
Date: 20 November 2024

Title: Reserves Policy

Responsible Director: Jane Carey

Paper for Approval

Open paper

1. Issue

1.1 The Audit and Risk Committee (ARC) reviewed the Reserves Policy at the October meeting.

1.2 Recommendation

1.3 The Board approve the updated policy, including the increase of the reserves level to £1.365m from April 2025.

2. Background

2.1 PSA acknowledged in its first consultation on fees in 2015/16 that it was likely to need to build up a financial reserve in order to manage the financial risks it may face.

2.2 The timing of the determination of the fees is not fully within our control and should there be a delay in the receipt of the fee income we could face cash-flow problems and could have difficulty in meeting our expenditure requirements and statutory duties.

2.3 The cash-flow issues are linked to the receipt of the fee income. If the consultation process is not concluded by the Privy Council in time for the determination to be made by the beginning of March, then we could face the prospect of having no income at the start of the financial year.

2.4 We may also have to address financial shortfalls arising during the fiscal year. The budget for any given year has to be estimated prior to the commencement of the consultation exercise, which being lengthy has to commence early in the preceding year, thus there could be occasions when we have to address unexpected expenditure during the year after the fee has been determined - for example costs arising from an increase in workload, the need to undertake an investigation, changes to legislation or significant additional legal costs in S29 cases.

- 2.5 While we have the power to consult on an additional fee during the year, the time that this would take makes it an impractical means of addressing such issues. Seeking additional fees also means that the regulatory bodies would be asked to provide funding that they had not budgeted for, resulting in pressure on their own budgets.
- 2.6 To accommodate unexpected expenditure peaks and cash-flow deficiencies, and to reduce the prospect of needing to seek additional fees, the Board agreed that PSA should keep an agreed level of financial reserves, sufficient to ensure that our statutory functions can continue to operate.

3. Analysis

- 3.1 In 2023, the Audit and Risk Committee discussed the need to increase the reserves to deal with the cost of the building lease if the PSA was asked to shut down but the DHSC confirmed that they would meet this liability as well as any redundancy costs. So the Board agreed there was no need to update the policy.
- 3.2 The risk of the temporary cash flow issues relating to the consultation process still remain therefore we propose to continue the policy at three months total operating costs. Our annual operating costs have increased in the last few years and the budget for 2024/25 was £5.159m so we set total reserves at £1.290m. However, the proposed budget for 2025/26 is further increased to £5.461m so we propose that the total reserves level from April 2025 be increased to £1.365m.

4. Finance and Resource

- 4.1 The maintenance, development and use of the Reserves Policy is an essential finance activity and is funded from existing resources.

5. Impact Assessment

- 5.1 There is no EDI impact.

6. Timescale

- 6.1 The policy is published in the Annual Report and Accounts every July.

7. Internal Stakeholders

- 7.1 All staff and Board members.

8. External Stakeholders

- 8.1 The Regulators we oversee, Privy Council and DHSC.

9. Annexes List

Annexe A: Reserves Policy