



# NEWMAN CATHOLIC TRUST

HEART SPEAKS TO HEART



## Reserves Policy

### June 2024

#### Review

Review Cycle	Date of Policy	Reviewed by	Review Date
Annual	June 2024	FBM	June 2025

#### Ratification

Role	Name	Signature	Date
Chair of Board	Chris Izuka		1/6/24
CEO	Dr Daniel Doyle		1/6/24

#### *Commitment to Equality:*

*We are committed to providing a positive working environment which is free from prejudice and unlawful discrimination and any form of harassment, bullying or victimisation. We have developed a number of key policies to ensure that the principles of Catholic Social Teaching in relation to human dignity and dignity in work become embedded into every aspect of school life and these policies are reviewed regularly in this regard.*

## **1. Introduction and background**

The Cardinal Newman Catholic Educational Trust (Newman Catholic Trust/Trust) is responsible for the effective and efficient use of available resources. These responsibilities are outlined in the Education and Skills Funding Agency (ESFA) Academies Financial Handbook and by the Charities Commission in their published guidance: <https://www.gov.uk/government/publications/charities-and-reserves-cc19>

The Trust is ultimately responsible for the allocation of resources to deliver the vision of the Multi-Academy Trust (MAT). This policy establishes a framework within which decisions will be made regarding the level of reserves held by the Newman Catholic Trust and the purposes for which they will be used and maintained.

The Directors recognise that the Reserves Policy must address the importance of holding and building reserves to facilitate the day-to-day working capital and efficient financial operation. They must also plan for long-term financial viability, stability and strategic developments that benefit the MAT as a whole, whilst being mindful that existing pupils are not disadvantaged through the retention of excessive reserves.

The ESFA Academies Financial Handbook notes that trusts should use their allocated GAG funding for the full benefit of their current pupils. If a Trust has a substantial surplus they should have a clear plan for how it will be used to benefit pupils, for example a long-term capital project or targeted school and trust improvement works.

For the context of this policy, the Board delegates responsibility for management and oversight of the Trust's finances to the Finance, Audit and Risk Committee. The Board also delegates responsibility for the day-to-day management of agreed finances and reserves as outlined in the Trust's Scheme of Delegation.

The Local Governing Committee (LGC) is accountable to the MAT Board to maintain the level of its school's reserves as outlined in this reserves Policy and to obtain permission from the MAT Board via the Finance, Audit and Risk Committee for any expenditure against these reserves.

## **2. Types of Reserves**

### Unrestricted Reserves

- Derived from income funds, grants or donations that can be spent at the discretion of Directors in furtherance 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 from any trading activity surplus.

### Restricted Reserves

- Mainly derived from government grant funding through the ESFA 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).

## Capital Reserves

- Mainly derived from government funding to be allocated to Capital Projects and spent in accordance with the Funding Agreement. This will be monitored centrally to ensure that funding is spent within the allocated time frame.

### **3. Purpose of this policy**

The Newman Catholic Trust has established this Reserve Policy to protect its activities by providing financial buffers against an unpredictable financial environment. Directors are aware of significant volatility in the funding of education and their duty to manage any financial risk that may result from the following:

- Short-term fluctuations in income, e.g. reduced pupil numbers.
- Funding of unforeseen expenditure, e.g. urgent maintenance works.
- Funding of material capital projects, e.g. building improvement works.
- Delivering a robust programme for renewal and replacement of academy assets, e.g. ICT hardware.
- Funding of school improvement initiatives deemed necessary by the Trust.

An effectively implemented reserves policy will mitigate the impact of any risk upon the continuing operations of Newman Catholic Trust caused by funding uncertainty. Therefore, Newman Catholic Trust has established this policy to make sufficient provision for future cash flow requirements and provide the framework for future strategic planning and decision-making. This policy and the establishment of reserve targets should be based on a continual assessment of the internal and external operating environment.

The Newman Catholic Trust Reserves Policy will:

- Assist in strategic planning by considering how new projects or activities will be funded;
- Inform the budget process at Board level by considering whether reserves need to be used during the financial year or consolidated/increased for future projects;
- Enable investment decisions to be made at a Board level, where necessary, utilising reserves across the MAT; and
- Inform the budget and risk management process by identifying any uncertainty in future income streams.

### **Application of the policy**

When considering an appropriate level of reserves, the Board considers:

- The risk of unforeseen emergency or other unexpected needs for funds;
- A fall or rise in sources of income;
- Planned commitments, or designations, that cannot be met by future income alone, for example, plans for a major capital project;
- The need to fund potential deficits in a cash budget; for example, money may need to be spent before funding is received; and
- the full range of financial risks identified.

### **4. A balanced budget**

Schools within the Trust are expected to set and maintain an in-year balanced budget where costs are met from income in a given year. As outlined in this policy (and as per section 6), Trust schools are allowed to maintain a proportion of reserves at local-level. These local-level allocated reserves can be utilised, subject to the provision of this policy. A request to utilise any local-level reserves must be

submitted for consideration to the Board's Finance, Audit and Risk Committee prior to schools making any commitment to spend (see Appendix 2).

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 FAR Committee, resulting in the deficit being 'repaid' within a timeframe deemed acceptable by the Committee but no longer than three years. Schools with a cumulative deficit shall continue to contribute all in-year surplus to reserves until it has achieved a cumulative surplus position.

#### **5. Maintaining a minimum level of reserves at Trust level.**

The Trust has a fiduciary responsibility to carry sufficient free reserves to:

- manage potential future financial risks as a result of:
  - structural deficits: maintaining schools with historic or structural deficits whilst executing robust deficit recovery plans; and
  - growth: providing working capital and short-term deficit funding for new schools joining the Trust.

The Trust's reserves are collated and held to provide the Trust with a buffer of general reserves to be drawn down in times when income is disrupted or decreased, or costs are increased unexpectedly, such that any given buffer will allow the Trust to continue to operate without material impact to educational outcomes or the Trust's pupils or staff.

The Trust also has a responsibility to ensure that reserves are not excessive and, as such, would represent an educational risk to maximising the educational outcomes of the Trust pupils. Therefore, The Trust has set its target at 8% of GAG income. The Trust believes this is the right level of reserves to hold at Trust level, as it strikes a balance between minimising reserves and meeting the need for the Trust to manage risk, as well as being consistent with the approach adopted by other trusts.

the cumulative target for the Trust's reserves has been established at 8% of GAG income for each financial year of the combined income of the Trust and the GAG income of its constituent schools.

Reserves held in excess of the target percentage will be reviewed by the Central Team and the FAR Committee on a regular basis and an appropriate range of options will be considered. This might include, but is not limited to:

- releasing the funds into the revenue income budget for the forthcoming academic year (in furtherance of the Trust's objectives – therefore this also includes capital works and the capital budget);
- assigning funds to appropriate designated reserves, as may be determined by the Trust;
- strategically managing/allocating the reserves in light of identified risks or future strategic plans/works; or
- investing the funds to generate further income to allow expansion of the Trust and its work.

The appropriate target level of reserves in any given financial year is reviewed annually by the Directors and will also be reviewed in light of any planned or future expansion.

#### **6. Maintaining a minimum level of reserves at school level**

Individual schools must maintain, as a minimum, a reserves balance equal to 8% of total GAG funding. This equates to six months of non-GAG expenditure in our current company setting.

For the purpose of this policy, reserves are deemed to exclude restricted fixed assets funds, pension reserves and other specifically designated funds (e.g. funds held for particular board-approved projects).

The minimum level of reserves is ultimately limited by the need to maintain a positive cash accounting position for the Trust and may, therefore, be subject to change.

The Board will move the surplus reserves, above 8%, to the Trust's Strategic and Emergency Fund to be held and managed centrally. The Trust Board will oversee the management and use of these central reserves. The reserves held are intended to carry forward a prudent level of resources designed to meet the long-term cyclical needs. They are also centralised in order to protect our wider Catholic family and ensure that the Trust has the capacity and means to intervene and support in case of unforeseen contingencies/emergencies.

Reserves of the Trust are considered to be funds that are deployed at the discretion of the Board of Directors and within the Trust's scheme of delegation. Therefore, reasons the Board may utilise the central reserves include (but are not limited to) funding larger emergency or planned capital works that need urgent rectification or are in the long-term interests of the Trust, supporting schools with no reserves who have vulnerabilities, to intervene to support a Trust school in need, to support strategic planning or school improvement or to help fulfil the Bishop's vision and Trust expansion.

The Trust has the authority to distribute the surplus reserves on a case by case basis, depending on the overall needs of the Trust. All budget surplus or reserves over 8% will be centralised and considered by the Board for all strategic or emergency initiatives within the Trust.

The Board will:

- Maintain the aggregate of individual school reserves, amounting to 8% of all GAG income at local-level.
- Review the opportunities and risks at Board level in order to assess the required level of resources needed to meet anticipated and unanticipated needs in the short and long-term.
- Require a business case from schools which maintain a reserves level in excess of 8% of all annual GAG for a period of 24 months or more.
- Require an annual proposal of how reserves will be built up for those schools not currently holding reserves at 8% of GAG funding.
- In-year surplus monies can be deployed at the discretion of the Board of Directors based on the Trust's Strategic Priorities and an assessment of local needs.

## **7. Additional funds available to support individual schools**

Only in exceptional circumstances will a Trust school be allowed to use its local reserves to support a short-term deficit. A clear timing and action plan to bring schools out of deficit is required prior to approval. This must be approved by the Board of Directors.

Therefore, schools are able to apply to the Board to use additional resources which would reduce their reserves below the agreed minimum level, subject to:

- The Board is able to maintain the required minimum levels of reserves in aggregate across all schools as outlined above;
- The school is able to provide a 3-year budget which shows a return to minimum reserves by the end of a 3-year period.

- The Board, in its discretion, approves the use of additional funds on the basis of a business case submitted by the school.

Where a Local Governing Committee believes that a school has been unfairly treated, they should submit an appeal in writing to the Central Team for consideration. This case must set out the grounds on which they feel that the arrangement is unfair in the circumstances and propose a variation. The Central Team may recommend to the FAR Committee that:

- The arrangement should stand; or
- A variation should be granted.

The FAR Committee shall have regard to the advice of the Central Team and may approve or reject the request for a variation. In exceptional circumstances, the Full Board will hear any appeals and the Board of Directors' decision shall be the Trust's final position.

This policy is the responsibility of the Board and decisions involving the use of reserves will be made in accordance with the Trust's documents of incorporation.

### **8. Schools joining the Trust**

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

- To address urgent compliance and health and safety issues at the time of conversion, as well as other urgent requirements determined by due diligence e.g. school improvement. Compliance and health and safety issues will normally be determined by a condition survey commissioned on joining.
- Any remaining balance brought forward will be added to the general reserve noting any specific project or programme the reserves have been accumulated for.
- On entry into the Trust, and following the due diligence period and financial mapping of the school's budgets, assets, cash flow and reserves, this policy will be applied in full – e.g. the school will be allocated a local-level reserve totalling 8% of GAG income from its original reserves (if it has suitable reserves). If it does not have reserves or has reserves below the 8%, then no reserves will be allocated or a reduced reserve will be allocated and a financial recovery plan will be put in place,
- Schools that are accepted and have a deficit will be the subject of a specific recovery plan agreed with the Board of Directors and the ESFA prior to entry.

### **9. Monitoring and Reporting**

Each year, the Board will report in the financial statements:

- The level or range of reserves considered appropriate for the Trust;
- The level of reserves at year-end;
- How the Trust is going to achieve the desired level or range of reserves; and
- How often the Reserves Policy is reviewed.

The Finance, Audit and Risk Committee will monitor each school's budget against actual expenditure together with the level of reserves and will hold the school and its Local Governing Committee to account where they fall into deficit.

### **10. Pensions Liabilities**

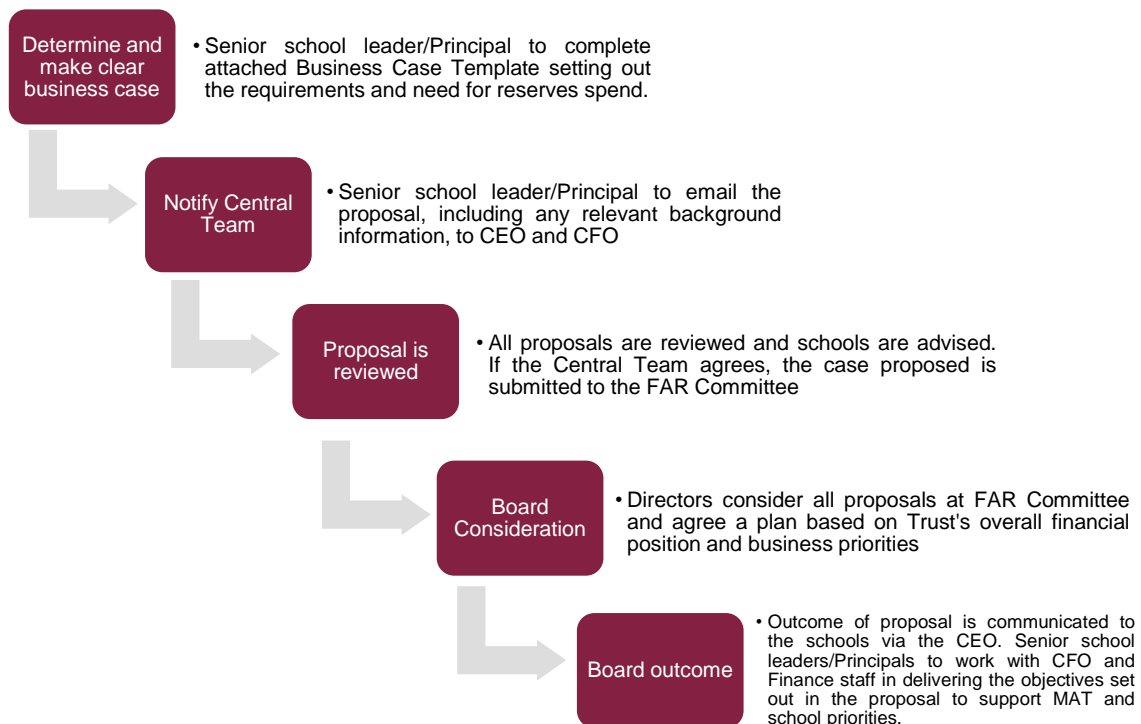
The risks surrounding the Board's pension liability should be taken into consideration. The presence of a pensions' surplus or deficit will result in a cash flow effect for the Trust in the form of an increase or decrease in the Trust's future pension contributions over a period of years. The Board should assess

the ability of Newman Catholic Trust (and individual schools) to meet the required pension contributions from projected future income without significantly impacting upon its planned level of activities.

The above relates only to the Local Government Pension Fund as Teachers' Pensions are underwritten by Government.

### Appendix 1:

#### The process for Newman Catholic Trust schools to request use of reserves:



**Appendix 2:**



**The Newman Catholic Trust Reserves Spend Business Case Template**

<b>School:</b>	
<b>Date:</b>	
<b>Submitted by:</b>	
<b>Project Title:</b>	

**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.*

<b>Recommended Quote or Costing</b>	<b>Impact on Reserves and 8% GAG</b>	<b>Reserves Spend to Date</b>