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## RESERVES POLICY

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**Approved by:** Board of Trustees

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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.

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 \(SORP\)](#)

### 1.1 Definitions

Reserves are derived from both restricted and unrestricted funds.

#### **Restricted funds:**

- Funds received for a specific purpose (for example, capital grants), which can't be used for general expenditure and are not included in reserves

#### **Reserves:**

- Funds that can be used at the discretion of the trust board to support trust's charitable objects
- Unspent General Annual Grant (GAG)

### 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

## **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 operational reserves held by the trust on behalf of the transferring academy 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 Financial Officer (CFO) will oversee this process to ensure a fair and equitable settlement.

## **3. Reserves level**

### **3.1 Calculation of reserves**

The following are excluded from reserves:

- Tangible fixed assets such as land and buildings
- Programme-related investments held solely to further the trust's purposes
- Designated funds set aside for a specific purpose
- 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:

- Income and expenditure forecasts for current and future years
- Analysis of any future needs, opportunities, commitments or 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

### **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, 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 Financial Officer (CFO) 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 requirements of 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
- How and why reserves are held
- Any designated funds in our reserves, their purposes and the likely timing of the expenditure
- How our reserves support the trust's educational objectives
- Regular management reports to the trust board and finance, audit and risk committee
- If reserves are significantly above the target set, we will;
  - Review investment into facilities and resources
  - Review 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 trust's website.

## **7. Links with other policies**

This reserves policy is linked to the following:

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