RESERVES POLICY

1. Introduction

Chiltern Learning Trust (CLT) has established this reserves policy to protect its activities by providing financial buffers against an unpredictable environment and to make sufficient provision for future cash flow requirements. The policy also provides the framework for future strategic planning and decision-making.

An effectively implemented reserves policy will mitigate the impact of any risk upon the continuing operations of CLT caused by funding uncertainty.

This policy and the establishment of reserve targets should be based on a continual assessment of the internal and external operating environment.

This policy takes into account the Academies Trust Handbook and guidance from the Charity Commission.

2. Types of reserves

Reserves are the representation of the cash balance available at the period end. In charity accounts, which are used for academies, this cash is transferred into fund balances. These balances can be for "restricted" or "unrestricted" purposes depending on their source.

2.1 Unrestricted Reserves

Unrestricted reserves are derived from income funds, grants or donations that can be spent at the discretion of Trustees in furtherance of any of the Trust's objectives.
If part of an unrestricted income fund is earmarked for a particular project it may be 'designated' as a separate fund. However the designation has an administrative purpose only and does not place restrictions on how the fund is eventually spent. Unrestricted reserves will be generally achieved through operating efficiencies and any from trading company profits.

2.2 Restricted Reserves

Restricted reserves are mainly derived from government grant funding through the DfE but may also include other grants or donations provided for a specific purpose. Restricted reserves must be used in accordance with the limitations outlined in the original funding (in the case of DfE funding, this is as detailed in the Trust's funding agreement).

3. Key policy principles

The following principles underpin the Trust's approach to reserves management:

1. CLT will endeavour to set a balanced in-year revenue budget every year
2. CLT's reserves balance should only decrease due to the following:

    - capital investment.
    - school improvement.
    - growth of the Trust and/or other organisational needs which shall at all times be approved by the Board.
    - standardising ICT infrastructure across all schools in the Trust to the minimum ICT standard.
    - working towards net zero carbon emissions (sustainability projects) where investment from Trust reserves will be repaid by the school in an agreed plan based on forecast efficiency savings.

All reserves are held centrally as CLT reserves. CLT's general reserves balance may comprised of restricted reserves.

4. Trust general reserves balance

CLT's general unrestricted reserves balance will be maintained at a level **equivalent to 5% to 10% of combined General Annual Grant for all schools** subject to 10% tolerance either way. Therefore if the combined GAG for the following year is forecasted to be £105m, the Trust's reserves balance should be £5.2m to £10.5m. This is the percentage that Trustees regard as an appropriate level of reserves, given the current operating environment.

A general reserves balance higher than this figure must be supported by an appropriate plan, for example for expenditure on growth, school improvement or capital works, or to mitigate a specific foreseen risk.

5. Sinking funds

Sinking funds for specific regeneration projects, for example new school life cycle fund or the replacement of an all-weather pitch fall outside of the general reserves balance and should be agreed annually by the Board.

6. Joiner schools

A surplus balance brought forward into CLT by a joining school shall be deployed as follows, in priority order:

- to address urgent compliance and health & safety issues at the time of conversion, as well as other urgent requirements determined by due diligence, e.g. school improvement. Compliance and health & safety issues will normally be determined by a condition survey commissioned by the Trust.

- any remaining balance brought forward above the CLT's determined percentage figure for schools, the Board will be added to Trust general reserves.

7. Academies in deficit

In exceptional circumstances, individual schools may propose a deficit in-year budget. Such a budget must be accompanied by a recovery plan approved by the Board, resulting in the deficit being 'repaid' within a timeframe deemed acceptable by the Board.

Schools with a cumulative deficit shall contribute all future in-year surplus to reserves until it has achieved a cumulative surplus position.

8. Expenditure against reserves balances

Trustees may temporarily decide to increase the reserves balance over the 5 to 10% of GAG target, for example to fund a specific school improvement initiative or implement growth of the Trust. Expenditure that subsequently draws on reserves must be approved in advance by the Board of Trustees. In exceptional cases, for example where expenditure is necessary to comply with a statutory requirement, reserves may be spent without prior approval (but subject to purchasing authority limits within the Finance Manual) but must be reported at the next Board meeting.

9. Pension liability

The risk surrounding the Trust's pension liability has been taken into consideration when calculating the percentage ranges. The presence of our pension deficit (£26.9m) 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 the Trust.

10. Management of Reserves

Reserves held will be reviewed by the Board on a regular basis and an appropriate range of options will be considered which include releasing an annual amount to a school improvement fund, an intervention fund, a capital project fund, and a growth fund.