



Council
1 February 2017
Review of financial reserves

Classification Public

Purpose For decision

Issue The General Osteopathic Council holds reserves to ensure it has sufficient funds to guard against unforeseen events.

This paper reviews the reserves position and accompanying narrative in anticipation of a successful application for registration as a charity.

Recommendations

1. To consider the review of the reserves position in line with Charity Commission guidance.
2. To agree the proposed approach to reporting the financial reserves in the next Annual Report and Accounts.

Financial and resourcing implications Contained within the paper.

Equality and diversity implications None

Communications implications None

Annexes None

Author Matthew Redford

Background

1. The General Osteopathic Council (GOsC) holds reserves as part of good business practice to ensure that it has funds available in the event that unforeseen events materialise.
2. Council is aware of our application for registration as a charity and anticipating that our application will be successful, that the reserves position will need to be reviewed to ensure the narrative is clear, transparent and compatible with the Charity Commission guidance.

Discussion

3. The guidance document, *Charity reserves: building resilience*¹ recognises that there is no single method or approach for developing a reserves position, as each organisation is different and will have a number of factors to consider such as size, complexity and risk profile. The guidance does pose some questions and responses which we can consider in forming our own reserves position.

Question	Response
Why might you need reserves for the charity to be effective?	<ul style="list-style-type: none"> • The risk of unforeseen events, or other urgent need for funds. • Covering unforeseen day-to-day operational expenditure. • A source of income falls below expectations. • Planned commitments, or designations, which cannot be met from future income alone. • The need to fund short-term deficits.
How much do you need in reserves?	<ul style="list-style-type: none"> • The level of reserves does not have to be a specific figure, but may be a target amount or a target range.
Have you got any funds in reserve at the end of the year?	<ul style="list-style-type: none"> • Compare what you have in reserves with what you actually hold and explain any shortfall or excess against the target amount or target range. • Consider whether the difference in reserves requires you to take any action.

4. While the GOsC works in an ever-changing and challenging environment, our income and operational expenditure is quite predictable and well known. With that being so, there are limited areas of risk which might lead to significant financial impact and those areas can be summarised briefly below:

¹ Charity reserves: building resilience https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/508800/CC19.pdf

Risk area	Possible financial impact
Increased volume of complaints	Current fitness to practise budget set at £580k. When a spike in complaints occurred in FY13/14, expenditure was c. £720k, an increase of £140k.
Judicial review appeals	A judicial review appeal could cost up to £20k, with GOsC paying the other parties costs were we to be unsuccessful in defending the appeal.
Uninsurable losses, e.g. data protection fines	While the cost of an insurable loss would be difficult to predict with any certainty, in 2013 the NMC was fined £150k for a data breach and in 2016 two NHS Foundation Trusts were fined £180k and £185k respectively for separate data breaches. The Information Commissioner has the power to issue fines of up to £500k.
Unforeseen increase in quality assurance activity	An unforeseen increase in quality assurance activity, i.e. additional unplanned visits, could result in additional expenditure of £20k per visit.

5. Taking the risk areas and the possible financial impacts into account, the GOsC might wish to have reserves within a target range of £350k-£700k.
6. To calculate the reserves position, Charity Commission guidance records that ‘...reserves are that part of a charity’s unrestricted funds that is freely available to spend on any of the charity’s purposes.’ The guidance goes on to say that this should exclude restricted income funds, tangible fixed assets, amounts designated for essential future spending and any funds which have particular restrictions on the way in which the funds have to be used.
7. The table below reflects the reserve position of the GOsC as at 31 March 2016, reflecting the amount of funds held, those designated or otherwise committed and those funds which would only be available after the sale of assets.

	£
Funds held	2,547,002
Restricted funds	-
Material funds designated or committed*	125,000
Sale of assets	1,846,598
Funds remaining	575,404

* Funds to be spent within 3 year period being CPD start up funds and extra RQ accreditation costs.

8. Council will note the funds the GOsC would have remaining, fall within the target range based on the review of the risk areas described in the table at paragraph 4.
9. The 2016-17 Annual Report and Accounts will have a statement on the reserves position and it is suggested that the wording for inclusion in the report – subject to any comments from the financial auditors – should adopt the following approach:

'The General Osteopathic Council (GOsC) holds reserves as part of good business practice to ensure that it has funds available in the event that unforeseen events materialise, such as an increase in expenditure or a reduction in income. Council will review the reserves position on an annual basis, which will be around the time the annual budget is being set. The reserves position for 2016-17 is set out as follows.

All of the GOsC reserves are unrestricted funds. The GOsC has set aside £100,000 for the implementation of the new CPD scheme. We anticipate that these funds will be spent across a three year period.

The Council has considered the areas in which it feels it has the greatest financial risk and these are:

- Increased volume of complaints
- Judicial reviews or legal appeals
- Uninsurable losses, e.g. data protection fines
- Unforeseen increase in quality assurance activity

Having considered these risks and the possible financial impact should they materialise Council has concluded that it would be prudent to hold reserves within a target range of £350k-£700k.

At the end of the financial year 2016-17, the Council is holding reserves equal to £xxx, which has been calculated as follows:

	£
Funds held	x,xxx,xxx
Restricted funds	-
Material funds designated or committed	xxx,xxx
Sale of assets	x,xxx,xxx
Funds remaining	xxx,xxx

Reserves held are currently within the target range and therefore no remedial action is required by Council in the forthcoming financial year.'

Recommendations:

1. To consider the review of the reserves position in line with Charity Commission guidance.
2. To agree the proposed approach to reporting the financial reserves in the next Annual Report and Accounts.