



RESERVES POLICY

Reviewed & Approved by:	Finance, Audit & Risk Committee
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1. Aims and introduction

The Epsilon Star Multi Academy Trust is responsible for the effective and efficient use of resources. This statutory policy sets out the trust's approach to the management of financial reserves.

Reserves are not held in isolation and are assessed in the context of the trust's objectives and charitable purpose. The level of reserves is determined not only by financial metrics, but by the trust's assessment of its ability to deliver its charitable purpose effectively.

The aim of this policy is to ensure that the trust maintains appropriate levels of reserves to support its financial stability, to:

- Meet the needs of its pupils, its educational objectives and long-term sustainability
- Give confidence to the public, stakeholders and regulators that the trust's finances are being properly managed
- Provide accountability for the trust's use of public funds
- Provide an indicator of future funding needs and overall financial resilience

This policy is in line with the following guidance:

- Department for Education (DfE): [Academy Trust Handbook](#) and [Academy trust reserves guidance](#)
- Charity Commission: [Charity Reserves: Building Resilience](#)
- Charity Commission: [Charities Statement of Recommended Practice \(SORP\)](#)

The policy applies to all academies within The Epsilon Star Trust and is expected to cover the academic years 2026/27 and 2027/28. It will be reviewed on an annual basis.

1.1 Definitions

For the purposes of this policy, we use the term 'reserves' carefully – this is because it can have different meanings in charity accounting, academy trust reporting and day-to-day financial management.

Total funds means the total funds of the trust as reported in our financial statements. This includes unrestricted funds, restricted general funds, restricted fixed asset funds and any other fund balances recognised in accordance with the Charities SORP and the Academies Accounts Direction.

Free reserves means those funds that are freely available for the trustees to spend on any of the trust's charitable purposes. In charity accounting terms, this normally starts with unrestricted funds and deducts amounts that are not readily available to spend, such as tangible fixed assets used by the trust, programme-related investments and funds designated or otherwise committed for specific future purposes.

Academy trust reserves for DfE purposes means reserves considered in the context of DfE guidance for academy trusts. This will usually include unspent unrestricted funds, to the extent they have not been used to acquire fixed assets, and unspent general annual grant. Although GAG is a restricted fund in accounting terms, it is generally considered within academy trust reserves because it can be used for the general running of the trust's main educational activity.

Restricted funds are funds subject to externally imposed restrictions, such as grant conditions or donor restrictions. Restricted capital funds and other funds restricted for a specific purpose are not free reserves and must be used only in accordance with the relevant restriction.

Designated funds are unrestricted funds that trustees have set aside for a specific future purpose. Designated funds remain unrestricted in legal and accounting terms, and trustees may remove or change the designation if circumstances change. However, designated funds are normally excluded from the calculation of free reserves where they represent a genuine commitment to future expenditure.

1.2 Purpose of reserves

Reserves are held to:

- Provide financial stability and ensure the trust can operate effectively in times of unforeseen difficulty
- Manage the financial impact of fluctuating pupil numbers
- Cover short-term funding deficits –for example, where funds may need to be spent prior to receipt of grant funding
- Support strategic investment in educational improvement and infrastructure
- Prepare for commitments, such as major asset purchases, which cannot be met by future income alone
- Comply with obligations set by the DfE and the Charities Commission
- Support the trust to deliver the best outcomes for pupils and the school community, including:
 - Maintaining educational standards during periods of funding uncertainty
 - Supporting disadvantaged pupils
 - Enabling investment in facilities, staffing and the curriculum

2. Management of reserves

The board of trustees has considered the purpose of the trust holding reserves and how much should be held to meet those purposes.

The trust manages the reserves for each individual academy. Any surplus generated by an individual academy belongs to that academy and is not transferred to a central fund.

2.1 Reserves on joining the trust

When a school joins the trust, a due diligence process will be undertaken to determine the financial position of the converting school.

All reserves held by the school, whether in a bank account or within a local authority, will be transferred to the trust. This includes both revenue and capital balances.

The trust will ensure that any restricted funds are used for the purpose for which they were originally intended.

The trust will work collaboratively with the joining school to ensure a smooth and transparent transfer of all financial assets and liabilities.

2.2 Reserves on leaving the Trust

In the event that an academy transfers to another trust, the academy's reserves will be managed in accordance with the trust's legal obligations under the master funding agreement and supplemental agreements.

Any funds that have been centrally pooled and managed by the trust for the benefit of all

academies will remain with the trust. The transferring academy's share of any central reserves will be determined based on the trust's internal accounting policies and will not be transferred to the new trust.

Any operational reserves held by the trust on behalf of the transferring academy that are not part of a central pooling arrangement may be transferred to the new trust at the discretion of The Epsilon Star Trust's board of trustees, subject to any legal or regulatory requirements.

The trust's Chief Finance & Operations Officer (CFOO) will oversee this process to ensure a fair and equitable settlement.

3. Reserves level

3.1 Calculation of reserves

The following are excluded from the calculation of free reserves:

- Tangible fixed assets such as land and buildings, including right-of-use assets, i.e. property or equipment under a lease agreement for the trust's use
- Programme-related investments held solely to further the trust's purposes
- Designated funds set aside for a specific purpose – trustees retain the power to change or remove the designation of these funds if trust priorities change
- Other restricted funds where the donor or grantor has specified the purpose to which the grant or donation may be applied
- Commitments that have not been provided for as a liability in the accounts

The trustees have considered the following in determining the minimum level of reserves for The Epsilon Star Trust:

- The trust's strategic objectives and improvement plans
- Income and expenditure forecasts for current and future years
- Long-term commitments, including lease obligations and capital investment
- The need to maintain flexibility to respond to changes in funding or pupil numbers
- Analysis of any future needs, opportunities, commitments or known and emerging risks, where future income may fall short of anticipated costs
- An assessment of the likelihood of a future funding shortfall and the reserves required to mitigate this risk
- The need to strike the right balance between:
 - Holding sufficient reserves to ensure the financial health of their schools
 - The ability to fund significant future investment without holding back too much that could otherwise be used to benefit pupils

3.2 Level of reserves

The Epsilon Star Trust recognises that holding excessive reserves could be seen as inefficient use of public funds and therefore aims to strike a balance between financial prudence and effective use of resources.

The trustees have determined that the appropriate minimum level of reserves held by The Epsilon Star Trust should be equivalent to:

- At least 5% of Total Income for each school within the trust

3.3 Monitoring and review

The board of trustees will regularly review this target level to consider whether reserve levels remain appropriate in response to changes in the trust's objectives and future plans, identifying any trends in spending, to ensure it remains appropriate and to rectify any concerns.

The trust will take into consideration:

- The size of the trust
- The circumstances/complexity of each of the trust's schools
- Known and potential risks (for example, pupil number fluctuations, changes to funding)
- Future plans, including anticipated capital expenditure and projects
- Financial forecasts and projected income/expenditure

Reserves will be reviewed at least termly by the **Finance, Audit and Risk Committee** and annually by the full board of trustees as part of the budget setting and financial planning process. This review will include:

- An assessment of current reserves against the level agreed
- An analysis of the reasons for any significant difference
- A forecast of future reserve levels
- Consideration of any new risks or opportunities that may impact reserves
- Recommendations for designation or release of funds

Where reserves are below target or exceed target, the board of trustees will consider whether this is due to a short-term situation or a longer-term issue. A broader review of finances and reserves will be undertaken if necessary.

4. Use of reserves

The Chief Finance & Operations Officer (CFOO) will provide regular reports on the levels and use of reserves as part of management accounts.

Reserves may be used to:

- Support cash flow during delayed funding
- Fund strategic initiatives such as school improvement or expansion
- Respond to emergencies or urgent capital needs
- Support capital funding bids

Any planned use of reserves that would reduce the balance below the minimum reserve level set by the trust must be approved by the trust board and supported by a recovery plan.

The trust remains legally responsible for all reserve funds and may direct the use of reserve funds in exceptional circumstances.

4.1 Investment of reserves

Any surplus funds may be invested, in line with our Investment Policy, our articles of association and in line with the Academy Trust Handbook and Charity Commission guidance.

5. Reporting and transparency

The reserves position will be reported in:

- the trust's annual report and financial statements, in line with Charity Commission requirements, including:
 - An explanation of our approach to reserves
 - The amount of our reserves and why they are held – if the figure differs from the accounts a reconciliation will be provided either in the funds note or as a separate note
 - An identification and explanation of any material funds that have been designated or otherwise committed in our reserves, their purposes and the likely timing of the expenditure
 - How our reserves support the trust's educational objectives
 - The amount of total funds the trust holds
 - The amount of any restricted funds
 - Any amount that can only be realised by disposing of tangible fixed assets
 - A comparison of the amount of reserves held with the reserves set out in this policy and an explanation of any discrepancy, including where relevant steps being taken to address any discrepancy, given our plans for the future activities of the trust
 - The identification of any fund or subsidiary undertaking that is materially in deficit, with an explanation of the circumstances giving rise to the deficit and the steps being taken to eliminate it.
- Comment on significant events that have affected the trust's financial performance and position, including an explanation of:
 - The trust's principal sources of income and how those resources have been spent to support strategic objectives
 - The principal risks and uncertainties facing the trust and its subsidiary undertakings, including risks arising from environmental issues and cyber-security, identified by trustees along with a summary of their plans and strategies for risk management
- A narrative explanation of policies adopted by trustees for the selection, retention and realisation of investments, including the extent to which social, environmental or ethical considerations were taken into account
- A narrative explanation of the impact of:
 - A material pension liability (or asset) on the trust's financial position and how it influences the reserves strategy
 - Any material legacy income recognised in the accounts prior to the resources being received
- The summary statement of the trust's financial arrangements published on our website in line with the ATH, which will clearly set out whether reserves are pooled
- Regular management reports to the trust board and finance, audit and risk committee

If reserves are significantly above the target set, we will:

- invest in facilities/resources
- undertake new projects in line with the trust's objectives

6. Policy review

The overall responsibility for this policy lies with the board of trustees. The finance, audit and risk committee will oversee the day-to-day management and regular monitoring of reserves.

This policy will be reviewed by finance, audit and risk committee annually, or more frequently if circumstances change.

The policy will be made publicly available on The Epsilon Star Trust website.

7. Links with other policies

This reserves policy is linked to the following:

- **Scheme of delegation**
- **Finance Regulations**
- **Investment policy**