

King James I Academy

RESERVES POLICY – DECEMBER 2014

INTRODUCTION

1. There are a number of constraints placed upon academies in terms of financial management. One of these constraints is the inability to borrow funds. This constraint represents a key risk to King James I Academy in relation to financial planning and monitoring.
2. One of the ways in which the Academy mitigates this risk is through the effective management of reserves, which provide alternative temporary funding streams should there be a delay in grant receipts or a sudden unforeseen increase in expenditure.
3. Setting a reserves policy helps inform the way in which the Academy manages its cash, liquid assets and debt.

LEVEL OF RESERVES

4. The Academy plans to spend the majority of its revenue income each year on the students in its care, sums may be set aside from this each year for the planned replacement of capital items such as IT infrastructure, minibuses etc.
- 4.1 King James I Academy reserves policy is to hold enough funds to cover the principal risks facing the academy, but always maintaining a minimum level of reserves that the Academy will not fall below. The approach taken is to quantify the key financial risks and ensure that there are enough reserves held to cover these risks. The key risks facing King James include a potential drop in student numbers (quantified as 10 students), changes to the Funding Formula for both pre and post 16 students, the cost of short term sickness cover not covered by sickness insurance, the increase in teacher's pension costs and the removal of the 3.4% 'contracting out' national insurance rebate. For 2014/15 this amounts to £150,000. The minimum level of reserves is to be set at 2.5% of GAG (currently £108,000).

RESTRICTIONS

5. Under the grant conditions set out by the Education Funding Agency (EFA), at the beginning of any year the Academy can only hold unspent General Annual Grant (GAG) from previous years amounting to 12% of the total GAG for the year just ended. Based on the GAG for 2013/14 this amounts to £502,476.
6. Furthermore the following restrictions apply in relation to the use of carried forward GAG:
 - Up to 2% of GAG can be used for any of the purposes for which GAG is paid, and/or for capital purposes;

- Any balance in excess of 2% of GAG can only be used for capital purposes (this includes the upkeep and improvement of premises, including the cost of equipment and routine repairs and maintenance).

REVIEW OF POLICY

12. The reserves policy to be reviewed by the Finance Committee on an annual basis.