**RESERVES   
POLICY**

**2022/23**



RESERVES POLICY

This document sets out the Authority’s approach to reserves and balances



RoyalBerksFRS RBFRSOfficial RoyalBerkshireFire

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# 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 needs to consider the establishment and use of reserves. The nature and level of reserves will be determined 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 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;

» 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 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;

» 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 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 5.9% 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 that the Government has only provided a one-year settlement rather than the planned multi-year settlement. Furthermore, the new Service Grant that will be received in 2022/23 is for one year only whereas the additional costs that it covers will be ongoing. There are also significant risks around unbudgeted pay awards and pension costs.

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



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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 and/or unbudgeted pay increases. As an illustration of the risks around pay budgets, the assumption for the 2021/22 Budget was based on the Government position of a public sector pay freeze. In reality, the NJC has subsequently agreed a grey book pay award of 1.5% and a final offer of 1.75% has also been made for green book staff, although this has yet to be accepted. Taken together, these unbudgeted pay awards will build an additional pressure of £439,000 into the 2022/23 Budget. Looking forward, the Medium Term Financial Plan assumes annual pay awards of 2%, which may prove to be optimistic from a budgeting perspective, given the current rate of inflation.

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. For 2022/23 the Government has again announced one-year funding, fixed in nominal terms. However, there is uncertainty thereafter as to how these costs and indeed other 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. A further complicating factor is the long-awaited resetting of the Business Rates Baseline. This needs to happen at regular intervals to ensure that disparities in business rates income between authorities do not widen indefinitely. The Authority has benefited from the growth in business rates over a number of years but will lose this benefit at the point that the Government resets the baseline.

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.

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 – the Authority established this 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 Capital Receipts Reserve contains the proceeds from asset disposals and is limited through statute to funding capital expenditure.

The table below provides a breakdown of total earmarked reserves.

At the end of March 2022 earmarked reserves are anticipated to be £7.6m.

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| **Earmarked Reserves at 31 March 2022** | **£m** |  |
| CAPITAL |  |  |
| Development Fund | 3.2 | 42% |
| REVENUE |  |  |
| Budget Contingency Reserve | 1.2 | 16% |
| Transition Fund | 0.6 | 8% |
| Contractual or Committed Expenditure Reserves | 2.6 | 34% |
| **Total** | **7.6** | **100%** |

# PLANNED USE OF EARMARKED RESERVES



Although the receipt of exceptional Government grants to compensate for the decline in business rates income should cover the repayment of the collection fund deficits in 2021/22 and 2022/23, there is uncertainty around the timing and exact amounts of these grants. For this reason, and to provide a buffer against further financial turbulence, it is deemed prudent to maintain the Development Fund at its current level for cash flow purposes until February 2023. A fundamental review of Phase 2 of the SAIF will be undertaken in 2022/23 to set out a programme of works that is both environmentally and financially sustainable.

The use of reserves for the period of the Medium Term Financial Plan is shown in the table below.



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## Royal Berkshire Fire and Rescue Service

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