

## Reserves Policy and Working Capital Statement

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## **1. Policy Statement**

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- 1.1. Charity Commission rules discourage the maintenance of large, unspecified general reserves.
- 1.2. Council is responsible for making judgements as to the appropriate level of reserves for the organisation to hold and for what purpose. This is to ensure that there are prudent levels of reserves to provide for unexpected variations in spending or income patterns or to fund exceptional future spending.
- 1.3. Council will review the level reserves, in accordance with this policy, at least annually at the time of setting the budget for each financial year in consultation with the Chair of the Finance, Audit & Risk Committee (ARC).
- 1.4. All of GOC's reserves are unrestricted, and in addition to the General Income and Expenditure reserve, the following reserves have been designated for specific purposes:
  - 1.4.1. Legal cost reserve;
  - 1.4.2. Strategic reserve;
  - 1.4.3. Covid-19 reserve;
  - 1.4.4. Infrastructure & dilapidations reserve.
- 1.4. Unrestricted reserves, whether or not they are designated, may be freely utilised for any purpose Council determines.

## **2. Purpose**

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- 2.1. This policy provides a framework for the management of the General Optical Council's Reserves.

## **3. Scope/Level of reserve**

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- 3.1. This policy relates to the use of the GOC's reserves.
- 3.2. The target levels of reserves are considered and agreed by Council in the context of longer-term planning.

## **4. The Expenditure reserve (General reserve)**

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- 4.1. This reserve is for general expenditure that has not been designated for specific purposes. This is to meet the general working capital needs of the organisation to enable it to meet its obligations, and to allow for any unexpected fluctuations in income or expenditure.
- 4.2. The Charity Commission guidelines on reserves advise that charities should pay attention to the relative risk associated with income streams and expenditure items in setting target reserve levels. The income stream for the organisation is normally regular and predictable, and therefore low risk. More significant economic shocks have the potential to raise this to medium risk.

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The majority of costs for the organisation relate to staffing and general overheads and are predictable and therefore low risk.

- 4.3. The only expenditure type that is less predictable and regular, and therefore higher risk, is the legal costs associated with high-value complex cases. A separate legal reserve covers fluctuations resulting in these complex cases.
- 4.4. The General Reserve, defined as monthly payroll and overheads plus 1/12 of all other expenditure excluding depreciation, will be held at a range of three to five months' regular expenditure.

### **5. Legal Costs Reserve**

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- 5.1. The volume of complaints received by the GOC to be reviewed and investigated is now lower and less susceptible to change. But there is a risk of high-value complex cases arising over and above planned levels. Such cases will generally span multiple years and require high levels of legal expenses.
- 5.2. The Legal Costs Reserve will be set at a level that covers the cost of between one and two such cases.

### **6. Strategic Reserve**

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- 6.1. The Strategic Reserve is to be used to support specific strategic projects and initiatives, as agreed by Council and outlined in the GOC's Strategic Plan. The value is to be assessed annually according to the cost of approved projects and the anticipated need to draw upon reserves for their funding. Reserve should be adequate to fund minimum two years of strategic projects.

### **7. Covid-19 Reserve**

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- 7.1. This new contingency reserve is created to mitigate the risk of falling registration income and will be set at 10%-20% of forecast income.

### **8. Infrastructure/dilapidation Reserve**

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- 8.1 The new reserve is to be used should we leave 10 Old Bailey and the target is set equivalent to the funds spent in developing the infrastructure. The fund is to be built up annually, by adding £250k p.a., to the targeted level over five years.

### **9. Compliance**

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- 9.1. The GOC is a registered charity, therefore the Charity Commission guidance on the retention and use of reserves will be followed. The current reserves and this policy are in compliance with Charity Commission guidance.
- 9.2. Council will review the level of reserves at least annually at the time of setting the budget for each financial year in consultation with the Chair of the Audit Committee.
- 9.3. This policy will be reviewed every three years, taking into account new, or changes to, legislation and regulations as well as best practice.

## 10. Transparency

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10.1. All records relating to reserves will be retained by the GOC and kept for the duration set out within our Retention Schedule, at which point they will be securely deleted.

10.2. If you require this policy in a different format, please contact our Compliance Team, by email [edi@optical.org](mailto:edi@optical.org) or by phone 020 7580 3898 (option 7) to discuss your requirements.

**DRAFT Reserves Table for 2020/21**

<b>Reserve Category</b>	<b>Target</b>	<b>Forecast (31 March 21)</b>
Legal Costs	£350k - £700k	£700K
Strategic Reserve - ESR - CET Review - IT Strategy	£1m -£2m	£1.5m
Covid-19	£900k - £1,8m	£900k
Infrastructure / dilapidations	£250k - £1.25m	£250k
General	£2.3m - £3.8m	£2,300k
<b>Total (based on forecast reserve at year end)</b>	<b>£4.80m - £9.55m</b>	<b>£5.650m</b>
Of which, minimum cash reserve:	£200k	£200k

## 1. Working Capital

- 1.1 Working capital is required for the normal day to day operation of an organisation. As a matter of prudent financial management, we must hold adequate reserves.
- 1.2 GOC has a low risk of revenue fluctuations and is in a relatively stable environment. Any unforeseen material fluctuations are covered by the Revenue Contingency Reserve.
- 1.3 The annual cash-flow forecast is computed using the approved budget and thereafter with quarterly forecasts, enabling assessment of the level of monthly working capital requirements.
- 1.4 Registrants pay their annual renewal fees in advance (February-March) before the accounting year. All surplus cash balances after planned cash outflows will be invested in approved investments institutions (as listed in 4.1 of this statement) to maximise investment earnings. The institutions must be UK based and subject to the Financial Conduct Authority (FCA) regulations.
- 1.5 Maturity dates of short-term investments are planned according to monthly working capital needs while maintaining a minimum cash reserve. Drawdowns from long-term investments invested through Brewin Dolphin are planned for the months when the short-term investments are all utilised. The drawdown schedule is shared with Brewin Dolphin in advance and may need updating after each quarterly forecast.
- 1.6 The cashflow forecast presented to ARC should have the investment movements marked clearly along with the actual cash reserve.
- 1.7 A minimum cash reserve (headroom) will be maintained to provide a cushion against the impact of unforeseen payments. The level of cash reserve should be set in the context of a relatively stable revenue stream and expenditure pattern. There are additional options for obtaining cash through the available overdraft facility, the cash account held by the investment management company, or advising to sell equity in an emergency or unforeseen situation. Such situations need to be raised with ARC as an exception to policy and are not considered good practice under normal circumstances.
- 1.8 GOC can also apply for loans to support working capital where the risk to income levels are due to exceptional circumstances if the cost of the loan represents good value for money, the repayment method is clear and is approved by ARC.
- 1.9 The minimum cash reserve at a given date is the immediately available cash in the GOC's name, that can be accessed without incurring costs. The overdraft facility does not constitute the minimum cash reserve.
- 1.10 Working capital will be managed by the Director of Resources and the head of finance. Whilst making cash available when required, they will seek optimum investments which will yield additional interest income, maintaining primary

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requirements for working capital funds, which are security and liquidity.

### 2. Investment Objectives

#### 2.1 Security

The security of the principal is the foremost objective of all investments. Investments will be managed in a manner that seeks to ensure the security of capital.

#### 2.2 Credit Risk

The Council will minimise credit risk; the risk of loss due to the failure of the financial institution, by dealing only with financial institutions, brokers/dealers, intermediaries, and advisors who are regulated by the Financial Services Authority.

#### 2.3 Interest Rate Risk

The Council will minimise the risk of interest-bearing investment redemption penalties by planning the maturity of deposits so that they meet the cash flow requirements for day to day operations avoiding the need to cash in prior to maturity.

#### 2.4 Currency Risk

The Council will eliminate the risk of loss by only investing cash in the United Kingdom in sterling.

#### 2.5 Liquidity

The liquidity of investments will be organised to meet all operating requirements that may reasonably be anticipated. This will be accomplished by structuring the portfolio so that deposit maturity is linked to the cash needed to meet anticipated demands.

### 3. Standards of Care

#### 3.1 Investment

Investments will be made with reference to an annual cash flow of projections based upon the most up to date budgets and forecasts. Investment commitments and maturities will be planned to match cash flow and working capital requirements.

#### 3.2 Prudence

Decisions will be made with judgement and care for investment and not for speculation and reflect the security of capital as well as the income expected. The Council recognises that no investment is totally free from risk. Any person with delegated responsibility from Council who acts in accordance with written procedures and this investment policy will be relieved of personal liability for the performance of these investments.

#### 3.3 Ethics & Conflicts of Interest

Employees involved in the investment process must avoid any activity that might conflict with the proper execution and management of the investments, or that could impair their ability to make impartial decisions. Employees and investment officials must disclose any material interests in financial institutions with which they conduct business.



### 3.4 Checks & Balances

The following guidelines have been established to enhance the integrity and transparency of the Council's internal procedures for investing the Council's funds and accounting for those investments.

- Any designated officer (currently the Director of Resources) acting as Investment Officer(s) will be authorised, under the Scheme of Delegation for Financial Management, to transact investment business on behalf of the Council. No person may engage in an investment transaction except as provided under the terms of this policy. The Director of Resources will be responsible for establishing controls to regulate the activities of other officials to whom this function is delegated by Council.
- All investment confirmations will be sent directly to the Head of Finance where transaction details will be compared and verified against internal records.
- The Head of Finance will review all investment transactions subsequent to execution.

## 4. Eligible Investment

- 4.1 The following list represents the current range of investments which are authorised for the investment of working capital:

### Deposits

The Council may invest funds with UK banks to meet short-term liquidity needs in instant access saving accounts and in term-deposits. The maturity of these will vary to coincide with expected cash demands. This includes money market call accounts.

### Bonds/UK Gilts

The Council may invest short-term working capital in Bonds which are issued by the UK government and purchased on the Stock Exchange or directly from the Treasury. Bonds may also be purchased through authorised dealers and banks. Since bonds carry a minimum maturity period of one year, such investment is only possible where funds in excess of the current year's requirement are available.

- 4.2 The investment of the Council's working capital funds will be subject to the following restrictions and prohibitions:

- Borrowing for investment purposes is prohibited.
- Investing in shares or other securities is prohibited.
- Investment in any instrument, which is commonly considered a "derivative" investment (e.g. options, futures, swaps, caps, floors, and collars), is prohibited.

## 5. Performance Review and Reporting

- 5.1 The Head of Finance will prepare an annual report for the Senior Management Team that will provide an analysis of working capital investments and transactions over the reporting period. The report will include a list of individual investments held at the end of the reporting period. The report will be presented

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to Council annually.

6. Record Keeping and Safekeeping

6.1 The Head of Finance will be responsible for ensuring all investment transactions are recorded and for securing all documents relative to such transactions.

Linked Policy  
Investment Policy approved 22 February 2017.