# Reserves and Investment Policy

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| Created by CFO September 2024 | |
| Reviewed by CFO September 2025 | Ratified by Trustees October 2025 |
| Next Review due October 2026 | |

# Contents

## 1. Statement of Intent

Keystone 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 a frequent 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, unexpected capital repairs and replacements, and early teacher retirement or redundancies.

## 2. Legal Framework

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

- DfE ‘Academy Trust Handbook 2025’
- ‘Academy Trust financial management good practice guides’
- 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 for Members, Trustees, LGBs and Senior Employees

## 3. 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 DfE 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, Audit and Risk 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, Audit and Risk 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.

## 4. 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 the following:

- Managing cashflow and ensuring that the trust can manage fluctuations in income by making sufficient cash available to pay bills and expenditure items as they fall due.
- Setting aside a contingency amount to cover any emergencies, unforeseen issues or extra expenditure throughout the year, for example:
  - A large repair bill
  - Employing temporary staff to cover long-term absence
  - Covering a failure in a source of income e.g. a grant not being renewed whilst costs are committed.
- Preparing for planned commitments that cannot be met by future income alone.
- Needing to fund short-term deficits in budgets e.g. funds that may need to be spent before a grant is received (e.g. staffing before EHCP received).

- Building, estates, or non-building capital projects and growing savings to enable maintenance, development and improvement of the trust's infrastructure.
- Developing and growing the trust and ensuring the trust's financial health.
- Preparing for future change and uncertainty.

## 5. 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 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
- Programme-related investments held solely to further the trust's purposes.
- Other restricted funds where the donor or grantor has specified the purpose to which the grant or donation must be applied.
- 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
- Eight percent of GAG income for the year (unless this definition is altered by trustees).

The remaining unrestricted reserves will be designated as "distributable" reserves which can be spent at the request of Heads and authorisation by Trustees.

If a school is unable to meet its eight percent GAG requirement (using unrestricted and restricted reserves) an affordable repayment plan will be put in place until the eight percent is met.

**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.

If there are insufficient unrestricted reserves to meet the eight percent GAG requirement then the remainer may be taken from restricted reserves, in line with any caveats in place.

**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 request of Heads and 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 must be considered 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.

## 6. 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.

All revenue reserves are controlled by the Trust Board including those transferred in upon conversion and cannot be spent without Trustee approval. In line with DfE and charity accounting standards, the trust will maintain financial records that will identify these reserves at academy level.

In deciding the level of reserves to maintain, the Board of Trustees will consider:

- The size of the trust.
- The trust's estates strategy.
- The trust's future plans.
- Upcoming risks and opportunities.

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.
- If the 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 the trust's vision to maintain the highest levels of education.

The trust will hold a minimum reserve of eight percent of the trust's DfE grant funding (excluding Pupil Premium). The trust will review the level of reserves annually to ensure that reserves are not being held unnecessarily or inappropriately.

Reserves will be reviewed and monitored by the Board of Trustees on an annual basis 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.
- Request the CFO to develop an affordable repayment plan for a school if it has less than 8% reserves requirement.

The trust can build and maintain a capital reserve fund in line with the reserves approved by the Board from time to time.

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.

## 7. Investment

The trust will aim to manage its cash balances to provide for day-to-day financial management. Trustees will take a very prudent approach to any deposits or investments that are made.

Where there are sufficient funds to meet all of the trust's financial commitments, and surplus funds of £50,000 exist, the trust will seek to optimise returns by investing. The trust will manage conflicts of interest in relation to investment in line with the Conflicts of Interest Policy.

Where the trust decides to invest, the investment risk will be properly managed. Where the trust decides to invest, the investment risk will be properly managed. When considering an investment, the 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 be readily realised as cash, when needed.

Currently the trust has decided that reserve funds should be held on deposit in an interest-bearing account in a UK regulated bank or other instruments and investments as agreed from time to time by the board.

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 DFE 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.

## 8. 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.

The trust will disclose information about reserves in its annual report. This will include a review of reserves and details of:

- Where funds are restricted and not available for the general purpose of the trust.
- Any amount designated and the reason why.
- Any amount that can only be realised by disposing of a tangible fixed asset.
- The amount of reserves held after making allowances, the plans in place for the future of these reserves, and the likely expenditure date.
- How the amount of reserves held compares to that which is set out in the Managing reserves section of policy and any steps taken to bring the level of reserves held into line with this.

## 9. 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 consider using 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.

The decision to pool GAGs is reviewed frequently by the Board of Trustees.

The trust will consider the funding needs and allocations of each constituent academy within the trust.

If the trust decides to pool reserves, then 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 DFE. The trust will provide any evidence to the DFE that it feels is relevant to an appeals case.

## 10. Monitoring and Review

This policy will be reviewed frequently by the Board of Trustees and any changes made to the policy will be communicated to all stakeholders.