

2019 Reserves Policy

Purpose of paper	The purpose of this paper is to present to the Council the updated 2019 Reserves Policy.
Action	For decision
Corporate Strategy 2016-19	Objective 2: To improve our management of resources so that we become a more efficient regulator.
Business Plan 2016	Objective 2: Manage, the GDC's finances effectively, maintaining sufficient reserves to ensure resources are available to manage our statutory functions.
Decision Trail	<p>The Finance and Performance Committee reviewed a proposed Reserves Policy for 2019 at its meeting of 28 February 2019.</p> <p>This follows Council's previous consideration of a proposal to develop a new reserves policy at its December 2018 meeting.</p>
Next step	Not applicable
Recommendations	The Council is asked to review and approve the updated Reserves Policy for 2019.
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Appendices	<ul style="list-style-type: none"> Appendix 1 – 2018 Reserves Policy

Executive summary

1. The current reserves policy (appendix 1) was agreed by Council in December 2017, and defines reserves as general reserves, as stated in the Annual Report and Accounts. It states that the Council sets the reserves level taking into account the GDC's objectives, risks to its income and expenditure and planned major capital expenditure programmes.
2. In November 2017 and February 2018, the Committee considered alternative approaches to development of a reserves policy, whereby an appropriate level of reserves could be established by categorising amounts of reserves according to the estimated costs or loss of income they would cover as a result of the different types of risk that would materialise. The Committee was not supportive of switching to a method that sought to calculate the financial impact of risks as they were dependent on costs assumptions that they did not consider to be robust.
3. In July 2018, a Council workshop on the use of reserves explored the following issues:
 - Introduction of IFRS, and the impact of a reduction in reserves at 31 December 2018 of £4.6m;
 - Consideration of risks to income and expenditure of the Council, including any pension scheme risk;
 - Planned major capital spending programmes;
 - Adjustment to reserves for relating to the carrying value of fixed assets, which at 31 December 2017 stood at just over £11m.
4. A further review and benchmarking of our reserves policy was completed in November 2018 and subsequently discussed with the Committee and Council. This discussion endorsed the staff position that the current approach of equating the reserves with the general reserves was misleading, as a significantly lesser sum was actually at the disposal of the GDC once the £11m adjustment for fixed assets balances held at 31 December 2017 was made.
5. It was discussed with Council that it may be appropriate to adopt an approach of reporting as reserves as 'free reserves', net of fixed assets. This approach was supported by the benchmarking data available from other healthcare regulators where five out of six regulators express their policies in this way.
6. Given the implementation of the new fees policy in 2019, and the introduction of a new fees structure that may result in a change in ARF levels and impact the levels of reserves, it was agreed by Council that we should look to develop a new reserves policy alongside these changes and the new strategic planning framework within 2019.

Proposed 2019 Reserves Policy

7. Reflecting on previous discussion, it is proposed that we update our Reserves Policy for 2019 to move to an approach of reporting on free reserves, similar to that of other healthcare regulators, resulting in an improvement in transparency of our reporting and encouraging informed scrutiny of the GDC's reserves position.
8. Further development of a reserves policy for the period covering 2020-23 will continue alongside our work on the new strategic planning framework and fees structure. This will explore how we better use and consider our reserves for medium term financial planning.
9. The proposed 2019 Reserves Policy for Committee's consideration is set out below:
 1. *The Council establishes a policy to maintain an appropriate level of financial reserves to protect the General Dental Council from a significant event or events which would have a substantial affect, such as a major loss of revenues or a major increase in expenditure.*

2. Reserves are classified as free reserves, reserves committed to fixed assets and pension reserves, as stated in the Annual Report & Accounts of the Council
3. However, as our revenue comes mainly from statutory fees, we set the free reserves level having regard to the:
 - a. objectives of Council in pursuit of our statutory and regulatory responsibilities
 - b. funding working capital and management of day-to-day cash flows of the Council, where income is concentrated in summer and winter peaks
 - c. risks to the income and expenditure of the Council
 - d. planned major capital spending programmes
4. The GDC aims to maintain the free reserves level at a level that is not excessive but does not put solvency at risk. Our policy is to maintain free reserves at a minimum of three months of operating expenditure with a target range of four to six months of annual operating expenditure over the medium term.
5. The Council will review this Reserves Policy not less than annually.

10. The unaudited General Reserves held at 31 December 2018, under the 2018 Reserves Policy, is set out below:

	£m
General reserves as at 31st December 2017	20.2
IFRS adjustment to 2018 opening reserves	(4.6)
2018 unaudited surplus	5.4
General reserves at 31st December 2018 (unaudited)	21.0

£21.0m is 6 months of budgeted operating expenditure

11. Under the proposed policy this would be represented as:

	£m
General reserves as at 31st December 2018 (unaudited)	21.0
Reserves committed to fixed assets (net book value held at reporting date)	(£11.9)
Free reserves at 31 December 2018 (unaudited)	9.1

£9.1m is 2.6 months of budgeted operating expenditure

12. For 2019, the projected free reserves are as follows:

	£m
Free reserves as at 31st December 2018 (unaudited)	9.1
2019 projected budget surplus	4.4
Capital expenditure planned in 2019 (estates)	(0.8)
Free reserves at 31st December 2019 (projected)	12.7

£12.7m is 3.6 months of budgeted operating expenditure

To address the financial impact of the following risks to the 2019 budget:

	£m
Income risk	(2.3)
Additional referrals risk	(0.3)
ILPS staffing costs risk	(0.1)
Risk from 2019 budget risk and opportunities review	(0.1)
Total impact of risks identified	(2.8)

Leaving £9.9m which is 2.8 months of budgeted operating expenditure

13. Based on our unaudited financial statement, we are below our minimum free reserves level of 3 months at the commencement of the 2019 financial year. This is as a result of the impact of the IFRS adjustment for the changes to the accounting standard on income recognition. Without the change in accounting standard we would have projected free reserves covering 4.1 months of budgeted operating expenditure.
14. Our budgeted surplus for 2019 will see us recover our reserves position by the end of the 2019 financial year to 3.6 months of budgeted operating expenditure. The recommend reserves target range of four to six months is aspirational and will not be achievable immediately.

Risks and considerations

15. Risks and considerations are set out below:

<p>Communications</p> <p>Changes to our Reserves Policy will need to be communicated with our stakeholders and disclosed in our 2018 Annual Report and Accounts.</p>
<p>Equality and Diversity</p> <p>No equality and diversity implications</p>
<p>Legal</p> <p>No legal issues</p>
<p>Policy</p> <p>No policy impact</p>
<p>Resources</p> <p>No cost implications from this decision</p>
<p>National</p> <p>No national effect of this decision</p>

Recommendation

16. The Council is asked to review and **approve** the updated Reserves Policy for 2019.

Appendices

- Appendix 1 – 2018 Reserves Policy

2018 Reserves policy

1. The Council establishes a policy to maintain an appropriate level of financial reserves to protect the General Dental Council from a significant event or events which would have a substantial affect, such as a major loss of revenues or a sudden major increase in expenditure
2. Reserves are defined as the general reserves as stated in the Annual Report & Accounts of the Council
3. However, as our revenue comes mainly from statutory fees, we set the reserves level having regard to the:
 - a. objectives of Council in pursuit of our statutory and regulatory responsibilities
 - b. risks to the income and expenditure of the Council
 - c. planned major capital spending programmes
4. The GDC aims to maintain reserves at a minimum of three months of operating spend, with an aspirational target to increase this to a range of 4 to 6 months of operating spend.
5. The Council will review this Reserves Policy not less than annually