

COUNCIL

Reserves Policy

Meeting: 11 May 2016

Status: for decision

Lead responsibility: Josie Lloyd (Director of Resources)

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Purpose

1. This paper presents the reserves policy for recommendation and adoption by Council on recommendation of ARC.

Recommendations

2. Council is asked to **agree** to modify the Reserves Policy in accordance with the suggested changes detailed in Annex one upon the recommendation of ARC.

Strategic objective

3. Our work in this area is included in our 2016/17 Business Plan: Financial management – Developing our financial management skills and oversight. It contributes to our strategic objective of Organisational change – building a sustainable and modern organisation. This work will ensure robust and comprehensive policies, ensuring our systems and processes are efficient and cost effective.
4. To ensure compliance with the expectations of the Charities Commission in respect of reserves.

Risks

5. In order to ensure the GOC is able to operate in the longer term it must ensure that it has adequate financial provisions to mitigate for any unexpected changes in income or expenditure. It is also a requirement of charities to ensure that there are sufficient funds to cover winding up costs. Holding sufficient reserves, as specified in this policy, mitigates against these risks, which are currently considered to be low given the level of reserves and the stability of income.
6. There is also a risk that the GOC's reserves are not used for the purposes intended by Council. By providing clear financial policies the risk of employees

and members not being clear in relation to their responsibilities regarding use of the reserves is mitigated.

Background

7. The reserves policy was last agreed and adopted by Council in February 2015. It forms part of the financial regulations for GOC. The financial regulations are part of a wider review of the governance framework which is underway in the 2014-17 strategic plan.
8. The annual report which was approved by Council in November 2015 for the year ended 31 March 2015 contained details of the reserves policy, the level of reserves and comparative data too.

Analysis

9. The proposed modifications to this policy are shown in tracked mode in Annex one. These are relatively minor in nature and are focussed on improving the clarity, layout and format of the policy as well as one small change in the use permitted for one of the reserves.
10. In respect of individual reserves, the Committee is asked to consider and discuss the following additional matters:

Income and Expenditure Reserve

11. Council is asked to note ARC's recommendation that from a risk perspective the level at which general income and expenditure reserves not otherwise designated should be held at the same level for the time being.
12. 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 staff 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.
13. ARC was also asked to consider whether the standing definition of 'normal expenditure' currently defined as monthly payroll and overheads plus 1/12 of all other budgeted annual costs remains appropriate. ARC recommends that this definition is maintained.

Special Reserve

14. ARC recommends that the special reserve continues into 2016/17 for the purpose of further implementation of the Reward project, and for the provision of some in-year resourcing for certain projects. The in-year resourcing use is the new use and replaces the provision of outsourced hearing accommodation

which is no longer required.

15. 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. This proposed change in reserves was recommended to Council in the context of budget setting for 2016/17.

Investment Reserve

16. ARC supports the continuation of the Investment Reserve, which is designated for the purpose of managing the proceeds arising from the sale of 41 Harley Street (which was completed in November 2015).
17. 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 these proceeds and maximise the income generation potential without putting any capital at significant risk.
18. ARC recommends Council agrees to continue this reserve but also counsels caution in respect of the long term maintenance of a large cash reserve because of the possible negative publicity with stakeholders this might generate, from the perspective of future retention fee levels and the planning of longer term finances.
19. A balance needs to be struck between maintaining a higher level of reserves reflecting the higher cost base for the organisation renting rather than owning its premises, and the requirement to use funds generated from past retention fees within the principles of careful management and achieving good value for money for all work carried out by GOC.

Impacts

20. The following implications have been identified:
 - 20.1 Reserves – as detailed in the paper
 - 20.2 Budget – none
 - 20.3 Legislation – this annual review is required to comply with the expectations of the Charity Commission and the SORP 2015
 - 20.4 Resources – none
 - 20.5 Equality, diversity and inclusion (EDI) – none
 - 20.6 Human Rights Act – none
 - 20.7 Sustainability – none

Devolved nations

21. No implications/differences in relation to this area and the devolved nations have been identified.

Communications

22. The Reserves Policy will be published on the website once Council have approved it.

Timeline for future work

23. This policy will be incorporated into the annual report following Council's approval in May 2016.

Attachments

Annex 1 – Draft revised Reserves Policy



TITLE	Reserves Policy
VERSION	Version <u>7</u>⁶
SUMMARY	The policy provides a framework for the management of the General Optical Council's Reserves
DATE CREATED	<u>April</u> January 201<u>6</u>⁵
REVIEW DATE	January 2018

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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.

~~1.1~~ **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~~

1.2 ~~All of the~~

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:

- Legal costs contingency reserve (target £500k)
- Strategic reserve
- Special reserve
- Investment reserve

1.4 Unrestricted reserves whether or not they are designated may be freely utilised for any purpose Council determines.

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 2 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:
- (i) Judicial Review cases;
 - (ii) Appeal cases;
 - (iii) Cases which have to be heard outside of London which necessitate exceptional additional costs of attendance;
 - (iv) Other particularly expensive cases such as those where exceptional additional arrangements are required, for example for particularly vulnerable witnesses ; and
 - (v) Mandatory health assessments ordered by the Professional Standards Authority (PSA).
- 4.2 Any of the above costs listed above from (i) to (v) are to be taken net of any successful claim against insurance held by the Council. 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. 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. 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~~ is used for two purposes~~projects~~:

~~6.2~~—~~The provision of offsite accommodation for Hearings~~

6.1 Implementation of the Reward Project (specifically performance pay progression)

~~6.3~~6.2 The provision of in-year resourcing requirements

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.