Astrea Academy Trust

INSPIRING BEYOND MEASURE

Reserves and Investment Policy 2020/21

Date	September 2020
Written by	Executive Director of Finance
Adopted by Trustees	July 2020
Review Date	Autumn 2020, then July 2020, then annually upon publication of the Academies Financial Handbook

Purpose

Astrea Academy Trust is expected to create contingency reserves from their annual GAG funding or other income. During the early years of the Trust, GAG funding levels create little opportunity to achieve a surplus however it is the Board's intention to ensure financial controls which will deliver surplus through joint procurement, economies of scale and additional income generation.

The purpose of this policy is to outline the requirement for a revenue/capital reserve within Astrea Academy Trust in order to ensure development plans and strategic long terms aims are achieved. The reserves held are intended to carry forward a prudent level of resources designed to meet the long-term cyclical needs of renewal and any other unforeseen contingencies.
This policy sets out how much the Trust needs to hold in reserve and why, how and when the reserves can be spent and how often the reserves policy will be reviewed.

Principles

The following principles underpin this policy for the Trust:

1. Funding is passed from the DfE via Astrea's bank account to academies, less any contribution. The in-year budget surplus is also retained on a quarterly basis as part of Astrea's treasury management procedures. The retained cash is managed on behalf of the academies in accordance with the principles outlined in this policy, ESFA guidance and charity commission guidance CC14.
2. The Principals, with support and challenge from the Finance Team, will develop an expenditure profile to deliver curriculum, teaching and learning needs.
3. Academy budgets will be submitted each year and signed off by the Trust Board, via the Executive Board and Finance, Risk and Audit Committee, in accordance with the annual financial planning calendar (as outlined in the Scheme of Delegation and Financial Procedures Policy).
4. Monthly reporting of academies' financial results will be monitored and challenged throughout the year by Hub Finance Managers and the Finance Director to ensure academies are on target to deliver their agreed budget.
5. Any in year surplus becomes part of the central reserves, save that PFI funding may not be pooled.
6. Reserves of the Trust are considered to be funds that are deployed at the discretion of the Executive Board with appropriate Board approval, and within the Trust's scheme of delegation.
7. In year surplus monies can be deployed at the discretion of the Executive Board based on Astrea's Strategic Priorities, an assessment of local need, and in line with the Astrea Value Partners. Business cases can be submitted by academies to the Executive Team to request investment which has not been budgeted for; these business cases are for capital investment rather than operational running of the school.
8. Only in exceptional circumstances will the Trust be allowed to use reserves to support a short term deficit. This must be approved by the Trust Board.

9. The Trust has a fiduciary responsibility to carry sufficient free reserves to:

   a. manage potential future **financial risks** as a result of:

      - **structural deficits**: maintaining schools with historic and/or structural deficits whilst executing robust deficit recovery plans; and
      - **growth:** providing working capital and short-term deficit funding for new schools joining the Trust. Typically, new primary and secondary schools joining the Trust need bridge funding for a period of 1-2 years of, on average, **£50k for a primary** and **£500k for a secondary** transition school.

   b. meet future capital requirements (e.g. building repairs, IT infrastructure) where it is anticipated that there may be a shortfall against future eligible capital funding, such that free reserves will need to be drawn upon to meet the strategic long-term capital plans of the Trust. Where a shortfall in capital funding is identified, the Trustees have the discretion to **designate** free reserves against this future funding requirement.

   c. provide the Trust with a buffer of **general reserves** to be drawn down in times when income is disrupted or decreased – or costs are increased – unexpectedly, such that any given buffer will allow the Trust to continue to operate without material impact to educational outcomes or the Trust's pupils or staff.

   d. The appropriate target level of reserves in any given financial year is reviewed annually by the Trustees in accordance with the calculation provided in Annex 1.

10. The Trust also has a responsibility to the beneficiary that reserves are not excessive and as such would represent an educational risk to maximising the educational outcomes of the Trust's pupils. The Trust therefore needs to balance financial risk and educational risk and believes that setting a range of between 3% and 6% of GAG is a reasonable target range to balance both of these risks.

Resolving Disagreements

11. Where a Principal believes that the academy has been unfairly treated, he or she should submit a case in writing to the Executive Board for consideration. This case must set out the grounds on which the Principal feels that the arrangement is unfair in the circumstances and propose a variation. The Executive Board may recommend to the Finance, Risk and Audit Committee that:

    a. The arrangement should stand; or

    b. A variation should be granted.

12. The Finance, Risk and Audit Committee shall have regard to the advice of the Executive Board and may approve or reject the request for a variation. The Committee's decision shall be the Trust's final position.

13. A Principal may appeal the decision to the Secretary of State, through the ESFA.

Investment Management & Cash Holding

Investment of cash will be managed by the central finance team. Cash

is held for 5 main reasons:

a. Where the organisation is growing and needs to build capacity in advance of need.
b. As a safety net against reduced funding to allow time for correction of any organisation structure, paying for any short term deficit and subsequent restructuring costs.
c. To allow for investment in vital infrastructure and teaching/learning equipment on a needs basis.
d. To meet any short term emergencies.
e. Cash flow management to ensure employees and suppliers can be paid.

The target level of cash held and deployment will be reviewed and documented as part of the annual budget.

Investment of funds

In accordance with the AFH the board of trustees may invest to further the trust's charitable aims, but must ensure that investment risk is properly managed. When considering an investment, the board must:

- act within its powers to invest as set out in its articles
- have an investment policy to 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 security of funds takes precedence over revenue maximisation
- ensure that investment decisions are in the best interests of the trust
- review the trust's investments and investment policy regularly

Trustees should follow the Charity Commission's guidance: CC14 Charities and investment matters: A guide for trustees. ESFA's approval must be obtained for investment transactions that are novel, contentious and/or repercussive.

The priority is to avoid high levels of risk by ensuring any investment vehicle has adequate credit rating measured by Standard and Poor or another reputable credit rating agency. The Trust will avoid volatile investment instruments, ensuring security takes precedence over revenue generation.

The Trust, through its Finance Committee, will review investment of funds to ensure appropriate reflection of risk/reward at least an annual basis.

Risk Management

The Trust's Finance, Risk and Audit committee will review the Investment / Reserves Policy on an annual basis and where appropriate make recommendations to the Trust Board.

Annex 1: Reserves target calculation

Target reserves = A + B + (C x £50k) + (D x £500k) + E + F

Where:

A = Financial risk: Gross budgeted deficits

B = Financial risk: Gross surpluses of schools with active deficit recovery plans

C = Growth: Number of primary schools expected to join the Trust within the next 12 months

D = Growth: Number of secondary schools expected to join the Trust within the next 12 months

E = Designated funds: where future shortfall in capital funding has been identified and Trustees have earmarked free reserves against this shortfall

F = General reserves buffer

Illustrative example:

Target reserves = £500k + £350k + (5 x £50k) + (1 x £500k) + 0 + £1m = £2.6m

Where:

A = Gross budgeted deficits = £500k

B = Gross surpluses of schools with active deficit recovery plans = £350k

C = Number of primary schools expected to join the Trust within the next 12 months = 5

D = Number of secondary schools expected to join the Trust within the next 12 months = 1

E = Designated funds where future shortfall in capital funding has been identified and Trustees have earmarked free reserves against this shortfall = nil

F = General reserve target = £1m