

Reserves Policy

Status of document:	Live
Version:	8.0
Approved by:	Council
Date of approval:	May 2017
Effective from:	05 May 2017
Owner:	Director of Resources
Author:	Director of Resources
Relevant legislation:	CC Guidelines
Linked policies:	None
Impact Assessment:	n/a
Impact Assessment completion:	n/a
Impact Assessment review:	n/a
Next policy review date:	February 2020
Location - Website:	www.optical.org/en/about_us/our-governance/index.cfm#Financial governance
Updates made:	2017 Template and figures

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1. Policy Statement

- 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.
- 1.2. 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.
- 1.3. All of GOC's reserves are unrestricted, and in addition to the Income and Expenditure reserve, the following reserves have been designated for specific purposes:
 - 1.3.1. Legal cost reserve; and
 - 1.3.2. Strategic reserve.
- 1.4. Unrestricted reserves whether or not they are designated may be freely utilised for any purpose Council determines.

2. Purpose

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

3. Scope/Level of reserve

- 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 Income & Expenditure reserve (General reserve)

- 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 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.
- 4.3. 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, with the conclusion that there should be a separate legal reserve to cover significant fluctuations in volumes of complaints and cases.

- 4.4. The aim is for this reserve to be held at three months regular expenditure for the business, which currently means aiming at a value of £2.2m.
- 4.5. Regular expenditure is defined as monthly payroll and overheads plus 1/12 of all other expenditure excluding depreciation.

5. Legal Costs Reserve

- 5.1. The volume of complaints received by the GOC to be reviewed and investigated is largely outside of its control. The consequence of this is that the annual costs of Fitness to Practise (FTP) and Hearings is volatile and difficult to accurately predict.
- 5.2. The legal cost reserve is to provide against significant increases or decreases in volumes of cases, and consequently expense. This reserve may be utilised (or topped up) where the current year expenditure across FTP case progression, Legal and Hearings departments exceeds 110 per cent (or is less than 90 per cent) of the annual average of the three preceding years.
- 5.3. The illustration below is based on the Financial years to 31 March for 2014, 2015 and 2016:

	2013-14	2014-15	2015-16	3 Year Average	90% of Average	110% of Average
	Actual £'000's	Actual £'000's	Actual £'000's	£'000's	£'000's	£'000's
Case Progression	1,323	1,408	1,372	1,368	1,231	1,504
Legal	38	63	100	67	60	74
Hearings	623	530	599	584	526	642
Total	1,984	2,001	2,071	2,019	1,817	2,221

- 5.4. Based on this the legal reserve would be utilised if the current costs for the year to 31 March 2017 exceed £2,221k, or conversely if the costs were less than £1,817k the legal cost reserve would be “topped up”. In each case by the amount the actual final costs exceed the cap or are below the minimum value.
- 5.5. The initial value of the legal reserve shall be £2 million. This shall be reviewed every three years.

6. Strategic Reserve

- 6.1. The Strategic reserve essentially forms the balance of reserves. Charity Commission rules discourage the maintenance of large, unspecified general reserves.
- 6.2. Accordingly, this reserve will be used to support the delivery of specific strategic projects and initiatives outlined in the GOC's Strategic Plans.

7. Compliance

- 7.1. 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 is in compliance with Charity Commission guidance.
- 7.2. 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.
- 7.3. This policy will be reviewed every year, taking into account new or changes to legislation and regulations as well as best practice.

8. Transparency

- 8.1. 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.
- 8.2. If you require this policy in a different format, please contact our Compliance Team, by email edi@optical.org or by phone 020 7580 3898 (option 7) to discuss your requirements.