Reserves

Policy statement	Te Kaunihera Manapou | Paramedic Council (Te Kaunihera) will retain sufficient financial reserves to best deliver (over its lifetime) the operational and strategic activities to meet its obligations set out in the Health Practitioners Competence Assurance Act 2003 (HPCA Act) including general fiduciary duties.

Procedure

Why does this policy exist?

This policy is designed to outline

a) Why each reserve exists
b) How the respective reserve level targets are calculated
c) General commentary about how the reserves policy interacts with the budgeting process and fee the setting process

What Reserves do we need and why?

Currently the Reserve types are:

i. *Ceasing Operations*
ii. *Financial Resilience*
iii. *Operational reserve – capital, projects, and research*
iv. *Budgeted / expected annual deficits*
v. *Disciplinary reserve*

An overview of the reserves follows, and Appendix A sets out more discussion of the details.

Ceasing Operations

This reserve considers what is a prudent level of reserves to enable an orderly and fully funded process in the event that Te Kaunihera ceases to operate.

This "wind-down" may arise from events such as

i. Te Kaunihera regulatory obligations are taken up by another entity or
ii. if one or more of the Regulatory Authorities ("RAs") are merged to combine functions.

Given Te Kaunihera has no "owners" it is important that sufficient funds are available to meet the needs of all costs of a transfer or cessation.

Areas to consider could include

a) Ongoing lease obligations (property)
b) Ongoing licence costs for software obligations
c) Costs of ceasing employment for Te Kaunihera team
d) Contingency costs of "wind down"

Financial Resilience

This reserve is to help smooth cashflow needs or respond to unknown events.

Budgeted / expected annual deficits

While Te Kaunihera creates a budget for a year ahead, it may also forecast further into the future. If any future years expect a deficit (loss) then this loss must be funded by reserves.

Operational reserve – capital, short- and long-term projects and research

This reserve is to consider if we need to set aside funds for any research or projects that are necessary to meet Te Kaunihera's long-term capability to fulfil its duties.

During the budget process, capital projects and research expenditure for the future are to be assessed. Any shortfall in the operational reserve – capital, projects, and research to meet the budgeted capital expenditure will be met from annual practising certificate fee income.

Disciplinary Levy

This reserve is to fund a single or collection of complex, high-cost cases whose costs exceed the current year's disciplinary levies collected.

How do we calculate the overall current Reserves levels?

The level of reserves held is not the Equity displayed in the Statement of Financial Position in the Annual Financial Statements as this accounting figure includes fixed assets and software.[1]

[1] The reason these assets are excluded from a reserves level calculation is that these assets have value while being used in the ongoing 'business' of Te Kaunihera but could not realistically be sold to generate cash.

Reserves levels are effectively what cash Te Kaunihera can quickly access after paying its immediate liabilities.

It is very important to note that the calculation of uncommitted cash for Te Kaunihera is further complicated by the required year-end accounting treatment of APC income (including the Disciplinary levies). The accounting standards say that if the APC does not have to be refunded to registrants (and this is Te Kaunihera's policy) then all the APC received in the current year and is partially relevant to the current year is treated as income.

Te Kaunihera issues APCs (and collects APC fees)

APC income collected during the year relates to the current financial year and the next year. The amounts relating to the next financial year are not shown as a liability in the 'Balance Sheet', except for APCs issued related to 1 April of the following year.

However, if the government decided to create a sector wide Regulatory Authority body, those funds would need to be passed onto the new authority. Although there are no stated intentions to do so, this will always be a potential medium-term risk for Te Kaunihera and this liability does reduce the current reserve levels.

Process

The Reserves' target levels / future forecasts are revisited / refreshed on the following trigger points:

a) Annual budgeting process
b) Part year reforecast process
c) Finalisation of the year-end financial statements
d) Events that have a significant event on the reserve's calculations assumptions (like signing a new property lease, setting fees or a significant Fitness to Practice case)

The updated calculations are summarised and presented Te Kaunihera for feedback and noting.

Appendix A – Details of the elements of the Reserve Levels

Ceasing Operations

Ongoing lease obligations (property)

Typically, one of the most significant costs of an organisation's cessation is it obligations of its property leases.

Te Kaunihera takes the normal practice of signing a lease agreement for its offices for multiple years – broken into renewal periods.

Even if Te Kaunihera's no longer operating, it would have an enforceable obligation to pay the lease costs until

a) It could give notice ahead of a renewal date
b) It could find a replacement tenant(s)

If Te Kaunihera could find a replacement tenant, any shortfall in what the new tenant would pay, and the original lease amount would be Te Kaunihera's responsibility.

Each year this reserve's target would change depending on the time to the next lease renewal date (or indeed lease overall expiration) – that is – the reserves needed four years away from the lease renewal option date would be more than the reserves needed one year away from the lease renewal option date.

Ongoing licence costs for software obligations

In a similar way that Te Kaunihera signs up to future obligations on its property leases, it also contracts to paying for the use of the software that is critical to Te Kaunihera's operations.

This element of this reserve assumes that if Te Kaunihera's duties is ceased that the work required would still continue by another entity.

To this end, this element assumes a cost of transferring the licences and database to the new entity rather than the software licences ceasing.

Costs of ceasing employment for Te Kaunihera team

While the current employment agreements do not include provisions for redundancies, Te Kaunihera estimates notice periods, legal fees and other costs would require funding of an average of four weeks of the normal annual salary costs.

Contingency costs of "wind down"

Ceasing or transferring the Te Kaunihera operations is a complex matter so it is recognised there will be other costs that are difficult to describe in detail. A common sense amount is included to cover those unknown elements.

Financial Resilience

This reserve is set at a minimal amount (two weeks of normal annual costs) given

a) The bulk of Te Kaunihera's income is paid a year in advance
b) The level of other reserves – it is assumed that not all reserves would be needed at once – i.e. the cessation reserve would not be needed at the same time.

Operational reserve – capital, projects and research

Projects can be difficult to forecast and account for. Sometimes the costs for a project cross over multiple years.

This reserve is for when there is an identified stream of work (or streams) where the cash outlays will exceed the normal annual budget for both project costs and amortisation (write offs).

This reserve will potentially change each year.

Budgeted / expected annual deficits

One of the challenges of arbitrarily measuring financial performance of Te Kaunihera on a yearly basis is that some years there will be a deficit and in others a surplus.

The surplus years help build reserves while the deficits reduce cash reserves.

It is acceptable to have a deficit if it is known and longer term there is a move back to a surplus.

Disciplinary levy – Restricted Reserve

Under section 131 of HPCA Act 2003, authorities may charge a disciplinary levy to fund:

> (a) the appointment of, and any investigation by, any professional conduct committee and (b) proceedings of the Tribunal. Any reserve resulting from this levy is restricted specifically for the above expenses.

This area is inherently difficult to assess a target level. It includes funding PCC prosecutions and HPDT cases that exceed the current year's disciplinary levies collected.

Kaunihera will maintain a disciplinary reserve as a minimum at a level to cover three Professional Conduct Committee cases estimated at $15,000 each and two Health Practitioners Disciplinary Tribunal (HPDT) cases estimated at $50,000 each. This reserve level will help cover disciplinary case costs while the Board waits for the proceeds of a disciplinary levy to be recovered from registrants.