Reserves & Investment Policy

December 2024

Next Review: Autumn 2025

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1 Purpose and Background

In November 2023, the Education and Skills Funding Agency published guidance in relation to the requirement for academy trusts to have in place a reserves policy and to explain it in their annual report and accounts (https://www.gov.uk/government/publications/academy-trust-financialmanagement-good-practice-guides/academy-trust-reserves).

The purpose of the reserves policy is to ensure the stability of the Trust's organisational operations, so that the Trust has the ability to adjust quickly to changes in financial circumstances, such as large unbudgeted expenditure, for example arising from significant maintenance costs and/or sudden significant working capital requirements.

The purpose of the investments policy is to ensure that surplus funds are adequately identified and investment considerations are appropriately assessed for risk. The reserves policy is therefore based upon an on-going risk assessment of the internal and external operating environment, as well as having a due regard for the nature of activities undertaken by the Trust for its beneficiaries. The Academies handbook has further qualified that security of the funds should take precedent over any return on funds.

The Trust is therefore diligent with its financial controls and oversight to balance the immediate expenditure needs with the strategic objectives of the medium term and will flex the level of headroom reserves accordingly. Schools prepare financial plans for at least the next five years alongside the annual budget, to allow the Trustees to continually monitor the level of available reserves.

2 Definitions and Goals

Unrestricted Revenue Reserve - The unrestricted revenue reserve is derived from either the Trust or a school's activities for generating funds, investment income and other donations and can be spent at the discretion of the Trustees, in furtherance of the Trust's objectives.

Restricted Revenue Reserve - The restricted revenue reserve represents the main income for the Trust, which is the General Annual Grant (GAG) plus other grant contributions or donations that are received for a specific educationally related project or purpose.

Restricted Fixed Asset Reserve - The restricted fixed asset reserve is specifically held for capital purposes and equates to the Net Book Value of the assets held by the Trust plus any unspent capital grants that have been accounted for in year.

Pension Reserve - The Trust is a member of the Local Government Pension Scheme (LGPS), a funded defined benefit pension scheme operated on behalf of the Trust's support staff. The pension reserve represents the difference between the value of the LGPS' assets and liabilities, as valued by actuaries at each year end. These valuations are set out each year within the Trust's audited accounts. The pension reserve surplus or deficit does not constitute an immediate liability or realisable asset and does not mean that the equivalent amount is already committed or no longer available to the Trust. The presence of a pension surplus or deficit will generally result in a cash flow effect for the Trust in the form of an increase or decrease in employers' pension contributions over a period of years. The Trust is confident that it can meet the required pension contributions from projected future income without significantly impacting upon its planned level of activities.

3 Management of Reserves

The Finance Committee and the Audit and Risk Committee (FC & ARC) have set a strict minimum level for the aggregate of unrestricted reserve and restricted reserve (together referred to as 'Total Reserves'), being 4% and up to 8% of full year total Revenue funding ('target ratio').

The reason for this level is to enable the Trust to adjust quickly to changes in financial circumstances, for example arising from significant maintenance costs and/or sudden significant working capital requirements.

The impact of the pension reserve deficit or surplus is excluded from these calculations.

Projected Total revenue reserves are compared with the target ratio through the year by the CFO.

Where Total revenue reserves are projected to be materially at variance with the target ratio, ('Material' is defined in this context as equating to a total revenue reserve level of less than 4% of Total Revenue funding) an appropriate range of options will be considered by the CFO/Senior Trust management and presented to the (FC and ARC Trust Committees). For example, if the CFO perceives that Total revenue reserves could be lower than the target ratio for the year, cost savings options could be considered to bring reserves levels back to target in the following year; if Total revenue reserves could be higher, then any additional surplus funds might be invested on a secure fixed term basis up to 12 months in order to generate further income to support delivery of the Trust improvement plan.

The Trust must ensure that small variations in each school's income and expenditure in year do not adversely affect the level of the Trust's Total revenue reserves: the Trust has therefore set an expectation that schools should aim for their cumulative revenue reserves to be maintained to at least 4% of their full year total revenue funding for operations.

4 Investments

The investment Strategy is:

1. The CFO will agree the level of funds which are surplus to immediate cash flow requirements and are therefore available for investment. This will be reported to the Trustees at the Finance committee and Audit and Risk committee as part of the management reporting process.

2. Security of funds will take precedent over the levels of investment return.

3. Security of deposit facility in the Trust primary bank as a single institution where credit rating is assessed at a high level will take precedent over a platform spread of investment across a number of banking institutions as a potential hedge to spread funds to maximise FSCS guarantee funds level (currently set at £85,000 per bank). This will further limit risk to potential misdirection of misappropriation of funds in transfer between the Trust primary bank account and individual investment accounts with UK banks outside of the Trust primary banking facility.

4. The funds will be transferred to a Lloyds Bank Plc deposit account that will be aligned to the specific Lloyds current account and any transfer of funds will consequently operate between the two; the current accounts to be determined at the time.

5. As appropriate, the CFO will review interest rates and compare with other secure, non-equity, investment opportunities and consider alternative secure investments and will additionally review opportunity for deposit layering if cashflow forecasts permit and the rate of return would exceed short-term deposit strategy by a more significant % (circa +10% variation) and without added risk to security of the funds.

6. Risk assessment will include consideration of the bank credit ratings and future prediction and expectation for the bank of England base rate.

7. The Trust will only invest funds in short-term facilities including overnight and primarily up to 30-day (but no more than 12 months) deposit accounts.

8. The Trust will monitor the economic environment and stability of the banking sector and will consider to move funds into a managed platform of investment deposit accounts across multiple FCS approved banks if circumstance demands.

5. Review of Policy

This policy will be reviewed by the Finance Committee and Audit and Risk committee annually in the autumn term. Changes to the policy will be recommended for approval by the Trust Board.

Date of Trustee approval:	**December 2024**
Review arrangements including date of review:	**Autum 2025**