

Reserves Policy 2020

Purpose of paper	The paper sets out the proposed 2020 Reserves Policy for Council approval.
Status	Public
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 2018	Not applicable.
Decision Trail	<p>The Council last approved the 2019 Reserves Policy on 28 March 2019.</p> <p>The Finance and Performance Committee considered the 2020 Reserves Policy at their meeting on the 20 November 2019, and recommended the policy be submitted to Council for approval.</p>
Next stage	Not applicable.
Recommendations	<p>The Council is asked to:</p> <ul style="list-style-type: none"> • Consider the Reserves Policy 2020; • Approve the Reserves Policy 2020.
Authorship of paper and further information	<p>Samantha Bache, Head of Finance and Procurement sbache@gdc-uk.org 0121 752 0049</p> <p>Gurvinder Soomal, Executive Director of Registration & Corporate Resources gsoomal@gdc-uk.org 020 7167 6333</p>
Appendices	Appendix 1 – 2019 Reserves Policy

1. Executive Summary

- 1.1. The reserves policy is designed to ensure that the GDC retains financial viability in maintaining its functions and processes for protecting the public and regulating the dental profession; whilst recognising the risks that the GDC faces, ensuring that the GDC has adequate levels of working capital throughout the year.
- 1.2. Following a change to the fees policy, we have for the first-time aligned our budget, fees and reserves target to our three-year plan of strategic activity.
- 1.3. As set out in our Corporate Strategy 2020-22 consultation, a target level of free reserves equivalent to 4.5 months of operating expenditure has been considered as appropriate by Council. This is on the basis that it provided the optimum level of financial resilience to ensure the GDC remains a viable organisation by 31 December 2022. This is reflected in our proposed 2020 Reserves Policy, which has been updated to reflect Council's view on the target level for free reserves.
- 1.4. Following the completion of our Q3 forecasting exercise, the forecast level of free reserves by December 2022 has been updated to £16.8m, 4.9 months of annual operating expenditure. Whilst this is within the parameters of our Reserves Policy, this is now currently in excess of the desired target at the end of the planning period.
- 1.5. Following discussion with the Finance and Performance Committee in November 2019, the proposed Reserves Policy 2020 has been updated to reflect that our minimum level of free reserves is to take into consideration our current financial risk exposure. After assessing our level of financial risk over the planning period, the forecast level of free reserves at the end of the planning period is 3.1 months. This is within the parameter of our proposed policy.
- 1.6. We will closely monitor, report on and review our forecasted reserves position throughout the delivery of the planning period.
- 1.7. The Council is asked to consider and approve the Reserves Policy 2020.

2. Introduction and background

- 2.1. The reserves policy was last reviewed by Council in March 2019, where they approved a change to the way we manage and report on our reserves. The 2019 Reserves Policy (appendix 1) defines reserves as free reserves, reserves committed to fixed assets (future depreciation) and pension reserves, as stated in the Annual Report & Accounts of the Council.
- 2.2. This change moved was to provide a more transparent and less misleading approach to setting our target level of reserves as it takes into consideration the elements of the General Reserve already committed. For instance, to account for the future depreciation costs of previous capital expenditure.
- 2.3. At 31 December 2018, general reserves, excluding pension reserve and any unrealised gains on investments, were:

	£m
General Reserve at 31 December 2018	20.9
Of which:	
Reserves committed to fixed assets	11.9
Free reserves	9.0
Free reserves expressed as a number of months of operating expenditure	2.6 months

- 2.4. Free reserves were below our agreed minimum level of reserves of 3.0 months due to the first-time adoption of 'IFRS 15, Revenue from Contracts with Customers', which resulted in a restatement of £4.6m to the General Reserve.
- 2.5. Following a change to the fees policy, we have for the first-time aligned our budget, fees and reserves target to our three-year plan of strategic activity. As a result, we have developed our three-year Costed Corporate Plan 2020-22 (CCP) which covers the period of the new strategic cycle and all plan activities are aligned to its strategic aims and fee levels are aligned to funding the resulting three-year budget envelope.
- 2.6. In line with our published fees policy, the level of ARF will be set to include the cost of funding the planning period and to build and maintain free reserves at a level appropriate to ensure the GDC remains a viable organisation. As set out in our Corporate Strategy 2020-22 consultation, a target level of free reserves equivalent to 4.5 months of operating expenditure has been considered by the Council to provide the optimum level of financial resilience to ensure the GDC remains a viable organisation by 31 December 2022.
- 2.7. As a further development of our Reserves Policy for 2020, and following discussion with the Finance and Performance Committee at their November meeting, the minimum level of acceptable free reserves is to be assessed after consideration of any financial risk exposure.

3. Forecast free reserves 2020-2022

- 3.1. As a result of updated quarter 3 forecast of the 2019 projected surplus and adjusting for the impact of capital investment and depreciation, it is estimated that by 31 December 2022 free reserves will be £16.8m. This is the equivalent of 4.9 months of budgeted operating expenditure at the end of the planning period (3.1 months of budgeted operating expenditure after adjusting for our assessment of financial risk):

Free reserves	
	£k
General Reserves at 31 December 2018	20,907
Reserves committed to fixed assets	(11,912)
Free reserves at 31 December 2018	8,995
Release of reserves committed to fixed assets (depreciation Q3 forecast 2019)	1,138
2019 - Forecasted surplus	7,820
2019 - Capital expenditure	(1,303)
Forecast free reserves at 31 December 2019	16,650
Capital investment 2020-22	(2,320)
Release of reserves committed to fixed assets (depreciation 2020-22)	3,445
ARF rebate to registrants	(985)
Forecast free reserves at 31 December 2022	16,790
Free reserves expressed as number of months of annual operating expenditure	4.9
<i>In consideration of financial risks to CCP budget</i>	<i>£k</i>
<i>Income risk (loss of 5% of Dentist and DCPs from register)</i>	<i>(5,672)</i>
<i>Increase in cost for strategic contract retenders</i>	<i>(560)</i>
Total financial risk	(6,232)
Free reserves as adjusted for current year assessment of financial risk	10,418
Adjusted free reserves expressed as number of months of annual operating expenditure	3.1

4. Proposed 2020 Reserves Policy

4.1. Reflecting on previous discussions with FPC and Council, it is proposed that we update our Reserves Policy for 2020 to reflect:

4.1.1. the target level of free reserves to be 4.5 months of operating expenditure by the end of the planning period 2020-22.

4.1.2. the minimum level of free reserves acceptable to the organisation is to be assessed after our consideration of financial risks.

4.2. The proposed 2020 Reserves Policy 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 sudden 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:*
 - a. *the 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 it to maintain free reserves at a minimum of three months of operating expenditure, as adjusted for our current assessment of financial risk, with a target of four and a half months of operating expenditure by the end of our three-year plan of strategic activity, December 2022.*
5. *The Council will review this Reserves Policy not less than annually.*

5. Risks and considerations

Communications <ul style="list-style-type: none">• The GDC's financial reserves policy is communicated in the Annual Report and Accounts each year.
Equality and Diversity <ul style="list-style-type: none">• None arising from this paper.
Legal <ul style="list-style-type: none">• The GDC must be in a financial position to fulfil its statutory functions.
Policy <ul style="list-style-type: none">• The Corporate Strategy underpins and drives forward our organisational policy for the period 2020-22.
Resources

- The ARF is set at a level to enable the GDC to raise funds to carry out its statutory duties, whilst retaining an adequate level of general reserves.

National

- This proposed policy will not have different impacts on the four nations.

Risks on registers

- In considering the level of financial risk exposure to free reserves, risks identified in the Strategic Risk Register have been considered.

6. Recommendations

- 6.1. The Council is asked to consider and approve the Reserves Policy 2020.

7. Appendices

8. Appendix 1 – 2019 Reserves

Appendix 1

2019 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 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 it 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.