# Audit Committee

# 5 November 2019

## Reserves Policy review

### Executive Summary

**Context**

To help prepare an updated HCPC Reserves Policy the Audit Committee is asked for an opinion on several key components of that policy.

The current HCPC Reserves Policy has two key components:

- The reserves policy, where there a target upper limit of zero free reserves and a lower limit of negative free reserves equivalent to three months of budgeted operating expenses. This policy implies that registrant's pre-paid fees will always be used as HCPC's working capital; and

- An implied financial strategy, where HCPC aims not to hold or accumulate excess surpluses or deficits, as that would imply that current registrants subsidising future registrants or vice versa.

**Discussion Points**

*Working Capital*

Should HCPC continue to utilise registrant's pre-paid fees as the sole source of working capital? Should the reserves policy include consideration of positive free reserves?

*Financial Strategy*

Should the current implied financial strategy be made explicit or should an alternative financial strategy be explored? For example, an alternative financial strategy may be that the core operations of HCPC be targeted to produce a surplus of 10% which could be used to:

- Repay the current accumulating deficit of free reserves, or build positive free reserves;

- Build reserves targeted at specific large capital projects; and / or

- Fund initiatives such as the prevention agenda as clearly defined long term initiatives to change the way that HCPC operates.

*Timeframe*

If there are to be any changes to the reserves policy, over what timeframe would they realistically be able to be implemented? Should the reserves policy explicitly consider known strategic requirements over a 3 or 5 year period?

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| Previous consideration | None. |
| Decision | The Audit Committee is asked to discuss and provide a view on the next steps. |
| Next steps | Production on an updated Reserves Policy for the next Audit Committee |
| Strategic priority | Strategic priority 3: Ensure the organisation is fit for the future and is agile in anticipating and adapting to changes in the external environment |
| Risk | 5. Failure of leadership, governance or culture |
| Financial and resource implications | None as a result of this paper. |
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