



EDITH STEIN **CATHOLIC ACADEMY TRUST**

RESERVES AND FINANCIAL PRUDENCE POLICY

APPROVED BY TRUSTEES	February 2024
SCRUTINISED BY LOCAL GOVERNING BODY / LOCAL GOVERNING BODY SUB COMMITTEE	February 2024
DATE LAST REVIEWED	February 2024
MEMBER OF STAFF RESPONSIBLE	CEO/CFO
STATUTORY / NON-STATUTORY	Non-Statutory



Policy Amendments

Version Date	Section / Page	Amendments
February 2024	Throughout	As a result of working group recommendations
December 2023	Throughout	Original policy version

1.0 Introduction

- 1.1 ESCAT has established this policy to protect its activities by providing financial buffers against an unpredictable financial environment across schools and to make sufficient provision for future cash flow requirements. In addition, the policy supports the common good across all schools, this being a key principle of Catholic Social Teaching.
- 1.2 At ESCAT we believe in the principle of subsidiarity which means decisions being taken at a school level in accordance with the schemes of delegation, the policy supports this. In addition, we believe in the principle of solidarity which means we are all responsible for each other, with a willingness to see others as self. This means where required the Trust will use funds from its schools to support individual schools in times of hardship. This ensures our schools continue to look outwards and work in partnership with all other schools within the ESCAT Catholic family for the benefit of all our children.

2.0 Overview

- 2.1 The Academies Trust Handbook states that “2.10 The Board of Trustees must approve a balanced budget, and any significant changes to it, for the financial year to 31 August, which can draw on unspent funds brought forward from previous years. The board must minute its approval.” As a result of this the purpose of this policy is to outline the process for budget setting and outlining the requirements of each Academy in the Trust with regards to setting a balanced budget and ensuring deficit budgets are looked into and either rectified or financial recovery plans are considered before they are sent to the Trust Board.
- 2.2 Edith Stein Catholic Academy Trust will only approve budgets that are in a surplus position in year 1, 2 and 3. Any Academy budgets that are submitted to their Local Governing Boards with a year 1, 2 or 3 deficit will need to ensure a recovery plan is put in place and this should be communicated with the Trust Board 12 months prior to the start of the financial year where the deficit is expected to arise.

3.0 Types of reserves

- 3.1 The Trust and each Academy/School will have 4 distinctive types of reserves:
 - Unrestricted
 - Restricted
 - Fixed Assets
 - Pension Reserve
- 3.2 Unrestricted reserves – These are reserves that do not have restrictions and can be spent on anything to do with the provision of education.
- 3.3 Restricted reserves – These are reserves that are restricted and must be spent in line with specific terms. An example of this would be pupil premium grants which must be spent in accordance with pupil premium funding guidance.
- 3.4 Restricted Fixed Assets – These reserves represent the value of fixed assets held in line with the charitable objectives of the Trust. The Restricted Fixed Asset reserves will have transfers at year end from GAG to reflect capital additions that have occurred if all capital funding has been spent.
- 3.5 Pension Reserve – This reserve represents the Trust’s share of the deficit of the Local Government Pension Scheme (LGPS).
- 3.6 Each reserve should be spent in line with its restrictions.

4.0 Setting a balanced budget

- 4.1 It is the responsibility of all Local Governing Boards in the Trust to approve a balanced budget presented to them by the Head Teachers and Finance Leads and any current or future deficits must be investigated and a recovery plan should be put in place if deficits are expected. This approved budget must then go to the Trust Board prior to July to ensure it is submitted in line with the ESFA deadline.
- 4.2 Any academy schools that expect to budget a deficit position must communicate this with the Trust Board immediately and a finance recovery plan must be drawn up.
- 4.3 It is expected that all academy schools within the Trust will use the same set of assumptions when budget forecasting, these will be advised by the Trust and will be based in information received by organisations including EFSA, DfE, Local Authorities and Professional Associations.
- 4.4 Academy schools will be expected to include the service charge for centrally run services, minimum level of contingency reserves and a contribution towards central reserves within their budget planning at an early stage.

5.0 Recovery plans

- 5.1 Academy schools with deficit budgets must ensure a recovery plan is put in place immediately to ensure a plan of action is drawn up to improve the reserves position and to ensure the Academy school is financially sustainable in the future. Recovery plans must outline areas where savings can be made or where increased revenue can be generated. Recovery plans must be effective and well thought out. If plans are not effective then financial constraints are to be imposed on the Academy school by the Trust Board.
- 5.2 Academy schools in the Trust must ensure that the KPIs outlined in section 7 are met and if these are not then a recovery plan needs to be put in place.
- 5.3 Recovery plans must consider staffing plans and be linked to attainment. They must be based on clear assumptions with risks considered and a balanced position must be the key aim of the recovery plan. Recovery plans must consider the following items:
 - Prior year spend
 - Current year budget and forecast
 - Staffing structure including total pay, start dates, grades and future forecasts.
- 5.4 Failure to identify mitigations and a balanced budget will result in financial responsibilities, including recruitment decisions, being taken away from the Local Governing Board and the Head Teacher.
- 5.5 If a recovery plan is required and budget failures occur then the Trust Board has the ability to charge Academy school budgets for costs incurred.

6.0 Year-end contingency reserves process

- 6.1 At the end of each financial year each Academy school in the Trust must ensure they have a minimum level of combined unrestricted and restricted funds revenue surplus reserves excluding the pension reserve which is expected to be in a deficit position. This minimum level of reserves must be maintained as a contingency throughout the budget period, i.e. a rolling 3 years.

- 6.2 Future budgets must be set to ensure that if the contingency is used in any one year the reinstatement of the minimum level of reserves is factored into future budgets.
- 6.3 The Trust will not pool its contingency reserves therefore any Academy schools with deficit reserves are expected to rectify this through their own recovery plan and will not be assisted by any other Academy school in the Trust. This ensures all Academy schools in the Trust are in a standalone strong contingency reserves position.

7.0 Central Trust Reserve Fund

- 7.1 All reserves in the Central Trust Reserves Fund that arise from the contributions from each Academy school in the Trust will not be redistributed at year end. Any surplus will roll forward and any deficit will be looked into and the central fund contribution rate will be reassessed if deficits occur. The current central trust reserves fund contribution rate is set at 1% but will be reviewed as more academies join the trust.

8.0 Reserve KPIs

- 8.1 The Trust has the following key performance indicators with regards to the levels of reserves:
- The Trust expects the year end contingency reserves of each individual Academy school to be budgeted to at least 4% of total GAG revenue income
 - The Trust expects each Academy school to budget for a contribution to the central trust reserves fund 1% of total GAG revenue income
- 8.2 The process for the management of the academy schools contingency reserves and the contribution to the Central Trust Reserves Fund is shown in Annex A. All budgets must be balanced and any unbalanced budgets require a financial recovery plan put in place.

9.0 Accessing individual academy school reserves

- 9.1 The 4% contingency reserve held by each individual academy school is to be retained and used to offset any unplanned financial issues that may arise such as unfunded school improvement work, salary increases or emergency maintenance works. Within the budget review process schools are expected to articulate the cost of rectifying such financial issues and the resources required.

10.0 Accessing Central Trust Reserves Fund monies

- 10.1 For the reserves held in the central trust reserves fund the Board of Directors will decide where the priority for the allocation of resources will be given. As a Catholic Academy Trust it is embedded within our ethos that all academy schools will contribute to the overall success of the Trust including providing resource to academy schools facing difficulty as outlined in the introduction. Academy schools wishing to bid for grants from the central trust reserves fund will be required to articulate their need in a formulated business case. The process and business case template is provided at Annex B.

11.0 Privately generated funds

- 11.1 Academy schools are at liberty to generate their own income this could be through lettings, hire of assets, or parent's association funds. These funds remain within each school.

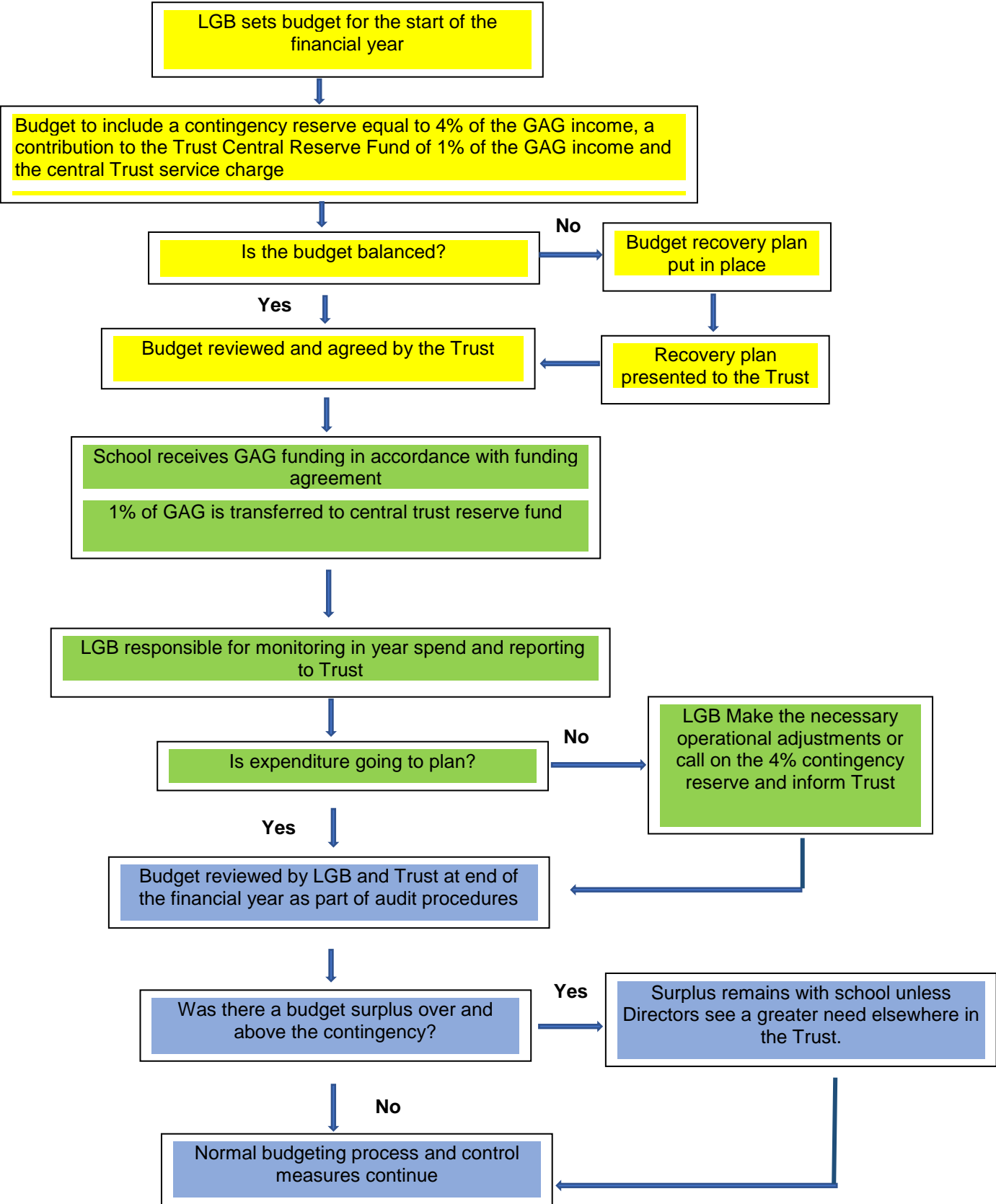
- 11.2 Any reserves balance above the 4% contingency reserves and 1% contribution to the central trust reserves fund outlined above will need to be clearly linked to raising attainment in the Academy School and approved by the Trust Board. The Trust Board may decide that any additional reserves are moved to the central trust reserve fund in line with the principles laid out in paragraph 9 above. This will apply to schools joining the Trust who have reserves above the 4% contingency reserve and 1% contribution level.

12.0 Policy review process

- 12.1 This policy will be reviewed and approved by the Trust Board on an annual basis and recorded in the Board's Meeting minutes.

Annex A to ESCAT Reserves and Financial Prudence Policy

ESCAT CONTINGENCY RESERVES AND CENTRAL TRUST RESERVES FUND CONTRIBUTION - PROCESS



Annex B to ESCAT Reserves and Financial Prudence Policy

ESCAT CENTRAL RESERVES BUSINESS CASE - PROCESS

The Process for academy schools to request use of the ESCAT Central Reserves:

Principals to complete the attached Business Case Template setting out the requirement.



Principals to email the proposal, including any relevant background information, to Chief Finance Officer (CFO).



CFO to forward all proposals received to Chief Executive Officer (CEO) to agree and take to the Trust Board of Directors if successful.



Directors to consider all proposals at the Audit and Risk Committee and agree a plan based on the Business Priorities.



Outcome of proposals to be communicated with academy schools. Principals and SBMs to work with CFO in delivering the objectives as set out in the proposal to support the Trust priorities.

ESCAT CENTRAL RESERVES BUSINESS CASE – TEMPLATE

This template should be used for all new projects and any requests to introduce new staffing pots to the academy school/trust

School	
Date	
Submitted by	
Project Title	

The Project / Objective / Initiative / Staffing

In bullet points, describe the problem this project aims to solve or the opportunity it aims to develop.

Background

In bullet points, describe the current situation

Limitations

List what could prevent the success of the project, such as the need for expensive equipment, bad weather, lack of special training etc.

Approach / Implementation

List what is needed to complete the project and include a timeline of events

Justification / Impact

In bullet points, list the benefits that this project will bring to the organisation, if implemented

Finance / Costings

Detailed costing to include financial impact for current and future years, must show affordability.

Recommended Quote Costing	Impact on Reserves and 4% of GAG	Reserves Spend to Date

Date	
Authorised by	
Title/Role	