

### RESERVES POLICY

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<b>Originator</b>	Julia Delaney – Chief Operating and Finance Officer
<b>Responsible sub-committee:</b>	RAG
<b>Responsible Individual:</b>	Board collectively
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<b>Target audience:</b>	All stakeholders in the Trust – external and internal
<b>Dissemination via:</b>	Sharepoint

Version	Section	Amendments	Date	Author
1.0		<b>New document</b>	23 <sup>rd</sup> March 2017	Helen Morris
2.0		<b>Designated reserves</b>	9 October 2017	Julia Delaney
3.0		<b>30% use of reserve policy and change in designated reserves</b>	August 2018	Julia Delaney
4.0		<b>Clarified the distinction between the overall reserves policy and the 30% sub policy.</b>  <b>Updated information on reserves levels at Aug 19.</b>	January 2020	Julia Delaney
5		<b>Added more detail on the process to review reserves over the target level for the Trust</b>	June 2021	Julia Delaney CFO

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## 1. Introduction

- 1.1 This policy sets out the reserves policy of the Trust
- 1.2 Under Charity SORP we must disclose our Reserves policy to stakeholders in our annual statutory accounts
- 1.3 The reserves policy is in place to protect its activities by providing a financial comfort zone against an unpredictable environment, fluctuations in funding or student numbers and to make sufficient provision for future cash flow requirements and capital procurement. The Board are mindful of the requirement that GAG funding should be spent on current pupils. The policy also provides the framework for future strategic planning and decision-making.

The reserves policy and the establishment of ranges is based upon an annual risk assessment of the internal and external operating environment, as well as having a due regard for the nature of activities under taken by TSAT for its beneficiaries.

## 2. Purpose

- 2.1 This policy sets out the minimum level of unrestricted reserves required in order that the Board is able to maintain a structure of prudent financial management whilst continuing as a going concern and is reviewed annually. In addition funds are held to enable the wind up of the Trust if the Directors feel it is no longer viable to continue
- 2.2 The Trustees take into consideration the future plans of each Academy, the uncertainty over future income streams and other key risks identified during the risk review. The most significant as with all Multi Academy Trusts (MAT) being the Local Government Pension scheme (LGPS) deficit held as a long term liability
- 2.3 Unrestricted reserves support fluctuations in income, such as reduced student numbers or unexpected expenditure, such as urgent maintenance
- 2.4 To establish the policy for designation of reserves for specific projects or expenditure
- 2.5 To set out procedures for restricted funds where the funder or donor specifies how funds are to be spent.

## 3. Policy

### 3.1 Overall Trust Reserves policy

**We aim to maintain sufficient Free reserves plus Restricted GAG reserves to meet the ongoing running costs of the Trust for 0.5-1.5 months.** This level of reserves ensure we can cover any gap between funds raised and the ongoing costs, as well as to cover for any emergency requirement for funding. It takes into account the nature of our funding from the EsFA.

#### 3.1.1 Sub policy

The Trust Board may approve (as long as this is within the overall Trust reserve policy) schools to use up to a maximum of 30% of the brought forward reserves of the school reserves in any one year (to fund in year deficits) is (this is assessed on a school by school basis). In exceptional cases the school can request the in year deficit to exceed this level – this must be supported by a business case(s) setting out the strategic reasons for doing so, the impact this will achieve and the turnaround plan with timescales. This may be approved if there are strategic reasons for the in year deficit and the Trust are satisfied that in the long term the school and Trust are a going concern. This would be evidenced by future cash and reserves forecasts for the school and Trust.

- 3.1.2 The level and number of designated reserves are at the Boards discretion. We designate reserves for strategic priority areas.



Registered address: Tapton School Academy Trust, Darwin Lane, Sheffield, S10 5RG

Tel: 0114 267 1414 Email: [enquiries@taptontrust.org.uk](mailto:enquiries@taptontrust.org.uk) Web: [www.taptontrust.org.uk](http://www.taptontrust.org.uk) Twitter: @TaptonSchool1

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- 3.1.3 Restricted funds will be recorded separately. Controls must be in place to ensure the funds are used for the purposes set out by the donor, this includes all restricted income and expenditure are recorded as such. Any changes in use of restricted funds will be agreed with the donor in advance.
- 3.1.4 The general principle is that GAG funds received by the school in year are for the benefit of the current students in the school. Reserves should generally only be built up to provide a contingency amount for unforeseen circumstances or to cover future capital or strategic commitments and plans. In particular schools that are not yet outstanding should not build up reserves significantly in excess of the amounts needed for the contingency and capital/strategic future plans.

## 3.2 Types of Reserves

### 3.2.1 Unrestricted Reserves

Unrestricted Reserves (including Designated Reserves) are derived from income funds, grants or donations that can be spent at the discretion of the directors and in furtherance of any of the Trust's objectives.

Unrestricted Reserves will be achieved through operational efficiencies and any trading activities undertaken by the Trust.

Unrestricted Reserves which are not designated for particular purposes by the Trust, are **Free Reserves**.

### 3.2.3 Designated Reserves

If part of an unrestricted income fund is earmarked for a particular project it may be designated as a separate fund, but the designation has an administrative purpose only, and does not legally restrict the directors' discretion to spend the fund.

Designated Reserves are reserves that have been set aside at the discretion of the Directors in furtherance of any of the Trust's objectives. Where a designation has been identified, the purpose and timing of any expenditure must be explained.

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.

At 31 August 2019 the level of designated reserves was £0.7m.

### 3.2.4 Restricted Reserves – non GAG

Restricted Reserves are funds which have restricted usage set by the provider of the funds. These may be restricted income funds, grants or donations that are spent in furtherance of the objects of the Trust where the nature of expenditure has been defined by the donor; or they may be endowment funds, where the funds or assets are required to be invested or retained for actual use, rather than spent.

### 3.2.4 Restricted Reserves - GAG

Restricted GAG Reserves relates to Department for Education (DfE) funding for schools restricted to the Funding agreement purposes.

### 3.2.5 Restricted Reserves – Fixed Asset

Restricted Capital Reserves to be spent on capital items are defined as Restricted Fixed Asset Reserves. This reserve is specifically held once and spent to depreciate those restricted assets in the balance sheet rather than charge through unrestricted reserves in the income and expenditure account. If the asset purchased with restricted capital monies on delivery can be deemed to have negated the restriction, then there is a movement between restricted and unrestricted reserves for the purpose of capital depreciation.

### 3.2.6 Pension “Reserve” is not a reserve but a long term liability



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The presence of a pension surplus or deficit will generally result in a cash flow effect for the Trust in the form of an increase or decrease in employers' pension shortfall/overpayments over a period of years. The Trust is confident that it can meet the current required pension deficit contributions from projected future income without significantly impacting upon its planned level of activities.

The Trust continues to calculate its reserves without setting aside a Designated Reserve to cover the pension liability, however, this will be reviewed each year, as the Trust is required to close the deficit shortfall over a period of 25 years by making cash payments to reduce the liability. The liability since the inception of the Trust has only risen.

### 3.3 Management of Reserves

- 3.3.1 The target range for Trust reserves (excluding Fixed assets, Pension and Restricted (non GAG) is 0.5 – 1.5 months of running costs
- 3.3.2 The level of reserves is reported to the Finance and resources committee within the management accounts at each meeting and to the full Board on an annual basis
- 3.3.3 The triggers for action should be where the reserves are outside the range:
- At the year end
  - Are forecast to be outside the range at the year end.
- 3.3.4 No action should be taken as a result of fluctuations during the financial year if the year end forecast is still expected to be within range.
- 3.3.5 If the Trust is not meeting its targeted level of reserves, then it should take action to ensure it can return to its targeted level within a reasonable period.
- 3.3.6 If our reserves are too low then this will involve preparing plans and a budget to improve the reserves position within a required time frame agreed by the Trustees.
- 3.3.7 Reserves held in excess of the target amount will be reviewed by the Trust on a regular basis and an appropriate range of options will be considered which might include releasing the funds into the revenue budget in furtherance of the Trust's objectives, assigning funds to appropriate designated reserves as may be determined by the Trust, or investing the funds to generate further income to allow expansion of the Trust's work. At a school and has excess reserves (in the 5 year plan) the Trust will consider releasing school funds to fund strategic priorities to improve the school – this will particularly be the case if the school is not yet outstanding or has strategic priorities to maintain its outstanding status. This will only take place if it does not impact on the financial sustainability of the Trust as a whole.
- 3.3.8 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 Trust, or the appropriate sub-committee where delegated authority has been provided by the Board of Directors, 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 appropriate consent from the original donor of the funds.

### 3.4 Relationship between the Trust and its schools

- 3.4.1 The Trust's funds are allocated to individual schools within the Trust,. There is no central funding therefore, should a school go into deficit, it is effectively being funded by all other schools within the Trust.
- 3.4.2 The Trust and individual schools are expected to set a budget using the GAG and other grants reasonably foreseen and matching expenditure to that income.



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3.4.3 Should an individual school go into a deficit this must be approved by the Board in advance and a recovery plan be in place to repay the deficit over not more than 5 years.

3.4.4 Local governing bodies can ask the Board for access to reserves but it is up to the Board to decide whether this is an appropriate use of reserves as they have the responsibility of securing the financial stability of the Trust as a whole.

### 3.5 Application

3.5.1 This policy will be in force from the date of issue.

## 4. Roles and responsibilities

4.1 It is the responsibility of the Board to reassess every year the level of unrestricted reserves in order that the policy remains prudent and relevant.

