

## **COUNCIL**

### **Reserves and Investment policies**

---

**Meeting:** 12 February 2014

**Status:** for decision

**Lead responsibility:** Josie Lloyd  
(Director of Resources)

**Contact details:** [jllloyd@optical.org](mailto:jllloyd@optical.org) /  
020 7307 9470

#### **Purpose**

---

1. This paper presents the Reserves and Investment policies for consideration and approval by Council. The Reserves policy is attached at Annex 1; the Investment policy is attached at Annex 2.

#### **Strategic Objective**

---

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

#### **Background**

---

3. The Reserves and Investment policies were last agreed by Council in February 2013. They form part of the financial regulations for GOC and are reviewed annually as part of the framework within which financial plans and budgets are drawn up.
4. It is the role of the Audit and Risk (ARC) committee to review the adequacy of and changes to both these policies ensuring that each is effective and consistent with Council's view and to provide assurance to Council as to their appropriateness and robustness before recommending their approval to Council.
5. The ARC reviewed both policies at their last meeting on 20 January 2014. Their comments can be seen in the analysis section below.

#### **Analysis**

---

##### **Reserves Policy**

6. The main proposed modifications to this policy are shown in tracked mode in Annex 1. The ARC also proposed additional minor wording amendments to the policy which included replacing the word 'earmarked' with 'designated' as this more closely matches the language used by the Charity Commission.

7. The ARC discussed each of the reserves at their meeting on 20 January 2014 and made the following comments for Council's consideration:

Income and Expenditure ('General') Reserve

8. In order to set a level at which the Income and Expenditure reserve should be held the ARC were asked to consider how 'normal expenditure' should be defined bearing in mind that a number of expenditure types are on cycles that are not monthly. The ARC recommends to Council that the Executive's suggested definition of '*monthly payroll and overheads plus 1/12 of all other budgeted annual costs*' is appropriate.
9. The ARC were also asked to discuss how many months expenditure should be held in this Reserve. The Chair of the ARC remains of the view that this Reserve should be held at three months expenditure. However, the Committee felt that it would be more appropriate to hold the reserve at an actual level rather than aiming for a certain level, which was the case throughout 2013/14. In addition, the ARC also took into account that the GOC's income stream was stable and predictable once fee levels were set and the majority of expenditure other than legal costs related to staff and overheads that were predictable.
10. On this basis the ARC recommends that Council sets the Income and Expenditure reserve at two months 'normal expenditure'.

Legal Contingency Reserve

11. The ARC welcomed the revised insurance arrangements which had been in place since March 2013. Council are asked to note that there is currently one live claim in relation to an FTP sanction decision the PSA believes was too lenient. The ARC noted that the excess and the maximum amount per single claim was now lower and the ARC was content that these levels are sufficient for the GOC's requirements. Council should note that the GOC has never received a claim close to £250,000.

12. The table below outlines the insurance arrangements over the last five years:

Year	2009/10	2010/11	2011/12	2012/13	2013/14 to date
Insurance premium	£21k (£36k total)	£21.2k (£36k total)	£21.2k (£37k total)	£31.8k (£51k total)	£28k total (18 months premium negotiated at the same rate)
Insurance excess	£250k	£250k	£250k	£250k	JR £1500
Max. amount single claim	£1m	£1m	£1m	£1m	JR £250k
No. of claims	0	0	0	0	1
Cover type	JR only	JR only	JR only	JR only	Wider legal expenses cover includes appeals and JR

13. The criteria for using the Legal Contingency reserve have now been tightened and can be seen in the Reserves policy at paragraph 3.2. The ARC expressed continued concern that appeal cases are not being budgeted for as 'business as usual' but welcomed the amendments to the policy which now specifies that only 'additional' costs can be charged to the reserve for cases outside of London.
14. Taking into account the revised insurance arrangements, the narrowing of the criteria for using the reserve and budgeting for more categories effectively in business as usual, the ARC recognised the requirement to maintain a large reserve was now questionable. On this basis, the ARC recommends to Council that the level of the legal contingency reserve be reduced to £500,000.

*The Strategic Reserve and the Optical Education Reserve*

15. Council is asked to note that the Strategic reserve and the Optical Education reserve would both be either fully expended or fully committed by the end of the current financial year.
16. The ARC made no comments in relation to these reserves.
17. Taking all of the above points into account, the ARC recommends that the Reserves policy be approved by Council.

**Investment Policy**

18. The proposed modifications to this policy are minor and are detailed in Annex 2 in tracked mode. At their meeting on 20 January 2014, the ARC requested some additional wording amendments which have been made.
19. In relation to the 'Scope', the ARC suggest that if Council are minded to hold the Income and Expenditure reserve at two months 'normal expenditure' then it would be appropriate to set the cash reserve at the same level for consistency. Council should note that the Executive has advised the ARC that there would be no risks to the GOC in doing this because all cash deposits held could be accessed should they be required in advance of their maturity date.
20. Taking the above points into account, the ARC recommends that the Investment policy be approved by Council.

**Impacts**

---

21. There are no implications to legislation, resources, equality and diversity and the Human Rights Act in relation to any decision that Council may take with regards to the reserves or investment policies. The reduction in reserves and the savings necessitated by this on the budget are detailed in the paper and can be seen in the Reserves policy.

**Devolved Nations**

---

22. There are no implications relating to the devolved nations contained within this paper. This paper does not need to be printed in Welsh.

**Communications**

---

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

**Risks**

---

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

**Recommendations**

---

25. It is recommended that Council consider and approve the following recommendations of the ARC:
- 25.1 that 'normal expenditure' is defined as 'monthly payroll and overheads plus 1/12 of all other budgeted annual costs';
  - 25.2 that the Income and Expenditure reserve is held at two (instead of three) months 'normal expenditure';
  - 25.3 that the Legal Costs Contingency reserve is reduced to £500,000 from ...;
  - 25.4 the Reserves policy; and
  - 25.5 the Investment policy.

**Timeline for future work**

---

26. Once approved the policies will be published on the GOC website.
27. Both policies will be reviewed again in January 2015, first by the ARC and then Council for approval.

**Attachments**

---

- Annex 1 - Reserves policy  
Annex 2 - Investment policy



<b>TITLE</b>	<b>Reserves Policy (Annex A to Financial Regulations)</b>
<b>VERSION</b>	Version <del>5</del> <u>4</u>
<b>SUMMARY</b>	The policy provides a framework for the management of the General Optical Council's Reserves
<b>DATE CREATED</b>	<del>March January 2013</del> <u>2014</u>
<b>REVIEW DATE</b>	<del>March 2014</del> <u>February 2015</u>

## 1. Table of Contents

1. Table of Contents .....	<a href="#">252</a>
2. The Policy .....	<a href="#">363</a>
3. Level of Reserves .....	<a href="#">363</a>
3.1 The Income & Expenditure Reserve .....	<a href="#">363</a>
3.2 The Legal Costs Contingency Reserve .....	<a href="#">464</a>
3.3 The Strategic Reserve .....	<a href="#">474</a>
3.4 Optical Education Reserve .....	<a href="#">474</a>
4. Compliance with Regulation .....	<a href="#">474</a>

## 2. The Policy

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.

All of the GOC's reserves are unrestricted, and in addition to the Income and Expenditure reserve, three reserves have been earmarked for specific purposes.

The GOC's reserves as at 31 March 201~~3~~<sup>2</sup> were as follows:

	£000's
Income & Expenditure Reserve	1,478 <del>9</del> <sup>7</sup> 0
Legal Costs Contingency Reserve	1,00 <del>7</del> <sup>5</sup> 0
Strategic Reserve	834 <del>7</del> <sup>1</sup> 5
Optical Education Reserve	94 <del>2</del> <sup>1</sup>
Total	<u>3,403<del>2</del><sup>4</sup>56</u>

## 3. Level of Reserves

The following levels of reserves were agreed by Council in ~~November 2012~~<sup>February 2014</sup> for the 201~~2~~<sup>13</sup>/~~13~~<sup>14</sup> year end and for the budget for 201~~4~~<sup>3</sup>/~~14~~<sup>15</sup>:

### 3.1 The Income & Expenditure Reserve

This reserve is for general expenditure that has not been earmarked 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.

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.

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.

- The aim is for this to be held at ~~3~~<sup>2</sup> months regular expenditure for the business, which currently means aiming at a value of £1~~m~~<sup>4.5m</sup> for this reserve. It is

expected that future financial plans and funding decisions will be made with this aim in mind.

### 3.2 The Legal Costs Contingency Reserve

The reserve has been established to provide for unrecoverable legal costs that fall at the margins of 'business as usual'. In 2014~~2~~ it was agreed that this reserve ~~should is to~~ be ~~maintained~~reduced to ~~at~~ £500~~750~~k; 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 (proposed to treat this as business as usual and model it into the budget)
- (v) Mandatory health assessments ordered by the Professional Standards Authority (PSA)~~CHRE~~

~~These~~ Any of the above costs listed above from (i) to (v) are to be taken net of any successful claim against ~~legal~~ insurance held by the Council.

- ~~(iii) Other particularly expensive cases such as those where exceptional additional arrangements are required, for example for particularly vulnerable witnesses~~
- ~~(iv) Interim order cases (proposed to treat this as business as usual and model it into the budget)~~
- ~~(v) Mandatory health assessments ordered by CHRE~~
- ~~(vi) These costs are to be taken net of any successful claim against legal insurance held by the Council~~

### 3.3 The Strategic Reserve

The reserve has been established to fund specifically identified 'Spend to Save' projects included in the Business Plan.

### 3.4 Optical Education Reserve

The Optical Education, Research and Public Purposes Fund has been established to meet expenditure on purposes connected with optical education and research and for any other public purposes connected with the profession of optometrists or dispensing opticians in terms of the provision of Section 32 (1) of the Opticians Act 1989. This reserve will be exhausted by the end of 2013/14 and will cease to exist.

## 4. Compliance with Regulation

Transfers between these unrestricted reserves will be undertaken as necessary to reflect the changing needs of the organisation.

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.



<b>TITLE</b>	<b>Investment Policy</b>
<b>VERSION</b>	<b>Version <del>2</del><sup>4</sup></b>
<b>SUMMARY</b>	<b>The policy provides a framework for the management and control of the General Optical Council's investments</b>
<b>DATE CREATED</b>	<b>January 201<del>4</del><sup>3</sup></b>
<b>REVIEW DATE</b>	<b>January 201<del>5</del><sup>4</sup></b>

## Table of Contents

Annex B .....	1
Table of Contents .....	2
1. Scope .....	3
2. Investment Objectives.....	3
2.1 Security .....	3
2.2 Credit Risk.....	3
2.3 Interest Rate Risk.....	3
2.4 Currency Risk.....	<del>4</del> 3
2.5 Liquidity .....	4
3. Standards of Care .....	4
3.1 Prudence.....	4
3.2 Ethics & Conflicts of Interest .....	4
3.3 Delegation of Authority .....	4
3.4 Checks & Balances .....	4
4. Investment Transactions .....	5
4.1 Internal Controls.....	5
4.2 Eligible Investment .....	5
4.3 Investment Restrictions and Prohibited Transactions .....	<del>6</del> 5
5. Performance Review and Reporting.....	<del>6</del> 5
6. Record Keeping and Safekeeping.....	<del>6</del> 5
7. Policy Considerations .....	6
7.1 Revision .....	6
7.2 Adoption.....	6

## 1. Scope

This policy applies to the investment of all operating funds of the General Optical Council.

The Council obtains its funding primarily through the registration of optometrists, dispensing opticians and students, and to a minor extent through ~~rental income and~~ database sales. The Council is required to maintain a minimum accessible cash reserve equal to ~~three~~two months revenue expenditure in order to provide a cushion against the impact of unforeseen payments. All remaining ~~revenue~~ balances ~~relating either to General Reserves or~~ arising from the management of cash flow will be invested in approved investments (as listed in 4.2 of this policy) institutions to maximise investment earnings. The institutions must be UK based and subject to the Financial Conduct~~Services~~ Authority (FCSA) regulations.

The investments will be managed by the Director of Resources, or another officer, appointed by the Council to act as Investment Officer, who will strive to invest with the judgement and care that prudent individuals would exercise in the execution of their own affairs, to maintain the safety of principal, maintain liquidity to meet cash flow needs and to provide competitive investment returns for the Council.

From time to time investments may be managed through external professionals. These must be managed in a manner consistent with this policy.

## 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 investing 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 Prudence**

Investments 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 delegated responsibility by the Council who acts in accordance with written procedures and this investment policy will be relieved of personal liability for the performance of these investments.

## **3.2 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.

## **3.3 Delegation of Authority**

Authority to manage the investments is delegated to the Director of Resources or another officer specifically appointed by Council who will act in accordance with this investment policy. 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](#).

## **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.

~~The Chief Executive Officer, the Director of Resources, Head of Finance and other persons~~ Any designated officer (currently the Director of Resources) acting in writing to act as Investment Officer(s) will be authorised, under the Scheme of Delegation for Financial Management, to transact investment business on behalf of the 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. All journal entries relating to investments will be countersigned by the Head of Finance, Director of Resources or Chief Executive Officer whichever has not been involved in conducting the transaction and entered into the general ledger by one of the Council's finance officers.

## **4. Investment Transactions**

### **4.1 Internal Controls**

The Director of Resources is responsible for establishing and maintaining an internal control structure that will be reviewed annually with the Council's external auditors. The internal control structure will be designed to ensure that the assets of the Council are protected from loss, theft or misuse and to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognises that the cost of control should not exceed the benefits.

### **4.2 Eligible Investment**

The following list represents the current range of investments which are authorised for the investment of funds.

Deposits - The Council may invest funds held 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.

Bonds - The Council may only invest 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.

Shares or other securities - The Council will not invest in either public or private equity or other securities.

### **4.3 Investment Restrictions and Prohibited Transactions**

The investment of the Council's funds will be subject to the following restrictions:

- 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**

The Head of Finance will prepare an annual investment report [for the Senior Management Team](#) that will provide an analysis of current investments and transactions over the reporting period. The report will include a listing of individual investments held at the end of the reporting period. [The report will be presented to Council annually.](#)

## **6. Record Keeping and Safekeeping**

The Head of Finance will be responsible for [ensuring all recording](#) ~~all~~ investment transactions [are recorded](#) and for securing all documents relative to such transactions.

## **7. Policy Considerations**

### **7.1 Revision**

The Director of Resources will review the Investment policy periodically and recommend all necessary changes to the Audit Committee.

### **7.2 Adoption**

The adoption of this policy and any changes to it will be delegated to the Audit Committee of the Council.