Policy Title:	Budget Forecasting, Monitoring and Reserves Policy
Date of Approval:	March 2021
Approved by:	BBCET Trust Board
Date of next review:	March 2022

Bishop Bewick Catholic Education Trust

Contents

Context

This policy should be read in conjunction with the

- Scheme of Delegation
- Memorandum of Understanding

Introduction

The work of Bishop Bewick Catholic Education Trust is underpinned by the principles of solidarity, subsidiarity, and pursuit of the common good. All leaders and staff within Bishop Bewick Catholic Education Trust share in the collective responsibilities for the future sustainability of the Trust as a whole, and of the individual schools within the Trust. All schools benefit from being part of the Trust. At times the financially stronger schools will be called upon to support those that are more vulnerable.

Policy Aims

- To ensure the Trust and each individual school recognises its individual and collective responsibility to manage resources effectively and each takes all reasonable action to enable the setting of a balanced budget and the maintenance of targeted and appropriate reserves.

- To ensure the Trust and the schools remain financially viable and sustainable as a 'going concern'[1] by maintaining the necessary level of reserves to meet planned cyclical needs, together with sufficient contingency to respond to adverse changes in financial circumstances.

- To ensure the level of reserves of the Trust and schools do not become excessive, thereby safeguarding against the risk of an unnecessary denial of opportunity or support to children who are in education today.[2]

Appropriate Trust Reserves

As a Multi Academy Trust, the Trust operates as one organization with one chart of accounts and one set of financial statements. The annual accounts are filed at Companies House and are open to public scrutiny. On an annual basis, the accounts are audited and verified by a team of external accountants, who must indicate to Companies House, the ESFA and the DfE that the company is 'a going concern' for a further 12 months and operates effectively. The Trust as a whole is required to demonstrate that there are appropriate reserves held across the Trust. The Trust's total reserves consist of

- each individual school's reserves
- accrued reserves from savings or efficiencies on central Trust functions
- surplus funds from Leadership Group agreed projects
- uncommitted income generated by the Trust

EFSA do not require a specific level of Trust reserves. However, historically for VA schools, the local authority set the level of approved free reserve balances (of restricted and unrestricted reserves, but not including pension reserves) in schools totaling at anything below 12% of grant funding. Any reserves above that level were subject to additional scrutiny and potential claw back.

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[1] DfE Guidance "Operating an Academy as a Going Concern"

[2] ESFA guidance states *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 their pupils, for example a long-term capital project.*

One of the main financial risks to the Trust and schools is managing short-term cash flow. Whilst budgetary constraints are acknowledged, to mitigate this risk maintaining an appropriate level of free reserves would act as a contingency to meet unforeseen financial pressures or demands. The targeted level of appropriate free reserves for this purpose equates at one month's worth of Trust and school expenditure (both in terms of salaries and invoices). This will usually equate to approximately 8% of total incoming resources but will be agreed annually by the Trust board. The central services team and school leaders will work in partnership to aim for this target level of reserves as a minimum. This amount is separate from the annual contribution for school services.

On conversion, it may be that schools do not hold the minimum target level of reserves. In this case, the required minimum of Trust reserves will need to be available from the combined reserves balances. This may result in the necessity for some schools to hold a higher percentage of reserves than their usual minimum to ensure that this combined reserve balance is achieved and the overall cash flow of the Trust is not threatened. Over time the expectation is that all schools will hold the minimum of reserves and that each school achieves financial security.

Budget forecasting/monitoring and reserves associated with an individual school

Budget forecasting and monitoring within the individual schools is approached as a partnership between individual school leaders and the Trust central services team. Schools have autonomy in budget setting as long as the budget remains in the expected parameters set by the Trust board. The Trust works with the school leaders to ensure financial viability of each school. The Trust retains overall oversight of each school's budget and of the school's portion of the total reserves to ensure that these remain at the appropriate level for the school and Trust.

The Academies Financial Handbook (AFH) requires academy trusts to produce a 3-year budget and to balance for the current year (taking into account carried forward funds). This balanced budget requirement applies to the Trust as a whole, not to constituent schools within it. Accountability rests with the Trust and assurance is needed that, where a constituent school reports or forecasts an in-year or cumulative deficit position, that appropriate plans, monitoring and reporting are detailed within a school recovery plan.

All schools retain ownership of their reserves. On joining the Trust, school reserve balances are recorded within the accounting systems of the Trust, identified as belonging to that school and the ownership is retained. Retaining ownership of the reserve balances encourages the leadership teams within schools to be creative in terms of income generation, and to be motivated to monitor and implement appropriate short/medium spending/saving decisions.

Where a school joins the Trust with a deficit budget and/or has no reserves or where a school gets into financial difficulties, the Trust will work in partnership with the leadership of the school to establish a sound financial plan, ensuring the budgetary situation is reversed quickly, so that within 2 to 3 years, unless exceptional circumstances apply, the school can be financially sustainable.

High reserve balances of individual schools

Schools should set their annual budget to ensure that the needs of current pupils are met whilst maintaining a minimum level of reserves. It is not considered appropriate for a school to build up significant reserves unless there is a specific project that requires savings accumulated over several years. Possible reasons for such reserves may include:

- The school may be seeking to accumulate reserves to fund/part-fund necessary capital works that may otherwise be unfunded.
- The school may be seeking to build a reserve balance to meet part of their longer-term projected commitments (e.g. they may know funding pressures/costs shown in years 2 or 3 of their 3-year budget).

The Trust will require the school to supply a rationale for an accumulation of reserves.

Low reserve balances of individual schools

Low reserve balances at any school highlight a potential financial vulnerability and must be avoided. It is incumbent upon each school to prepare and propose an annual balanced budget. Any proposed annual deficit budget would only be approved by the Trust if all possible cost saving interventions have been enacted by the school and this could be supported by the drawdown of useable reserves (extra to the minimum). A realistic and prudent recovery plan must be in place whereby the school achieves a balanced budget within a period of 3 years, unless exceptional circumstances apply, and the required minimum reserves are maintained. In exceptional circumstances, the Trust may allow the minimum reserve to be used.

The Trust may withdraw the school's budget delegation if the financial position is unsustainable. In such circumstances, the Trust will manage the school's budget until financial sustainability is restored and any relevant support/training has been put in place.

Accumulation of Central Trust Reserves

The level of Central Trust reserves will be managed by the Trust and reviewed annually. Central Trust reserves are the reserves accumulated from

- the underspend of funds allocated to the running of the central services
- underspend on projects agreed by the Leadership Group

The Trust will look at projected central services costs annually and set the level of contribution for all schools accordingly. This may result in an increase, or decrease, in the level of contribution for the next financial year. The Trust may reduce the level of contribution for an individual school according to need.

The Leadership Group will identify priorities for the year ahead. These will be recommended to the Trust and a level of contribution agreed. This level may vary according to individual need.

In years where the accumulated reserves of the Trust are not required, the Trust may, at its discretion, redistribute these to the reserves (pro-rata) of schools.

Policy Review Date

In consultation with the Diocese, this reserves policy will be formally reviewed by the Trust Finance Committee annually.