

**Imperial College Union
Board of Trustees / 30 November 2022**

Reserves Review [2022]

Author(s): Rob Scully (Director of Finance & Resources)

Purpose: This paper presents the annual Reserves Review

Action(s): To approve the Reserves Review.
To approve the target reserves level of £479k.

1. Summary

This review is undertaken by the Director of Finance & Resources for consideration of Trustees, in line with the ICU Funds & Reserves Policy. The assessment considers our strategic risks and other known financial risks and suggests a suggested level of general reserve, this includes any short term risk in relation to increases to pension deficit remedial requirements, but the longer term pension deficit liability is considered separately. The paper then considers the current level of reserve (as at 31 July 2022) against this.

It is recommended that Trustees approve a target reserves level which is the larger of:

- i. The total risk-based assessment: £450k; and,
- ii. The current pension fund deficit, plus £100k: £479k

2. Assessment of Risk

Risks are assessed below:

2.1 Net Income (non-grant) / Business Continuity Shocks

Our funding model does not require our commercial activities to generate a surplus to support the operational running costs of the rest of the organisation. Instead, commercial activities are expected to break-even or generate surpluses to be designated for future, optional strategic investment. This model removes the risk that shortfalls in commercial surpluses have an in-year impact on the rest of the organisation and/or require utilisation of free reserves.

That said, if there is significant disruption to these operations (eg a pandemic, business interruption, infrastructure issue resulting in closure etc), then it is likely that they would operate at a deficit and create a need to utilise reserves.

The suggested requirement below is based on being able to maintain the fixed costs of these operations (mainly staffing) for three months without any income.

Risk Assessment	Low / Medium
Suggested Requirement(s)	£150k

2.2 Reactive Compliance & Infrastructure

As the organisation continues to get 'back to normal' following the pandemic and embarks on our Back to Basics Strategy, there are a number of operational risks that might materialise as reviews and improvement projects are undertaken. Whilst the nature of this type of risk makes it impossible to identify with confidence, this could relate to changes to or re-evaluation of VAT treatments, historical corporation tax liabilities, urgent H&S requirements, need to respond to legislative changes etc.

This would also cover the cost associated with the need to replace core infrastructure urgently upon failure in order to maintain the operation.

Whilst in many cases it is likely that the College would provide support in responding to these challenges (and in some cases, such as VAT, they have already committed to doing so), it is important that the organisation is able to respond quickly and independently where necessary.

The previous suggested requirement was £75k, however as work has progressed through our *Back to Basics* strategy, the demands on infrastructure have increased and highlighted additional risks. Whilst we maintain that the majority of these should be funded by the College as they pertain to their buildings, we have not yet seen funding materialise. We also have an aging digital infrastructure that comes with some risk.

Risk Assessment	Medium
Suggested Requirement(s)	£100k

2.3 Block Grant

ICU operates in a relatively low risk environment when compared with other charities, due to the presence of our main funder, Imperial College. Although there is not a longer term funding guarantee, the College have been supportive of our new financial model which clarifies the relationship between grant funding and core activity of ICU.

Despite this, there is the possibility that fixed grant-funded costs increase after the grant level is approved which creates some risk. This is currently most likely to be seen through increases to staff costs in response to inflation, where offsetting grant increases are not guaranteed (though would be requested). This is also where the shorter term pension deficit risk would crystallise (through increased payroll costs via employer contributions); however, this would not happen without at least 12 months warning, so we would be in a better position to discuss this position with the College.

The suggested requirement is therefore set in the region of 5% of the grant-funded permanent payroll cost.

Risk Assessment	Low / Medium
Suggested Requirement(s)	£100k

2.4 Working Capital

ICU holds substantial cash balances and does not have any material cashflow risk. Our main cash outflows are all in arrears (particularly our payroll costs which are invoiced by the College at least a month in arrears), whilst our main cash inflows are received in advance (in the case of the block grant from College) or at the point of sale (in our Commercial Services).

Our main working capital requirement is our stock holding, which has increased over the last 12 months in response to volume of trade and supplier lead times. This is generally offset by the net negative working capital requirement in other areas, however at peak periods this might not be the case (though it will always be covered by significant cash holding related to restricted reserves).

This risk should be immediately reassessed if any significant cash balance was invested in a way that would restrict immediate access and therefore impact cashflow risk.

Risk Assessment	Low
Suggested Requirement(s)	£100k

Whilst it is highly unlikely that all of the above risks would materialise at the same time, it is possible that some could materialise with a higher demand on reserves than the suggested requirement shown above. Therefore a prudent target reserves level (excluding the long term pension deficit) would be the total of the above - £450k.

3. Pension Fund Deficit

The Union holds a long term pension deficit liability in relation to the USS Pension Scheme. This is currently £379k. This is not a liability that will fall due at any point, rather the current value of the Union's share of the overall scheme deficit.

The scheme has a recovery plan to resolve this deficit by 30 April 2038, and is primarily doing this by increasing employer contributions (in addition to changes to the benefits of the scheme already made). This should, therefore, mean that the share of the deficit held on ICU's balance sheet should decrease over the next 16 years as a result of increased payroll costs.

ICU will fund these additional payroll costs as part of the annual operating budget, and therefore there should be no need to utilise reserves for this purpose – however the risk of not being able to accommodate any short term costs has been considered in the risk-based approach to setting the target reserves level.

Although we have split the general reserve for improved presentation, it is important that the Union maintains a total general reserve which is positive. Therefore an additional factor should be applied when considering the target reserve level. It is recommended that the general reserve excluding the pension deficit should be at least the value of the current pension deficit plus a buffer of £100k (to ensure that fluctuations in the value of the deficit can be accommodated) - £479k. In other words, the total general reserve will never fall below £100k.

4. Current Reserves Levels

As at 31 July 2022, the Union's fund levels were:

Unrestricted	General	General Reserve: £591k Pension Deficit: (£379k) Total: £211k
	Designated	Fixed Asset Fund: £117k ADF: £75k Total: £192k
Restricted	Income	Student Activities / Halls: £2,040k Capital Grants: £70k Total: £2,110k
	Endowment	£nil

The current level of reserves is £111k above the target reserves level, which is deemed not so high that a reduction plan is necessary. This will be considered when setting and monitoring budgets.