




# The LETTA Trust

## Reserves and Investment Policy

|                                   |              |                        |   |
|-----------------------------------|--------------|------------------------|---|
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| <b>Reviewed by:</b>               | TB Resources | <b>Signed:</b>         |  |



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## 1. Purpose

The LETTA Trust will establish reserves and/or make investments that protect the operation of the Trust and contribute to the smooth running and improvement of its schools. This policy forms part of the overall financial control and governance framework and sets out some principles that Trustees adopt when establishing reserves and considering investment. The policy will ensure that:

- The trust's funds are used only in accordance with the law, its articles of association, its funding agreement and the Academy Trust Handbook
- The Trust is resilient and has capacity to manage unforeseen financial difficulties
- The trust's funds are used in a way that commands broad public support
- Strategic planning and risk management is supported
- Value for money (economy, efficiency and effectiveness) is achieved

The LETTA Trust does not currently make investments.

## 2. Principles

- The size of the reserves and/or investment should balance against the benefit of current spending
- Reserves and/or investments should leave sufficient resources available so that unexpected events can be accommodated without causing current year problems e.g. generating a deficit or cash flow issues
- Reserves must have a specific purpose related to future spending or covering current or future risks
- The spending of reserves must be transparent and should link clearly to the purpose for which the reserve was created
- We would only invest funds in low risk and easily-accessible accounts, e.g. placed in bank accounts with a withdrawal notice of no more than 12 weeks
- Risk would be managed through diversification of investments, ensuring that the security of funds takes precedence over revenue maximisation
- Funds would only be placed with banking institutions that are regulated by the Financial Conduct Authority and with good credit ratings.

## 3. Statutory requirements

- The [Academy Trust Handbook](#) states that academy trusts are required to have an investment policy based on guidance from [The Charity Commission](#) to:
  - Manage and track its financial exposure
  - Ensure value for money
- Academy trusts are expected to maintain reserves, as they are standalone charitable companies



- The Charities Commission has produced [guidance](#) which includes how to develop a reserves policy and what trustees should do to keep proper oversight of their organisation's reserves
- The AFH, paragraph 2.10, reminds trustees that they must approve a balanced budget, taking into account brought forward reserves
- The AFH also states that the board of trustees must notify ESFA within 14 days if proposing a deficit revenue budget for the current financial year which it cannot address after considering unspent funds from previous years
- Any deviation from an academy trust's reserves policy should be minuted by the trustees and detail what plans are being considered to ensure the academy trust maintains reserves in accordance with their policy

#### 4. Types of reserve

We operate the following types of reserve:

##### **Uncommitted reserves**

These are kept to meet short term, unforeseeable expenditure. Trustees aim to establish a reserve of at least 5% of the Trust's total annual income for the following purposes:

- **Operating reserve**  
To smooth out irregular spending and manage variable cash flow demands across the Trust or specific parts of the Trust
- **Strategic protection reserve**  
To provide for unexpected and unpredictable events that are not covered by insurance

#### 5. Committed reserves

Committed reserves are earmarked for specific purposes and are a means of building up funds to meet known or predicted liabilities. These reserves should be reasonable for the purpose held and it must be agreed that they are used for the item for which they have been set aside. There is no specific limit set on these amounts.

#### 6. Monitoring reserves

Trustees will monitor levels of reserves in financial reports provided by the Chief Finance Officer and in the annual financial statement prepared by the External Auditor. Trustees will look to ensure that a prudent level of reserves is maintained, bearing in mind recurrent spending needs to ensure high quality provision. In deciding the level of reserves Trustees will take into account the following:



- One month salary bill
- The Trust's annual budget
- The need for any large project spend such as facilities development or building condition needs
- Any uncertainty, turbulence or expected reduction in pupil numbers or other funding arrangements

## **7. Investment procedures**

Before any funds are invested, the CEO and Chair of Trustees will sign to indicate they agree to the investment. The following information will be recorded about investments:

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

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, we will transfer these to an account with a higher interest rate.

Investments will normally be for a fixed-term that does not exceed 1 year unless there is a clear rationale for longer-term investment that would benefit the trust.

A maximum of £85,000 will be placed with 1 financial institution. This is because the first £85,000 of an investment is protected by the Financial Services Compensation Scheme.

Funds, and any interest earned on those funds, will be automatically reinvested unless money is required for immediate or anticipated expenditure.

## **8. Investment roles and responsibilities**

### **8.1 Academy trustees**

Academy 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 maximisation
- 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 (ESFA) for investment transactions that are novel, contentious or repercussive.

**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.

**Repercussive transactions** are those likely to cause pressure on other trusts to take a similar approach and hence have wider financial implications.

## 8.2 Resources committee

Academy trustees will delegate responsibility for the trust's investments to the Resources committee.

The committee would be responsible for:

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

## 8.3 The chief financial officer

The chief financial officer (CFO) is responsible for producing cash flow forecasts and for making decisions on investments. The CFO also provides information to the finance committee and trustees, as appropriate.

## 9. Schools joining The LETTA Trust

Schools joining the Trust will follow the Trust's reserve and investment policy.



## **10. Monitoring the policy**

The CFO monitors the implementation of this policy. This policy will be reviewed and approved by the academy trustees every year.

## **11. Links with other policies and documents**

This policy links with our policies on:

- Accounting policy
- Anti-fraud policy
- Scheme of delegation and financial code of practice