

Reserves Policy

Strategic delivery: Setting standards Increasing and informing choice Demonstrating efficiency economy and value

Details:

Meeting Audit and Governance Committee

Agenda item 12

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Output:

For information or decision? Decision

Recommendation AGC is requested to consider, comment and approve the updated reserves policy. Changes to the previous agreed version are shown. It will then be agreed with DH.

Resource implications Implementing and monitoring the policy is part of the role of the Finance directorate

Implementation date

Organisational risk Low Medium High

Annexes



RESERVES POLICY

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Reserves Policy

Purpose

1. The purpose of this policy is to ensure that both the Executive and Authority of the HFEA are aware of the minimum level at which reserves are maintained and the reasons for doing so. The minimum level of reserves set out in this policy has been agreed with the Department of Health.

Comment [SG1]: It should not be a problem to agree with DH that we are reducing minimum reserves further

Principle

2. An organisation should maintain enough cash reserves to continue business operations on a day-to-day basis and in the event of unforeseen difficulty and commitments that arise. It is best practice to implement a reserves policy in order to guide key decision-makers.

Reserves Policy

3. The Authority has decided to maintain a reserves policy as this demonstrates:
 - Transparency and accountability to its licence fee payers and the Department of Health
 - Good financial management
 - Justification of the amount it has decided to keep as reserves
4. The following factors have been taken into account in setting this reserves policy:
 - Risks associated with its two main income streams - licence fees and Grant-in-aid - differing from the levels budgeted
 - Likely variations in regulatory and other activity both in the short term and in the future
 - HFEA's known, likely and potential commitments
5. The policy requires reserves to be maintained at least at a level that ensures the HFEA's core operational activities continue on a day-to-day basis and, in a period of unforeseen difficulty, for a suitable period. The level should also provide for potential commitments that arise.

Cashflow

6. To enable sufficient cover for day-to-day operations, a cash flow forecast is prepared at the start of the financial year which takes into account the timing of when receipts are expected and payments are to be made. Most receipts come from treatment fees - invoices are raised monthly and on average take 60 days to be paid. Cash reserves are needed to ensure sufficient working capital is available to make payments when they become due throughout the year.
7. The HFEA experiences negative cashflow (more payments than receipts) in some months. £500510k is needed to cover this cash shortage. Reserves should be maintained so that there is always a positive cash balance.

Unforeseen difficulty

8. The level of reserves required for unforeseen difficulty is based on two elements: salaries (including employer on-costs) and the cost of accommodation. These are deemed to be fixed costs that would have to be paid in times of unforeseen difficulty with all other of the HFEA's running costs being regarded as semi-variable or variable costs and thus excluded from this calculation. These two areas currently represent 7477% of the HFEA's total annual budget.
9. The certainty and robustness of HFEA's key income streams and the predictability of fixed costs, as well as the relationship with the sponsor, the Department of Health, indicate that 2 months' salary and accommodation costs is a prudent, but sufficient, minimum level of reserves to hold.
10. Based on the HFEA's current revenue budget, the combined monthly cost of salaries and accommodation is around £340k. Accommodation costs are low at present and are likely to increase following an office move in 2015, by around £20k per month. A prudent reserve of two months going forward would therefore be £720k.

Other potential commitments

11. The HFEA is also mindful of the financial risks it faces, in particular that it may be required to undertake additional activities not planned or make additional spend not included within budget or utilise its reserves for key pieces of work. While every effort would be made to cover costs within the budget allocated for the year, it may

be necessary to use reserves to meet the cashflow needs arising from additional necessary spend.

12. A prudent reserve for other commitments would be £~~300~~150k. If other exceptional spend was required, the HFEA would look to the Department of Health for support.

Comment [SG2]: Reduced after additional spend last year and to level we have available after IfQ

Minimum reserves

13. The HFEA's minimum level of reserves will be maintained at a level that enables positive cashflow (£~~500~~510k), provides £720k for unforeseen difficulty and £~~300~~150k for other potential commitments. The minimum level of cash reserves required is therefore £~~1.52~~1.38m. These reserves will be in a readily realisable form at all times.
14. Each month the level of reserves will be reviewed by the Director of Finance and Resources as part of the HFEA's ongoing monitoring of its cash flow.
15. Each autumn as part of the HFEA's business planning and budget setting process, the required level of reserves for the following financial year will be reassessed.
16. In any assessment or reassessment of its reserves policy the following will be borne in mind.
- The level, reliability and source of future income streams.
 - Forecasts of future, planned expenditure.
 - Any change in future circumstances - needs, opportunities, contingencies, and risks – which are unlikely to be met out of operational income.
 - An identification of the likelihood of such changes in these circumstances and the risk that the HFEA would not be able to meet them.
17. HFEA's reserves policy will be reviewed annually by the Audit and Governance Committee.

Revision history

18. Document each version or draft providing a simple audit trail to explain amendments.

Date	Version	Comments
19/9/14	1	Document created
<u>18/9/15</u>	<u>2</u>	<u>Updated after annual review</u>