Financial Reserves & Investments Policy

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"Learning together, to be the best we can be"

1. Context

1.1. Nexus Multi Academy Trust (MAT) has established this policy to protect its activities against unforeseeable financial risks and to make sufficient provision for future cash flow requirements and capital expenditure. The development of an effective reserves policy will restrict the impact of any risk upon the continuing operations of the MAT.

1.2. The reserves policy and the establishment of ranges is based upon an annual risk assessment of the internal and external operating environment, as well as having a due regard for the nature of activities under taken by the MAT for its beneficiaries.

2. Scope

2.1. This policy relates to all schools and business units within Nexus MAT and supersedes any local policies and procedures that have been in use prior to an academy conversion.

2.2. The term "business units" applies to all service areas which have their own designated funding agreements and/or business designations e.g. the central Trust; Extended Schools etc.

3. Definition of Reserves

3.1. The Trust definition of free reserves is in line with central government guidance and excludes:

- tangible fixed assets
- restricted funds (subject to external restriction)
- designated funds (internal restriction)
- commitments that have not been provided for as a liability in the accounts

3.2. Reserves are expressed as a % of total revenue income (excluding transfers on conversion).

3.3. General Reserve (Uncommitted revenue)

3.3.1. General Reserve is the cumulative value of all uncommitted/unspent revenue at individual academy and central Trust level at the end of each financial year, as reported in the annual accounts. As one company, the annual accounts will reflect this as a total for the whole Trust. Operationally, these funds are part of an individual school or business unit budget and managed locally by the budget holder, in line with the Trust's Delegated Financial Powers policy.

3.3.2. Should the Trust find itself in financial difficulty, it would be an expectation of the Education & Skills Funding Agency that – before any loan is provided - the Trust has utilised all funding available to the company. It is therefore important that the general reserve features as part of budget reporting as both a cash amount and a % of consolidated income, however this revenue is – other than in exceptional times such as being at risk of facing a Financial Notice to Improve – intended to be managed at individual school or business unit level, given this revenue has been created by the individual school or business unit achieving budget surplus.

3.3.3. Monthly budget reporting ensures Directors have clear sight of Trust level reserves, and a forecast of the carry forward into the following financial year. Detailed information on school and business unit level reserves will be provided at budget setting.

3.4. Capital Reserves

3.4.1. Capital Reserves are designated as a separate fund, specifically held for capital purposes. Capital reserves predominantly relate to unspent Schools Condition Allocation and Devolved Formula Capital at year-end. All capital reserves are held and managed centrally by the Trust..

3.5. Pension Reserve

3.5.1. The MAT continues to calculate its reserves without setting aside a designated reserve to cover any pension liability. The presence of a pension surplus or deficit does not constitute an immediate liability or realisable asset and does not mean that the equivalent amount is already committed or no longer available to the MAT.

3.5.2. The presence of a pension surplus or deficit will generally result in an increase or decrease in employers' pension contributions over a period of years. The MAT will continue to inform budget planning with a requirement to meet the required pension contributions from projected future income without significantly impacting upon its planned level of activities.

4. Target Level of Reserves

4.1. The Board of Directors has set a **minimum**, **target** and **maximum** level of general reserve in order to support the long-term financial viability of the Trust, meet short-term liquidity needs, and balance the demands for future financial resilience with current pupil need. These values are based on an assessment of current risks, covering normal operating spend as well as capital and estate risk.

4.2. The **minimum general reserve** level has been set at **5.5%,** with a **target of 8%** and a **maximum of 15%** (excluding designated reserves). Where reserves are higher than 5.5%, they may be invested in deposit accounts in order to maximise return. This is a decision for the Board of Directors, taking advice from officers.

4.3. In setting a target reserve level, Officers have taken the following into consideration (in addition to the general going concern assumption[1]):

4.3.1. The ability to balance risks across schools, reducing the need for a large contingency;
4.3.2. The low risk of falling pupil numbers, when compared to mainstream settings, given our majority SEND school context;
4.3.3. Historical trends (year-end position versus budget);
4.3.4. The volatility in the timing of SEN income, increasing the need for ***easily accessible*** reserves;
4.3.5. The condition of the trust estate, and low risk of urgent repairs not being coverable by SCA funding;
4.3.6. A need for reserves to support growth plans.

4.4. A minimum Capital fund reserve has been set, equal to 10% of annual government Capital Grant income.

[1] In simple terms, 'going concern' is a view on whether the trust has sufficient funds to pay obligations, such as payroll and trade creditors over the next 12 months. i.e. a short-term solvency view rather than longer-term financial sustainability.

4.5. Any school reserves in excess of £150k at year-end are consolidated centrally in the following financial year.

5. Management and Use of Reserves

5.1. MAT reserves held in excess of the target percentage will be reviewed by Directors on a regular basis and an appropriate range of options will be proposed by officers for consideration, which might include:

- increasing in-year expenditure in furtherance of the MAT's objectives (i.e. using reserves to balance in-year budgets);
- assigning general reserves to appropriate designated reserves as may be determined by the MAT;
- allowing reserve levels to stay above the target level (as long as it stays under the maximum).

5.2. Use of school level carry forwards (set at a maximum of £150k) will be approved as part of the annual budget setting process. If in-year pressures result in an un-budgeted deficit, this will be approved as per the Delegated Financial Powers Policy.

5.3. Access to centralised reserves is determined by the Directors, with any request being submitted in writing to a Board meeting for consideration.

5.4. Reserve use will be prioritised for capital works, and activity in support of the strategic annual business plan, however, can also be used:

- to protect the educational performance of the trust where short term investment in staff may be needed.
- To support investment (through staff costs or infrastructure) in the central team, to support the future growth of the trust.

6. New and Transferring Academies

6.1. Where a school is in the process of joining the trust, Directors may agree with the Board of Governors to ring-fence an element of reserve for the school on conversion (be this in relation to capital spend or in exceptional cases to manage early in-year deficits). These reserves will show as designated reserves against the central budget.

6.2. In the situation where a school transfers to a different trust, any designated reserves specific to them, along with any school-level carry-forward at the point of leaving (up to a maximum of £150k, as per our policy) will transfer with them to the new trust.

6.3. New schools opened by the Trust will be required to pay and enhanced partnership fee to ensure they contribute to the state of the overall reserve. This will be no less than 8% of its annual revenue budget, for at least the first 3 years of operation. However, this may be higher or for a longer period, and will be proposed by the Chief Executive Officer and considered by the Board of Directors as part of the annual budget setting process.

7. Investments

7.1. Investments should be made to further the Trust's charitable aims, but must ensure that any investment risk is properly managed.

7.2. Investments must achieve the best financial return available for reserves, while ensuring the security of deposits takes precedence over revenue maximisation.

7.3. The only funds invested will be surplus to operational need, and above the minimum reserve level set.

7.4. Investment of any reserves must be approved by the Trust Board of Directors, as per the Delegated Financial Powers Policy, and regularly reviewed