

Reserves and Investment Policy



EPWORTH

EDUCATION TRUST

Written by:	J Field
Date Reviewed:	26 th November 2020
Agreed by Finance Committee:	1 st December 2020
Next Review Date:	Autumn 2021
Chairs Signature	

Version Control

Change Record

Date	Author	Version	Page	Reason for Change
19/11/18	J Buckley	2	6	Change in Financial Year
26/11/2020	J Field	3		Change of Trust name
	J Field		6	Change in Financial year
	J Field		7	Definition of reserves
	J Field		7	Maximum reserve level

Mission Statement

Epworth Education Trust is a Multi-Academy Trust established with the aim of providing outstanding learning and opportunities for the children within its care.

Children are our nation's most precious resource. Their school life and learning experience will shape them for the whole of their lives

Safeguarding Statement

At Epworth Education Trust we recognise our moral and statutory responsibility to safeguard and promote the welfare of all children.

We work to provide a safe and welcoming environment where children are respected and valued. We are alert to the signs of abuse and neglect and follow our procedures to ensure that children receive effective support, protection and justice.

The procedures contained in the Safeguarding Policy apply to all staff, volunteers and governors

RESERVES AND INVESTMENT POLICY

Background

An academy is an exempt charity, regulated by the DFE. The Education and Skills Funding Agency (ESFA) expects charities to have a reserves policy.

An academy should follow Charity Commission guidance when setting a reserves policy. Their guidance is based on the requirements of charity law, the Charities SORP and good practice.

Charity Commission guidance states that:

'Reserves are that part of a charity's unrestricted funds that is freely available to spend on any of the charity's purposes. This definition excludes restricted income funds and endowment funds, although holding such funds may influence a charity's reserves policy. Reserves will also normally exclude tangible fixed assets held for the charity's use and amounts designated for essential future spending.

Deciding the level of reserves that a charity needs to hold is an important part of financial management and forward financial planning. Reserves levels which are higher than necessary may tie up money unnecessarily. Holding excessive reserves can unnecessarily limit the amount spent on charitable activities, reducing the potential benefits a charity can provide. However, if reserves are too low then the charity's solvency and its future activities can be put at risk.

All charities need to develop a policy on reserves which establishes a level of reserves that is right for the charity and clearly explains to its stakeholders why holding these reserves is necessary.

The Charity Commission reminds trustees that:

- Charity law requires any income received by a charity to be spent within a reasonable period of receipt. Trustees should be able to justify the holding of income as reserves.
- Reserves are that part of a charity's unrestricted income funds that is freely available to spend.
- Where the trustees have a reserves policy, this policy must be set out in the trustees' annual report.
- If the trustees have not set a reserves policy, this should be stated in the trustees' annual report.
- A good reserves policy takes into account the charity's financial circumstances and other relevant factors.
- It is good practice to monitor the level of reserves held throughout the year.
- It is good practice to keep the reserves policy under review to ensure it meets a charity's changing needs and circumstances.

ESFA guidance re disclosures in the annual trustees' report states that:

- The reserves policy should state the academy trust's policy for building and maintaining reserves and why they are held.
- It should identify the value of free reserves held (being the income funds that are freely available for general purposes which would generally be unrestricted funds) and may also disclose information on the policy and level of other reserves, for example restricted general funds.
- Where material funds have been designated, the reserves policy statement should quantify and explain the purpose of the designations and, where set aside for future expenditure, the likely timing of that expenditure.
- Where any fund is materially in deficit, the academy trust should provide details of the circumstances giving rise to the deficit and details of the steps being made to eliminate the deficit.

FINANCIAL RESERVES POLICY

Introduction

Epworth Education Trust Board need to consider the level of reserves the Trust should hold. Levels of reserves which are too high tie up money which should be spent on current Trust activities. Levels of reserves which are too low may put the future activities of the Trust at risk.

The Trust's reserves policy

The Trust's reserves policy:

- Assists in strategic planning by considering how new projects or activities will be funded.
- Informs the budget process by considering whether reserves need to be used during the financial year or built up for future projects.
- Informs the budget and risk management process by identifying any uncertainty in future income streams.

When considering an appropriate level of reserves, the Trustee Board consider:

- The risk of unforeseen emergency or other unexpected need for funds.
- Covering unforeseen day-to-day operational costs, for example employing temporary staff to cover a long-term sick absence.
- A fall in a source of income, such as lettings.
- Planned commitments, or designations, that cannot be met by future income alone, for example plans for a major capital project.
- The need to fund potential deficits in a cash budget, for example money may need to be spent before a funding grant is received.
- The financial risks identified determine the amount of reserves the academy targets to hold.

Reserves for the financial year 2020/21

Restricted General Purposes Reserves

Restricted reserves are represented by the main income for the Trust which is General Annual Grant (GAG) and other grant contributions or donations that are received for a specific project or purpose. These funds are restricted for the use according to the funding agreements or donors instructions.

Unrestricted Funds

These are made up of the Trust's activities for generating funds, investment income and other donations which are expendable at the discretion of the Trust in furtherance to achieve the objectives of the Trust.

The Trust is confident that it will meet the required pension contributions from its projected income without significantly impacting on its planned level of charitable

activity, it continues to calculate its 'free' or general unrestricted reserves without setting aside designated reserves to cover the pension liability.

Restricted Capital Reserves

A restricted capital reserve is held to ensure all capital commitments that are made by the Trust are fully funded. This reserve will be equal to the values of the fixed assets of the Trust. These reserves are not available for any other purpose.

Pensions Reserve

This fund is set aside to represent the commitment that the Trust has with relation to the pension surplus or deficit and is not usable for the operational expenditure of the Trust. This reserve is determined annually in line with actuarial evaluations provided by the pensions schemes (local Government Pension Scheme) that generate these surpluses and deficits.

Level of reserves

The level of reserves available for the operation of the Trust is determined by the amounts currently available in the Restricted General Purposes Reserve and the Unrestricted Reserve. It is recommended that this should remain above £300,000 as a minimum and should it be above 10% then a plan for reinvestment in infrastructure of the Trust for the benefit of the children should be made.

During the financial year

In-Year reports are provided to the Finance Committee and the Trustee Board so they can:

- Compare the amount of reserves held with the target amount or target range set for reserves.
- Identify when reserves are drawn on, so that they understand the reasons for this and can consider what corrective action, if any, 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.
- Identify where the reserves level is below target, and consider whether this is due to short-term circumstance or longer term reasons which might trigger a broader review of finances and reserves.
- The Board of Trustees will authorise any use of reserves prior to their expenditure.

End of the Financial Year

At Epworth Education Trust, the reserves policy disclosed in the governors'/trustees end of year report will include the following information:

- Why reserves are held.
- What amount/range of reserves is considered appropriate for the academy trust.

- What the level of reserves is at the year end and an explanation if required
- How often the reserves policy is reviewed.

Monitoring and evaluation of the policy

This policy will be monitored regularly for any changes in legislation or directions from the DFE which may have an effect and will be evaluated in the light of any comments made by the DFE, EFA, auditors and any other interested parties.

Reviewing

The Trustee Board will carry out a review of this policy on an annual basis to ensure that any new or changed legislation is adhered to and to agree the annual reserves for Epworth Education Trust.