Reserves Policy

Endeavour Multi Academy Trust

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Introduction and background

Endeavour Multi Academy Trust is responsible for the effective and efficient use of available resources. These responsibilities are outlined by the Charities Commission in their published guidance: https://www.gov.uk/government/publications/charities-and-reserves-cc19 and the Academy Trust Handbook.

The Trust is ultimately responsible for the allocation of resources to deliver the vision of the MAT. Within this context the Board delegates responsibility for the day-to-day management of agreed finances and reserves to the individual schools and Local Governing Boards as outlined in the scheme of delegation and within the constraints of budgets approved by the MAT.

Each school and Local Governing Board is accountable to the Board of Trustees to maintain the level of reserves as outlined in this Reserves Policy and to obtain permission from the Board, via the Finance Committee, for any expenditure against these reserves.

Types of Reserves

Unrestricted Reserves

- Derived from income funds, grants or donations that can be spent at the discretion of trustees in furtherance of the MAT's objectives.
- If part of an unrestricted income fund is earmarked for a particular project it may be 'designated' as a separate fund. However, the designation has an administrative purpose only and does not place restrictions on how the fund is eventually spent.
- Unrestricted reserves will be generally achieved through operating efficiencies and from any trading activity surplus.

Restricted Reserves

- Mainly derived from government grant funding through the Department for Education (DfE) but may also include other grants or donations provided for a specific purpose.
- Restricted reserves must be used in accordance with the limitations outlined in the original funding (in the case of DfE funding, this is as detailed in the Trust's Funding agreement). So, they are funds that must be spent on things the donator has specified or for the purpose for which it was given.

Capital Reserves

- Mainly derived from government funding to be allocated to Capital Projects and spent in accordance with the Funding Agreement.

Purpose of this Policy

- Assists in strategic planning by considering how new projects or activities will be funded.
- Informs the budget process at Board level by considering whether reserves need to be used during the financial year or built up for future projects.
- Enables investment decisions to be made at a Board level, where necessary utilising reserves across the MAT.
- Informs the budget and risk management process by identifying any uncertainty in future income streams.

Application of the Policy

When considering an appropriate level of reserves, the Board considers:

- The risk of unforeseen emergency or other unexpected needs for funds;
- A fall or rise in sources of income;
- Planned commitments, or designations, that cannot be met by future income alone, for example plans for a major capital project;
- The need to fund potential deficits in a cash budget, for example, money may need to be spent before funding is received; and
- The full range of financial risks identified.

A Balanced Budget

Schools within the MAT are expected to set and maintain an in-year balanced budget where costs are met from income in a given year. Accumulated reserves can be utilised, subject to the provision of this policy and the scheme of delegation.

A request to utilise any accumulated reserves must be submitted for consideration to the Trust Finance Committee prior to schools making any commitment to spend.

Maintaining a Minimum Level of Reserves

Individual schools should maintain, as a minimum, a reserves balance equal to 5% of total funding.

For the purpose of this policy, reserves are deemed to exclude restricted fixed assets funds, pension reserves and other specifically designated funds (e.g., funds held for particular Board approved projects).

The minimum level of reserves is ultimately limited by the need to maintain a positive cash accounting position for the MAT and may, therefore, be subject to change.

Where this requirement is not met, the provisions of the Financial Scheme of Delegation regarding the treatment of schools with deficit balances will be applied.

The maximum level of reserves will take into account the following factors:

- Two month's gross salary bill.
- The Trust's annual budget.
- The need for any large project spend such as facilities development or building condition needs.
- Any uncertainty, turbulence or expected reduction in funding arrangements.
- Anticipated funding over the next three years.

Monitoring and Reporting

Each year, the Board will report in the financial statements:

- The level or range of reserves considered appropriate for the MAT;
- The level of reserves at year-end;
- How the MAT is going to achieve the desired level or range of reserves; and
- How often the Reserves Policy is reviewed.

The Finance Committee will monitor each school's budget against actual expenditure together with the level of reserves and will hold the school and its Local Governing Board to account where they fall into deficit.

Pensions Liabilities

The risks surrounding the Board's pension liability should be taken into consideration. The presence of a pensions' surplus or deficit will result in a cash flow effect for the MAT in the form of an increase or decrease in the MAT's future pension contributions over a period of years. The Board should assess the ability of the MAT (and individual schools) to meet the required pension contributions from projected future income without significantly impacting upon its planned level of activities.

The above relates only to the Local Government Pension Fund as Teachers' Pensions are underwritten by Government.

Investments

This policy aims to ensure that:

- The trust's funds are used only in accordance with the law, its articles of association, its funding agreement and the Academy Trust Handbook
- The trust's funds are used in a way that commands broad public support
- Value for money (economy, efficiency and effectiveness) is achieved
- Trustees fulfil their duties and responsibilities as charitable trustees and company directors

Legislation and guidance

The Academy Trust Handbook (paragraph 2.22) states that academy trusts are required to have an investment policy to:

- Manage and track their financial exposure
- Ensure value for money

This policy is based on the Academy Trust Handbook and guidance from The Charity Commission.

Roles and responsibilities

Academy trustees

Academy trustees will ensure that investment risk is properly managed. When considering whether to make an investment, trustees will:

- Act within their powers to invest, as set out in our articles of association
- Exercise caution in all investments, reducing risk and ensuring that the trust acts with the utmost integrity
- Take investment advice from a professional adviser, as appropriate
- Ensure that exposure to investment products is tightly controlled so security of funds takes precedence over revenue maximisation
- Ensure that all investment decisions are in the best interests of the trust and command broad public support

Trustees will seek prior approval from the Education and Skills Funding Agency (ESFA) for investment transactions that are novel, contentious or repercussive.

Novel transactions are those of which the academy trust has no experience or are outside the range of normal business activity for the trust.

Contentious transactions are those which might give rise to criticism of the trust by parliament, the public or the media.

Repercussive transactions are those likely to cause pressure on other trusts to take a similar approach and hence have wider financial implications.

Finance committee

Academy trustees delegate responsibility for the trust's investments to the finance committee.

The committee is responsible for:

- Controlling and tracking financial exposure
- Reviewing the trust's investments
- Reporting to trustees on investments

Chief Financial and Operating Officer (CFOO)

The CFOO is responsible for producing cash flow forecasts and for supporting with decisions on investments. The CFOO provides information to the finance committee and trustees, as appropriate.

Investment principles

Risk is managed through diversification of investments, ensuring that the security of funds takes precedence over revenue maximisation.

Funds will only be placed with banking institutions that are regulated by the Financial Conduct Authority and with good credit ratings.

Procedures

The following information will be recorded about investments:

- Date
- Amount and description of the investment
- Length of investment
- Interest rates/expected return

The CFOO will review interest rates and compare them with other investment opportunities annually.

Cash flow and current account balances will be monitored regularly by the CFOO to ensure immediate financial commitments can be met and that the current account has adequate balances to meet forthcoming commitments.

When there are funds surplus to immediate cash requirements in the current account (up to £50,000), these are automatically transferred to a contra account with a higher interest rate.

Investments will normally be for a fixed term that does not exceed 1 year unless there is a clear rationale for longer-term investment that would benefit the trust.

Funds, and any interest earned on those funds, will be automatically reinvested unless money is required for immediate or anticipated expenditure.

Monitoring arrangements

The CFOO monitors the implementation of this policy.

This policy will be reviewed and approved by the academy trustees every year.