unallocated.

Where we find the information insufficient, we will contact the trust to request further details about their plans and where this is lacking, we will require trusts to put clear plans in place to ensure the funds are used to meet the needs of their schools and pupils.

### Further guidance to support trusts

The ESFA publishes 'Good Practice Guides' for academy trusts. We are looking to expand this with recommended practice for academy trusts' reserves policies and practice. Having trailed the suggestion with trusts through our engagement on the BFR, there is demand for further advice to the sector on this aspect of financial management, and we know that further details from the ESFA and DfE would be welcome.

We will begin to develop this advice using the latest BFR data and will use our casework with trusts with 20%+ revenue reserves to ensure we address particular areas of concern or common issues. We will engage with sector bodies, stakeholders and trusts through our established working groups to help us make sure the advice meets users' needs and its content is relevant to the sector and the current context. We will also link up with the School Resource Management programme, including SRM Advisers, to ensure trusts receive consistent advice and support.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'S Acland-Hood', with a stylized, cursive script.

**SUSAN ACLAND-HOOD  
PERMANENT SECRETARY**