Statement of Accounting Policies

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To be reviewed	Annually
Owner	Ian Hilton
Designation	CFO

The Sovereign Trust

www.thesovereigntrust.uk

Background

Paragraph 2.2.12 of the Academies Financial Handbook requires the Trust to adopt a set of accounting policies. The principal accounting policies adopted by the Board are set out below.

Basis of Preparation of Accounts

The financial statements of the Trust, which is a public benefit entity under FRS 102, will be prepared under the historical 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 (FRS102) (Charities SORP (FRS 102)), the current Academies Accounts Direction issued by the ESFA, the Charities Act 2011 and the Companies Act 2006.

It is acknowledged that The Sovereign Trust meets the definition of a 'public benefit entity' under FRS 102.

Going Concern Test

The Trustee Directors will assess whether the use of going concern is appropriate i.e. whether 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 Trustee Directors will make this assessment in respect of a period of at least one year from the date of the authorisation for issue of the financial statements and will determine whether the Trust has adequate resources to continue in operational existence for the foreseeable future and whether there are material uncertainties about the Trust's ability to continue as a going concern; if satisfied, they will continue to adopt the going concern basis of accounting in preparing the financial statements.

Income Recognition

All incoming resources will be recognised when the Trust has entitlement to the funds, the receipt is probable and the amount can be measured reliably.

- **Grants**
  Grants will be 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 will be shown in the relevant funds on the balance sheet. Where income is received in advance of meeting any performance- related conditions there is not unconditional entitlement to the income, its recognition will be deferred and included in creditors as deferred income until the performance related conditions have been met. Where entitlement occurs before income is received, the income will be accrued.

General Annual Grant will be recognised in full in the Statement of Financial Activities in the year for which it is receivable and any abatement is respect of the period will be deducted from income and recognised as a liability.

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

- **Sponsorship Income**
  Sponsorship income provided to the Trust which amounts to a donation will be recognised in the Statement of Financial Activities in the period in which it is receivable (where there are no performance-related conditions), where the receipt is probable and it can be measured reliably.
- **Donations**
  Donations will be recognised on a receivable basis (where there are no performance-related conditions), where the receipt is probable and the amount can be reliably measured.

Income Recognition
continued

- **Other Income**
  Other income, including the hire of facilities, will be recognised in the period it is receivable and to the extent the Trust has provided the goods or services.
- **Donated goods, facilities and services**
  Goods donated for resale will be included at fair value, being the expected proceeds from sale less the expected costs of sale. If it is practical to assess the fair value at receipt, it will be recognised in stock and "Income from other trading activities". Upon sale, the value of the stock is charged against "Income from other trading activities" and the proceeds will be recognised as "Income from other trading activities". Where it is impractical to fair value the items due to the volume of low value items they will not be recognised in the financial statements until they are sold. This income will be recognised within "Income from other trading activities".

Where the donated good is a fixed asset it will be measured at fair value, unless it is impractical to measure this reliably, in which case the cost of the item to the donor should be used. The gain will be recognised as income from donations and a corresponding amount will be included in the appropriate fixed asset category and depreciated over the useful economic life in accordance with the Trust's accounting policies.

Expenditure Recognition

Expenditure will be recognised once there is a legal or constructive obligation to transfer economic benefit to a third party, it is probable that a transfer of economic benefits will be required in settlement and the amount of the obligation can be measured reliably. Expenditure is classified by activity. The costs of each activity are made up of the total of direct costs and shared costs, including support costs involved in undertaking each activity. Direct costs attributable to a single activity will be allocated directly to that activity. Shared costs which contribute to more than one activity and support costs which are not attributable to a single activity will be apportioned between those activities on a basis consistent with the use of resources. Central staff costs will be allocated on the basis of time spent, and depreciation charges allocated to the portion of the asset's use.

- **Expenditure on Raising Funds**
  This will include all expenditure incurred by the Trust to raise funds for its charitable purposes and includes costs of all fundraising activities events and non-charitable trading.
- **Charitable Activities**
  This will include costs incurred on the Trust's educational operations, including support costs and costs relating to the governance of the Trust apportioned to charitable activities.

All resources expended will be shown inclusive of irrecoverable VAT.

Tangible Fixed Assets

Assets costing £1000 or more will be capitalised as tangible fixed assets and carried at cost, net of depreciation and any provision for impairment.

Where tangible fixed assets have been acquired with the aid of specific grants, either from the government or from the private sector, they will be included in the Balance Sheet at cost and depreciated over their expected useful economic life. Where there are specific conditions attached to the funding requiring the continued use of the asset, the related grants will be credited to a restricted fixed asset fund in the Statement of Financial Activities and carried forward in the Balance Sheet. Depreciation on the relevant assets will be charged directly to the restricted fixed asset fund in the Statement of Financial Activities. Where tangible fixed assets have been acquired with unrestricted funds, depreciation on such assets will be charged to the unrestricted fund.

Depreciation will be charged on all tangible fixed assets other than freehold land, at rates calculated to write off the cost of each asset on a straight-line / reducing balance basis over its expected useful life, as follows:

Buildings	2% p.a. straight line
Plant & Machinery	20% p.a. reducing balance
Fixtures, fittings and equipment	20% p.a. reducing balance
Computer equipment	33 1/3% p.a. straight line
Motor Vehicles	25% p.a. straight line

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

A review for impairment of a fixed asset will be carried out if events or changes in circumstances indicate that the carrying value of any fixed asset may not be recoverable. Shortfalls between the carrying value of fixed assets and their recoverable amounts are recognised as impairments. Impairment losses will be recognised in the Statement of Financial Activities.

Liabilities

Liabilities will be recognised when there is an obligation at the balance sheet date as a result of a past event, it is probable that a transfer of economic benefit will be required in settlement, and the amount of the settlement can be estimated reliably. Liabilities are recognised at the amount that the Trust anticipates it will pay to settle the debt or the amount it has received as advance payments for the goods or services it must provide.

Provisions

Provisions will be recognised when the Trust has an obligation at the reporting date as a result of a past event which it is probable will result in the transfer of economic benefits and the obligation can be estimated reliably.

Provisions will be measured at the best estimate of the amounts required to settle the obligation. Where the effect of time value of money is material, the provision will be based on the present value of those amounts, discounted at the pre-tax discount rate that reflects

the risks specific to the liability. The unwinding of the discount will be recognised within interest payable and similar charges.

Leased Assets

Rentals under operating leases will be charged on a straight line basis over the lease term. The Trust is unable to enter into Finance Leases without consent from ESFA.

Stock

Unsold uniforms and catering stocks will be valued at the lower of cost or net realisable value.

Taxation

We are advised that the Trust is considered to pass the tests set out in Paragraph 1 Schedule 6 of the Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes.

Accordingly, the Trust is potentially exempt from taxation in respect of income or capital gains received within categories covered by part 11, chapter 3 of the Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

Pensions Benefits

Retirement benefits to employees of the Trust are provided by the Teachers' Pension Scheme ('TPS') and the Local Government Pension Scheme ('LGPS'). These are defined benefit schemes.

The TPS is an **unfunded scheme** and contributions are calculated so as to spread the cost of pensions over employees' working lives with the Trust in such a way that the pension cost is a substantially level percentage of current and future pensionable payroll. The contributions are determined by the Government Actuary on the basis of quadrennial valuations using a prospective unit credit method. The TPS is a multi-employer scheme and there is insufficient information available to use defined benefit accounting. The TPS will therefore treated as a defined contribution scheme for accounting purposes and the contributions recognised in the period to which they relate.

The LGPS is a **funded scheme** and the assets are held separately from those of the Trust in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit credit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent term and currency to the liabilities. The actuarial valuations are obtained at least triennially and will be updated at each balance sheet date. The amounts charged to operating surplus will be the current service costs and the cost of scheme introductions, benefit changes, settlements and curtailments. They will be included as part of staff costs as incurred. Net interest on the net defined liability/asset will also be recognised in the Statement of Financial Activities and comprise the interest cost on the defined benefit obligation and interest income on the scheme assets, calculated by multiplying the fair value of the scheme assets at the beginning of the period by the rate used to discount the benefit obligations. The difference between the interest income on the scheme assets and the actual return on the scheme assets will be recognised in other recognised gains and losses.

Actuarial gains and losses will be recognised immediately in other recognised gains and losses.

Fund Accounting

Unrestricted income funds represent those resources which may be used towards meeting any of the charitable objects of the Trust at the discretion of the Trustee Directors.

Restricted fixed asset funds are resources which are to be applied to specific capital purposes imposed by funders where the asset acquired or created is held for a specific purpose.

Restricted general funds will comprise all other restricted funds received with restrictions imposed by the funder/ donor and include grants from the Education & Skills Funding Agency/ Department for Education.

Critical accounting estimates and areas of judgement

Estimates and judgements will be continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Trust will make estimates and assumptions concerning the future. The resulting accounting estimates and assumptions will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within each financial year are set out below.

The present value of the Local Government Pension Scheme defined benefit liability depends on a number of factors that are determined on an actuarial basis using a variety of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions, will impact the carrying amount of the pension liability. Furthermore, a roll forward approach which projects results from the latest full actuarial valuation performed at 31 March each year will be used by the actuary in valuing the pensions liability. Any differences between the figures derived from the roll forward approach and a full actuarial valuation would impact on the carrying amount of the pension liability.

Adopted by the Board: February 2018

The Sovereign Trust