



# Reserves Policy

2023/24

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## Foreword

Councillor Jeff Brooks, Lead Member for Budget and Income Generation



It is my pleasure, as the Lead Member for Budget and Income Generation, to introduce the Authority's Reserves Policy for 2023/24. The Authority has a good track record of using its reserves in a way that promotes long-term sustainability, for example using reserves to support capital expenditure which leads to efficiency and savings in the revenue budget in future years. Our approach is to address deficits in the revenue budget through efficiency and savings programmes, thereby ensuring that our revenue budget position is balanced over the medium term.

Indeed, I am pleased that our latest inspection report from His Majesty's Inspectorate of Constabulary and Fire and Rescue Services states, "The service has a sensible and sustainable plan for using its reserves. This plan includes holding a general reserve of £2.2m, which is 6.8 percent of its revenue budget and will mitigate against the risk of unexpected events, such as unfunded pay awards."

Nevertheless, 2022/23 has proved to be an extremely challenging year from a budget management perspective. The rate of inflation which had already risen to 6.2% last February continued to increase and peaked in October at 11.1% before falling back slightly. The high rate of inflation means that we are now having to deal with significant unbudgeted cost pressures that have materialised over the last year. In addition to pay pressures, we are facing substantial increases in the costs of goods and services that we procure, all of which means that we are facing a significant budget deficit by the end of the 2022/23 financial year.

We have always been aware that macro-economic turbulence could affect our budgetary position in the short term and we therefore set up an earmarked budget contingency reserve to deal with such pressures. A large proportion of this reserve will be required to fund the 2022/23 budget deficit. However, in line with the Authority's reserve policy of not funding budget deficits from reserves on an ongoing basis, we will be implementing a series of savings and efficiency measures in 2023/24 as one of the measures to ensure that we set a balanced budget for 2023/24 without the use of reserves. Indeed, the 2023/24 Budget includes provision to replenish the Budget Contingency Reserve.

The Reserves Policy sets out how we will both maintain a sufficient level of reserves to deal with the inevitable external pressures on the budget that we will face from time to time as well as how we will use certain earmarked reserves to fund invest-to-save projects that will help to relieve revenue budget pressures in the future and I welcome its adoption.



## Responsibility of the 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; and
- » 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 and Procurement.

For the purposes of the Act the “financial reserves” of the Authority incorporate earmarked reserves and the General Reserve. 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 regulations;
- » 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; and
- » 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; and
- » 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; and
- » 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 Chief Finance Officer will advise the Authority on the adequacy of reserves. In considering the general reserve, the Chief Finance Officer 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; and
- » The effectiveness of the budget monitoring and management process.

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

In considering specific reserves, the Chief Finance Officer will have regard to matters 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 exceptionally to use such reserves to fund on-going spending, clear and definite plans must be in place to show how the gap between funding and expenditure will be closed 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 will only use its General Reserve to manage the impact of unexpected events or emergencies. The general reserve stands at 5.4% of the revenue budget. This is slightly above the five per cent threshold as set out in the Fire and Rescue National Framework. However, the Chief Finance Officer believes that this level of general reserve is appropriate given the significant risks around unbudgeted pay awards and industrial action.



The table below sets out possible events that would require funding from the General Reserve.

Identified Hazard	Value £	Likelihood	Balance £
Unbudgeted pay rises	1,000,000	0.5	500,000
Industrial action costs in excess of current earmarked provisions	1,000,000	0.5	500,000
Failure to secure funding for increased pension costs	1,500,000	0.25	375,000
Reduced business rates income / S31 grants	960,000	0.5	480,000
Emergency Services Mobile Communications Programme	426,000	0.25	106,500
Unbudgeted ill-health retirements	400,000	0.25	100,000
Exceptional operational response requirements	411,000	0.5	205,500
<b>Total</b>			<b>2,267,000</b>

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.

Increases in pay have a significant impact as staff costs represent three-quarters of the Authority's revenue budget. Given the elevated levels of inflation and the current position in relation to pay negotiations, we are facing a heightened risk of industrial action and/or unbudgeted pay increases. As an illustration of the risks around pay budgets, the assumption for the 2022/23 Budget was based on an increase of 2.5% for both Grey and Green Book staff. In reality, the Green book pay award was settled at over 5% and a two-year Grey Book pay award of 7% for 2022/23, and 5% for 2023/24 has been offered by the National Employers.

Since 2019/20 the Authority has faced a very steep increase in employer contributions to the Firefighter pension schemes. Fortunately, the Government has provided a grant to offset most of these increased costs on a rolling basis. Whilst this support remains in place for 2023/24, there is uncertainty as to how pension costs arising from the McCloud judgment will be funded.



The impact of Covid has had a dramatic and detrimental impact on the Authority's business rates income. To date, the Government has made up this shortfall through additional grants but it remains to be seen how business rates income will recover over the medium term as Government support is withdrawn.

The Authority's Audit and Governance Committee monitors 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.

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 volatility in funding, Members have approved the establishment of a number of key reserves to help support different ways of working.

The Development Fund, whilst a revenue reserve, was set up to fund capital expenditure. The aspiration, if circumstances permit, is to return the amount held in the Development Fund to £3m to fund projects in years five to ten of the Strategic Asset Investment Framework. A minimum of £1 million will be kept in the Development Fund so that the Authority can take advantage of possible joint venture opportunities.

Descriptions of other key 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. This reserve will be maintained at 3% of the revenue budget from 2023/24.

The Transformation Fund – this fund will be used to support invest-to-save projects.

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

The Capital Receipts Reserve contains the proceeds from asset disposals and is limited





through statute to funding capital expenditure.

At the end of March 2023 earmarked reserves are anticipated to be £6.2m.

## Usage of Earmarked Reserves / Capital Receipts

The increasing likelihood of industrial action resulted in the Authority transferring £1 million from the Development Fund to a new Industrial Action Reserve in December 2022 as a precautionary measure.

The 2022/23 budget deficit will be covered from the Budget Contingency Reserve. As a buffer against the ongoing macro-economic uncertainty, the Budget Contingency Reserve will be replenished by an appropriation of £573,000 from the Revenue Account in 2023/24 as well as being topped up by a transfer of £452,000 from the Development Fund. This will mean that by the end of 2023/24 the Budget Contingency Reserve will stand at 3% of the Revenue Budget.

The Authority's Strategic Asset Investment Framework (SAIF) sets out a programme of works to maintain, enhance and replace our assets in a way that is both environmentally and financially sustainable. Funding for years five to ten of the SAIF will come mainly from revenue resources and the capital receipt from the sale of the Dee Road site.

The table below provides a breakdown of total earmarked reserves.



## Summary of Movements in Reserves

	31.03.22	2022/23	2022/23	31.03.23	2023/24	2023/24	31.03.24	2024/25	2024/25	31.03.25	2025/26	2025/26	31.03.26	2026/27	2026/27	31.03.27
	Balance	Inflow	Outflow	Balance	Inflow	Outflow	Balance	Inflow	Outflow	Balance	Inflow	Outflow	Balance	Inflow	Outflow	Balance
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Budget Carry Forward Reserve	536	139	-266	409	200	-382	227	200	-200	227	200	-200	227	200	-200	227
TVFCS Renewals Fund	638	50		688	50	-227	511	50		561	50		611	50		661
Grants received in advance	1,058		-79	979		-22	957		-100	857		-322	535		-322	213
Vacancy Reserve	65		-65	0			0			0			0			0
Detectors Reserve	62			62		-20	42		-20	22		-22	0			0
Budget Contingency	1,189		-954	235	1,025		1,260	26		1,286	34		1,320	35		1,355
Transformation Fund	901		-239	662		-200	462		-200	262		-262	0			0
Industrial Action Reserve	0	1,000		1,000		-750	250		-250	0			0			0
Development Fund	3,195		-1,000	2,195		-452	1,743		-26	1,717		-34	1,683		-35	1,648
<b>Total Earmarked Reserves</b>	<b>7,644</b>	<b>1,189</b>	<b>-2,603</b>	<b>6,230</b>	<b>1,275</b>	<b>-2,053</b>	<b>5,452</b>	<b>276</b>	<b>-796</b>	<b>4,932</b>	<b>284</b>	<b>-840</b>	<b>4,376</b>	<b>285</b>	<b>-557</b>	<b>4,104</b>
General Reserve	2,267			2,267			2,267			2,267			2,267			2,267
Capital Receipts Reserve	0	6,077	-408	5,669		-2,876	2,793		-1,923	870		-870	0			0
<b>ALL RESERVES</b>	<b>9,911</b>	<b>7,266</b>	<b>-3,011</b>	<b>14,166</b>	<b>1,275</b>	<b>-4,929</b>	<b>10,512</b>	<b>276</b>	<b>-2,719</b>	<b>8,069</b>	<b>284</b>	<b>-1,710</b>	<b>6,643</b>	<b>285</b>	<b>-557</b>	<b>6,371</b>

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