

# Reserves Policy

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## Introduction

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.

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## Principles

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

1. 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
2. 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
3. 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

4. To enable sufficient cover for day-to-day operations, a cash flow forecast is prepared at the start of the financial year which takes account 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.
5. The HFEA experiences negative cashflow (more payments than receipts) in some months. Based on a review of our cashflows over the last few years, the total of all the months where we experienced shortfalls is around £520k. Reserves should be maintained so that there is always a positive cash balance.

## Contingency

6. The certainty and robustness of HFEA's key income streams, the predictability of fixed costs and the relationship with the Department of Health would suggest that HFEA would be unlikely to enter a prolonged period of financial uncertainty that would result in it being unable to meet its financial liabilities.
7. However, it is clearly prudent for an organisation to retain a sufficient level of reserves to ensure it could meet its immediate liabilities should an extraordinary financial incident occur.
8. In arriving at a reserve requirement for unforeseen difficulty we have considered the likely period that the organisation might need to cover and whilst discussions are undertaken to secure the situation, the immediate non-discretionary spend that would have to be met over that period.
9. We believe that a prudent assumption would be to ensure a minimum of two months of fixed expenditure is maintained as a cash reserve; in terms of the costs that would need to be met we consider the following to be non-discretionary spend that would be required to ensure the HFEA could maintain its operations:
  - a. salaries (including employer on-costs);
  - b. the cost of accommodation.; and,
  - c. Sundry costs related to IT contracts, outsourced services and other essential services.
10. These fixed costs would have to be paid in times of unforeseen difficulty, salaries and accommodation costs alone represent 71% of the HFEA's total annual spend.
11. Based on the HFEA's current revenue budget, the combined monthly cost of salaries and accommodation is £354k, accommodation costs have increased since the relocation to

Spring Gardens in 2016. A reserve of two months for these two elements would therefore be £710k.

12. A further reserve for other commitments for two months is estimated to be £150k.

### Minimum reserves

13. The HFEA's minimum level of reserves will be maintained at a level that enables positive cashflow (£520k), provides £860k for contingency. The minimum level of cash reserves required is therefore £1.4m. These reserves will be in a readily realisable form at all times.

14. Each quarter 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.

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2.0	Branded/amended	HoF	AGC	Dec 2016
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