



# Reserves and Investment Policy

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## **Statement of intent**

Derby Diocesan Academy Trust (DDAT) 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 legislation and statutory guidance, including, but not limited to, the following:

- ESFA (2019) 'Academies financial handbook 2019'
- Charity Commission (2016) 'Charity reserves: building resilience'
- Charity Commission (2016) 'Charities and investment matters: a guide for trustees'

This policy operates in conjunction with the following policies:

- Articles of association
- Funding agreement
- 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.
- 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.
- 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.

The finance committee is responsible for:

- Making financial recommendations to the board of trustees.
- Carrying out any other responsibilities in line with the approved terms of reference.
- Adhering to and implementing this policy.

The Chief Finance Officer (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 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.

#### **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.

In line with the AFH the delegated financial powers are written within the scheme of delegation. The trust therefore monitors individual academy reserves and funds held centrally as well as the consolidated financial position.

### **Pension reserves**

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

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 board of trustees is clear in its position that as much funding as possible should be within schools and directly impacting on the quality of education for young people.

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

The central trust will hold a minimum reserve of £50,000 or approximately 8 percent of the trust's general annual grant (GAG).

The Central Trust will continually review the maximum limit for centrally held reserves and monitor accordingly. All reserves will be utilised as part of the long-term vision for school improvement and sustainability.

Individual academies are expected to be in surplus at all times. Minimum and maximum reserves to be reviewed on an ongoing basis to meet with school improvement plans at each academy.

Reserves will be reviewed and monitored by the board of trustees on a termly basis to identify any trends in spending and to rectify issues where they arise.

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.

## **6. Investment**

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

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.

Where the trust decides to invest, the investment risk will be properly managed.

The trust will manage conflicts of interest in relation to investment in line with the Conflicts of Interest Policy.

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.

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.

The board of trustees will also adhere to guidance issued by the Church of England on responsible investment: <https://www.churchofengland.org/about/leadership-and-governance/church-commissioners-england/how-we-invest/responsible-investment-1>

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.
- Take account of environmental, social and governance issues in investment decisions.

The trust will not invest in:

- Any organisation that is directly involved in indiscriminate weaponry.
- Any organisation that produces pornography.
- Any organisation where their principal business activity or focus is tobacco, alcoholic drink or gambling.

## **7. Reporting**

The board of trustees will disclose in its annual report its policy for building and maintaining reserves and investments, and the following information:

- Why reserves are held
- The amount or range of reserves that are held at the end of the year
- How the trust aims to achieve its desired amount of reserves
- How the trust plans to raise the amount of reserves held, where they are below the minimum level
- How the trust plans to better utilise the amount of reserves in the future, where they are in excess of the maximum level
- Details of the circumstances giving rise to any deficit and the steps being taken to eliminate it
- An explanation of the investment policy
- A statement about the performance of the trust's investments

## **8. 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 staff.

The next scheduled review of this policy will be in the Spring Term 2021.