

Reserves Policy and Working Capital Statement

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1. Policy Statement

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- 1.1. This policy sets out the General Optical Council's (GOC's) reserves policy and working capital statement.
- 1.2. GOC Council is responsible for determining 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. Reserves, whether or not they are designated, may be freely utilised for any purpose the Council determines, in accordance with its Scheme of Delegation for Financial Management.
- 1.4. In addition, Charity Commission rules discourage the maintenance of large, unspecified general reserves.
- 1.5. GOC's reserves are classified as either unrestricted or designated for specific purposes, as follows:
 - a. General income and expenditure reserve
 - b. Complex cases legal costs reserve;
 - c. Strategic, research and special projects reserve;
 - d. Infrastructure & dilapidations reserve; and
 - e. Deferred expenditure reserve.
- 1.6. The policy describes the purpose of each designated reserve category and the target upper and lower levels (range) of each category (annex 1).
- 1.7. The Charity Commission advises that charities should pay attention to the relative risk associated with its income and expenditure in setting target reserve levels. The GOC's income is primarily Registrant fees, which in normal circumstances is regular and predictable, and therefore at low risk of disruption. Whilst more significant economic and other shocks have the potential to raise this to medium risk, the likelihood of this risk materialising is low. The majority of the GOC's expenditure relates to member, worker and staff costs, alongside general overheads, and is predictable and therefore low risk.
- 1.8. The only expenditure type that is less predictable and irregular, and therefore a higher risk, are the legal costs associated with unforeseen and complex cases. A separate complex cases legal reserve provides for unbudgeted legal costs resulting from these complex cases.

2. General income and expenditure reserve

- 2.1. This purpose of this reserve 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.
- 2.2. The general income and expenditure reserve will be held at a range of three to five months' of business-as-usual expenditure, excluding depreciation.
- 2.3. The general income and expenditure reserve shall be broken down into two subcategories which are:
 - a. **Unrealised gains/losses on investments** – this will show the gains/losses on our investment. This is an accounting figure and in effect demonstrates that if we sold all our investments on a particular day what the profit/loss be from those investments.
 - b. **Operating funds** – which contains the funds available for immediate utilisation. This may come from our investments, but at the time of disposal could generate a loss as well as a gain.
- 2.4. Overall budget approval is provided by Council as part of the annual budget-setting process. Operational expenditure from the general income and expenditure reserve may be authorised in accordance with the limits for budgetary approval as set out in the scheme of delegation for financial management.

3. Complex cases legal reserve

- 3.1. The purpose of the complex cases legal reserve is to provide for unforeseen and unbudgeted legal costs arising from complex fitness to practise cases.
- 3.2. The complex cases legal reserve will normally be held at a range that covers the anticipated cost of complex cases over two years. This is because such cases will generally span multiple years and require high levels of legal expenses.
- 3.3. A complex case is identified by pre-determined criteria approved by SMT, and expenditure from the complex legal costs reserve requires the approval of the Chief Executive and Registrar. Once approved, the cost to completion (except internal payroll cost) of the case will be funded by legal reserve.

4. Strategic, research and special projects reserve

- 4.1. The purpose of the strategic, research and special projects reserve is to support investment in strategic and special projects, research and/or initiatives which facilitate the successful realisation of the GOC's strategic plan.
- 4.2. The strategic, research and special projects reserve will normally be held at a range that covers the cost of all potential strategic and special projects,

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research and/or initiatives for the period of the GOC strategic plan and the anticipated need to draw upon this reserve for their funding. At a minimum, this should be adequate to fund at least two years of strategic and other projects.

- 4.3. Expenditure from the strategic, research and special projects reserve requires the approval of Council.
- 4.4. Following Council authorisation of expenditure, approval of the business case and appropriate project initiation mandates will be in accordance with the Scheme of Delegation for Financial Management.

5. Infrastructure/dilapidations reserve

- 5.1 The purpose of the infrastructure/ dilapidations reserve is to support the costs of exiting our current premises (One Canada Square) including dilapidation and reinstatement costs in accordance with the obligations set out in the terms of our lease.
- 5.2. The infrastructure/ dilapidations reserve will normally be held at a range that covers the estimated costs of reinstatement under the obligations set out in the terms of the lease.
- 5.3. Proposed expenditure from the infrastructure/ dilapidation reserve will need to be assessed to identify whether it qualifies as capital expenditure. Where it does qualify as capital expenditure, any decisions must be made in accordance with the scheme of delegation for financial management and the contracts and procurement policy.
- 5.4. Dilapidation costs will be authorised in accordance with the limits for budgetary approval as set out in the scheme of delegation for financial management.

6. Deferred expenditure reserve

- 6.1 The purpose of the deferred expenditure reserve is to ringfence approved business as usual budget for the delivery of one off or cyclical projects that have been deferred for operational reasons or run over multiple years.
- 6.2 A deferred expenditure is defined by pre-determined criteria approved by SMT, and expenditure from the deferred expenditure reserve requires the approval of the Chief Executive and Registrar. Once approved the cost for completion (except internal payroll cost) will be funded by this reserve.
- 6.3 No upper or lower limit is required, due to the nature of the one-off

expenditure. If the deferred expenditure has not commenced by the end of the following financial year, the funds will be transferred back to the general income reserves.

7. Compliance

- 7.1. As a registered charity, the Charity Commission guidance on the retention and use of reserves will be followed. This policy is compliant with the Charity Commission guidance.
- 7.2. This policy will be reviewed every three years, 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 for the duration set out within our Retention Schedule, at which point they will be securely deleted.

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Annex 1

Target upper and lower levels (range) of reserves for each designated category

Reserve Category	Policy Range
Complex cases legal costs	£350k- £700k
Strategic, research and special projects reserve	£1.4m - £3m
Infrastructure /dilapidations	£250k -£1.25m
Deferred expenditure reserve	n/a
General income & expenditure reserve	£3.3m - £5.6m
Total	£5.3m - £10.55m

Of which, minimum cash reserve	£200k
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Working Capital Statement

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, the GOC must hold adequate reserves.
- 1.2 GOC has a low risk of revenue fluctuations and operates in a relatively stable financial environment. Any unforeseen material fluctuations are covered by the general reserve.
- 1.3 The annual cash-flow forecast is calculated 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 (January-March) before the accounting year. All surplus cash balances after planned cash outflows will be invested in approved investments institutions 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 will 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 reported to ARC as an exception to policy and are not considered good practice under normal circumstances.
- 1.8 GOC may 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 Corporate Resources and the Chief Financial Officer. Whilst making cash available when required, they will seek optimum investments which will yield additional interest income,

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

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.

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 agreed policies 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 Corporate Services) 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 Corporate Services 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 Chief Financial Officer where transaction details will be compared and verified against internal records.
- The Chief Financial Officer will review all investment transactions subsequent to execution.

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

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5.1 The Chief Financial Officer 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 to ARC annually.

6. Record keeping and safekeeping

The Chief Financial Officer will be responsible for ensuring all investment transactions are recorded and for securing all documents relative to such transactions.

Linked Policy

Investment Policy approved December 2024.