



The Painsley Catholic Academy

Better Together

Reserves and Investment Policy

2021/22

Approved by:	Directors	Date: July 21
Last reviewed on:	July 21	
Next review due by:	July 2022	

1.0 Introduction

The Painsley Catholic Academy (TPCA) has established this reserves policy to protect its activities by providing financial buffers against an unpredictable financial 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 TPCA 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 Academy Trust Handbook 2021 (ATH) and guidance from the Charity Commission. Whilst the 2021 ATH is relatively silent on the issue of reserves, it does stipulate the following in relation to GAG:

Managing General Annual Grant (GAG)

Managing surplus GAG

5.29 ESFA previously set limits on GAG carried forward by trusts from year-to-year. These limits have now been removed for eligible trusts (see section 5.60, ATH). ESFA will report to DfE any trusts where it has serious concerns about a long-term substantial surplus with no clear plans for its use.

Pooling of GAG by trusts with multiple academies

*5.30 A trust with multiple academies can amalgamate GAG for its academies to form one central fund. This can be used to meet the running costs at any constituent academy within the trust. In accordance with its funding agreement a trust **must not** pool PFI funding.*

*5.31 The trust **must** consider the funding needs and allocations of each constituent academy and **must** have an appeals mechanism. If a constituent academy's principal feels the academy has been unfairly treated, they should appeal to the trust. If the grievance is not resolved, they can appeal to the Secretary of State, via ESFA. Where ESFA receives an appeal, it will review the process that the trust has followed, including whether the trust has considered the funding needs of the constituent academy, and whether the trust's internal appeals process has been applied. ESFA will provide the constituent academy and the trust with the opportunity to provide any evidence they feel is relevant to the case. ESFA's decision will be final and can result in the pooling provisions being dis-applied.*

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.

2.0 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 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).

3.0 Key policy principles

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

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

4.0 Trust general reserves balance

The MAC's general reserves balance will be maintained at a level equivalent to 5% of combined General Annual Grant for all schools. Therefore, the combined GAG for 2021 is £22,048,664, the MAC's reserves balance should be approximately £1.1m. This is the percentage that Trustees regard as an appropriate level of reserves, given the current operating environment. It also takes into account that the MAC is eligible for an annual School Condition Allocation (SCA), therefore MAC reserves will not normally be required to fund major capital projects without any SCA allocation. For the avoidance of doubt, the 5% of GAG target reserves does not, therefore, include any carry forward of unspent SCA. 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. Trustees will consider the MAC's three year financial plan when considering the level of reserves.

5.0 School in-year surplus balances

Any in-year surplus balances will be credited to the MAC Central Fund unless agreed by the CEO/COO/Resources Committee.

Where schools wish to access these reserves, the Principal of the school will speak with the CEO in the first instance in relation to the project the reserves are required for. A process for demonstrating value for money will be undertaken by the Principal/SBM of the school in accordance with the financial scheme of delegation. The Principal will submit the business case (proposal) in writing to the CEO/COO for consideration prior to the proposal being considered by the Resources committee for discussion and approval.

Examples where schools may wish to put a case forward to the CEO to access their reserves include:

- a) To cover any deficits within the budget.
- b) To assist with covering any capital and IT costs.
- c) To help to cover the costs of the Central Services charge.
- d) Where funding has not been used for a good reason eg Covid catch-up funding, to request to transfer this to the following financial year.

6.0 Joiner schools

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

- a) 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 normally be determined by a condition survey commissioned by the MAC.
- b) Any remaining balance brought forward, will be held centrally with balances recorded against each individual school. If schools wish to access these balances they will follow the process as stated in section 5.0 of this policy.

7.0 Academies in deficit

In exceptional circumstances, individual schools may propose a deficit in-year budget. Such a budget must be accompanied by a deficit recovery plan approved by the Resources Committee, resulting in the deficit being 'repaid' within a timeframe deemed acceptable by the Committee but no longer than 3 years. Where the deficit cannot be repaid, the school will be permitted to use reserves against this to support the budget where all income and expenditure has been scrutinised.

8.0 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 or to meet the DfE and Diocesan guidance on the level of reserves to be retained to meet operating costs over a number of weeks. Expenditure that subsequently draws on reserves must be approved in advance by the Resources 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 Financial Scheme of Delegation and Accounting and Finance Policy) but must be reported at the next Resources committee

9.0 Investment policy statement

Investments should be made to further the MAC's charitable aims, but must ensure that investment risk is properly managed. The MAC's investment objectives are:

- To achieve the best financial return available for cash reserves, while ensuring that security of deposits takes precedence over revenue maximisation;
- To only invest funds surplus to operational need, based on all financial commitments being met without the MAC bank account becoming overdrawn; and
- To exercise all investment decisions with care and skill and consequently be in the best interests of the MAC.

The Board of Directors will agree an amount of funding on an annual basis to be transferred from TPCAs main bank account to the MAC's investment account (32 day notice account), which should receive a slightly higher interest rate.