Every Child Every Day Academy Trust

Academy Reserves and Investment Policy

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Contents:

Statement of intent

Every Child Every Day Academy Trust has developed this policy to protect its operations by creating financial support against an unpredictable environment and to ensure there is sufficient provision for future procurement and cash flow requirements. This policy also aids the framework for future strategic planning and decision-making.

The policy and the establishment of financial ranges are based on an **annual** risk assessment of internal and external operations, as well the kinds of activities the trust undertakes. The risk to the trust can be summarised as a risk to future funding due to falling pupil rolls, reforms to funding, emergencies, and early teacher retirement or redundancies.

1. Legal framework

This policy has due regard to all relevant legislation and statutory guidance including, but not limited to, the following:

- ESFA (2023) ‘Academy trust handbook 2023’
- Charity Commission (2023) ‘Charity reserves: building resilience’
- Charity Commission (2023) ‘Charities and investment matters: a guide for trustees’

This policy operates in conjunction with the following school policies and documents:

- Articles of Association
- Funding Agreement
- Finance Policy
- Conflicts of Interest Policy

2. Roles and responsibilities

The board of trustees is responsible for:

- Ensuring the trust’s reserves are maintained and used only as described in this policy.
- Ensuring that appropriate financial controls and risk management procedures are in place.
- Identifying when reserves need to be drawn on, so that they understand the reasons for this and can identify any corrective actions that need to be taken.
- Identifying any broader, long-term financial problems that mean the reserves are frequently used or are below the minimum level.
- Acquiring approval from the ESFA for novel, contentious and/or repercussive investments.
- Seeking appropriate advice as required for the use of reserves and when the trust is considering investments.
- Authorising the transfer of investment funds to an interest-bearing deposit account.
- Ensure value for money when deciding to invest funds.
- Ensuring that exposure to investment products is tightly controlled so that the security of funds takes precedence over revenue maximisation.
- Ensuring that investment decisions are made in the best interests of the trust.
- Maintaining a record of investment decisions and how the board reached them.
- Maintaining the trust as a going concern.

The finance committee is responsible for:

- Making financial recommendations to the board of trustees.
- Carrying out any other responsibilities in line with the relevant scheme of delegation.
- Adhering to and implementing this policy.

The CFO is responsible for:

- Regularly monitoring the trust’s reserves and reporting to the board of trustees or the finance committee accordingly.

- Reporting the explanations for any shortfall or excess in reserves.
- Comparing the amount of reserves held with the minimum and maximum limits set out in this policy.
- Reporting any actions being taken or planned to bring reserves in line with the minimum and maximum limits.
- Transferring investment funds to an interest-bearing deposit account, with the authorisation of the board of trustees.

3. The purpose of reserves

Reserves will have a specific purpose, in line with the trust's objectives, relating to future spending or covering current and future risks. The purposes for holding reserves will be kept transparent.

Reserves will be held to ensure that unexpected financial events do not cause problems in the current year or cash flow issues, or generate a deficit. The purposes for holding reserves may include:

- Covering unforeseen emergencies or unexpected expenditure, e.g. a large repair bill.
- Covering unforeseen day-to-day operational costs, e.g. employing temporary staff to cover long-term absence.
- Covering a failure in a source of income, e.g. a grant not being renewed.
- Preparing for planned commitments that cannot be met by future income alone, e.g. plans for a major asset purchase.
- Needing to fund short-term deficits in budget, e.g. funds that may need to be spent before a grant is received.

4. Types of reserves

Unrestricted reserves

Unrestricted reserves, which include income funds, grants and donations, will be spent at the discretion of the board of trustees in furtherance of the trust's objectives.

Not all of the trust's unrestricted funds, however, will be readily available for spending due to potential adverse impact on the ability of the trust to deliver its aims. In line with this, the following items will be excluded from reserves:

- Tangible fixed assets used to carry out the trust's activities, e.g. land and buildings
- Social investments
- Designated funds set aside to meet essential future spending, e.g. funding a project that could not be met from future income
- Commitments that have not been provided for as a liability in the accounts

Restricted reserves

Restricted reserves, which may include restricted income funds, grants or donations, will be spent or invested in furtherance of the trust's objectives or assets, or spent where the donor has expressed the nature of expenditure.

Restricted reserves may be endowment funds, where the funds or assets are required to be invested or retained for actual use, rather than spent.

Designated reserves

A sum of unrestricted or restricted reserves may be separated and designated a particular purpose, therefore becoming a 'designated reserve', e.g. to purchase a new asset.

Designated reserves are labelled this way for administrative purposes only and can still be spent at the discretion of the board of trustees.

Where a designated reserve has been created, the board of trustees will provide a purpose and a timeframe for spending it.

Pension reserves

The risks surrounding pension liabilities will be taken into account when calculating the minimum and maximum levels of reserves stated in section 5.

The board of trustees will assess the required pension contributions from projected future income without significantly impacting its planned level of activity.

The trust aims to calculate its reserves without the need to set aside a designated reserve to cover pension liability.

5. Managing reserves

The board of trustees will identify why the trust should hold reserves and, having identified its needs, will decide how much should be held to meet them.

The target level of reserves will be informed by:

- The trust's forecasts for levels of income for the current and future years, taking into account the reliability of each source of income and the prospects for developing new income sources.
- The trust's forecasts for expenditure for the current and future years on the basis of planned activity.
- Analysis of any future needs, opportunities, commitments or risks, where future income alone is likely to fall short of the amount of the anticipated costs.
- An assessment, on the best evidence reasonably available, of the likelihood of a shortfall arising which means that reserves are necessary, and the potential consequences for the trust of not being able to make up the shortfall.
- **[Where reserves are set at zero or a low level]** The strategy for an orderly closure in the event of an unplanned shutdown and insolvency

The financial risk to the trust will be balanced alongside our vision to maintain the highest levels of education.

The trust will aim to hold a minimum reserve of **1 month's gross salary for each school**.

Reserves will be reviewed and monitored by the board of trustees to identify any trends in spending and to rectify issues where they arise. Where reserves during the year are below target or exceed target, the board of trustees will consider whether this is due to a short-term situation or a longer-term issue. A broader review of finances and reserves will be undertaken if necessary, and action will be taken where appropriate to replenish or spend reserves.

As part of the normal monitoring and budgetary reporting processes, the board of trustees will:

- Identify when reserves are drawn on so that they understand the reasons and can consider the corrective action, if any, that needs to be taken.
- Identify when reserve levels rise significantly above target so that they understand the reasons and can consider the corrective action, if any, that needs to be taken.
- Regard the ongoing review of the reserves target, the reserves level and the reserves policy as part of managing the trust.
- Ensure that this policy continues to be relevant as the trust develops or changes its strategy and activities.
- Review the statement on reserves in their annual report where there have been significant changes in this policy or the level of reserves held.

Reserves in excess of the maximum limit will be reviewed by the board of trustees, who may release funds into the revenue budget in furtherance of the trust's objectives or re-invest the funds to generate extra income for the trust's activities.

The movement of funds to and from the reserve budget will be at the discretion of the board of trustees, or the finance committee where delegated authority has been provided.

Any deviation from this policy, where necessary and appropriate, will be minuted by the trustees.

6. Investment

The trust will aim to manage its cash balances to provide for day-to-day financial management.

Where the trust decides to invest, the investment risk will be properly managed. When considering an investment, the board of trustees will:

- Act within its powers to invest as set out in its articles.
- Manage and track its financial exposure and ensure value for money.
- Exercise care and skill in investment decisions, taking advice as appropriate from a professional adviser.
- Ensure that exposure to investment products is tightly controlled so that the security of funds takes precedence over revenue maximisation.
- Ensure that investment decisions are in the best interests of the trust.
- Ensure that reserves are invested in a way that can readily realised as cash, when needed.

The board of trustees will keep and maintain a record of its investment decisions and how it reached them. Decisions about investments will be delegated to a suitable individual or body, e.g. an investment manager or collective investment fund, where appropriate. Professional advice will be obtained before making and reviewing investments, unless there is a good reason not to.

The trust will adhere to the Charity Commission's guidance for trustees about investments, and seek prior approval from the ESFA for investments of any value that are novel, contentious or repercussive.

Where the board of trustees has agreed on an amount to be invested, the CFO will be authorised to transfer the funds to an interest-bearing deposit account.

Invested funds will be reported to the finance committee at the next available meeting, outlining the maturity date and interest rate achieved.

On maturity, the CFO will review the position and re-invest in line with this policy, where required.

To minimise and limit the risk of investment, the trust will:

- Invest in markets where financial services are closely regulated.
- Adopt a suitably diversified portfolio.
- Avoid speculative forms of investment.

The trust will not invest in any organisation that conflicts with the trust's values, could bring the trust's reputation into disrepute, or that are high-risk, e.g. crypto-assets.

7. Reporting

The board of trustees will disclose in its annual report its policy for building and maintaining reserves and investments, and will include the information required in line with the Academies Accounts Direction for the relevant reporting year.

8. Pooling reserves

The board of trustees will decide to pool the trust's reserves if it deems it appropriate for the purposes of meeting the running costs at any constituent academy within the trust.

The board of trustees will use any pooled reserves from individual academies within the trust in the following circumstances:

- To smooth out disparities in funding between academies.
- To direct funds to specific academies which are required to raise educational standards.
- To direct funds to academies which require investment in facilities.
- To direct funds to facilitate the policies of the trust which are being implemented to support the trust's vision.
- To redistribute funds from academies with more funding to those with less funding.

A separate pooled funding appeals process will be drawn up and approved by the board of trustees and communicated to all academies within the trust. The trust's internal appeals process will be applied at all times during an appeal. In the case that an academy's headteacher feels the academy has been treated unfairly, they will appeal to the trust using its appeals mechanism. If the grievance is not resolved, the headteacher can appeal to the Secretary of State via the ESFA. The trust will provide any evidence to the ESFA that it feels is relevant to an appeals case.