



## Review of Reserves and Investment Policies

### Background Paper

The Balcarras Trust is an exempt charity, regulated by the Department for Education (DfE). The Education & Skills Funding Agency (ESFA) expects Academy Trusts to have reserves and investment policies.

#### Reserves

The following shows the End-of-Year Carry Forward for recent years:

2010-2011	<b>£210 K</b>
2011-2012	<b>£406 K</b>
2012-2013	<b>£465 K</b>
2013-2014	<b>£562 K</b>
2014-2015	<b>£584 K</b>
2015-2016	<b>£801 K</b>
2016-2017	<b>£1,055 K</b>
2017-2018	<b>£937 K</b>
2018-2019	<b>£1,023 K</b>
2019-2020	<b>£912 K</b>

#### 2019-2020 Accounts

The total level of free reserves declared:

Reserves for The Balcarras Trust were **£912,000** excluding fixed assets and pension liability.  
Unrestricted = **£912k**, Restricted = **£0k**

During the financial year The Balcarras Trust generally held bank balances of between £1.3m and £2.5m, with between **£802k** and **£804k** held on deposit during the course of the year.

### Charity Commission Guidance

The Charity Commission sets out guidance to charities on setting a reserves policy (Charities and Reserves: Building Resilience), which includes:

#### 3.4 What level or range of reserves is required?

##### Short answer

*There is no single level, or even a range of, reserves that is right for all charities. Any target set by trustees for the level of reserves to be held should reflect the particular circumstances of the individual charity. To do this, trustees need to know why the charity should hold reserves and, having identified those needs, the trustees should consider how much should be held to meet them.*



## ***In more detail***

*The charity's target level of reserves can be expressed as a target figure or a target range and should be informed by:*

- *its forecasts for levels of income for the current and future years, taking into account the reliability of each source of income and the prospects for developing new income sources.*
- *its forecasts for expenditure for the current and future years on the basis of planned activity.*
- *its 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.*
- *its 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 charity of not being able to make up the shortfall.*
- *if the reserves policy is set at zero or a low level, its strategy for an orderly closure in the event of an unplanned shutdown and insolvency and particularly where there are vulnerable beneficiaries, the care of its beneficiaries.*

*Trustees who hold (or do not hold) reserves without attempting to relate their need for reserves to factors such as these will have difficulty in satisfactorily explaining why they hold (or do not hold) the amount of reserves that they do.*

## **Capital funding and reserves**

The Department for Education (DfE) provides nominal capital funding, through the Devolved Formula Capital Grant, to support property maintenance or capital costs. The Balcarras Trust is occasionally able to bid (on a competitive/needs basis) for additional limited funding from the Condition Improvement Fund (CIF).

The Balcarras Trust may also receive restricted capital funds from individuals or organisations towards capital projects. These may be donated by a benefactor for particular projects. The Trust would designate any such funds exclusively to the project for which they were donated and monitor carefully to ensure that the funds are used accordingly.

A capital reserve identifies those capital funds that relate to future projects or capital funds set aside to help meet future unfunded capital expenditure (planned capital development and unforeseen capital works).



## Revenue funding and reserves

The Balcarras Trust's main revenue funding is the General Annual Grant (GAG), which are restricted funds for the purposes of running The Trust.

The Balcarras Trust generates additional revenue funding through the use of its facilities, other activities and from its areas of expertise. The Trust also benefits from donations and gifts from individuals or organisations, which are usually un-restricted funds and treated as revenue.

Under Education & Skills Funding Agency (ESFA) guidance, The Balcarras Trust is expected to hold reasonable reserves from its annual GAG funding and other income.

A revenue reserve represents those revenue funds identified to meet future expenditure (in support of The Trust's strategic aims and developments), as well as to meet the shorter term operational demands of its activities and any volatility in funding.

A revenue reserve may therefore comprise restricted and unrestricted funds.

## Investments

The Education Funding Agency (EFA) Academies Financial Handbook 2020 states:

### 2.25

*The board of trustees may invest to further the trust's charitable aims, but must ensure investment risk is properly managed. When considering an investment the board must:*

- *act within its powers to invest as described 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 exposure to investment products is tightly controlled so security of funds takes precedence over revenue maximisation*
- *ensure investment decisions are in the trust's best interests*
- *review the trust's investments and investment policy regularly*

### 2.26

*The board should follow the Charity Commission's guidance: CC14 Charities and investment matters: A guide for trustees. ESFA's approval must be obtained for novel, contentious and/or repercussive investments.*



## **RESERVES POLICY**

### **Setting Reserves**

The Balcarras Trustees have a responsibility to consider and regularly review the level and deployment of the funds that it has available and the reserves that are considered appropriate and reasonable.

When considering an appropriate level of reserves, the Trustees will take into account:

- The day-to-day cash flow requirements of The Balcarras Trust and its activities
- The risk of unforeseen operational costs, property maintenance costs or unexpected need for funds
- Any risk of a fall in sources of core income or income from additional activities
- Planned or future commitments, that cannot be met from future income alone (e.g. capital projects)
- The need to fund potential operating deficits in a current or anticipated future budget.

These considerations, together with others thought appropriate at the time, will determine the amount of reserves that The Balcarras Trust aims to hold.

The Balcarras Trustees will remain mindful that levels of reserves which are too high can tie up money which should be spent on current school activities. Equally, that levels of reserves which are too low may put the future activities of The Trust at risk and prevent investment in future activities or facilities.

### **Policy Purpose**

- To assist strategic and financial planning by considering how operational demands, new projects or future activities will be funded.
- To inform the budget process by considering whether reserves need to be released during the financial year or built up for future years or projects.

### **Policy Statement**

The policy of The Balcarras Trust is to carry forward a prudent level of resources; designed to meet working capital requirements, fund long-term cyclical needs of renewal, support future capital improvements and meet any other unforeseen contingencies. The reserves will represent capital and revenue and will be identified as Restricted, Unrestricted (of which some will be Designated Reserves).



## Reserves (Revenue Reserves, Working Capital)

Sufficient working capital should be retained within the level of reserves to cover delays between expenditure and receipt of funding as well as to provide contingency for any unexpected costs.

The Balcarras Trust considers that the level of revenue reserves for each school in The Trust should be equivalent to 4 weeks' revenue expenditure.

For Balcarras School this equates to **£575,000**.

For The High School Leckhampton, this equates to **£230,000** (by Year 3 of operation 2023/24)

## Restricted Reserves

Restricted Reserves will comprise revenue and capital funding received by The Balcarras Trust for specified purposes (i.e. restricted funds).

Restricted revenue reserves are mainly represented by the statutory funding for The Balcarras Trust (i.e. the General Annual Grant (GAG) for the running of The Trust's schools and other revenue funding received for specific project or purpose). These funds are restricted according to the funding agreements or conditions.

GAG funding and other restricted revenue funding will mainly be used for the benefit of current pupils and the specified activities. However, The Balcarras Trust may carry forward GAG restricted funds to be used for future years, in order to support future capital plans and/or to meet anticipated operating costs and contingencies.

The Balcarras Trust may identify other restricted funds or carry forward restricted funding which have been allocated to a future project or purpose. These will be considered as additional restricted revenue reserves.

Restricted capital reserves will comprise any capital funds that have been received either from statutory sources, individuals or organisations for a specified capital project purpose and which will be expended in the future.



## Unrestricted Reserves

These are derived from contributions paid to The Balcarras Trust as part of the funding agreement with individual schools in The Trust.

The Balcarras Trust will top slice funds from each school in The Trust, to run the central services costs of The Trust. Balcarras Trust will look to build up a central services reserve that is separate from the reserves held by each school in The Trust. This reserve will be used for future projects/costs that meet the objectives of The Balcarras Trust. The Balcarras Trust will hold reserves of:

*A maximum of £150K*

Individual schools in Balcarras Trust will also hold reserves. These reserves will be ring fenced for the use of each school. However, The Balcarras Trust reserves the right to allocate the reserves from any school in The Trust to meet exceptional costs should The Trustees decide it is necessary.

The Balcarras Trust considers that unrestricted reserves may be held by each individual school to a total of

*A maximum of £850K*

*(This includes the Revenue Reserve)*

before being committed or designated by each individual school in the furtherance of The Balcarras Trust's objectives.

## Designated Reserves

The Balcarras Trust and individual schools in The Trust may choose to designate part or all of their unrestricted reserves for a specific purpose or future need. In this instance, any designated reserves will be excluded from the assessment of the individual school's available free reserves.

The Designated Funds List will make clear any funds donated for a particular project by a benefactor.



## INVESTMENT POLICY

### Investments

The Balcarras Trust holds reserves to support its activities and objectives (restricted revenue or capital reserves, unrestricted and designated reserves). These funds may not necessarily be needed for immediate access by The Balcarras Trust.

The Balcarras Trust may at times hold large cash balances due to the nature of the funding cycle, which may not be required for immediate use.

Therefore, The Balcarras Trust will hold sums of money that are available to invest. The Trust will consider its long and short term financial commitments, as well as expected income and expenditure, in order to identify those funds available for investment.

### Aims

This policy aims to ensure that:

- The Balcarras Trust's funds are used only in accordance with the law, its articles of association, its funding agreement and the Academies Financial Handbook
- The Trust's funds are used in a way that commands broad public support.
- Value for money (economy, efficiency and effectiveness) is achieved.
- Trustees fulfil their duties and responsibilities as charitable trustees and company directors.

### Legislation and guidance

The Academies Financial Handbook states that academy trusts are required to have an investment policy to:

- Manage, control and track their financial exposure.
- Ensure value for money.

This policy is based on the **Academies Financial Handbook** and guidance from **The Charity Commission**. This policy also complies with our funding agreement and articles of association.

### Roles and responsibilities

#### Academy trustees

Balcarras Trustees will ensure that investment risk is properly managed. When considering whether to make an investment, trustees will:

- Act within their powers to invest, as set out in our articles of association
- Exercise caution in all investments, reducing risk and ensuring that The Trust acts with the utmost integrity
- Take investment advice from a professional adviser, as appropriate



- Ensure that exposure to investment products is tightly controlled so that security of funds takes precedence over revenue maximization
- Ensure that all investment decisions are in the best interests of The Trust and command broad public support

Trustees will seek prior approval from the Education and Skills Funding Agency for investment transactions that are novel or contentious.

*(Novel transactions are those of which the academy trust has no experience, or are outside the range of normal business activity for the trust.*

*Contentious transactions are those which might give rise to criticism of The Trust by Parliament, the public, and the media.)*

## Finance, Audit and Risk Committee

Balcarras Trustees delegate responsibility for the trust's investments to the Finance, Audit and Risk Committee.

This committee is responsible for:

- Controlling and tracking financial exposure
- Reviewing the trust's investments
- Reporting to trustees on investments

## The Chief Financial Officer

The Chief Financial Officer (CFO) is responsible for overseeing the production of cash flow forecasts and for making decisions on investments. The CFO also ensures that information is provided to the Finance, Audit and Risk Committee and Balcarras Trustees, as appropriate.

## Investment principles

- The Balcarras Trust will only invest funds in low risk accounts. The priority will be to achieve best financial return available whilst ensuring that security of any deposits/investments takes precedence over revenue maximisation.
- Funds will only be placed with banking institutions that are regulated by the Financial Conduct Authority and with good credit ratings.
- A sufficient cash balance must be held in The Trust's 'no notice' accounts so that The Trust's financial commitments can always be met.
- The Trust will not invest funds that are conditional on chance/luck or gambling.

## Procedures

The following information will be recorded about investments:

- Date
- Amount and description of the investment
- Length of investment
- Interest rates/expected return

The CFO will ensure that interest rates are reviewed and compared with other investment opportunities annually.



Cash flow and current account balances will be monitored regularly by the CFO to ensure immediate financial commitments can be met and that the current account has adequate balances to meet forthcoming commitments

- When there are funds surplus to immediate cash requirements in the current account, The Balcarras Trust will transfer these to an account with a higher interest rate.
- Investments will normally be for a fixed term that does not exceed one year, unless there is a clear rationale for longer-term investment that would benefit The Trust.
- Funds, and any interest earned on those funds, will be automatically reinvested unless money is required for immediate or anticipated expenditure.

## **Monitoring arrangements**

The CFO oversees the monitoring and implementation of this policy.



## Designated Funds

The following table outlines the designated funds:

Astro Replacement		£58 K
Boiler Replacement/Repair		£20 K
Toilet Refurbishment		£30 K
Landscaping Pavilion		£12 K
6th Form Extension Contribution		£165 K
Flat Roof CIF Contribution		40 K
Floodlights Screening		£8 K
Gym Roof		£12 K
	<b>Total</b>	<b>£345 K</b>