

# **Trust Reserve and Financial Prudence Policy**



St Francis of Assisi  
CATHOLIC ACADEMY TRUST

## **Francis of Assisi Catholic Academy Trust**

**Signed off by: Trust Board**

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## 1 Overview

The purpose of the Trust's Reserve and Financial Prudence Policy is to ensure the financial stability of the Trust and each Constituent Academy, to protect its activities against unforeseen financial risks and to make sufficient provision for future cash flow requirements and capital investment.

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." 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.

St Francis of Assisi Catholic Academy Trust will only approve budgets that are in an in year surplus position in year 1. Any budget showing an in year deficit in year 1 must be rejected by the Local Board and the budget must be reworked to return an in year surplus position in Year 1 before it is sent to the Trust Board. In year surplus/deficit positions for Year 2 and 3 will be reviewed and Academies with in year deficits in either Year 2 or Year 3 will need recovery plans put in place however budgets can still be approved. Any Academy budgets that are submitted to their Local Governing Boards with a year 1, 2 or 3 reserves deficit will need to ensure a recovery plan is put in place and this should be approved by the Trust Board 12 months prior to the start of the financial year where the reserves deficit is expected to arise. Where in year deficits are expected year on year a financial recovery plan will also be required to be put in place to protect the long term financial viability of the Trust.

## 2 Types of reserves

The Trust and each Academy will have 4 distinctive types of reserves:

- Unrestricted
- Restricted
- Restricted Fixed Assets
- Pension Reserve

**Unrestricted reserves** – These are reserves that do not have restrictions and can be spent on anything to do with the provision of education.

**Restricted reserves** – These are reserves that are restricted and must be spent in line with specific terms. An example of this would be capital donations are these must be spent on capital projects and are ring fenced.

**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 pent.

**Pension Reserve** – This reserve represents the Trust’s share of the deficit of the Local Government Pension Scheme (LGPS).

Each reserve should be spent in line with its restrictions.

### **3 Setting a balanced budget**

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 in year deficits must be investigated and a recovery plan should be put in place if deficits are expected year on year. This approved budget must then go to the Trust Board prior to July to ensure it is submitted in line with the DfE deadline.

Any Academies that expect to budget a deficit position must communicate this with the Trust Board immediately and a finance recovery plan will need to be drawn up.

### **4 Recovery plans**

Academies 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 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 by the Trust Board.

Academies in the Trust must ensure that the KPI outlined in section 7 are met and if this is not then a recovery plan needs to be put in place.

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.

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.

If a recovery plan is required and a budget failures occur then the Trust Board has the ability to charge Academy budgets for costs incurred.

## **5 Year end reserves process**

At the end of each financial year each Academy in the Trust must ensure they have surplus reserves excluding the pension reserve which is expected to be in a deficit position. The Trust will not pool its reserves therefore any Academies with deficit reserves are expected to rectify this through their own recovery plan and will not be assisted by any other Academy in the Trust. This ensures all Academies in the Trust are in a standalone strong reserves position.

## **6 Central reserves**

All reserves in the Central reserves that arise from the central contributions from each Academy 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 reserves contribution rate is set at 5.85%.

## **7 Reserve KPIs**

The Trust has the following key performance indicator with regards to the levels of reserves:

- The Trust expects the year end reserves (restricted and unrestricted) of each Academy to be budgeted to be between 4% & 8% of total income. Reserves balance measured is excluding Restricted Fixed Assets and Pension reserve.

All budgets must be balanced and any unbalanced budgets require a financial recovery plan put in place.

Any reserves balance above the 8% outlined above will need to be clearly linked to raising attainment in the Academy. If reserves are above the 8% figure, increased attainment will need to be clearly demonstrated by the Academy and this will be reviewed by the CFO, DCFO and CEO.

## **8 Trust savings**

The Trust aims to ensure savings are identified and obtained via the use of Trust wide tendering and procurement. Any savings arising from Trust procurement will be divided evenly across all Academies to ensure reserves are boosted and savings reinvested.

## **9 Policy review process**

The Trust Business Committee is accountable to the Trust Board for monitoring the level of reserves in line with this policy and for recommending any future changes to it to the Trust Board.