



RESERVES POLICY

MARCH 2021

CONTENTS

SECTION	PAGE
1. Purpose and Scope	2
2. Types of Reserve	2
3. Working Capital & Cash Flow	4
4. Management of Reserves	4
5. Policy Monitoring & Review	5

1. Purpose and Scope

1.1 The Charity Commission defines “reserves” as “that part of a charity's unrestricted funds that is freely available to spend on any of the charity's purposes”. Where reserves are held, it is a requirement of the charity accounting regulations that charity trustees must state their reserves policy in their annual report. Aspire Schools Trust, as an exempt charity, must comply with these regulations. Notwithstanding this regulatory requirement, establishing reserves that protect the operation of the Trust and contribute to its smooth running is good practice and forms part of its overall financial control and governance framework.

1.2 Whilst AST does not wish to hold excessive reserves, as the Trust believes that funds should be expended on its current pupils, it also recognises that a level of reserves is required to cover unforeseen events and strategic long term aims and developments.

1.3 The Trust is required to consider the level of reserves it is prudent to hold in order to demonstrate appropriate financial management, stewardship and sustainability. The Trustees wish to do this to provide assurance to all the Trust's stakeholders that funds are being managed in a careful manner, in the best interests of its beneficiaries.

1.4 The Trustees also want to evidence that there is a strong justification for the reserves held by each school/the Trust, and that AST is open and transparent in all aspects concerning its reserves policy.

1.5 This document sets out the reserves policy for AST. The policy takes into account the following principles:

- reserves must have a specific purpose related to future spending or covering current and future risks;
- records regarding reserves should be transparent and maintain links with the conditions of funding;
- that sufficient resources are available for unexpected events, without generating a deficit or cash flow issues; and
- reserves are held centrally for each academy in the Trust, as well as for the Trust itself.

1.6 The Trust's policy for reserves is linked to, and forms part of its formal consideration of the Trust's 'going concern' presumption. An appropriate level of reserves underpins the forecasts and cash flow projections that are used by the AST Board to confirm that AST is a 'going concern' and is able to meet its liabilities as they arise.

2. Types of Reserves

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 Trustees and Governors in furtherance of any of AST's objectives. 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 Trustees and Governors' discretion to spend the fund. Unrestricted reserves will be achieved through operational efficiencies and any trading activities undertaken by AST.

Unrestricted Reserves are generally defined as funds held after excluding:

- Endowment funds (permanent and expendable)
- Restricted funds
- Funds that can only be generated on the sale of fixed assets used for charitable purposes

The cumulative target range for Unrestricted Reserves has been established as between 1% and 8% of unrestricted income for the financial year ending 31 August 2021.

2.2 Restricted Reserves

Restricted Reserves (including Designated Reserves) may be restricted income funds, grants or donations that are spent at the discretion of the Trustees and Governors, in furtherance of some particular aspect(s) of the objects of AST; or 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.

Restricted Reserves are only available for expenditure once AST has met its commitments and other planned expenditure; and are spent in accordance with the original conditions of funding. It is accepted that it may not be possible to achieve a level of Restricted Reserves, but where possible the cumulative target range for restricted Reserves (Revenue) has been established as between 1% and 8% of GAG income at the 31 August financial year end, excluding the impact of the Pension Deficit/Surplus.

Restricted Reserves are also inclusive of capital items, which are defined as Restricted Fixed Asset Reserves. The Restricted Fixed Asset Reserves include the Net Book Value of Fixed Assets (land, building and other assets transferred to the Trust upon conversion) and specific ESFA grants for specific capital and maintenance projects. Aside from the NBV of the Fixed Assets, any Restricted Fixed Asset Reserve is specifically held for capital purposes in furtherance of some particular aspect of the objectives of AST. The cumulative target range for all Restricted Reserves has been established as between £50,000 and £100,000 at the 31 August financial year end, although it is accepted that it may not be possible to achieve this level of Restricted Reserves.

All Restricted Reserves will be generated through improved operational efficiencies and effective human resource planning and management, in addition to a proactive programme to identify relevant sources of grant funding.

2.3 Designated Reserves

Designated Reserves are reserves that have been set aside at the discretion of the Board of Trustees in furtherance of any of AST objectives. Where a designation has been identified the purpose and timing of any expenditure must be explained.

2.4 Capital Reserve

The ESFA provides limited Devolved Formula Capital (DFC) funding to each academy within AST, which is insufficient to cover major capital refurbishment/development projects. AST is not currently eligible for the alternative Multi Academy Trust capital funding under the Capital Maintenance Fund - only MATs of at least 5 academies with 3,000+ pupils are currently eligible for this), although it has been successful in securing additional capital funding from the Condition Improvement Fund (CIF) for boilers, windows, roofs, etc. With the CIF annual applications must be submitted and grants are awarded on the basis of significant need, so this funding is not guaranteed. AST is, therefore, expected to create Capital Reserves through diversion of revenue funding for this purpose.

The cumulative target for Capital Reserves at the 31 August year end is 0.5% of GAG income, although the AST Board accepts that it may not be possible to achieve this level of reserve. Capital reserves are expected to fund new capital expenditure that cannot be funded by other grants such as DFC or CIF. Local Governing Bodies may seek approval from the AST Board to increase their level of Capital Reserves for a specific project.

2.5 Pension Reserve

The risks surrounding AST's Local Government Pension Scheme (LGPS) pension liability have 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 AST.

The presence of a pension surplus or deficit will generally only affect cash flow for ST in the form of an increase or decrease in future employers' pension contributions over a period of years. AST is confident that it can meet the required pension contributions from projected future income without significantly impacting upon its planned activities. This is based on the fact that risks are reviewed regularly (informed by a full actuarial valuation of the LGPS pension on a triennial basis and an annual FRS102 report for each school in the Trust).

AST continues to calculate its reserves without setting aside a designated reserve to cover the pension liability.

3. Working Capital & Cash Flow

3.1 Any organisation needs working capital to allow it to meet its liabilities as they arise – this is a key going concern requirement. Cash or other liquid assets are required to meet normal operating expenditure.

3.2 As AST receives its core ESFA funding at the start of each month, the Trust is not reliant on reserves for working capital. The cash flow balance for each school is monitored by the Chief Financial Officer (CFO) and should not, ordinarily, be less than one month's salary plus an estimated contingency amount for other supplies and services for each school.

4. Management of Reserves

4.1 All academies are subject to a wide range of risks, many of which have financial implications. It is appropriate to hold contingency funds to serve as mitigation against the effect of such risks. The Trust has a formalised approach to risk management which identifies major risks that it faces, assesses their severity in terms of impact and likelihood, and identifies mitigating actions.

4.2 Holding a level of reserves, enables AST to mitigate against the following financial risks:

- Reduction in income due to lower number of pupils on roll at census date
- Potential withdrawal of DfE and other grants
- Increase in expenditure when special projects are undertaken (e.g. professional fees incurred in relation to capital bid preparation) or additional staffing charges are levied, e.g. increase in Teachers Pension contributions

4.3 Monitoring and oversight of the reserves held by the Trust is undertaken by the Trust Central Finance Team – through monthly management accounts, cashflow monitoring and financial forecasts. These are the subject of scrutiny at the end of each financial quarter by the Finance & Audit Committee.

4.4 Reserves held in excess of the target percentage will be reviewed by the AST Board on a at least an annual basis and an appropriate range of options will be considered which might include releasing the funds into the revenue budget in furtherance of AST's objectives; assigning funds to appropriate designated reserves as may be determined by the AST Finance & Audit Committee; or investing the funds to generate further income to allow for expansion of AST's work.

4.5 At the year end, the reserves policy, actual reserves held and future business planning forecasts are used to confirm the 'going concern' principle applies for at least 12 months from the date that the statutory accounts are approved by the AST Board.

4.6 The movement of funds to and from reserves identified above (other than movements from restricted to unrestricted) will be at the discretion of the AST Board and, with defined delegated authority, the AST Finance & Audit Committee. This is subject to any funding conditions attached to Restricted Funds (Revenue and Capital). Consent must be obtained from the original donor of the funds, when moving funds from restricted to unrestricted.

4.7 The role of the Local Governing Body is one of an advisory capacity to the Board of Trustees in making proposals around the use of reserves in excess of the target percentages. Where a school has planned expenditure for reserves, this must be granted prior approval by the AST Board where that expenditure is above £5,000 and/or the expenditure involves changes to the buildings and or site security.

4.8 The Senior Leadership Team in each school is required to have comprehensive School Improvement Plans and Premises/ICT Development Plans in place, to demonstrate planned strategic deployment of Revenue and Capital reserves. These plans should include a revenue and capital reserve schedule for the CFO, identifying when the school needs to pursue development priorities and/or replace assets and the related sums required.

5. Policy Monitoring & Review

5.1 The Trust has delegated the responsibility for reviewing the implementation and effectiveness of this policy to the AST Finance & Audit Committee. The AST Board will approve all major changes to this policy. The policy will be promoted and published throughout the Trust.

5.2 This policy will be actively reviewed during the year and changes applied to reflect the nature of AST's operations, beneficiaries, risks and operating environment; or if there are any changes to relevant legislation/regulations.