IPReg

Reserves Policy

1. There is no statutory requirement to hold reserves or to ring-fence reserves for specific purposes. We consider that it is financially prudent to hold reserves for the following purposes:

    a. to cushion against unexpected or exceptional increases in costs;
    b. financing specific project commitments including capital and systems expenditure to promote the regulatory objectives and fulfil our regulatory functions;
    c. alleviating any short-term pressure on the level of practising fee or fluctuations in the level of fees year on year;
    d. ensuring sufficient funds to support regulatory and disciplinary actions;
    e. covering costs of up to 3 months if we were unable to collect practising fees, for example as a result of an IT system failure.

2. Reserves are considered by the Board annually when the operating balance for the preceding financial year is identified. Decisions about the transfer of part or all of specific reserve(s) to or from the income and expenditure account will be considered and made by the Board at this meeting.

3. Additionally, the Board will review the level of financial risk that IPReg faces, using information available on its risk register and the results of the audit of its accounts for the preceding year. As a result of this review, project-related or allocated costs reserves may be adjusted or reallocated to other or new reserves.

Compensation Fund Reserve

4. In 2021, IPReg had to establish a Compensation Fund Reserve to comply with its statutory requirement to have appropriate compensation arrangements in place. This was previously met through a bespoke insurance policy which was withdrawn by the provider and no replacement policy can be found.

5. The Legal Services Board requires all regulators to identify “committed reserves” and IPReg considers that the Compensation Fund Reserve falls into this category. As such, points 2 and 3 do not apply to the Compensation Fund Reserve.

6. Basis of Claims: The compensation fund is a ‘claims made’ fund (replicating the terms of the previous insurance policy), i.e. it covers claims notified in the ‘contribution year’, irrespective of when the dishonesty occurred (because dishonesty may not be discovered until several years after the dishonest event occurred).

7. Funding Basis: The actuarial assessment is a (prudent) expected claims cost of £30k pa. Thus each year’s P&L (opex budget) will be charged £30k. In addition, for additional prudence, the fund will be fully funded on Day 1 for a maximum pay-out in Year 1 (£100k). This means an additional transfer from Reserves of c£70k in Year 1. If no claims are notified in Year 1, and the maximum pay-out in Year 2 remains £100k. This £30k opex cost in Year 2 will enable £30k of the additional transfer to be returned to Reserves. An actuarial review is planned by the end of Year 2 to determine if the claims experience warrants continuing to hold the maximum annual pay-out of £100k.

8. Funding Principles/third party oversight: Initial funding principles for the first 2 years for the new fund will be to ring-fence funds no less than the actuary's assessment of the risk of claims emerging from incidents at each future actuarial review assessment date, bearing in mind, as above, that dishonesty may not be discovered until several years later.

9. Fund Management/third party oversight: the Compensation Fund Reserve will be held in a separate bank account. No withdrawals will be made without actuarial and legal approval (e.g. to pay claims).

10. Fund Investment/third party oversight: IPReg's Compensation Arrangements Rules 2021 give it the power to invest and borrow against the Compensation Fund. However, initially (i.e. for Year 1 and Year 2) the Fund will be invested in cash until next actuarial review and no borrowing/investing will take place without actuarial and legal advice on the impact on claimant security.

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