The Praxis Trust

Reserves Policy

History of document

Issue No.	Date	Received by Directors	Comments
V1	**03.07.17**	**03.07.17**	

THIS PAGE IS INTENTIONALLY BLANK

1. Introduction

Where reserves are held, it is a requirement of the charity accounting regulations that charity Directors must state their reserves policy in their annual report.

The policy takes into account the Academies Financial Handbook and guidance from the Charity Commission. The Charity Commission reminds Directors that:

- Charity law requires any income received by the Trust to be spent within a reasonable period of receipt.

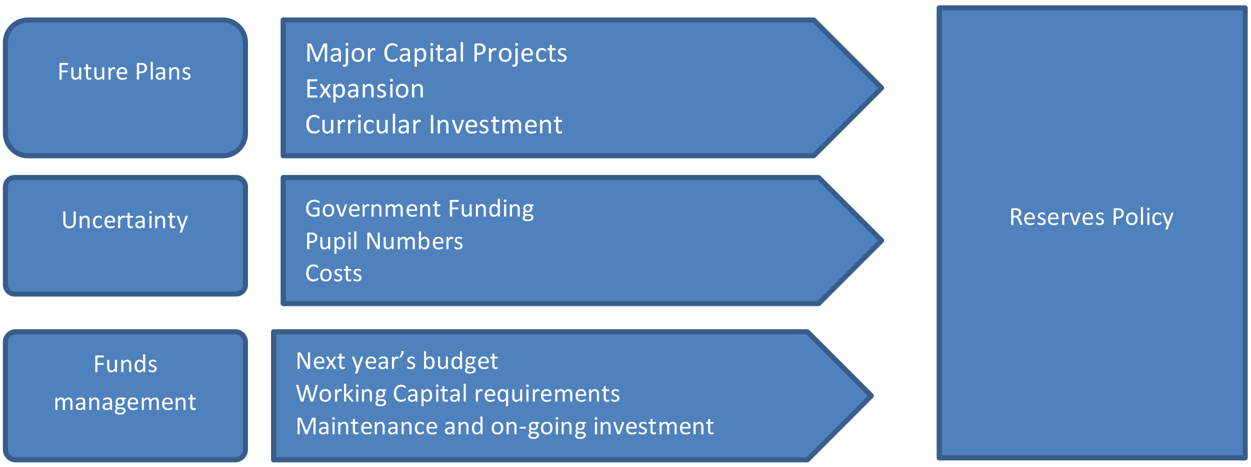
- A good Reserves Policy takes into account the Trust's financial circumstances and other relevant factors.

- It is good practice to monitor the level of reserves throughout the year.

2. Purpose

The purpose of the reserves policy for the Trust is to ensure the stability of the Trust and academies operations, to protect it so that it has the ability to adjust quickly to financial circumstances, such as large unplanned expenditure, cyclical maintenance and working capital requirements.

Whilst it is not mandatory to hold reserves, it is generally considered good business practice to do so. The Trust hold reserves in order to provide sufficient working capital to cover delays between spending and receipt of grant income, to provide a cushion to deal with unexpected emergencies such as urgent maintenance where unforeseen costs are incurred and to build up funding for planned future capital projects.



Once reserves in the bank regularly exceed the working capital required, implementation of the Trust Investment strategy should be applied.

3. Reserves

Reserves are the representation of the cash balance available at period end. In charity accounts (the format used for Academies) this cash is transferred into fund balances. These balances can be for "restricted" or "un-restricted" purposes depending on their source.

Fund Accounting

3.1 Unrestricted Reserves

Unrestricted reserves are derived from income funds, grants or donations that can be spent at the discretion of the Academy Local Governing Bodies after discussion with Directors in furtherance of any of the Trust's objectives.

If part of an unrestricted income funds 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 legally restrict the Directors' discretion to spend the fund. Unrestricted reserves will be achieved through operational efficiencies and any trading activities undertaken by the academies within the Trust.

3.2 Restricted Reserves

Restricted reserves are mainly derived from government grant funding through the EFA (Education Funding Agency) but may also include other grants or donations. Restricted reserves must be used in accordance with the limitations outlines in the original funding (in the case of EFA funding, this is as detailed in the academy's funding agreement).

3.3 Free Reserves

The minimum target for each academy reserve at period end should be equal to one the working capital required for the following month including payroll.

The Directors have determined that the appropriate level of working capital should be equivalent to one month's average payroll costs and 1/12th of expenditure, currently £160,000 for the Trust and funded proportionately by each individual academy. This reserve will be held proportionately in each academy and monitored by Chief Finance Officer as part of the monthly budget monitoring.

4. Use of Reserves

4.1 Identification and use of reserves

All reserves sit at Trust level but existing reserves for each academy are ring fenced to the individual academies within the Trust as described above by 3.1 - 3.3. The Directors and Principals will identify the need for access to reserve funds and confirm that the use is consistent with the purpose of the reserve as described in this policy. This step requires analysis of the reason for any shortfall, the availability of any other sources of funds before using reserves and evaluation of the time period that the funds will be required and replenished.

4.2 Authorisation and expenditure against reserve balances

Expenditure that draws on reserves is subject to the same purchasing authority levels as contained within The Praxis Trust Finance Policy and Procedures Manual. Authorisation to use any reserves of any kind will be made by each Academy Local governing Body and recommendation to Directors at the Finance & Resources Committee, at the next available meeting then approval should be noted in the minutes.

However, reserves can be used in circumstances where an academy has to meet statutory responsibilities, without prior approval from the Directors.

4.3 Reporting and Monitoring

The level of reserves will be monitored throughout the year as part of normal monitoring and budgetary reporting processes to:

- Identify when reserves are drawn on, reasons why and action as necessary
- Identify why reserve levels rise or fall above or below target, reasons why and action as necessary
- Ensure that the reserve policy continues to be relevant as the Trust develops or takes on new activities.

5. Academies joining the Trust

Schools joining the Trust upon conversion to academy status or academies joining the Trust may bring in accumulated reserves, which will fall under the remit of a ring-fenced reserve to the academy as in 4.1 above.

Going forward, in the spirit of collaboration and collective responsibility the Trust will make a levy to central Praxis reserves of any restricted and unrestricted reserves the academy accrues over 8% in the period of that academic year. Unless agreement by Directors that a larger carry forward from unrestricted income can be retained for a specific project. This levy will be applied to all academies from 1st September 2018.

6. Pension Liability

The risks surrounding the Trust's pension liability should be taken into consideration. The presence of a pension surplus or deficit will generally results in a cash flow effect for the Trust in form of an increase or decrease in the Trust's pension contributions over a period of years. Directors should assess the ability of Praxis Trust to meet the required pension contributions from projected future income without significantly impacting upon its planned level of activities.

7. Review of Policy

This policy will be reviewed by the Trust Finance & Resources Committee annually or sooner if warranted by internal or external events or changes.