



Reserves and Investment Policy

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Approval Body	Resources and Finance Committee to recommend to the Trust Board.
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Version	Approval Date	Summary of Changes
1	Feb 2025	New Policy – previously within a financial manual.
2	March 2025	Revisions from working party – specific reserves measurement.

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1. Purpose

- 1.1. The purpose of the Reserves Policy is to ensure the stability of the Trust's operations, to protect it from the impact of unplanned large expenditure and to enable it to plan for the future. The Trust holds reserves to make sufficient provision for future cash flow requirements, to provide a cushion to deal with unexpected emergencies, to take advantage of new opportunities, and to build up funding for planned future capital projects.
- 1.2. In general, revenue grant funding is provided in order to benefit the current cohort of pupils. This policy also aims, therefore, to ensure that the Trust does not build inappropriately high levels of reserves.
- 1.3. **This policy must be read in conjunction with the DfE Guidance on Academy Trust Reserves (2024).**

2. Definitions

- 2.1. The Trust's reserves are held across different funds depending on the nature of the income from which the reserves are derived.
 - 2.1.1. **Restricted Fixed Asset Reserves:** Restricted fixed asset reserves are resources which are to be applied to specific capital purposes imposed by funders where the asset acquired or created is held for a specific purpose. This will include unspent capital funds in addition to fixed assets such as buildings, leasehold improvements, fixtures and fittings, and computer equipment.
 - 2.1.2. **Pension Reserve:** The pension reserve is the surplus or deficit of the value of the Trust's portion of the Local Government Pension Scheme (LGPS).
 - 2.1.3. **Unrestricted Reserves:** Unrestricted funds represent those resources which may be used towards meeting any of the charitable objects of the Academy Trust at the discretion of the Trustees. Unrestricted reserves can include private fund balances.
 - 2.1.4. **Restricted General Reserves:** Restricted general funds comprise all other restricted funds received with restrictions imposed by the funder/donor and include some grants from Department for Education (DfE), and certain restricted-use private fund balances.
 - 2.1.5. **Free Reserves:** Free reserves are classed as the total of unrestricted reserves and restricted general reserves.
 - 2.1.6. **Minimum Level Reserves:** This is the amount decided by the Academy Trust to be ringfenced to protect the Academy Trust's operations.

3. Policy

- 3.1. It is important that the Academy Trust is able to manage its cashflow when unexpected costs arise (e.g. unplanned maintenance, spikes in utility costs, higher than usual levels of supply cover).
 - 3.1.1. The principal policy on reserves is that accumulation of unspent GAG balances should not breach any limits thereon set out in the Funding Agreement (and by extension any limits set out in the Academy Trust Handbook).
 - 3.1.2. The Trust should hold a Minimum Level Reserve level of **£350,000 for Parbold Douglas CE Academy**. This is reviewed annually and derived through per pupil metrics and comparisons with use of the financial benchmarking information. The Minimum Level Reserve is higher than some academies as there is more risk as a standalone Academy Trust.

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- 3.1.3. The Trust should not plan to hold Free Reserves in excess of 20% of annual GAG income without clearly defined reasoning that is linked to the Academy Trust's Development Plan.
- 3.1.4. The Trust may hold above 20% of annual GAG income when significant capital expenditure has been committed to. This will become a Restricted Fund within the Academy Trust's Accounts.
- 3.2. If the reserves of the Academy Trust drop below the minimum level stated above, between budgeting cycles, then a plan for the return to a compliant position must be reported to the board as part of the next budgeting cycle.
- 3.2.1. Budgeting makes reference to a 'revenue budget', exclusive of Land and Buildings and Leasehold Improvement and Fixtures and Equipment depreciation figures, but inclusive of the 'Fixed Asset Replenishment Fund' – an expenditure line in the budget that protects replenishment of Equipment and Fixtures.
- 3.3. The Trust Board will take into consideration the percentage of income in reserves and utilises benchmarking tools as a comparator to similar Academy Trusts.

4. Managing School Reserves

- 4.1. Where the Academy Trust's programme of proposed capital investment from reserves gains the approval of the Trust Board, either as part of the annual budgeting cycle or as part of an out-of-cycle detailed capital investment plan, no further approval is required from the trustees to progress projects included in the first year of that plan (routine procurement/contracting and payment approvals still apply, however).
- 4.2. Previously unbudgeted and unapproved expenditure from reserves must be accompanied by a business case and can be approved at the following levels):
 - 4.2.1. **Below £10,000** Headteacher, informing Chair of Governors
 - 4.2.2. **Between £10,000 and £20,000** Business case to Resources and Finance Committee supported by Headteacher
 - 4.2.3. **Above £20,000** Trust Board
- 4.3. The above thresholds refer to the total value of an entire project. Projects may not be split into smaller parts in order to enable approval at a lower level.

5. Investment Policy

- 5.1. The Academy holds surplus cash balances on short, fixed term deposits with The Royal Bank of Scotland Bank.
- 5.2. No investments are to be made beyond cash deposits retained with the major UK clearing banks. Sufficient funds should be held in instant access accounts to ensure all cashflow requirements can be comfortably met.
- 5.3. Funds above this level should be placed in deposit/savings accounts.
- 5.4. The Trust Board does not permit speculative investments.

6. Monitoring Arrangements

- 6.1. The Headteacher and Trust Board monitor reserves and ensures these comply with this policy.
- 6.2. This policy will be reviewed **annually**.
- 6.3. This policy will be taken to the **Summer Resources and Finance Committee** to then be recommended to the **Trust Board** for approval in the **September Business Meeting**.

Appendix 1 Guidance from the DfE

[Extracts taken from Academy Trust Reserves – October 2024]

Definition of academy trust reserves

The **Charities statement of recommended practice (SORP)** defines reserves as “that part of a charity’s unrestricted income fund that is freely available to spend on any of the charity’s purposes”. These are often referred to as ‘free reserves’. When applying this to academy trusts, it is common to consider reserves as being the balance of unspent:

- unrestricted funds, to the extent that they have not been used for the acquisition of fixed assets
- restricted funds, inclusive of general annual grant (GAG) [and other established funds by the academy trust]

Although GAG is a restricted fund, any unspent GAG is usually considered as reserves. This is because it is permitted to be used for the general running of the trust’s main activity of delivering education.

Brought-forward reserves

The Academy Trust Handbook requires trusts to approve a balanced budget which may take into account any brought-forward reserves.

Brought-forward reserves are made up of unspent funds from previous years where income has been greater than expenditure. The reserves may come from several funding streams, some of which are restricted to particular types of spend.

What is not included as reserves

The Charities SORP recommends that the following are excluded from the amount identified as reserves:

- tangible fixed assets used to carry out the trust’s activities, such as 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, such as funding a project that could not be met from future income
- commitments that have not been provided for as a liability in the accounts

Reserves for a range of reasons, including risk management.

Cashflow

Making sure sufficient cash is available to pay bills and expenditure items as they fall due helps the trust to manage fluctuations in income.

For example, trusts that are managing sizeable Condition Improvement Fund (CIF) projects may have different payment profiles to those managing School Capital Allocation (SCA) funded work. This may mean they need available cash to pay invoices before CIF income is paid.

Minimum trust reserves

Setting aside a contingency amount can help cover any unforeseen issues or extra costs in-year. This could be to balance budgets where in-year expenditure exceeds income.

Future change and uncertainty

Planning for a period of reduced pupil numbers, or covering unexpected costs can help make sure the trust’s overall budget is balanced.

Building, estates and non-building capital projects

Growing savings to enable maintenance, development and improvement of the trust's infrastructure to deliver the trust's capital and estates strategy. This could include sinking funds that set aside money each year to grow funds for premises projects and building plans. It could also be significant investment in the curriculum, IT or school improvement strategies.

Development and growth

Providing for the trust's financial health. This could include:

- preparing for new schools to join the trust, or for existing schools to expand
- training for staff
- investing in the central services of the trust to improve delivery or increase capacity

Using reserves to support capital investment

The trust may decide to designate reserves for capital investment to meet the trust's capital investment strategy. When considering capital investment, trusts will want to consider the highest priority areas for improvement. They will use intelligence gathered about the trust's estate condition to guide their decision-making.

The trust's strategy could include earmarking reserves as a contribution to a prospective CIF bid, where a trust contribution may lead to additional points as part of the bid assessment.

Deciding what level of reserves to hold

DfE does not require any specific level of reserves, either a percentage or monetary amount. However, trust reserves should not be in deficit. Trustees are best placed to decide on the trust's priorities. They are responsible for assessing the trust's individual circumstances to make sure that reserves are used in the best interests of their pupils.

Academy trusts have the freedom to establish governance and financial management arrangements that meet the needs and circumstances of their:

- vision
- values
- academies

The level of reserves a trust decides to hold is likely to depend on both short- and long-term factors that may affect the schools and pupils, including:

- the number, type and size of the academies within the trust
- how their needs are reflected in the trust's estates strategy
- future plans
- upcoming risks or opportunities

Around 90% of trusts hold reserves of at least 5% of total income.

Many choose to hold around one month's salary costs or expenditure as a minimum to protect cashflow, around 6 to 8% of income. Some trusts, such as larger trusts or those without significant investment or growth plans, may decide to maintain reserves below this level.

We know that academy trusts employ a diverse range of operating models to maximise the impact of their spending for learners. Trusts have the flexibility to maintain a level of reserves that trustees decide is appropriate to the trust's individual context and circumstances.

When considering a minimum level at the lower end, trustees will need to be assured that:

- there is sufficient contingency should something unforeseen occur
- that there are funds in place to maintain the school estate and infrastructure

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For some trusts a lower level of reserves could suggest financial vulnerability and challenge, especially if much below 5%. For other trusts, this will be a deliberate decision in accordance with their financial operating model to provide financial sustainability.

Holding a higher level of reserves

A high level of reserves has been defined, in discussion with the National Audit Office and the Public Accounts Committee, as 20% of income or above.

Trusts choosing to hold a high level of reserves will usually do so because of specific needs – for example, upcoming contributions to capital projects.

It would be unusual and potentially hard for a trust to justify the decision to hold significant reserves at this level for general cashflow contingency, given this funding could be used sooner for the benefit of pupils.

The size of the trust will affect how much might be needed. For instance, single academy trusts (SATs) tend to hold a higher proportion of income as reserves to cover emergencies or as they save up for significant capital projects.