

Policy on the Level of Reserves

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Definition

- 1 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.

Purpose

- 2 Not for profit organisations fund reserves to enable them to absorb or manage unexpected or extraordinary fluctuations in either income or expenditure in any one-year period and to fund budgeted capital expenditure.
- 3 Council reserves are created by budgeting for surpluses through the setting of fees and levies resulting in an excess of income over expenditure in the financial year. Reserves are set up to provide a buffer against unforeseen events and for planned capital expenditure, to ensure that the Dental Council can always meet its financial obligations as they fall due.
- 4 The purpose of this policy is to define the parameters by which minimum reserve levels are set by Council in order to fulfill its operational and strategic activities in accordance with the Health Practitioners' Competence Assurance Act 2003 (HPCA) and to ensure sufficient cash resources are in place at all times.

Reserve Setting

- 5 In relation to the setting of fees and levies, and the corresponding impacts that this might have on the 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 (Annual Practising Certificate (APC) Operational Fee).
 - (b) The level of funds required to meet expenditure on Competence cases in any one financial year (Annual Practising Certificate (APC) Operational Fee).
 - (c) The level of funds required to meet expenditure on registration appeal cases in any one financial year (Annual Practising Certificate (APC) Operational Fee).
 - (d) The level of funds required to meet capital expenditure commitments over a two year capital expenditure cycle (Annual Practising Certificate (APC) Operational Fee).
 - (e) The level of funds required to meet the costs of Professional Conduct Committees (PCC) and the Health Practitioners Disciplinary Tribunal (HPDT) and appeal cases in any one financial year. (Disciplinary Levy).

- 6 Fluctuations in Council operational costs in any one financial year can be routinely managed as the Dental Council can choose to defer project work during the year to avoid a deficit position. Competence and registration appeal cases including judicial reviews arise randomly and pre funding of operational reserves to meet the costs of these cases is highly desirable.
- 7 Discipline costs from PCC's and proceedings of the HPDT including appeals can vary significantly year on year and pre funding of disciplinary reserves to meet the costs of these cases is essential.
- 8 Council's exposure to judicial reviews arising out of competence, registration and discipline cases is limited to an excess of \$25,000 under its Associations insurance policy. However there is a maximum of \$150,000 insurance cover available under the insurance policy in any one year. Therefore when setting reserve levels cognizance needs to be taken of the number of judicial reviews in train and the potential exposure in the next financial year for which fees and levies are being determined.
- 9 Reserve levels for the next financial year budgets are set by Council on the recommendation of the Audit & 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 commencing in August each year.
- 10 Five separate reserves are maintained by Council:
 - (a) Capital Replacement Reserve (Council Level);
 - (b) Capital Asset Reserve (Council level);
 - (c) Operational Reserve (Profession Level);
 - (d) Competence Reserve (Profession Level); and
 - (e) Discipline Reserve (Profession Level)
- 11 **Capital Replacement Reserve (CRR)** - The CRR is a cash reserve established at Council level and is not segregated by profession.
- 12 The CRR provides for prefunding or concurrent funding of capital expenditure over a two year plan horizon.
- 13 Out of the strategic plan and during the budget cycle capital expenditure requirements over the next two plan years are assessed. Any shortfall in the CRR to meet the budgeted capital expenditure is met from an APC fee of an equal amount across all dental profession practitioners over two years.
- 14 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 under estimate on capital expenditure in those years.
- 15 **Capital Asset Reserve (CAR)** - The CAR is a non cash reserve established at Council level and is not segregated by profession. The CAR represents the net book value of fixed assets in the Statement of Financial Position. This reserve reflects the movement in the net book value of assets in each financial year.
- 16 **Operational Reserve (OR)** (excludes competence reserve refer below) – The OR is a cash reserve established at profession level.

- 17 This reserve provides for any unexpected decrease in Council and profession revenue (excluding APC Revenue) or increase in Council and profession operational expenditure. This provides a buffer against any extraordinary Council operational expenditure and any under recovery of registration, examination, recertification, health etc operational costs (excludes competency costs) at profession level.
- 18 APC fees are predominately received at the beginning of the recertification/practising year, therefore pre funding of annual net operational expenditure is largely achieved. The practising year for Dentists runs from 1 October to 30 September in contrast to the 1 April to 31 March cycle for other Dental health professionals. As a result the Dental Council will always hold at least two months APC revenue in advance with the lowest level of pre funding occurring at the beginning of September each year.
- 19 As a result of the natural buffer provided by APC fees received in advance, the routine operational reserve level is set at a minimal level. This is deemed to be 1 month or 8.33% of budgeted Council and profession income (excludes APC revenue) and expenditure (excludes competence) in the next plan year.
- 20 If during the budget cycle, future potentially significant non routine expenditure on 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.
- 21 **Competency Reserve (CR)** – The CR is a cash reserve established at Dentist profession level only.
- 22 As the third party costs of Dentist competency (including Competence Review Committees) and professional standard cases can vary in volume and complexity, the 3rd 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 will set a specific minimum reserve level for competency on the approval of the annual budgets to go to consultation in November each year.
- 23 The specific minimum competency reserve level set each year by Council is funded through the APC fee by;
- Making provision in the expenditure budgets for a standard number of Competence Review Cases (CRC) in each of the two plan years; and
 - Adjusting the minimum competence reserve level, to be fully funded at the end of the two-year plan cycle, to take account of the provision in the budget for 3rd party CRC expenditure.
- 24 As APC fees are set based on a two year plan cycle a small profession operational surplus or deficit can arise where say a deficit in the 1st 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.
- 25 When setting the reserve levels for the upcoming budget year, account will need to be taken of projected Operational and Competency reserve balances to 31 March when setting APC fees for the new year. Any projected surplus in Operational or Competency reserves above minimum levels will be refunded over the following two financial years. Any projected deficit in Operational or Competency reserves below minimum levels will be recovered in the next financial year.
- 26 **Disciplinary reserve (DR)** - The DR is a cash reserve established at profession level only.
- 27 Because the third party costs of discipline cases and appeals (includes Professional Conduct Committees and cases taken to the Health Practitioners Disciplinary Tribunal) can vary

significantly in volume and complexity the 3rd 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 will set a specific reserve level for discipline at profession level at the time of the approval of the annual budgets to go to consultation in November each year.

- 28 When setting the discipline reserve levels for the upcoming budget year, account will need to be taken of projected Discipline reserve balances to 31 March when setting Disciplinary levies for the new year. Any surplus or deficit in Discipline reserves above or below minimum levels will be refunded or recovered in the next financial year.

Funding of Deficits in Reserve balances

- 29 Operational reserves (including any competence reserve) are funded from APC Fees and disciplinary reserves are funded from Disciplinary Levies for each profession. The Capital Replacement reserve is also funded by APC Fees but this reserve is maintained at Council level and is not assigned to any profession.
- 30 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.
- 31 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.
- 32 The temporary funding of the reserve(s) in deficit will continue until the reserve is replenished at the next annual recertification round. In the case of a discipline 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.
- 33 Where a profession has exhausted their entire reserves (both operational and disciplinary combined) the Council on the recommendation of ARM may charge that profession an interest penalty for the temporary funding provided by Council or the other professions.
- 34 The interest rate will be based on the Council's current average term deposit investment rate for the period the profession is in deficit.
- 35 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.