

RESERVES POLICY





» BACKGROUND

This policy sets out the Authority's approach to reserves and balances.

In reviewing medium-term financial plans and preparing annual budgets, the Authority will consider the establishment and maintenance of reserves. The nature and level of reserves will be determined formally by the Authority in light of all risks facing the Authority, informed by the judgement and advice of the Chief Finance Officer. This will be based on an assessment of what is appropriate and necessary in the light of the circumstances facing the Authority.

» RESPONSIBILITIES OF CHIEF FINANCE OFFICER

Under Part 2 of the Local Government Act 2003, the Chief Finance Officer of an authority is required to comment on the following matters:

- » the robustness of the estimates made for the purposes of determining its budget requirement for the forthcoming year;
- » the adequacy of the proposed financial reserves.

There is then a requirement for the Authority to have regard to the report of the Chief Finance Officer when making decisions on its Budget Requirement and level of financial reserves. In this Authority the Chief Finance Officer is the Head of Finance.

For the purposes of the Act the "financial reserves" of the Authority incorporate earmarked reserves and working balances. To make a final judgement on these issues it will be necessary to consider the proposed budget decisions of the Authority in the light of the annual budget setting report.

» ROBUSTNESS OF ESTIMATES

To fully satisfy the Chief Finance Officer, any proposed Budget or amendment should:

- » be fully based upon the advice of Service Officers (supported by Finance Officers) – or based upon or supported by information the Chief Finance Officer considers reasonable to accept;
- » provide only for Budget proposals that are fully costed to service level and where the implications – both financial and upon service performance – are estimated and identified;
- » provide for all known future developments either through direct service Budget



allocations or the establishment of specific reserves for such purposes;

- » provide for an adequate level of balances and reserves consistent with the requirements of any regulation;
- » provide for the full revenue implications of the capital programme;
- » establish clear targets for income collection in respect of key income streams;
- » ensure there are no unidentified savings targets in relation to the annual budget that is to be approved;
- » where appropriate, ensure that the consequences of current over and under spending have been taken into account.

» ADEQUACY OF PROPOSED FINANCIAL RESERVES

Under the 2003 Local Government Act the Secretary of State may enact regulations that define certain types of “controlled reserves” and the minimum level for those reserves. At the time of preparing this report the Secretary of State has not enacted any such regulations.

However, the 2003 Act still places a requirement upon the Chief Finance Officer to report if the level of reserves is likely to be inadequate. That report should contain comment upon:

- » the reasons for that situation;
- » the actions, if any, considered appropriate to prevent the situation arising.

There is then a requirement for the Authority to respond to the report when making decisions on its future financial reserves.

» TYPES OF RESERVE

The Authority currently maintains three types of usable reserves:

- » General Reserve - to manage the impact of uneven cash flows and unexpected events or emergencies
- » Earmarked Reserves - sums set aside to meet known or predicted specific requirements
- » Capital Receipts - proceeds from the sale of assets which can only be used to enhance and renew other capital assets



»» **PRINCIPLES TO ASSESS THE ADEQUACY OF RESERVES**

The Head of Finance will advise the Authority on the adequacy of reserves. In considering the general reserve, the Head of Finance will have regard to:

- » the strategic legislative, operational and financial risk contexts within which the Authority will be operating through the medium-term;
- » the overall effectiveness of governance arrangements and the system of internal control;
- » the robustness of the financial planning and budget-setting process;
- » the effectiveness of the budget monitoring and management process.

Having had regard to these matters, the Head of Finance will advise the Authority on the monetary value of the required general reserve.

In considering specific reserves, the Head of Finance will have regard to matter relevant in respect of each reserve and will advise the Authority accordingly.

»» **USE OF RESERVES**

The Authority has developed a plan to effectively manage the use of reserves to support service delivery. As a general rule, the Authority should only plan to use reserves to fund one-off expenditure. Where the Authority decides to use such reserves to fund on-going spending or reductions in Council Tax, it should indicate how it plans to make up the budget shortfall in future years. All Members of the Authority must be mindful of their stewardship responsibility to the Authority when committing to expenditure from reserves.

»» **GENERAL RESERVE**

The Authority uses the general reserve to manage the impact of uneven cash flows and unexpected events or emergencies. The general reserve currently stands at seven per cent of the revenue budget. This is above the five per cent threshold as set out in the Fire and Rescue National Framework. However, the Authority believes that this level of general reserve is appropriate given the volatility in funding and the uncertain macro-economic environment, including possible impacts from Brexit. The table below sets out possible events that would require funding from the General Reserve.



Identified Hazard	Value £	Likelihood	Balance £
Industrial action	1,500,000	0.5	750,000
Failure to secure funding for increased employer pension contributions	1,470,000	0.5	735,000
Unbudgeted pay rises	3,200,000	0.1	320,000
Capital project overruns	800,000	0.25	200,000
Emergency Services Mobile Communications Programme	425,000	0.25	106,250
Unbudgeted ill-health retirements	400,000	0.25	100,000
Additional cost of supplies due to Brexit	205,000	0.25	51,250
Exceptional operational response requirements	125,000	0.3	37,500
Total			2,300,000

Based on experience and best available information the Authority has assigned a value to each hazard. A calculation has been carried out to multiply the value of the hazard by a factor related to the likelihood of the hazard occurring in any single year. The balance is equal to what the Authority holds in the General Reserve.

» POTENTIAL HAZARDS EXPLAINED

Increases in pay have a significant impact as staff costs represent almost three-quarters of the Authority's revenue budget. Given that pay negotiations are conducted at a national level there is always the risk of industrial action or unbudgeted pay increases. The FBU has been engaged in discussions with the fire service employers about defining the role of firefighters and believes that there are potential areas of activity that could contribute to public safety. Through this dialogue the FBU has concluded that it is reasonable that Grey Book rates of pay should be increased by 17%.



Due to the age and condition of all of our operational assets, the Authority plans to spend significant sums to enhance or replace these assets. The nature and complexity of capital projects means that there is the potential for unforeseen cost overruns. Whilst the likelihood is not particularly high, the financial impact could be substantial given the scale of some of our projects.

The Authority's Audit and Governance Committee has been monitoring the progress of the Emergency Services Mobile Communications Programme on a quarterly basis to assess both operational risk and also financial risk. The Authority can and does provide input to the programme but given the scale and scope of the programme the Authority's limited ability to influence needs to be recognised as a risk.

Ill-health retirements are funded from the Authority's own resources rather than the ring-fenced pension account. Given that the cost of each ill-health retirement to the Authority can be substantial there is the risk of unbudgeted expenditure in this area.

The effects of a no-deal Brexit could increase the cost of importing equipment and other supplies due to tariffs and a depreciating currency.

Lastly, circumstances such as adverse weather or major incidents that require us to operate beyond our normal capacity will incur unbudgeted costs.

» EARMARKED RESERVES AND CAPITAL RECEIPTS

As part of the Authority's response to managing the reduction in central government funding, Members have approved the establishment of a number of key reserves to help support different ways of working.

Capital projects will be funded from the Development Fund and the Capital Receipts Reserve.

Other earmarked reserves are detailed below:

The Budget Contingency Reserve – established to support short-term budget shortfalls, which may arise whilst longer-term savings are implemented.

The Transition Fund – established as part of the 2015/16 budget process, the Authority established a £2m Transition Fund to redesign the service and support a number of invest-to-save projects.

Contractual or committed expenditure reserves – established to fund contractually or committed expenditure across years.



The table below provides a breakdown of the Total Earmarked Reserves. At the end of March 2019 earmarked reserves are anticipated to be £10.4m.

Earmarked Reserves at 31 March 2019	£m	
CAPITAL		
Development Fund	4.8	75%
Capital Receipts Reserve	3.0	
REVENUE		
Budget Contingency Reserve	0.7	7%
Transition Fund	0.6	6%
Contractual or Committed Expenditure Reserves	1.3	12%
Total	10.4	100%

» PLANNED USE OF EARMARKED RESERVES

The Development Fund and the Capital Receipts Reserve total £7.8m or 75% of all earmarked reserves. The Authority has recognised that it must invest in its capital assets and has set aside resources to support the provision of the infrastructure required to deliver the Authority's service priorities. £1m will be kept in the Development Fund to take advantage of any invest-to-save projects. From 2020/21 onwards, the Authority will need to rely on borrowing to finance its capital programme.

The Authority has already signed up to a collaborative framework to purchase fire appliances and will have replaced all of its wholtime appliances by April 2020. A collaborative procurement to purchase an aerial appliance has been concluded and the order has now been placed with a seven per cent saving on the total cost. Planning permission has been received for the new Theale Fire Station and the redevelopment of Crowthorne fire station is at the tender stage.



The Budget Contingency Reserve increased during 2017/18 due to the early delivery of Efficiency Plan savings. However, £353,000 will be drawn down from this reserve during 2018/19 and a further £458,000 will be used during 2019/20 to support revenue expenditure whilst further savings from the base budget are identified. The Authority has an excellent track record in delivering against its efficiency targets and will have taken £2.4 million out its base budget in savings by 2020. This is on top of almost £5m in savings that were made between 2010/11 and 2015/16.

In the meantime, on top of the £7.4m savings already implemented or identified, the Authority will develop further savings or generate income to bridge the new funding gap.

As part of the 2015/16 budget process the Authority established a £2m Transition Fund. The purpose of the transition fund is to support a programme of one-off investments to generate savings that will reduce revenue budgets in the medium to long term and improve effectiveness. Expenditure is directly related to the Authority's Organisational Development Programme. To date, £1.3m of one-off expenditure from the Transition Fund has been spent on improving the efficiency of the organisation and has supported the delivery of recurring Efficiency Plan savings.

The use of reserves going forward is shown in the table below.



	31.3.19 Bal £'000	2019/20 Inflow £'000	2019/20 Outflow £'000	31.3.20 Bal £'000	2020/21 Inflow £'000	2020/21 Outflow £'000	31.3.21 Bal £'000	2021/22 Inflow £'000	2021/22 Outflow £'000	31.3.22 Bal £'000	2022/23 Inflow £'000	2022/23 Outflow £'000	31.3.23 Bal £'000
Budget Carry Forward Reserve	78	150	-150	78	150	-150	78	150	-150	78	150	-150	78
Detectors Reserve	62		-62	0			0			0			0
TVFCS Renewals Fund	479	55		534	55		589	55		644	55		699
Grants received in advance	617		-417	200		-200	0			0			0
Vacancy Reserve	65			65			65			65			65
Budget Contingency	707		-458	249			249			249			249
Transition Fund	608		-300	308		-308	0			0			0
Development Fund	4,802		-3,492	1,310		-310	1,000			1,000			1,000
Total Earmarked Reserves	7,418	205	-4,879	2,744	205	-968	1,981	205	-150	2,036	205	-150	2,091
General Fund Balance	2,300			2,300			2,300			2,300			2,300
Capital Receipts Reserve	2,960		-2,960	0			0	3,465	-3,465	0			0
Unapplied Capital Grants	21	12	-33	0	33	-33	0	33	-33	0	33	-33	0
ALL RESERVES	12,699	217	-7,872	5,044	238	-1,001	4,281	3,703	-3,648	4,336	238	-183	4,391

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