

Reserves Policy and Working Capital Statement

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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 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.
- 1.2. In addition, Charity Commission rules discourage the maintenance of large, unspecified general reserves.
- 1.3. This policy sets out the GOC's reserves policy and working capital statement. It also describes the purpose of each designated reserve category and the target upper and lower levels (range) in each category (annex 1).
- 1.4. All of GOC's reserves are unrestricted and designated for specific purposes, as follows:
 - a. General income and expenditure reserve
 - b. Complex cases legal costs reserve;
 - c. Strategic reserve; and
 - d. Infrastructure & dilapidations reserve.
- 1.5. Unrestricted 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.
- 1.6. Council will agree the target upper and lower levels (range) of reserves for each designated category in consultation with the Chair of the Finance, Audit & Risk Committee (ARC) in the context of longer-term planning, normally at the time of setting the budget for each financial year. These are described at annex 1.

2. General income and expenditure reserve (general 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 Charity Commission advises 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 normally regular and predictable, and therefore low risk. More significant economic shocks have the potential to raise this to medium risk. Most of the costs for the organisation relate to staffing and general overheads, are predictable and therefore low risk.
- 2.3. The only expenditure type that is less predictable and irregular, and therefore a higher risk, are the legal costs associated with complex cases. A separate complex cases legal reserve provides for unbudgeted legal costs resulting from these complex cases.

- 2.4. The general reserve, defined as monthly payroll and business overheads plus 1/12 of all other expenditure excluding depreciation, will normally be held at a minimum of five months' regular expenditure.
- 2.5. Overall budget approval will be provided by Council as part of the annual budget-setting process, Operational expenditure from the general reserve will 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 unbudgeted legal costs arising from complex cases.
- 3.2. The complex cases legal reserve will normally be held at a range that covers the cost of complex cases over two years. This is because here is a risk of high-value complex cases arising over and above planned levels. 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 across the completion (except internal payroll cost) of the case will be funded by legal reserve.

4. Strategic reserve

- 4.1. The purpose of the strategic reserve is to support investment in strategic projects, research and/or initiatives to facilitate the effective realisation of the GOC's strategic plan.
- 4.2. The strategic reserve will normally be held at a range that covers the cost of potential projects, research and initiatives for the period of the GOC strategic plan and the anticipated need to draw upon this reserve for their funding, and at a minimum, should be adequate to fund a minimum two years of strategic projects.
- 4.3. Expenditure from the strategic reserve requires the approval of Council.
- 4.4. Following Council authorisation of expenditure from the strategic reserve for projects, research and/or initiatives, approval of business case and 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 (10 Old Bailey) 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

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covers the cost of equivalent to the funds spent in developing the office infrastructure.

- 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. Capital expenditure above the Public Contract Regulations 2015 (current thresholds for sub-central authorities is £213,477) require Council approval. Council may delegate the approval of capital expenditure above the Public Contract Regulations threshold to SMT where projects are considered lower risk. 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. Compliance

- 6.1. As a registered charity, the Charity Commission guidance on the retention and use of reserves will be followed. The current reserves and this policy comply with Charity Commission guidance.
- 6.2. This policy will be reviewed every three years, taking into account new, or changes to, legislation and regulations as well as best practice.

7. Transparency

- 7.1. 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.

Annex 1

Target upper and lower levels (range) of reserves for each designated category - 2023/24

Designated reserve category	Range	Current range	Actual at 30 September 2023
Legal costs	£350k- £700k	£350k- £700k	£700k
Strategic reserve	£1m - £3m	£1m - £2m	£2m
Infrastructure /dilapidations	£250k -£1.25m	£250k -£1.25m	£1.25m
Covid -19	Category removed	£900k-£1.8m	£900k
General	£2.3m - £4.3m	£2.3m - £4.8m	£4.0m
Total	£3.9m - £9.25m	£4.8m - £9.55m	£8.9m
Of which, a minimum cash reserve	£200k	£200k	£1.8m

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, we must hold adequate reserves.
- 1.2 GOC has a low risk of revenue fluctuations and is in a relatively stable financial environment. Any unforeseen material fluctuations are covered by the general reserve.
- 1.3 The annual cash-flow forecast is computed 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 (February-March) before the accounting year. All surplus cash balances after planned cash outflows will be invested in approved investments institutions (as listed in 4.1 of this statement) 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 presented to ARC should 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 raised with ARC as an exception to policy and are not considered good practice under normal circumstances.
- 1.8 GOC can 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 Head of Finance. Whilst making cash available when required, they will seek optimum investments which will yield additional interest income,

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 Resources) 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 Resources 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 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.

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

- 5.1 The Head of Finance 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 Head of Finance will be responsible for ensuring all investment transactions are recorded and for securing all documents relative to such transactions.

Linked Policy

Investment Policy approved 22 March 2023.