



Reserve Funds Policy

Policy title	Reserve Funds Policy
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Scope	This policy applies to the holding and use of reserve funds by Te Kaunihera Pūtaiao Hauora O Aotearoa Medical Sciences Council

Associated documents	File name
Financial Policies Manual	2023-May-V6-MRT-MS-C-MSS-Financial Policies Manual

Revision schedule

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Approved by	Policy owner/s	Policy administrator/s
Medical Sciences Council	Chief Executive	Policy Advisor

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Reserve funds

1. The Medical Sciences Council is bound to balance the needs of both current and future regulatory drivers to ensure their frameworks account for changes in health environments and the public those environments serve. A critical threshold is for health practitioners regulated by each authority to continue to be fit for purpose in terms of protecting the health and safety of the public.
2. The Council must ensure it has sufficient financial reserves to enable it to cover known liabilities and contingencies, absorb any setbacks, and proactively respond to changing needs within the health regulation environment.
3. The Medical Sciences Secretariat (MSS)¹ does not hold reserve funds. However, a MSS bank bond is held with the bank as required per the lease for the premises at Level 7, 99 Customhouse Quay, Wellington. The bond equates to six months of the rent payable.
4. All reserves held are cash reserves. These are reserves backed by cash funds or current assets that can be readily converted to cash funds.

Categories of reserve funds

Reserve funds are structured around four distinct categories:

Capital Replacement Reserve (CRR)

5. This provides for pre-funding or concurrent funding of capital expenditure over a longer-term plan. A minimum reserve is calculated within a three-year forecasting framework including 10% contingency for under-estimates on capital expenditure in the same period.
6. Capital expenditure costs (CAPEX) for MSS are calculated in line with the agreed ratio of shared costs from each of the authorities for the relevant business year. CAPEX is included in the annual budget setting cycle and should be aligned to meeting strategic objectives.

Operational Reserve (OR)

7. This provides for an unexpected decrease in revenue for the respective authorities and/or an increase in operational expenditure. This allows for a buffer against extraordinary expenditure and under-recovery of costs.
8. APC fees received in advance allow for pre-funding of annual net operational expenditure. This allows for the reserve to be set at six-months or 50% of the budgeted expenditure for the upcoming business year. Provisions may be made above the 50% reserve to cover non-routine expenditure for appeals or judicial reviews.

¹ The role of the Secretariat is to provide business support, business services and advice for the Council.

Health and competence reserve

9. Third party costs related to health and competence activities can vary in volume and complexity from one year to the next. Allowance is made in the annual budget for these costs. However, they are unpredictable.
10. A specific reserve level for such expenditure is retained. This is in addition to that stated in the annual operational budgets.

Disciplinary reserve

11. Costs related to PCC investigation and HPDT hearings vary in volume and complexity from one year to the next. Allowances are made in the Council's annual budget for these costs.
12. A specific reserve level for disciplinary-related expenditure is set that is addition to that stated in their annual operational budgets.

Reserve setting

13. The specified level of reserves for each of the four categories of reserves are revised annually when setting annual budgets taking the following into consideration.
 - 13.1. The economic climate within which the Council is operating. This includes the delivery of health services and their susceptibility to rapidly changing technologies that have significant and ongoing cost impacts.
 - 13.2. The challenges of ever-rising costs ensuring that there is a fees structure that does not present financial barriers for practitioners but that also ensures a continued and sufficient level of funds to manage the routine business-as-usual activities with an allowance to invest in the ongoing sustainability as well as emerging business activities, and to ensure a reasonable level of reserves for a range of contingencies.
 - 13.3. When setting the fees schedule and the corresponding impact that may have on the reserves, the Council must consider the level of funds it requires in terms of intended operational and strategic activities as per their respective business plans; and
 - 13.3.1. Annual expenditure allowed for competence reviews; and
 - 13.3.2. Annual expenditure relating to registration appeal cases; and
 - 13.3.3. Capital expenditure commitments over a minimum three-year capital expenditure cycle; and
 - 13.3.4. Annual expenditure relating to professional conduct (PCC) investigations and Health and Disciplinary Tribunal (HPDT) hearings and potential judicial reviews.

14. Fluctuations in operational costs in any one financial year can be routinely managed through the Council choosing to defer project work during the relevant business year to avoid a deficit position.
15. Competence and registration appeal cases (including judicial reviews) arise randomly and pre-funding of reserves to meet the costs of these cases is required to allow for sufficient funds to be available to meet those costs as they arise.
16. Expenditure relating to disciplinary activities through PCC investigations and proceedings of the HPDT are subject to annual variances and pre-funding of disciplinary reserves to meet the costs of these activities is essential.