Pope Francis Multi Academy Trust

Reserves Policy

Presented & Approved by Trust Board	**16 September 2021**
Signed by Chair of Trust Board	
Name of Chair of Trust Board	**Fr Michael Fitzsimons**
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Introduction

Where reserves are held, it is a requirement of the charity accounting regulations that charity trustees (‘directors’) must state their reserves policy in their annual report.

The Trust, as an exempt charity must comply with these regulations.

The Education and Skills Funding Agency’s (ESFA) annual Academies Accounts Direction sets out guidance on academies’ reserves policies and reporting requirements, which this policy also aims to comply with.

This policy refers to the reserves that are held by the schools within the Pope Francis Multi Academy Trust.

Definition of Reserves

The Charity Commission has provided a specific definition for “reserves” as “that part of a charity's unrestricted funds that is freely available to spend on any of the charity's purposes.

This definition excludes restricted income funds and endowment funds, although holding such funds may influence a charity's reserves policy.

Reserves will also normally exclude tangible fixed assets held for the charity's use and amounts designated for essential future spending.

This definition is intended to provide the charity (the Pope Francis Multi Academy Trust) with a way of identifying those reserves that are readily available in relatively liquid form if required.

The free reserves of the Pope Francis Multi Academy Trust for which a policy is needed are represented by unrestricted general funds and exclude both the restricted funds held and funds that have been designated by the trustees, the latter including a Tangible Fixed Asset Fund representing the net book value of tangible fixed assets held at the balance sheet date.

It is recognised that charities are under a general duty to apply charity funds within a reasonable time of their receipt subject to any specified rules in the governing document, although there are no such requirements in the Pope Francis Multi Academy Trust’s Memorandum and Articles of Association.

Similarly, whilst the Charity Commission requirements only require consideration of free reserves, it would be inappropriate to not apply restricted funds within a reasonable time period.

Why do academies and the Academy Trust hold free reserves?

Schools within the Trust are expected to hold contingency reserves from their General Annual Grant funding or other income, which may be both capital and revenue reserves.

The Trustees require a revenue reserve to be created to fund future expenditure related to the Trust’s Development Plan, strategic long-term aims and developments.

The policy of the Trust is for schools to carry forward a prudent level of resources designed to meet the long-term cyclical needs of renewal and any other unforeseen contingencies, subject to the constraint that the level of resources does not exceed the level permitted by the DfE.

In addition, the Trustees may require a capital reserve to be created to fund future capital expenditure, as the DfE provides minimal funding in the way of Devolved Formula Capital Grant at present.

The Trust is required to consider what level of reserves it is appropriate 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 it is being managed in a prudent manner for the best interests of its beneficiaries.

The Trustees also want to provide confidence that there is a strong justification for the reserves held by the schools within the Trust, and that they wish to be open and transparent on all aspects concerning its reserves policy.

In doing this the Trust has considered the following areas.

Working Capital
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. For the Pope Francis Multi Academy Trust its cash flow is strong due to the profile of its incoming resources. In particular, the receipt of core ESFA grant funding at the start of each month means that reserves are not required for working capital purposes.

Financial Risk Management
All schools are subject to a wide range of risks, many of which have financial implications.

Contingency funds are appropriate to be held as mitigation against the effect of such risks.

Each school within the Trust should have a formalised approach to risk management which identifies major risks that they face, assess their severity in terms of impact and likelihood, and identifies mitigating actions.

The financial risks that are mitigated by the holding of reserves include:

- Drop in income due to lower number of pupils on roll at census date
- Potential of any discontinued grants
- Increase in expenditure when special projects are undertaken (e.g. professional fees incurred in relation to capital bid preparation)

Future Development
As part of their strategic planning the Trustees also consider the need for funds to develop their activities or to consider new opportunities to assist their beneficiaries.

Reserve Fulfilment
By their nature free reserves are deemed to be readily available for application, however they are not required to be held in either cash or "near cash" assets.

As a result, there may be a need to convert underlying assets into cash, in order to fulfil a reserve utilisation.

Explanation of the Policy in the Accounts

The Charities Statement of Recommended Practice (SORP) 2019 requires disclosure of the Trust's policy on reserves in the Trustees' Annual Report ('TAR') – stating the level of reserves held and why they are held.

Details are also required of any material designated funds, setting out the amount and purposes for the funds the Trustees have decided to earmark for future application as well as the likely timing of that expenditure.

A summary of this policy will therefore be included in the TAR as required each year.

The wording shall be considered by the Finance Committee and Trust Board as part of their consideration of the annual financial statements.

Where actual reserves held are significantly different to the required policy level, an explanation will be included how the Trust is seeking to resolve this disparity.

The notes to the accounts will identify any designated funds, the purpose of each fund and the expected date of future application of those funds.

Reserves Policy and Going Concern Considerations

The Trust's policy for reserves is linked to and part of its formal consideration of the Trust's going concern presumption.

An appropriate level of reserves underlies the forecasts and cash flow projections that are used by the Trust Board to confirm that the Pope Francis Multi Academy Trust is a going concern and is able to meet its liabilities as they arise.

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 Trust Board.

As part of the annual financial planning process, whilst approving the future years budget and the 3-year budget plan, the Trustees have considered the acceptable level of free reserves the Trust should aspire to have at 31 August.

The Trustees have agreed that the acceptable level of reserves should be in a range of 5%-10% of total income received by the schools from the Trust.

It is recognised that an individual schools' reserves may at times fall outside this range, depending on prior or future commitments.

Schools Joining the Trust

Schools joining the trust upon conversion may bring in accumulated reserves. The policy of the Trust is to allow joining schools to retain the surplus. However, the Trust retain the right to change this position if the reserves are excessive.

Overall Reserves

The Trust has a desire to allow schools to retain the surplus they have generated. However, the Trust retains the right to use any surplus reserves in any school in the best interest of the Trust as a whole. The Trust has a legal duty to ensure all parts of the organisation are a going concern and can pay their way.

When does the Trust consider its reserves policy?

Monitoring and oversight of the reserves held by the Trust is undertaken throughout the year. This is achieved through regular monthly management accounts, cash flow monitoring, and termly financial forecasts. At least on an annual basis the reserves policy is reviewed formally by the Trustees as part of its strategic and business planning process.

Where a school has no alternative but to set a deficit budget, trustees should take into account the specific circumstances leading to a deficit position at the time the budget is set. A school with an in-year deficit who draws on the trust's reserves to finance this deficit would be expected to repay this amount in the following year, this repayment taking precedence over all other reserve contributions. At trustees' discretion, this repayment may be spread over more than one year.

For schools within the Trust where reserves are predicted to fall below 3% (of total income) within a year the Chief Accounting Officer and Chief Finance Officer will review working capital weekly to ensure sufficient funds are available for payment of staff and creditors.

In the event of insufficient funds being available a temporary "cashflow transfer" between schools may occur under the following guidelines:

- Headteachers of the schools to approve in writing
- CAO and CFO to approve in writing
- Repayment schedule to be agreed in advance of transfer within 6 months
- CAO and CFO to monitor repayment schedule
- All temporary cashflow transfers to be reported to Trustees
- Longer term transfers must be agreed by all parties (i.e. Headteachers, CAO, CFO and Trustees in advance)

Treatment of Deficit Balances Arising in Relation to Budget Shares

Obligation to carry forward deficit balances.
Deficit balances will be carried forward by the deduction of the relevant amounts from the following year's budget share.

Planning for deficit budgets.
Schools may only plan for a deficit budget in accordance with the terms of ***Licensed Deficits*** below.

Writing off deficits.
The Trust has no delegated authority to write off the deficit balance of any School.

Licensed deficits
The Trust must submit to ESFA, in a form specified by them and approved by the Trustees before submission:

- a budget forecast return outturn
- a 3-year budget forecast return

If a school finds that its budget is going into deficit, it will need to make plans as to how it can bring the budget back into a balanced position.

If it is not possible in the current year, the school will need to apply to the Trust for an approved deficit.

To obtain approval the school will have to draw up a recovery plan.

This request will then be sent to the Chair of the Finance Committee for approval.

Once approved, an agreement is issued to the school to be signed by the Chair of the Local Governing Body.