Unique document no:	
Document title	Principal Accounting Policies
Version	2.0

PRINCIPAL ACCOUNTING POLICIES INCLUDING INVESTMENTS & RESERVES POLICY & DEPRECIATION POLICY

Non-Statutory

Policy Approved by the Board of Trustees

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Document History

Version	Author/Owner	Drafted	Comments
1.0	Clare Sanders	September 2016	
2.0	Louise Malik	August 2019	
3.0	Louise Malik	September 2020	Scheduled review

Date Policy Adopted	
Review cycle	Biennial
Review date	August 2023

This Policy applies to all schools and employees within the Lighthouse Schools Partnership.

PRINCIPAL ACCOUNTING POLICIES INCLUDING INVESTMENTS & RESERVES POLICY & DEPRECIATION POLICY

Non-Statutory

1. Basis of preparation of financial statements

1.1. The Education and Skills Funding Agency (ESFA) requires academy trusts to prepare their financial statements under the historic cost convention in accordance with the Financial Reporting Standard Applicable in the UK and Republic of Ireland (FRS 102), the Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) (Charities SORP (FRS 102)), the Academies Accounts Direction 2019 to 2020 issued by ESFA, the Charities Act 2011 and the Companies Act 2006. This assumption must be disclosed in the notes to the annual accounts under the heading of 'accounting policies'.

1.2. The accounting policies have also been written in line with the requirements of:

1.2.1. The Academies Financial Handbook

1.2.2. The Academies Accounts Direction. The Academies Accounts Direction is based on Charities Statement of Recommended Practice (SORP) 2019, Financial Reporting Standard (FRS) 102 an other relevant guidance for academy trusts.

1.3. A summary of the principal accounting policies, which are applied consistently, except where noted, is set out below.

2. Roles and responsibilities

2.1. Academy trustees

The board of Trustees is required to approve the Trust's accounting policies, which are incorporated within the annual report and accounts.

As per the Academies Accounts Direction, the Trustees also review these policies regularly, and only implement new policies where:

2.1.1. This is required by FRS 102; or

2.1.2. This is judged to provide reliable and more appropriate and relevant information about the effect of transactions, other events or conditions that affect the financial position, performance or cash flows of the academy trust

The board of Trustees ensures that the Trust's accounting policies are being applied consistently across the academies within the Trust.

3. Basis of accounting

3.1. The financial statements are prepared under the accruals convention using historical cost as the basis for asset evaluation.

3.2. In accordance with requirements, the financial statements reflect that the trust is a public benefit entity and contain a balance sheet, a statement of financial activities and explanatory notes. The accounts are prepared and audited in line with:

3.2.1. Financial Reporting Standard (FRS) 102

3.2.2. The current regulations and requirements of the ESFA, including the Academies Accounts Direction

3.2.3. The Charities Statement of Recommended Practice (SORP) 2015

3.2.4. Applicable charity and company law

4. Accruals concept

4.1. All income and expenditure for the period to which the accounts relate are included in those accounts.

4.2. At year end, a de-minimis of £100 is applied for both sundry creditors and sundry debtors.

4.3. Where an individual invoice or receipt is less than £100 then no provision is made. This is to minimise the number of sundry transactions.

4.4. In preparation for year-end an exercise is completed to ensure all invoices and debts are settled to minimise the necessity for provisions.

5. Liabilities

5.1. Liabilities are shown in the balance sheet where goods or services have been received but the payment has not been made during that period. Subject to the de-minimis value agreed, the value is that identified on the order or invoice or other contractual documentation.

6. Provisions

6.1. Provisions are shown in the balance sheet for obligations such as pension contributions, tax liabilities or other payments to similar funds or bodies where the payment has been deferred.

7. Financial instruments

7.1. The Academy Trust only holds basic financial instruments as defined in FRS 102.

7.2. The financial assets and financial liabilities of the Academy Trust are as follows:

7.2.1. Cash at bank, including all current and deposit accounts belonging to the Trust

7.2.2. Cash in hand, including any petty cash imprest and monies not yet banked

7.2.3. Financial debtors, including all monies owing to the Trust

7.2.4. Financial liabilities, including all current commitments of the Trust in terms of unpaid invoices and debts

8. Historical cost convention

8.1. The revenue, costs, and any assets bought by the Trust, are recognised in the accounts at the original cost regardless of present value.

9. Going concern

9.1. The accounts are prepared on the assumption that the Trust will continue to function in the future and is therefore a going concern.

9.2. The Trustees will assess if there are any material uncertainties related to events or conditions that may cast significant doubt on the ability of the Trust to continue as a going concern. The Trustees will make the assessment in respect of a period of one year from the date of the approval of the financial statements. If no such material uncertainties apply, then this will be stated.

10. Consistency

10.1. The Trustees have agreed on suitable accounting policies for depreciation of business assets, foreign exchange translation and accounting for stock valuation. These are applied consistently across the Trust and over comparative financial years.

11. Prudence

11.1. The accounts are prepared prudently. This means that only realised transactions are included in the income and expenditure statements. For example, income is included only where it is either received or its receipt is certain and applicable within the period.

11.2. Debts are considered and only written off in accordance with ESFA regulations.

12. Netting off

12.1. Items are not netted off in the accounts. The accounting system identifies all transactions and the financial procedures require that income and expenditure are fully recorded and not subject to netting off.

13. Accounting treatment of income

13.1. All income is on a receivable basis.

13.2. All incoming resources are recognised when the academy trust has entitlement to the funds, the receipt is probable and the amount can be measured reliably.

13.3. Grants receivable

Grants are included in the statement of financial activities on a receivable basis. The balance of income received for specific purposes but not expended during the period is shown in the relevant funds on the balance sheet. Where income is received in advance of entitlement of receipt, its recognition is accrued and included in creditors as deferred income.

Specific references are made for the receipt of the general annual grant (GAG), capital grants and any other grants with specific conditions.

Capital grants are recognised in full when there is an unconditional entitlement to the grant. Unspent amounts of capital grants are reflected in the balance sheet in the restricted fixed asset fund. Capital grants are recognised when there is entitlement and are not deferred over the life of the asset on which they are expended.

13.4. Sponsorship income

Sponsorship income provided to the Trust which amounts to a donation is recognised in the statement of financial activities in the period in which it is receivable (where there are no performance-related conditions).

13.5. Donations

Donations are included in the statement of financial activities on a cash received basis or on an accruals basis where they are assured with reasonable certainty and are receivable at the balance sheet date (where there are no performance-related conditions).

13.6. Donated services and gifts in kind

The value of donated services and gifts in kind provided to the Trust is recognised in the statement of financial activities as incoming resources and resources expended at their estimated value to the Trust in the period in which they are receivable, and where the benefit is both quantifiable and material.

13.7. Interest receivable

Interest receivable is included within the statement of financial activities on a receivable basis.

13.8. Other income, including catering income and fees for breakfast and after school clubs, is recognised in the period it is receivable.

14. Accounting treatment of resources expended

14.1. All expenditure is recognised in the period in which goods or services are received.

14.2. All expenditure is classified in the accounts under an appropriate heading to the type of goods or services purchased.

14.3. Generating Funds

In relation to the costs of generating funds, where a fundraising activity incurs expenditure in order to raise the income, this is clearly shown in the accounts. Large activities (e.g. exhibitions or shows) are given a discrete cost centre for both income and expenditure to enable a trading account to be extracted for monitoring purposes.

14.4. Allocation of costs

In accordance with the Charities SORP, expenditure has been analysed between the cost of generating funds, the Trust's charitable activities and governance. Items of expenditure which involve more than one cost category have been apportioned on a reasonable, justifiable and consistent basis for the cost category concerned.

Resources are recorded net of VAT, with the exception of business costs where VAT is identified as irrecoverable. They are classified under headings that aggregate all costs relating to that activity.

Where applicable, costs incurred centrally on behalf of the Academies of the Trust are recharged for their proportion of those costs. The basis of proportion is determined for each type of cost incurred.

Where the expenditure is shared between more than one school within the Trust, the cost is apportioned on a basis consistent with the use of those resources.

Central staff costs are allocated on the basis of time spent on each activity. Where specific support is given to an individual school, but the initial cost is borne centrally, then the whole cost is charged to the beneficiary school.

14.5. Governance costs

Governance costs include the costs attributable to the Trust's compliance with constitutional and statutory requirements, including audit, strategic management and governors' meetings and reimbursed expenses. Such costs include both direct and allocated support costs.

15. Fund accounting

15.1. General funds represent those resources which may be used towards meeting any of the objects of the Trust/school at the discretion of the Trustees/Governors.

15.2. Restricted funds comprise grants from the DfE and other donors which are to be used for specific purposes.

16. Reserves Policy

16.1. The reserves are managed by the appropriate Trustees, in line with the Scheme of Delegation, who review the reserve levels of the Trust annually as part of the budget setting process. This assessment encompasses the nature of income and expenditure streams, the need to match income with commitments and the nature of reserves. The review includes consideration of the future plans of the Trust together with the key risks identified through the risk review. The aim of the Trustees is to enable the Trust to carry forward a prudent level of reserves in order that the Trust has an appropriate level of working capital to allow it to work effectively.

16.2. The Trust's reserves are, in the main, an accumulation of the reserves held by individual schools (also known as the school's balance brought forward from the previous financial year). The trustees have agreed that a prudent level of revenue reserve held by individual school is equivalent to 5% of the net amount of the annual income (used to calculate the Core Services Charge) less the value of the Core Services Charge. In the current financial climate, however, the Trustees have agreed that school reserves should be challenged if they vary from 2% of the net amount of the annual income (used to calculate the Core Services Charge) less the value of the Core Services Charge.

16.3. This level will provide liquid funds to cover committed expenditure, including employee costs, for a limited period of time whilst remedial action is undertaken.

16.4. Schools that have projected revenue reserves that significantly differ from the appropriate level determined by Trustees are required, in partnership with the Central Team, to consider the level of reserves and to take remedial action where necessary. The purpose of this action is to:

16.4.1. Ensure that resources are utilised for the benefit of the children and young people currently within the schools, as far as reasonable
16.4.2. Prevent or recover a school being in an unfunded deficit position
16.4.3. Enable schools and the Trust overall to establish sustainable budgets

17. Investment Policy

17.1. The Board of Trustees are firmly committed to ensuring that all funds under their control are administered in such a way as to maximise return whilst minimising risk. Due to the nature of the funding cycle, the Trust may at times hold large cash balances which may not be required for immediate use. The Board of Trustees have authorised the opening of additional short term bank investment accounts, to take advantage of higher interest rates when available. No other form of investment is authorised.

18. Accounting for fixed assets

18.1. Assets received on conversion or on transfer of an existing academy are valued at fair value and recognised in the balance sheet at the date of transfer.

18.2. Donated fixed assets are measured at fair value on the date of receipt.

18.3. Where tangible fixed assets are acquired with the aid of specific grants, either from the government or from other sources, they are written down in the year of purchase as fully funded to account for the receipt of the grant.

18.4. Intangible fixed assets of a value of £5,000 or greater are capitalised and recognised at cost and depreciated over their expected useful life.

18.5. Assets costing less than £5,000 are written off in the year of acquisition. All other assets are capitalised.

19. Depreciation

19.1. Depreciation is provided on a straight line basis on the cost of tangible fixed assets, to write them down to their estimated residual values over their expected useful lives. No depreciation is provided on freehold land.

19.2. The principal annual rates used for other assets are:

19.2.1. Freehold buildings 2% [50 years]
19.2.2. Long leasehold property 2% [50 years or as long as the lease, whichever is shorter]
19.2.3. Plant and machinery 10% [10 years]
19.2.4. Furniture and equipment 20% [5 years]
19.2.5. Computer equipment and software 20% [5 years]
19.2.6. Motor vehicles 20% [5 years]

19.3. Assets in the course of construction are included at cost. Depreciation on these assets is not charged until they are brought into use.

19.4. Should an asset become damaged or lost without recovery, then this can be written off as disposed of. Where there is a remaining value then this is charged to the year of write off.

20. Stock

20.1. Unused stock such as stationery, uniforms and catering stores are recognised when they exceed £200,000 in a secondary school or £50,000 in a primary school. Stock is valued at the lower of cost or net realisable value.

21. Leased assets

21.1. Rentals applicable to operating leases, where substantially all of the benefits and risks of ownership remain with the lessor, are charged to the statement of financial activities on a straight line basis over the lease term reflecting the payment terms.

22. Taxation

22.1. The Trust meets the definition of a charitable company for UK corporation tax purposes.

22.2. The Trust is, by definition, exempt from taxation in respect of income, capital gains and corporation taxes on the provision and understanding that all income and other gains are applied exclusively for educational purposes.

23. Pensions

23.1. Trust staff are members of one of two pension schemes. The two schemes are provided by the Teachers' Pension Scheme (TPS) and the Local Government Pension Scheme (LGPS). These are defined benefit schemes, are contracted out of the State Earnings-Related Pension Scheme (SERPS), and the assets are held separately from those of the Trust.

23.2. More details of the schemes are provided below:

23.2.1. Teachers' Pension Scheme

Full-time and part-time teaching staff employed under a contract of service are eligible to contribute to the Teachers' Pension Scheme (TPS).

The TPS is an unfunded scheme and contributions are calculated so as to spread the cost of pensions over employees' working lives. The TPS is therefore treated as a defined contribution scheme for accounting purposes and the contributions recognised in the period to which they relate.

23.2.2. Local Government Pension Scheme

Support members of staff are offered membership of the Local Government Scheme (LGPS). The LGPS is a funded scheme and the assets are held separately from those of the trust in separate trustee administered funds. The trust is liable for the “deficit” payment based on the annual actuarial value.

Actuarial reviews of the LGPS are conducted annually and recognised as a separate fund within the accounts.