



# Langley Park Learning Trust

## LPLT Reserves Policy

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Version	Approval Date	Summary of Changes
1		New policy

## 1.1 Background

The trust is required to have reserves in place from annual GAG funding and other income streams. In the annual report the trust board is required to outline its policy for holding reserves. It is part of the MAT's internal financial management to have this policy in place. This will help us to manage the trust's resources better and plan for any future needs. The purpose of this document is to:

- explain the principles of the reserves policy
- to give clarity on the process of draw down on reserves and management of the reserves

## 1.2 What are reserves?

Reserves are funds held by the trust and comprise of:

- **Unrestricted reserves** – free reserves which can be spent on any of the charitable objectives of the MAT. These are generated from the surplus funds carried forward generated from income and grant funds associated with a school. Running a deficit of income over expenditure effectively results in depletion of these reserves.
- **Restricted reserves** – originate from restricted income streams from grants and donations which stipulate that it can only be spent in a specific way. Spend is dictated by donors' instructions or as decided by the executive directors to further specific objects of the MAT. Capital grants like School condition funding and Devolved Capital Funding can only be spent in the way ESFA has stated that we use this fund. Any unspent restricted fund can be clawed back so it is important that there is accurate and up to date record keeping in place for funds received from this pot. These funds must be spent within a specific timeframe and can sometimes have a 'use it or lose it' criteria attached to them.
- **Other reserves** – that feature in the annual accounts are:
  - **Fixed Asset Reserves** – reflect the original cost of land and buildings. As these are held to be used as the site for delivery of education these are excluded from this policy.
  - **Pension Reserves** - which is a reserve to cover future pension liabilities and again only features in the statutory accounts.

## 1.3 Why do you need reserves?

Schools should maintain reserves, derived from Restricted/Unrestricted Income, at a level to meet the following:

- Unforeseen emergencies/unexpected events/repairs such as urgent repairs.
- For Free schools or newer schools which have not reached their full capacity for them to secure full funding yet.
- To cushion schools who have had sudden and unexpected drop/clawback in funding to enable the school to find efficiencies or ways to turn around the school's adverse direction.
- To extend short term cash funding where guaranteed funding is on its way and not yet received.

To fund major commitments and projects which require earlier upfront funding that cannot be met from future funding due to urgency or impact of the activity i.e. increase PAN numbers guarantee but require teachers, equipment or major asset purchase.

## 1.4 How much do you need in reserves?

The Trust would like to hold reserves for the purpose of:

- a. **Contingencies:** to provide financial resilience in the event of unexpected events e.g. pandemic, unpredictable needs e.g. staff sickness, and provide a buffer for cash flow management. This element of our reserves should be **3 to 5 % of overall annual school income.**
- b. **Equalisation:** to smooth out irregular spending e.g. hockey pitch replacement.

## 1.5 Process for handling reserves

Each school manages and has access to its own reserves, however any expenditure from reserves that results in the running a deficit budget will require trust approval.

At the end of the year the annual reserves held at each school against each of the reserves categories should be shared with schools by central trust. Schools should then keep a record of all income streams, all commitments and spend for the year in their forecast. Where there are signs of there not being balanced budget the schools need to submit financial recoverability plan/sustainability plan which the directors can go through with the schools. The trust will provide support and guidance on the process of undertaking financial recoverability plan.

Trust will work to balance the needs of all our schools and ensure adequate reserves are in place at trust level regardless of individual schools' position. The trust will monitor the level of reserves held to ensure they are maintained at the required level and the overall financial position of the trust. Any drawn downs from the reserves will be monitored and the trust will strive to restore the reserves to target reserves level set. The trust will assess whether any falls in reserves level is a short-term situation or an indication of long-term issue.

Where there is a need for unbudgeted spend a business case should be submitted to the central team to review before it is forwarded to the trustees for final approval. Business case should state opportunities to be gained, risks associated and how it will be mitigated and payback plan. Purchasing policy should be followed to ensure that best price is obtained, contracts are tendered where it is major spend etc.

A school might be allowed to run below the free reserves target (3-5% requirement as in part a and b above) but this is subject to trust approval.

The trust would like to operate strategically in overseeing reserve levels therefore we ask that each of our schools look to have a 3-5 year financial plan which outlines any future commitments, any expected major projects, any repairs/refurbishments that are due, health and safety and safeguarding needs, curriculum development, best estimate of future projected income streams etc.





