KEYSTONE ACADEMY TRUST

# Investment & Reserves Policy

| | |
|---|---|
| Created by CFO September 2024 | |
| Reviewed by CFO on behalf of Trustees September 2026 | Ratified by Trustees October 2026 |
| Next Review due September 2027 | |

# Contents


1. Statement of Intent ..... 3
2. Legal Framework ..... 3
3. Roles and Responsibilities ..... 3
4. Trust Aims ..... 4
5. Investment Products ..... 5
6. Counterparty Risk ..... 6
7. Counterparty Restrictions ..... 6
8. Assessing Liquidity Needs ..... 7
9. Investment Decisions ..... 7
10. Monitoring & Reporting of Investments ..... 8
11. Reserves ..... 8
12. Types of Reserves ..... 9
13. Managing Reserves ..... 10
14. Pooling Reserves ..... 11
15. Monitoring and Review ..... 13

## 1. Statement of Intent

To set out the processes by which the trust can invest funds surplus to day-to-day operational requirements and to ensure that investment risk is properly and prudently managed.

In doing so, trustees **MUST**:

- Act within their Charity's power to invest.
- Set investment objectives.
- Set the parameters that deposit counterparties need to meet.
- Consider the level of liquid cash required to be held either overnight or within current accounts.
- Approve the type of products that the trust can invest in and seek external guidance if required.
- Define processes to manage and make investment decisions.
- Monitor and review investments on a regular basis.

This Investment and Reserves Policy is designed to only apply to cash-based deposits and does not apply to any strategy that may be in place or put in place for investing in 'capital at risk' investments. It considers both the Academy Trust Handbook and the DfE "Managing Academy Trust Reserves / Academy Trust Reserves" guidance issued on 2nd June 2025.

## 2. Legal Framework

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

- DfE 'Academy Trust Handbook'
- DfE 'Academies accounts direction'
- DfE "Managing Academy Trust Reserves / Academy Trust Reserves" guidance issued on 2nd June 2025
- 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 policies:

- Financial Planning Policy
- Corruption, Fraud, Bribery and Cyber Crime Policy
- Conflicts of Interest Policy for Members, Trustees, LGBs and Senior Employees
- Gifts and Hospitality Policy (receiving and giving)
- Expenses and Benefits Policy
- Finance Policy
- Risk Management Policy

## 3. Roles and Responsibilities

The Board of Trustees will be responsible for:

- Defining this policy and making strategic decisions on investments.

- Delegating responsibilities to the CEO/CFO as appropriate.
- 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.
- Delegate the authorisation of the transfer of investment funds to an interest-bearing deposit account to the CFO.
- 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 will be responsible for:

- The day-to-day responsibility of managing and implementing the policy to ensure that investments are managed in accordance with this policy and monitor regularly how the trust's investments are performing.

## 4. Trust Aims

The trust **MUST** manage its cash position robustly. It **MUST** avoid going overdrawn on any of its bank accounts so that it does not breach restrictions on borrowing. Subject to this, any surplus funds can be used to generate investment income to further support the trust's aims.

The trust's aims are to identify a level of funds that can be placed on deposit to generate additional interest income for the trust to support its ongoing charitable objectives.

Any investment decisions **MUST** be supported by a cashflow forecast that reduces the risk of the trust not having the liquidity required to carry out its day-to-day activities.

Where possible, the trust will consider the ethical standing of financial institutions in line with its charitable objectives.

## 5. Investment Products

The DfE guidance "Managing Academy Trust Reserves: dated 2nd June 2025, states:

> *Considerations for the Board:*
>
> *1) if funds are not needed now, how the trust might be able to invest them to generate some extra income by reviewing current trust bank and saving accounts, cash reserve locations and interest rates available to establish where or how investment returns may increase, including:*
>
> *a) reviewing type and amount of accounts*
>
> *b) avoiding capital at risk investments*
>
> *c) ensuring funds are deposited with banks or financial institutions that are registered and regulated by the Financial Conduct Authority (FCA) in the UK*

The trust can invest surplus funds in a mixture of interest-bearing accounts and money market facilities (where the capital is not placed at risk) including:

- Overnight (instant access / easy access)
- Notice accounts (typically from 30 days to 100+ days)
- Fixed term deposits (typically from 1-month to 12 months)

Investment maturity dates should not exceed 12 months in term unless funds are held for a specific future product with no risk of requiring access in the meantime.

It is recognised that funds cannot be accessed before the relevant period of notice is given or, for fixed term deposits, at maturity.

The profile and restrictions of the most common deposit accounts are:

- **Easy Access:**
  - No notice needed to make withdrawals
  - Funds are usually returned overnight or within a few days
  - Interest rates may be variable or fixed

- **Notice Accounts:**
  - No access without giving the required notice
  - Interest rates may be variable or fixed

- **Fixed Term Deposits:**
  - No access until the deposit matures
  - Interest rates are fixed for the term

## 6. Counterparty Risk

Following the Banking Crisis in 2007/2008, The Bank of England has (through the FSA and latterly, the FCA and PRA) implemented changes to banking regulation and capital requirements of UK FCA registered banks to ensure the stability of the UK banking system.

Taking this and the DfE guidance into account, the trust can only make cash deposits with institutions with a UK banking licence regulated by the FCA. The trust will not enter into any "capital at risk" investments.

FSCS protection limits relate to statutory compensation arrangements and do not determine the trust's investment limits. Cash deposits may be restricted to £120,000 per institution as per the FSCS limit.

## 7. Counterparty Restrictions

The trust's counterparty limits are set separately based on creditworthiness, liquidity requirements and risk appetite. For institutions with an Investment Grade "good" or better credit rating or implied credit rating the trust can deposit a maximum of £5,000,000 (plus interest accrued) in any one institution.

These ratings include:

- **Baa3 / P-3 or better (Moody's) or**
- **BBB- / A-3 or better (S&P) or**
- **BBB- / F3 or better (Fitch) or**
- **An implied rating of BBB- or better**

The Credit Rating or Implied Credit Rating will be checked at the time of placing a deposit with a new bank.

It is worth noting that Implied Credit Ratings are usually the 'long term' position, however, the trust will only be depositing 'short term' in deposits with a maturity date or notice period of 12-months or less.

| Rating | Moody's | | S&P | | Fitch | | |
|---|---|---|---|---|---|---|---|
| | Long Term | Short Term | Long Term | Short Term | Long Term | Short Term | |
| Investment grade: Highest (Triple A) | Aaa | P-1 (Prime-1) | AAA | A-1+ | AAA | F1+ | Limit = £5m per institution |
| Investment grade: Very high | Aa1 | | AA+ | | AA+ | | |
| | Aa2 | | AA | | AA | | |
| | Aa3 | | AA- | | AA- | | |
| Investment grade: High | A1 | | A+ | A-1 | A+ | F1/F1+ | |
| | A2 | P-2/P-1 | A | | A | F1 | |
| | A3 | P-2/P-1 | A- | A-2 | A- | F2/F1 | |
| Investment grade: Good | Baa1 | P-2 (Prime-2) | BBB+ | | BBB+ | F2 | |
| | Baa2 | P-3/P-2 | BBB | A-3 | BBB | F3/F2 | |
| | Baa3 | P-3 (Prime-3) | BBB- | | BBB- | F3 | |
| Speculative grade: Speculative | Ba1 | | BB+ | B | BB+ | B | Limit = £120,000 per institution |
| | Ba2 | | BB | | BB | | |
| | Ba3 | | BB- | | BB- | | |
| Speculative grade: Highly speculative | B1 | | B+ | | B+ | | |
| | B2 | | B | | B | | |
| | B3 | | B- | | B- | | |
| Speculative grade: Very high risk | Caa1 | Not Prime | CCC+ | C | CCC | C | Limit = £0 |
| | Caa2 | | CCC | | | | |
| | Caa3 | | CCC- | | | | |
| Speculative grade: Very near to default | Ca | | CC | | CC | | |
| | | | C | | C | | |
| | | | C | | C | | |
| In default | C | | SD/D | D | RD/D | RD/D | |

It is noted that the FSCS compensation scheme increased to £120,000 for eligible individuals and organisations from 1st December 2025. The FSCS has a protection calculator on its website: https://www.fscs.org.uk/check/check-your-money-is-protected/. FSCS limits relate to statutory protection in insolvency scenarios and do not define the trust's own counterparty exposure limits.

## 8. Assessing Liquidity Needs

The trust should ensure that a sufficient balance is held across accounts with short-term (Instant or easy access) so that the trust's financial commitments can be met without the risk of the current account going overdrawn.

It should also allow enough flexibility to deal with reasonable, one-off events should they occur. These include delayed funding, clawbacks, and emergency capital works as examples.

The trust's cash flow forecasts will dictate how much is available for investment and for how long.

The cashflow forecasts should be reviewed monthly as part of the management accounts cycle and on maturity of fixed term deposits.

It is noted that notice and term deposits will not be accessible before the required notice period or maturity date for any reason.

## 9. Investment Decisions

The CFO/DCFO is responsible for producing reliable cash flow forecasts as a basis for decision making.

The CFO is responsible for making investment decisions that comply with this policy.

Deposit facilities in use by the trust **MUST** be restricted to 'dual control' for the opening of a deposit, placing funds and withdrawing funds.

## 10. Monitoring & Reporting of Investments

The CFO will report investments held and the performance of investments against objectives to the Finance, Audit & Risk Committee for review each time it meets or when requested to do so. The reporting should include:

- Funds invested
- Maturity dates
- Interest rates
- Latest cash flows showing 12-month liquidity requirements
- Recommendations for the next 3 months.

## 11. Reserves

The trust aims to retain a reserve level (surplus cash from both surplus GAG funding and unrestricted funds) of 8% GAG income to provide for unexpected costs, pupil number variations, unfunded expenditure and future risks or opportunities. Each school is intended to set aside 8% GAG or have a repayment level until the 8% is met.

N.B. The DfE state that where the total reserves figure (excluding fixed assets and pension reserves) is at or above 20% of annual income and GAG, the excess reserves should be explained/allocated, e.g. future planned building / large maintenance / capital projects etc. Where the figure is below 5%, this can indicate a financial vulnerability and any plans to increase reserves to this level should be detailed.

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. Any reinvestment of reserves **MUST** comply with Sections 5-7 (Investment Products and Counterparty Risk) to avoid misinterpretation.

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.
    - Late notice unfunded pay rises
- 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.

## 12. 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.
- 8% 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 Headteachers and authorisation by trustees.

If a school is unable to meet its 8% GAG requirement (using unrestricted and restricted reserves) an affordable repayment plan will be put in place until the 8% 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 8% GAG requirement then the remainder may be taken from restricted reserves, in line with any caveats in place and only where the relevant restriction permits.

**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 Headteachers 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 14.

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.

## 13. 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.
- Trust growth.
- 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, considering 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, including projected pupil numbers.
- 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 8% 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 Central Finance on a monthly basis and 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, Central Finance 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 the 8% reserves requirement.

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

Reserves in excess of the maximum limit will be reviewed by the Central Team, 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. Trustee approvals will be in line with the Purchasing, Tendering and Procurement Policy.

The movement of funds to and from the reserve budget will be at the discretion of the Board of Trustees, or the Finance, Audit and Risk Committee where delegated authority has been provided.

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

## 14. Pooling Reserves

The current policy is that academies retain any historic reserves when they join the trust, and any surplus funds since joining the trust are held on each school's balance sheet.

The Board of Trustees reserves the right to decide to pool the unspent funds from the academies if it deems it appropriate for trust-wide improvements, targeted improvements or other priorities across the trust. The DfE states that pooling reserves can enhance a trust's ability to allocate resources in line with improvement priorities and running costs across the constituent academies. If the trust decides to pool reserves the policy will be amended to determine how the trust will use funds for the benefit of all pupils.

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 GAG 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 escalate to the DfE. The trust will provide any evidence to the DfE that it feels is relevant to an appeals case. The DfE's decision will be final and can result in the pooling provisions being disapplied.

**Income Pooling**

The trust currently funds the Central Team and services through a fixed percentage top slice mechanism of all DfE received grants excluding pupil premium and EHCPs. In addition, a top slice of nursery and wraparound income is also taken.

The trust has the right to decide to pool some or all income relating to the academies into a single fund before distribution and then delegate budgets to individual academies. This can include, but is not limited to: DfE grants, Pupil Premium, & income from other sources.

**Website Publication**

The trust **MUST** publish on their website a summary statement (by 31 January) accompanying the trust's annual accounts, outlining how funds are distributed across their schools. The information should match that set out in the annual accounts notes (disclosure of central services and funds) and include a summary overview of the themes listed:

- How funding flows across the trust including:
    - Whether any income or reserves are pooled

- How central services are funded
- How much funding each academy receives from the DfE
- How much is spent on each academy

The expenditure figures for each academy should match the audited annual accounts.

## 15. Monitoring and Review

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