Reserves Policy

For the following academies:
St Philip Howard Catholic School
St Mary's Catholic Primary School
Annecy Catholic Primary School
St Joseph's Catholic Primary School

This Policy has been approved and adopted by the
Bosco Catholic Education Trust.

	For review:
Nov 2020	Nov 2021

Bosco Catholic Education Trust

Reserves Policy

Who is responsible	Audit and Risk Committee
Statutory policy	No
Review timescale	Annual

Introduction

Bosco Catholic Education Trust (BCET) 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 BCET 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.

The policy takes into account the Academies Financial Handbook (AFH) and guidance from the Charity Commission. Whilst the 2018 AFH is relatively silent on the issue of reserves, it does state the following:

A MAT has freedom to amalgamate a proportion of GAG for its academies to form one central fund. This fund can then be used to meet the normal running costs at any of its constituent academies within the trust.

*The MAT **must** consider the funding needs and allocations of each constituent academy, and **must** have an appeals mechanism. If a constituent academy's principal feels that the academy has been unfairly treated, they should appeal to the trust. If the principal's grievance is not resolved, they can appeal to the Secretary of State, via ESFA, whose decision will be final and who can dis-apply the provisions for pooling*

The Charity Commission reminds directors that:

- Charity law requires any income received by the Trust to be spent within a reasonable period of receipt.
- A good reserves policy takes into account the Trust's financial circumstances and other relevant factors.
- It is good practice to monitor the level of reserves throughout the year.

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.

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.

Restricted Reserves

Restricted reserves are mainly derived from government grant funding through the ESFA (Education and Skills Funding Agency) 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 ESFA funding, this is as detailed in the Trust’s funding agreement).

Key policy principles

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

- the Trust will set a balanced in-year revenue budget every year
- The Trust’s reserves balance should only decrease due to capital investment and/or other organisational needs which shall at all times be approved by the Audit and Risk committee.
- All reserves are Trust reserves, however individual school reserves balances will be reported in order to facilitate administrative requirements and for the purposes of statutory accounting
- the Trust’s general reserves balance may be comprised of restricted or unrestricted reserves.

Trust General Reserves Balance

The Trust general reserves balance will be maintained at a level **equivalent to 5% of combined General Annual Grant for all schools,** subject to 10% tolerance either way (so between 4.5% and 5.5% of GAG). Therefore, if the combined GAG for the following year is forecasted to be £20m, the Trust's reserves balance should be £1m but can remain between £900,000 and £1,100,000. 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 school improvement or capital works, or to mitigate a specific foreseen risk.

The combined amount that schools are required to contribute to reserves will vary from year, as this amount is defined by what is required to make the reserves balance up to the 5% of GAG target. If for example the target is £1m and the current reserves balance is £900,000, the combined schools' contribution will be £100,000.

The combined schools' contribution will be set annually for the following year once February (half year) Management Accounts are completed and will be based on the forecasted current year - end reserves balance at that point, together with estimated combined GAG for the following year. Contributions will then be included in schools' budgets for the following year.

School in Year Surplus Balances

A school in - year surplus balance over and above its agreed reserves contribution, may normally be spent as determined by the school, once the previous year's accounts have been closed. Schools may designate these reserves to specific short-term projects that will be completed within two years, but reserves may not be carried forward for more than two years without the express approval of the Audit and Risk committee. As the overall Trust reserves balance must take priority however, the Audit and Risk committee may at its discretion require all or part of a schools remaining surplus to be added to general reserves to compensate for a shortfall elsewhere.

Sinking Funds

Sinking funds for specific regeneration projects, for example the replacement of an all-weather pitch, fall outside of the general reserves balance and should be agreed annually by the Audit and Risk committee. Contributions to sinking funds should be derived from trading company profits or the Committee may at its discretion allocate funds from the general reserves balance.

Joiner Schools

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

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

2. 90% of any remaining balance brought forward will be designated to the school to be spent at its discretion and 10% will be added to Trust general reserves

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 Finance Committee, resulting in the deficit being 'repaid' within a timeframe deemed acceptable by the Committee.

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

Expenditure against Reserves Balances

Trustees may temporarily decide to increase the reserves balance over the 5% of GAG target, for example to fund a specific school improvement initiative. Expenditure that subsequently draws on reserves must be approved in advance, by the Audit and Risk committee. 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 Policy) and must be reported at the next Audit and Risk committee meeting.