



Reserves Policy

PURPOSE

This policy sets out the expectations of Ark Schools relating to the accumulation of reserves by individual academies and for Ark Schools overall.

Date of last review:	January 2017	Author:	Head of Financial Reporting
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Type of policy:	<input checked="" type="checkbox"/> Network-wide <input type="checkbox"/> Set for school <input type="checkbox"/> Tailored by school	Approval:	Board
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POSITIONING WITHIN ARK OPERATIONAL MODEL

Component	Element
<input type="checkbox"/> Strategic Leadership & Planning <input type="checkbox"/> Monitoring, Reporting & Data <input type="checkbox"/> Governance & Accountabilities <input type="checkbox"/> Teaching & Learning <input type="checkbox"/> Curriculum & Assessment <input type="checkbox"/> Culture, Ethos & Wellbeing <input type="checkbox"/> Pathways & Enrichment <input type="checkbox"/> Parents & Community <input checked="" type="checkbox"/> Finance, IT & Estates <input type="checkbox"/> Our People	Budgeting & long-term planning

1. Summary

- 1.1. This policy sets out the expectations of Ark Schools relating to the accumulation of reserves by individual academies and for Ark Schools overall.

2. Types of reserves

- 2.1. If any income is restricted to a particular area of expenditure then the academy must put procedures in place to monitor its use and ensure compliance with any donor restrictions. Each academy may have up to six different reserves:
 - 2.1.1. GAG restricted reserves represent unspent GAG funds. They are restricted only because they are given by the department for educational provision in the school. The restrictions are no more onerous than the limitations of the funding agreement.
 - 2.1.2. Start Up Restricted reserves represent the unspent amounts given for start up. These will occur in the early years of the academies life as they tend to be front loaded and then spent over the period through to a 90% full roll. Although granted for specific purposes they are not actually ring-fenced for these purposes and in reality will be consolidated with GAG grants. If there are identifiable one-off start up costs to be incurred in future years, it is prudent to designate such reserves and to utilise them to fund the corresponding expenditure.
 - 2.1.3. Capital reserves represent the value of all devolved formula capital and unspent school condition allocation. These are therefore cash reserves set aside to meet future capital expenditure commitments.
 - 2.1.4. Fixed Asset reserves represent the value of all depreciated fixed assets of all types. They are similar to Capital reserves other than the cash has previously been expended.
 - 2.1.5. Pension reserves represent the academies share of assets in relation to the local government pension scheme. For most academies this will be negative reserve as the schemes are largely in deficit. This figure, although worked out by the local authority's actuaries is a notional figure, and should not be included when assessing the level of free reserves, as the debt is unlikely to crystallise in the short to medium term plus any deficit is guaranteed by central government.
 - 2.1.6. Other restricted reserves represent unspent donations from other sources that have to be spent in line with the donor's explicit wishes.
- 2.2. Ark Schools may receive income centrally that is not for a particular academy and is in some way restricted. The same principles as listed above applies to those funds.
- 2.3. Unrestricted reserves are the unspent amounts from all other sources. These can include donations that the donors have not stipulated how they should be spent plus any other monies coming into the academy or Ark Schools centrally. Unrestricted funds should be spent last, after utilising any appropriate restricted fund, in order to maximise the flexibility in relation to unspent balances.

3. Unrestricted reserves targets

- 3.1. Every academy needs to consider what an appropriate level of reserves should be to minimise the risk of entering a deficit position following unforeseen circumstances. That target should be agreed with the governing body and Ark Central, and worked towards in a planned way. Depending on the size of the academy this target might be anywhere between 5% - 10% of annual GAG. If the academy is planning a new unfunded capital project, then the figure, including such designated funds, may well be higher.
- 3.2. Ark Schools aims to maintain in aggregate an unrestricted reserve equivalent to 5%-10% of annual GAG for all academies, after deducting any designated funds.
- 3.3. It is not anticipated that the annual budget should show a large surplus of income over

expenditure. It is not deemed responsible to try and build up significant reserves too quickly in a small number of years as funding has been granted for the provision of education to existing pupils.

4. Designation of Reserves

- 4.1. Ark Schools reserves the right to designate reserves for particular purposes and may instruct academies to meet designated reserves allocations or build reserves to meet designated reserves targets. Designated reserves may be required to meet shortfalls in planned capital projects or other future expenditure that is unlikely to receive full corresponding funding.

5. Deficits

- 5.1. Any school that proposes a short term budget deficit must have this approved in advance by Ark Schools CFO and agreed by their LGB. Such short term approval will only be granted if the school demonstrates its plan to re-finance this deficit within an acceptable time.
- 5.2. If a school is planning to run a deficit for more than 1 year, this would need to be approved by Ark Schools Director of Education and CFO in advance and will be re-approved on an annual basis as required.
- 5.3. Any deficit which is approved will be financed by Ark Schools by means of a short term loan, which will be repaid by the School from future surpluses.
- 5.4. Regular (termly) meetings involving the Academy Principal & FRD with Ark Schools Director of Education & CFO/Head of Finance will be necessary to monitor the financial progress of the academy.