

Council 10 May 2012

Reserves policy

Executive summary and recommendations

### **Introduction**

This paper relates to the HPC reserves policy review.

### **Decision**

The Council is requested to review the attached document and approve the reserves policy. This was approved by the Finance and Resource Committee in their meeting on 15 March 2012.

### **Background information**

The reserves policy was last approved by Council at their March 2011 meeting. The latest copy of the policy is attached (Appendix One). The Finance and Resources Committee have recommended that the policy is reviewed again in one year's time.

The calculations shown in Appendix Two have been updated to reflect actual values for years ending March 2010 and March 2011, the forecast year end to March 2012 and the latest draft budget data for year ending March 2013. The last year shown is as originally stated in the last approved 5 year plan.

### **Resource implications**

None.

### **Financial implications**

None.

### **Appendices**

Appendix One – HPC Financial Reserves Policy  
Appendix Two – Reserves Policy Forecast

### **Date of paper**

30 April 2012

## **APPENDIX ONE**

### **HEALTH PROFESSIONS COUNCIL (HPC)**

#### **RESERVES POLICY**

##### **INTRODUCTION**

HPC commenced operations on 1st April 2002 inheriting the net assets, general funds and revaluation reserves of the Council for Professions Supplementary to Medicine (CPSM). A private meeting of the Council in October 2004 ratified the September 2004 proposed policy that sufficient Reserves should be held to cover three months overheads. The Reserves policy was last approved by the Finance and Resources Committee in March 2012.

##### **1.0 Reserves definitions**

Reserves have been defined as accumulated profits (surpluses) that have been retained by a company (the organisation), plus any surplus from the revaluation of assets, plus any share premium. Reserves belong to shareholders (stakeholders) and are part of shareholder's funds.

In s92 (c) of the Company's Act 2006, reserves are referred to indirectly as follows; the amount of the company's net assets is not less than the aggregate of its called up share capital and undistributable reserves. s831 (4) defines undistributable reserves as the share premium account plus the capital redemption reserve plus the amount by which accumulated unrealised profits exceed its accumulated unrealised losses plus any other reserve that the company is prohibited from distributing.

A useful guide for HPC would be to define reserves as the sum of Investments and Working Capital, as this is readily convertible to cash in the short term.

## **2 RESERVES POLICY**

**2.1 That HPC maintain a Reserves level that is a MINIMUM of three average months budgeted operating expenses.**

**APPENDIX TWO  
Reserves Policy Forecast**

|  | 2008/2009<br>Actuals | 2009/2010<br>Actuals | 2010/2011<br>Actual | 2011/2012<br>F'cast | 2012/2013<br>Budget | 2013/2014<br>5 year plan |
|--|----------------------|----------------------|---------------------|---------------------|---------------------|--------------------------|
| Investment value                                 | 1,347,418            | 1,926,067            | 0                   | 0                   | 0                   | 0                        |
| Working Capital                                  | 3,042,091            | 4,300,270            | 6,415,000           | 5,676,000           | 6,250,000           | 6,650,000                |
| <b>Total available</b>                           | <b>4,389,509</b>     | <b>6,226,337</b>     | <b>6,415,000</b>    | <b>5,676,000</b>    | <b>6,250,000</b>    | <b>6,650,000</b>         |
| Expenditure                                      | 12,925,680           | 15,004,279           | 16,474,000          | 17,700,000          | 22,000,000          | 23,350,000               |
| <b>3 avg mths of Op Expenses (Policy target)</b> | <b>3,231,420</b>     | <b>3,751,070</b>     | <b>4,118,500</b>    | <b>4,425,000</b>    | <b>5,500,000</b>    | <b>5,837,500</b>         |
| Difference                                       | 1,158,089            | 2,475,267            | 2,296,500           | 1,251,000           | 750,000             | 812,500                  |
| Ratio of Closing CF to WC                        | 1.76                 | 1.31                 | 0.87                | 1.18                | 1.15                | 1.86                     |
| Closing Cash                                     | 5,341,865            | 5,649,422            | 5,608,000           | 6,720,000           | 7,200,000           | 12,400,000               |
| Forecast in £000's                               | 4,390                | 6,226                | 6,415               | 5,676               | 6,250               | 6,650                    |
| Three mths holdings target in £000's             | 3,231                | 3,751                | 4,119               | 4,425               | 5,500               | 5,838                    |

