

COUNCIL

Reserves Policy Review

Meeting: 11 February 2015

Status: for decision

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Purpose

1. This paper presents a proposed revised reserves policy for Council's review and adoption.
2. The Audit and Risk Committee (ARC) has considered the proposed revised policy in January 2015 and makes the following recommendations to Council:
 - 2.1 that the Reserves Policy is modified in accordance with the suggested changes in Annex 1;
 - 2.2 that Council consider and agree to maintain the current target level for both the legal contingency and income and expenditure reserves;
 - 2.3 that Council consider and agree to set up the Investment Reserve for the purpose set out in the revised policy; and
 - 2.4 Council notes that the investment policy will be reviewed once the size of the investment fund resulting from the sale of 41 Harley Street is clearer.

Strategic Objective

3. To ensure robust and comprehensive policies, ensuring our systems and processes are efficient and cost effective.

Background

4. The previous reserves policy was agreed and adopted by Council in February 2014. It forms part of the financial regulations for GOC. A review of the financial regulations forms part of a wider review of the governance framework which is underway in the 2014-17 strategic plan and are not provided for review at this time.
5. All of the financial policies have been reviewed annually in the past, as part of the framework within which financial plans and budgets are drawn

up. However we are in the process of moving to less frequent reviews now that policies have been set up and in operation for some time, subject to there being no legal or other requirement for review at an earlier stage.

6. In the context of this changing picture, this policy has been modified to remove reference to specific results or reserve levels on a given date and concentrates on describing the reserves, their permitted use and expected target levels where appropriate.
7. The ARC considered the proposed revised policy at its meeting on 20 January 2015 and its comments are reflected in the draft presented for Council's approval.
8. The Committee was content with the scope and nature of the review of this policy which had been undertaken in the context of the expected changes to GOC's balance sheet that will arise as a result of the property transactions expected to occur in 2015. The Committee recognised that there might be a need for further modifications and/or guidance once the property matter is concluded.
9. The annual report which was approved by Council in November 2014 for the year ended 31 March 2014 contains details of the level of reserves and comparative data.

Analysis

10. The proposed revised policy which incorporates any comments made by ARC in January 2015 is presented at Annex 1.
11. In respect of individual reserves, the Council is asked to consider and note the following additional matters:

Income and Expenditure Reserve

12. Council is asked to consider from a risk perspective the level at which general income and expenditure reserves not designated should be held. The ARC considered this and recommends the target levels proposed for the legal contingency reserve and income and expenditure reserves remain unchanged for the time being.
13. Given that the income stream is stable and predictable once fee levels are set and the majority of expenditure other than legal costs relates to employees and overheads that are predictable, Council agreed that two rather than three months 'normal expenditure' is the target income and expenditure reserve level, which would amount to about **£1.1m** at the present time.

14. Council is also asked to consider ARC's view that the standing definition of 'normal expenditure' currently defined as monthly payroll and overheads plus 1/12 of all other budgeted annual costs remains appropriate.

Special Reserve

15. Council is asked to note that the special reserve will continue into 2015/16 for the purpose of the second phase implementation of the Reward project, which involves the launch and embedding of performance related pay progression for all employees, and to allow consideration of in year resourcing requests.
16. This reserve will be topped up at the end of the current financial year to the level of the anticipated expenditure for the next financial year for this purpose. It is expected that this reserve will most likely not be needed beyond 31 March 2016.

Investment Reserve (new)

17. Council is asked to consider ARC's recommendation for the creation of a new reserve, termed the Investment Reserve, which is designated for the purpose of managing the proceeds arising from the sale of 41 Harley Street (which is expected to be completed in mid-2015). Council expressed the view that they wished as far as possible to retain the asset base of the organisation for as long as possible from the proceeds and maximise the income generation potential without putting any capital at significant risk.
18. Council should also note that the Investment Policy will also require significant development to allow us to cope with the new requirements for income generation and capital maintenance resulting from the sale of the building. This work will be undertaken with the assistance of our investment advisers once they are appointed. The procurement process for these advisers is underway at present.
19. ARC is recommending Council agrees to set up this new designated reserve but also counsels caution in the stance Council takes in respect of the long term maintenance of a large cash reserve in the context of longer term financial planning.
20. A balance needs to be struck between maintaining a higher level of reserves reflecting the higher cost base for the organisation in future, renting rather than owning its premises, and the requirement to use funds generated within the principles of careful management and achieving good value for money for all work carried out by GOC.

21. Identify any implications decisions by Council may have on:
 - 21.1 GOC's reserves – none;
 - 21.2 GOC budget – costs and savings are detailed in the paper;
 - 21.3 Legislation – none;
 - 21.4 Resources – none;
 - 21.5 Equality and Diversity – none; and
 - 21.6 Human Rights Act – none.

Devolved Nations

22. There are no implications relating to the devolved nations contained within this report.

Communications

23. Once the policies are approved by Council they will be added to the relevant section of the GOC website and employees and members will be notified.

Risks

24. By providing clear financial policies the risk of GOC employees and members not being clear in relation to their responsibilities is mitigated.

Recommendations

25. The Audit and Risk Committee (ARC) has considered the proposed revised policy in January 2015 and makes the following recommendations to Council:
 - 25.1 that the Reserves Policy is modified in accordance with the suggested changes in Annex 1;
 - 25.2 that Council consider and agree to maintain the current target level for both the legal contingency and income and expenditure reserves;
 - 25.3 that Council consider and agree to set up the Investment Reserve for the purpose set out in the revised policy; and
 - 25.4 Council notes that the investment policy will be reviewed once the size of the investment fund resulting from the sale of 41 Harley Street is clearer.

Timeline for future work

26. The modified reserves policy if agreed will be adopted for use with effect from 31 March 2015.

27. A proposed revised investment policy will be presented to ARC at its May 2015 meeting for Council approval in July 2015.
28. Once the any policies have been approved they will be uploaded to the GOC website.
29. The policies will be reviewed in accordance with the cycle agreed and adopted at the October 2014 ARC meeting as part of their workplan.

Attachments

Annex 1 Revised Reserves Policy



TITLE	Reserves Policy
VERSION	Version 7
SUMMARY	The policy provides a framework for the management of the General Optical Council's Reserves
DATE CREATED	January 2015.
REVIEW DATE	January 2017

Reviewed by the Audit and Risk Committee in January 2015; approved by Council in February 2015.

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1. The Policy

- 1.1. Council is responsible for making judgements as to the appropriate level of reserves for the organisation to hold. 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. Council will review these reserves at least annually at the time of setting the budget for each financial year in consultation with the Chair of the Audit Committee.
- 1.2. All of the GOC's reserves are unrestricted, and in addition to the Income and Expenditure reserve, the following reserves have been designated for specific purposes:
 - 1.2.1 Legal costs contingency reserve (target £500k)
 - 1.2.2 Strategic reserve
 - 1.2.3 Special reserve
 - 1.2.4 Investment reserve

2. Level of Reserves

- 2.1. The target levels of reserves will be considered and agreed by Council in the context of longer term planning.

3. The Income & Expenditure Reserve

- 3.1 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.
- 3.2 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 regular and predictable, and therefore low risk. The majority of costs for the organisation relate to staffing and general overheads and are predictable and therefore low risk.
- 3.3 The only expenditure type which is less predictable and regular, and therefore higher risk, is the legal costs associated with FTP processes. However work has been undertaken within the business to model these costs more accurately and monitor them carefully and this work is ongoing.
- 3.4 The aim is for this reserve to be held at two months regular expenditure for the business, which currently means aiming at a value of £1.1m for this reserve. It is expected that future financial plans and funding decisions will be made with this aim in mind.

- 3.5 Regular expenditure is defined as monthly payroll and overheads plus 1/12 of all other expenditure. Overheads for this purpose excludes rent and service charges for office space at present, which is provided for separately. It is expected to include this cost once the Harley street property is sold.

4. The Legal Costs Contingency Reserve

- 4.1 The reserve has been established to provide for unrecoverable legal costs that fall at the margins of 'business as usual'. In 2014 it was agreed that this reserve should be reduced to £500k; the legal reserve may be utilised for the following types of legal expense:
- 4.1.1 Judicial Review cases;
 - 4.1.2 Appeal cases;
 - 4.1.3 Cases which have to be heard outside of London which necessitate exceptional additional costs of attendance;
 - 4.1.4 Other particularly expensive cases such as those where exceptional additional arrangements are required, for example for particularly vulnerable witnesses; and
 - 4.1.5 Mandatory health assessments ordered by the Professional Standards Authority (PSA).
- 4.2 Any of the above costs listed above from (4.1.1) to (4.1.5) are to be taken net of any successful claim against insurance held by the Council.
- 4.3 It is expected that only the *additional costs* over and above what is usual for cases would be charged to this reserve. In addition, it should be noted that the insurance arrangements provide for appeal and/or judicial review cases for all costs in excess of £2,500 up to a maximum of £250k for any individual claim so long as cases are properly notified to insurers as they arise.
- 4.4 The excess and cover limits are accurate as at the date this policy was agreed but will be updated annually.

5. The Strategic Reserve

- 5.1 The reserve has been established to fund specifically identified 'Spend to Save' projects included in the Business Plan.
- 5.2 This reserve will normally be used for projects that involve investment in the infrastructure or assets of the GOC from which the organisation is expected to benefit over a number of years.

6. The Special Reserve

- 6.1 The Special Reserve was set up to specifically provide for two projects:
- 6.1.1 the provision of offsite accommodation for Hearings;
 - 6.1.2 consideration of in year resourcing requests that arise; and
 - 6.1.3 implementation of the Reward Project.

7. The Investment Reserve

- 7.1 This reserve is set up to expressly manage the proceeds from the sale of the Harley Street property and ensure that these cash assets generate a suitable income stream and are utilised appropriately to support the functions of the organisation over the longer term.

8. Compliance with regulation

- 8.1 Transfers between these unrestricted reserves will be undertaken as necessary to reflect the changing needs of the organisation.
- 8.2 Now that GOC has registered as a charity the Charity Commission guidance on the retention and use of reserves will be followed. The current reserves retained and the policy relating to them is in compliance with Charity Commission guidance.