

**Imperial College Union**

**Trustee Board/ 29<sup>th</sup> November 2023**

**Reserves Policy Review**

Purpose: This policy presents the annual reserves review

Action(s): To approve the review, and target level of reserves.

**1. Summary**

An annual reserves review is undertaken annually, in line with Union Policy. This requires the setting of a target level of reserves which are considered appropriate to mitigate potential risks, fund working capital requirements and facilitate future plans and strategic success. The reserves policy is published in the annual report, in line with Charity Commission requirements.

The Finance, Audit & Risk Subcommittee reviewed a proposal in October. This paper represents an update to the paper, taking into account feedback from the committee.

The Union’s approach has been risk-based and has involved considering the key operational and strategic risks that might have a financial implication, analysing the potential costs and likelihood of these risks materialising.

The target relates to General Funds (unrestricted funds which have not been designated), which are freely available. As such, they do not include restricted fund balances held by CSPs for example.

A risk-based assessment has been undertaken in recent years to help determine an appropriate reserves level for the Union, based on Charity Commission guidance (particularly Charity reserves: building resilience (CC19)). This has been updated below, A proposed new recommended level of reserves is **£545k** (2022: £479k).

**2. Risks Analysis**

The following risks have been identified and considered. An assessment of the likelihood of the risk materialising and requiring use of the reserve has informed a suggested requirement. In total, these suggested requirements determine the target level of reserves.

**2.1 Block Grant**

ICU operates in a relatively low risk environment when compared with other charities, due to the grant and other support provided by, and relationship with, the College and context of the Education Act 1994, which imposes a duty on the College to ensure the financial viability of its student representative body.

There is some risk that fixed grant-funded costs increase after the grant level is approved (e.g., due to inflation) and whilst the College have agreed to requests for salary uplifts to be funded, this may not always be the case.

The suggested requirement is therefore set in the region of 5% of the block grant.

|                          | <b>New</b>         | <b>Previous</b> |
|--------------------------|--------------------|-----------------|
| Risk Assessment          | <b>Low/ Medium</b> | Low/ Medium     |
| Suggested Requirement(s) | <b>£140k</b>       | £129k           |

## 2.2 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 (e.g., 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 budgeted cash contribution in FY23/24 is £150k (FY22/23 £108k budgeted). The suggested requirement below is based on being able to maintain the fixed costs of commercial operations (mainly staffing) for three months without any income. The increase reflects some budgeted post-pandemic growth in commercial activity compared with last year.

|                          | <b>New</b>        | <b>Previous</b>   |
|--------------------------|-------------------|-------------------|
| Risk Assessment          | <b>Low/Medium</b> | <i>Low/Medium</i> |
| Suggested Requirement(s) | <b>£175k</b>      | <i>£150k</i>      |

## 2.3 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. 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).

A £10k increase is proposed in relation to inflation. 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.

|                          | <b>New</b>   | <b>Previous</b> |
|--------------------------|--------------|-----------------|
| Risk Assessment Low      | <b>Low</b>   | <i>Low</i>      |
| Suggested Requirement(s) | <b>£110k</b> | <i>£100k</i>    |

## 2.4 Reactive Compliance & Infrastructure

As with any similar organisation, the Union may be exposed to compliance or infrastructure-related issues which present new liabilities. Whilst hard to quantify, organisations are occasionally faced with costs resulting from changes in activities, historic compliance issues, legislative changes, urgent health & safety requirements, or unforeseen external issues such as cyber-attack. This would also cover the cost associated with the need to replace core infrastructure urgently upon failure in order to maintain the operation.

The Union has sought to mitigate potential identified risks (e.g., VAT review) and has some assurance through arrangements with the College (e.g., IT SLA and previous undertaking to

cover a potential catering VAT liability)<sup>1</sup>. It is important that the organisation is able to respond quickly and independently where necessary.

However, there are some ongoing wider microeconomic and political challenges which remain (such as persistent labour market challenges, increasingly sophisticated cyber threats and a potential indirect impact from global events including wars). A 20% increase to the prior year provision is recommended in these contexts.

|                          | <b>New</b>    | <b>Previous</b> |
|--------------------------|---------------|-----------------|
| Risk Assessment          | <b>Medium</b> | <i>Medium</i>   |
| Suggested Requirement(s) | <b>£120k</b>  | <i>£100k</i>    |

### 3. Pension Fund Deficit

The Union holds a long-term pension deficit liability in relation to the USS Pension Scheme. This is currently £288k (2022: £379k). This is not a liability that will fall due at any point, rather it represents 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 via employer contributions. This should, therefore, mean that the share of the deficit held on ICU's balance sheet should decrease over the next 15 years.

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 – hence it can be considered separately to the reserves requirement unless there is a risk of the debt crystallising in the short or medium term, which is considered unlikely. Any crystallisation of the pension deficit liability would likely require discussion with the College.

### 4. Current Reserves Levels

At 31 July, the Union's fund levels were:

| Fund                |                   |                           | <b>FY22/23<br/>£k</b> | <b>FY21/22<br/>£k</b> |
|---------------------|-------------------|---------------------------|-----------------------|-----------------------|
| <b>Unrestricted</b> | <b>General</b>    | General Reserve:          | 795                   | 591                   |
|                     |                   | Pension Deficit:          | (288)                 | (379)                 |
|                     |                   | <b>Total:</b>             | <b>506</b>            | <b>211</b>            |
|                     | <b>Designated</b> | Fixed Asset Fund:         | 78                    | 117                   |
|                     |                   | ADF:                      | 99                    | 75                    |
|                     |                   | SUMS                      | 60                    | -                     |
| <b>Total:</b>       |                   | <b>237</b>                | <b>192</b>            |                       |
| <b>Restricted</b>   | <b>Income</b>     | Student Activities/Halls: | 1,873                 | 2,040                 |
|                     |                   | Capital Grants:           | 40                    | 70                    |
|                     |                   | <b>Total:</b>             | <b>1,913</b>          | <b>2,110</b>          |
| <b>TOTAL</b>        |                   |                           | <b>2,656</b>          | <b>2,514</b>          |

<sup>1</sup> The Union's finance systems sit on a College hosted server, for which there is an SLA (includes a target restoration time of 5 days for The Student Union Finance system). For context, the potential catering VAT assessment in 2020 was £167k, which the College undertook to support at the time.

The current level of reserves v Target is summarized below:

|                        | <b>FY22/23 (Draft)</b><br>£k | FY21/22<br>£k | <i>Increase</i><br>£k |
|------------------------|------------------------------|---------------|-----------------------|
| <b>Target</b>          | <b>545*</b>                  | 479           | 66                    |
| <b>General Funds</b>   | <b>795**</b>                 | 591           | 204                   |
| <b>Ahead of Target</b> | <b>250</b>                   | 112           | 138                   |

\*Proposed

\*\*Per Draft Accounts – NB: excludes pension deficit of (£288k at 31/07/23)

Based on the above figures, £250k would represent the funds available for future strategic investment, which have not yet been designated. This represents a £138k improvement from prior year, which is largely the result of a positive commercial contribution in FY22/23 (£134k in FY22/23).

## 5. Future Strategic Investment Options

Trustees are able to designate funds for specific purposes, in order to apply surplus reserves. Designated funds at 31/7/23, which are not included in the £795k figure above, include:

- Student Activities (Activities Development Fund): £98k
- SUMS Project: £60k
- Fixed Assets Fund: £78k

A proposal for a new £20k designation (Student Experience Fund) is included as a separate agenda item.

Work to identify additional areas which would benefit students is ongoing. This may involve projects being identified which will not be covered by budget, for which a designation is appropriate (an example currently under consideration includes capital related investment, specifically in relation to health and safety areas). Detailed proposals will be presented for future approval by Trustees, once developed.

Further work is being undertaken to identify resource needs, alongside the 2024/25 budget process.

## 6. Conclusion

In terms of the reserves requirement, 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 - **£545k**.

In line with Charity Commission guidance, the Trustees will review this policy annually and consider performance against it throughout the year.