

## ATLP Reserves Policy



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## 1. Purpose

- 1.1. The purpose of the Reserves Policy is to ensure the stability of the ATLP; to protect it so that it has the ability to adjust quickly to financial circumstances, such as large unplanned expenditure, cyclical maintenance and working capital requirements.
- 1.2. Whilst it is not mandatory to hold reserves, it is generally considered good business practice to do so. ATLP holds reserves in order to provide sufficient working capital to cover delays between spending and receipt of grant income, to provide a cushion to deal with unexpected emergencies such as urgent maintenance or long-term sickness where unforeseen costs are incurred and to build up funding for planned future capital projects.
- 1.3. The ATLP Master Funding Agreement notes that the Trust should use their allocated GAG funding for the full benefit of its current pupils. If a Trust has a substantial surplus, they should have a clear plan for how it will be used to benefit pupils. The policy outlines the need to report any planned use of reserves in the short and medium-term.

## 2. Types of Reserves

### 2.1 Unrestricted Reserves

- 2.1.1 Unrestricted Reserves (including Designated Reserves) are derived from income funds, grants or donations that can be spent at the discretion of the trustees in furtherance of any of the ATLP's objectives.
- 2.1.2 Unrestricted Reserves are generally defined as funds after excluding:
  - 2.1.2.1 endowment funds (permanent & expendable);
  - 2.1.2.2 restricted funds; and
  - 2.1.2.3 funds that can only be generated on the sale of fixed assets used for charitable purposes

### 2.2 Restricted Reserves

- 2.2.1 Restricted Reserves are only available for expenditure once the ATLP has met its commitments and other planned expenditure and is in accordance with the limitations outlined in the original funding.
- 2.2.2 Restricted Reserves also are inclusive of capital items and are defined as Restricted Fixed Asset Reserves. This reserve is specifically held for capital purposes in furtherance of some particular aspect of the objectives of the ATLP.
- 2.2.3 All Restricted Reserves will be generated through improved operational efficiencies and effective manpower planning and resourcing in addition to a proactive programme to identify relevant sources of grant funding.

### **2.3 Designated Reserves**

- 2.3.1 Designated Reserves, also known as 'ring-fenced' accounts are reserves that have been set aside at the discretion of the Trust Board in furtherance of any of the ATLP's objectives. Where a designation has been identified, the purpose and timing of any expenditure must be explained.
- 2.3.2 The target range for any Designated Reserve will be determined by the nature of the designation itself; the reserves will be derived from unrestricted and restricted funds where applicable.

### **2.4 Pension Reserve**

- 2.4.1 The risk surrounding the ATLP's pension liability has been taken into consideration when calculating the target ranges. The presence of a pension surplus or deficit does not constitute an immediate liability or realisable asset and does not mean that the equivalent amount is already committed or no longer available to ATLP.
- 2.4.2 The presence of a pension surplus or deficit will generally result in a cash flow effect for ATLP in the form of an increase or decrease in employers' pension contributions over a period of years. ATLP is confident that it can meet the required pension contributions from projected future income without significantly impacting upon its planned level of activities.
- 2.4.3 The ATLP continues to calculate its reserves without setting aside a Designated Reserve to cover the pension liability.

## **3. Management of Reserves**

- 3.1 The minimum level for the unrestricted and restricted reserves combined should be equal to one month's average payroll costs or any forecast deficit as highlighted within the 3-year budget forecast, whichever is the greater. The reason for this is to provide sufficient working capital to cover delays between spending and receipt of grant income and to provide a cushion to deal with unexpected emergencies such as urgent maintenance or long-term sickness where unforeseen costs are incurred or to ensure that funds cover any expected financial challenges identified in budget forecasting.
- 3.2 For the purposes of determining the required levels of reserves, funds will be calculated on a consolidated, 'pooled' basis i.e. not at school level. Cumulative balances at individual school level form the basis of Trust reserves and so schools are unable to commit expenditure against these without central approval. It is expected

that any requests for funding can be met from existing central budgets or the School Condition Allocation thereby meaning investment from reserves are at the discretion of trustees as per the medium-term financial plan. Should any school feel that they have been treated unfairly by funding processes, they have the right to appeal as outlined in Appendix 1 of the ATLP Finance Policy.

- 3.3 The rationale for consolidating reserves (“pooling”) is to ensure that the Trust and all schools within it remain financially sustainable. Without pooling reserves, the Trust could not function as some schools with negative reserves could not access required resources.
- 3.4 So that reserve levels can be maintained, or increased, as required in the medium-term financial plan Trustees will consider the level of contribution to reserves that schools, collectively or individually must commit as part of the annual budget setting process. Contribution levels will be assessed annually, and take into consideration funding arrangements i.e. mainstream / PRU / TSH grant. Considerations as to the levels of contribution will depend on local factors within the school (e.g school development plans) and the view of Strategic Leads and Directors of Education.
- 3.5 Upon joining the Trust, the GAG reserves associated with the joining school, whether positive or negative cumulative GAG reserves, will become part of the Trust’s GAG reserve resource and remain so whilst the school is a member of the Trust. This does not apply to any ring-fenced amounts as per the school’s funding or endowment arrangements. Where balances are transferred into the ATLP,T and do form part of a legal or transfer document, the balance will be managed and reported in line with that legal conversion or transfer documentation. Other balances transferred in, that are not subject to any legal or transfer documentation, will be managed, monitored and reported on a constituent school basis, until the balance transferred in reduces to £Nil.
- 3.6 The annual budget setting process will continue to be managed as a ‘bottom up’ approach for each school and the Central Trust in the summer term. All schools should aim to deliver a balanced budget, and all budgets must be approved by the Board of Trustees following completion of the budget planning process. Schools and central teams will be supported during this process, and the process will include the calculation supporting the net contribution to the central fund, part of which will be allocated to reserves.
- 3.7 As part of the consolidated reserves, the Trust will ring-fence an amount to cover the risk of growth during the course of the subsequent academic year. This amount will be agreed during the summer term of the previous academic year and recommended to Trust Board by the Finance Committee at the same meeting where budgets for the following year are being agreed/signed off. The figure agreed should be set with due regard to information known about the school.
- 3.8 The Central Finance Team will monitor the level of reserves to ensure they are maintained within the required level and report these to the Finance Committee and Audit and Risk Committee at each meeting.
- 3.9 The movement of funds to and from the reserves identified (other than movements from restricted to unrestricted) above will be at the discretion of the Board, subject to the restrictions which will remain attached to Restricted Funds (Revenue and Capital) and their use. The movement of funds from restricted to unrestricted must be subject to obtaining the appropriate consent from the original donor of the funds.

3.10 The Trust may decide to invest cash reserves in accordance with the Investment Policy.

## **4. Reporting and Monitoring Reserves**

4.1 The Board of Trustees are responsible for ensuring that the reserves are maintained and are used only as described in this policy. Upon approval of the use of the funds, the Trust will maintain a record of the use of the funds.

4.2 The Audit and Risk Committee monitors the use and balance of reserves on a termly basis.

4.3 The Finance Committee is responsible for the review and approval of this policy on an annual basis to assess the impact of any changes in legislation or direction from the DfE / ESFA. The policy will also be evaluated with reference to any comments made by the DfE, ESFA, Trust auditors or any other interested parties.

4.4 A statement outlining level of reserves held and ATLP's reserves is included in the ATLP annual report in compliance with Charity Commission requirements.