

Dental Council Policies: Level of Reserves

Policy	Level of Reserves
Date last reviewed	2 November 2020
Scheduled review	September 2022
Approved by	Council, 15 October 2018

Purpose

Not-for-profit organisations maintain reserves to meet day to day operations and to enable them to absorb or manage unexpected or extraordinary fluctuations in either income or expenditure in any one-year period, as well as to fund budgeted capital expenditure.

The purpose of this policy is to define the parameters by which minimum reserves are set by Council in order to fulfil its operational and strategic activities, and to ensure sufficient cash resources are in place at all times.

Scope

This policy applies to the Dental Council (Council).

Policy

1. Five separate reserves are maintained by Council:

- (a) Capital Replacement Reserve (Council Level);
- (b) Capital Asset Reserve (Council level);
- (c) Operational Reserves (Profession Level):
- (d) Competence Reserve (Profession Level); and
- (d) Disciplinary Reserve (Profession Level)

Reserves maintained at Council level are funded by APC fees and are not assigned to any profession. Reserves maintained at the Profession level are funded from APC Fees and disciplinary levies for each profession.

In relation to the setting of APC fees, and the corresponding impacts this might have on Council's reserves, consideration is given to the following:

- (a) The operational and strategic activities the Council intends to undertake as per the annual plan.
- (b) The level of funds required to meet expenditure on competence cases in any one financial year.
- (c) The level of funds required to meet expenditure on registration appeal cases and/or judicial reviews in any one financial year.
- (d) The level of funds required to meet the annual average capital expenditure commitments over a two year capital expenditure cycle.
- (e) The Covid-19 pandemic situation.

2. In relation to the setting of Disciplinary Levies, and the corresponding impacts this might have on Council's disciplinary reserves, consideration is given to the following:

- (a) The level of funds required to meet the costs of Professional Conduct Committees (PCC) and Health Practitioners Disciplinary Tribunal (HPDT) hearings and disciplinary appeal cases in any one financial year. These costs include the costs of Council staff involved in the administration of PCC and HPDT cases.
- (b) The number of judicial reviews in train and the potential exposure in the next financial year for which levies are being determined.
- (c) That additional levies may be raised during the financial year under s131 of the HPCA Act.

3. Each year, the Council will review the minimum reserves levels required for each profession.

4. No cross-subsidy across professions will be allowed.

Where a profession has exhausted their entire reserves (both operational and disciplinary combined) the Council may charge that profession an interest penalty for the temporary funding provided by Council or the other professions. The interest rate will be based on the Council's current average term deposit investment rate for the period the profession is in deficit.

In the first instance penalty interest charged will be retained at Council level, provided Council reserves are sufficient to support the profession in deficit, otherwise interest will be pro-rated across the professions providing temporary funding to the profession in deficit.

Reserve Setting

Reserve levels for the next financial year's budget are set by Council on the recommendation of the Audit and Risk Management Committee (ARM). The assessment of each reserve level in accordance with this policy is included as part of the annual plan and budget process each year.

Capital Replacement Reserve (CRR)

The CRR is a cash reserve established at Council level and is not segregated by profession. It provides for prefunding or concurrent funding of average annual capital expenditure over a two year plan horizon.

Protocol:

- 1. The capital expenditure requirements over the next two plan years are assessed as part of the strategic planning and budget cycle.
- 2. Any shortfall in the CRR to meet the budgeted capital expenditure may be met from an APC fee of an equal amount, payable by all registered practitioners over two years.
- 3. The components included in the calculation of the minimum CRR are:
 - (a) Capital Expenditure forecasts for the next two plan years
 - (b) 10% of Capital Expenditure forecasts for the two plan years. This allows for an under estimate on capital expenditure in those years.

Capital Asset Reserve (CAR)

The CAR is a non-cash reserve established at Council level and is not segregated by profession. It represents a significant portion of the net book value of fixed assets in the Statement of Financial Position. The CAR reflects the movement in the net book value of assets in each financial year.

Operational Reserve (OR)

The OR is a cash reserve established at Profession level. It provides for the profession's share of Council's annual net budgeted operational expenditure and the annual net budgeted operational expenditure directly attributable to the profession. The OR reserve also includes a provision for any unexpected decrease in Council and profession revenue (excluding APC revenue) or increase in Council and profession operational expenditure. The additional provision above reserves held for day to day operations, provides a buffer against any extraordinary Council operational expenditure or any under-recovery of registration, examination, recertification, health etc. operational costs at profession level.

Protocol:

1. APC fees are predominantly received in the month prior to the beginning of the recertification/practising year. As APC fees are recognised on the first day of the recertification year or on receipt thereafter, pre-funding of reserves for annual net budgeted operational expenditure is largely achieved at the start of the recertification year. Therefore the level of operational reserves held for day to day operations will reflect at any point in time the unutilised portion of annual net budgeted operational expenditure until the end of the recertification year being 31st March.
2. Additional reserves above those required for annual net budgeted operational expenditure are set at levels approved by Council on the recommendation of ARM as part of the annual budget/planning cycle. The base additional reserve is deemed to be 1 month or 8.33% of average budgeted Council and Profession income (excludes APC revenue) and expenditure over the next two plan years.
3. If during the budget cycle, potentially significant non-routine expenditure on future registration appeal or judicial review cases is identified, Council (on the recommendation of ARM) may make additional provision above the 8.33% reserve level for these costs.
4. As APC fees are set based on a two-year plan cycle, a small Profession operational surplus or deficit can arise where, for example, a deficit in the first plan year is offset by a surplus in the 2nd plan year. These surpluses/deficits will be adjusted on a rolling two-year plan basis.
5. When setting the reserve levels for the upcoming budget year, account will be taken of forecast OR balances to 31 March. Any projected surplus in OR above the minimum levels may be refunded or not refunded at the discretion of Council on the recommendation of ARM.
6. The refund, via a reduction in APC fees, may be made in part or in full in the next financial year or deferred to the 2nd financial year. The decision to refund or not refund surplus OR will take account of the overall reserves position of the profession, including the profession's DR balance and any perceived risks faced by the profession e.g. potential for appeal or judicial review cases, and planned activity over the following two years.
7. Any projected deficit in OR below minimum levels will be recovered via APC fees in a subsequent financial year.

Competency Reserve (CR)

The CR is a sub-set of the Operational Reserve, and is an additional cash reserve established at Profession level.

Protocol:

1. The third party costs of competence (including Competence Review Committees) and professional standards cases can vary significantly in volume and complexity. As a result, the third party costs of these cases cannot be reliably predicted when setting the budgets for the next financial year. Therefore, Council, on the recommendation of ARM, may set a specific minimum reserve level for competence for any profession on the approval of the annual budgets and APC fees to go to consultation each year.
2. The specific minimum CR level set each year is then funded through the APC fee by:

- a. Making additional provision above the competence expenditure budgets for a number of Competence Review Cases (CRC) in each of the two plan years; and
- b. Adjusting the minimum operational reserve level, to be fully funded at the end of the two-year plan cycle, to take account of the additional provision above budgeted competence expenditure for additional unexpected CRC cases.

Disciplinary reserve (DR)

The DR is a cash reserve established at Profession level for discipline costs.

Protocol:

1. Disciplinary levies are predominantly received in the month prior to the beginning of the recertification/practising year. As disciplinary levies are recognised on the first day of the recertification year or on receipt thereafter, pre-funding of reserves for annual net budgeted disciplinary expenditure is largely achieved at the start of the recertification year. Therefore the level of disciplinary reserves held for budgeted net disciplinary expenditure will reflect at any point in time the unutilised portion of annual net budgeted disciplinary expenditure until the end of the recertification year being 31st March.
2. The third party costs of discipline cases and appeals (including Professional Conduct Committees and cases taken to the Health Practitioner's Disciplinary Tribunal) can vary in volume and complexity. As a result, the third party costs of these cases cannot be reliably predicted when setting the budgets for the next financial year.
3. Therefore, Council, on the recommendation of ARM, will set an additional reserve level for discipline at Profession level at the time of the approval of the annual budgets to go to consultation each year.
4. When setting the disciplinary reserve levels for the upcoming budget year, account will need to be taken of projected Disciplinary reserve balances to 31 March. Any forecast surplus in DR above the minimum levels may be refunded or not refunded at the discretion of Council on the recommendation of ARM.
5. The refund, via a reduction in disciplinary levies, may be made in part or in full in the next financial year or deferred to the 2nd financial year. The decision to refund or not refund surplus DR will take account of the overall reserves position of the profession, including the profession's OR balance and any perceived risks faced by the profession e.g. potential for appeal or judicial review cases.
6. Any surplus or deficit in Disciplinary reserves below minimum levels will be recovered via disciplinary levies in the next financial year.

Funding of Deficits in Reserve Balances

Protocol:

1. From time to time either the operational or disciplinary reserve balance (or both) of a profession could go into deficit as a result of extraordinary or unexpected expenditure. Should this situation arise, the temporary cash funding of the reserve in deficit, will be met by the reserve balance of that profession that is in surplus.
2. Where both reserve balances (operational and disciplinary) of a profession are in deficit (separately or collectively) the temporary funding of that profession will be met by surplus cash funds held in the Council capital replacement reserve or surplus cash funds held by other professions in their operational and disciplinary reserves.
3. The temporary funding of the reserve(s) in deficit will continue until the reserve is replenished at a future annual recertification round. In the case of a disciplinary reserve in deficit, if funds are required more immediately, funding may be obtained by imposing an additional levy under section 131 of the HPCA Act before the next annual recertification round.

Definition of Reserves

Reserves are the appropriation of surpluses that are set aside for a particular purpose.

Cash reserves are reserves backed by cash funds or current assets that can be readily converted to cash funds.

Non Cash reserves are reserves that are represented by assets that cannot be readily converted to cash funds such as operational fixed assets e.g. office equipment and furniture.

References

1. Budgeting, Fee Setting and Cost Allocation Policy

Responsibilities

		Responsibility
Operational	ARM	Review and recommend the Reserves policy to Council
Governance	Council	Approve the Reserves policy.

Version

Version	Reason for Update	Approved by	Date
1	Reimbursement for successive Council members from \$500 (GST exclusive) to \$1,000 (GST exclusive) per appointment term, for IT related costs.	Council	8 Aug 2016
2	Updated to reflect ability to reset capital asset reserve over a longer period of time if required	Council	29 Sept 2017
3	Updated to reflect ability to replenish a reserve over a period greater than one APC year	Council	15 Oct 2018
4	Updated to include the Covid-19 impact and expand detail on disciplinary and capital reserves	Council	2 Nov 2020