

Appendix B

The Level of the Council's General Fund Working Balance

1. Reserves are sums set aside to meet possible future costs where there is no certainty about whether or not the costs will actually be incurred. The requirement for financial reserves is acknowledged in statute. Sections 32 and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.
2. When reviewing their medium term financial plans and preparing their annual budgets local authorities should consider the establishment and maintenance of reserves. These can be held for three main purposes:
 - a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves;
 - a contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves;
 - a means of building up funds, often referred to as earmarked reserves, to meet known or predicted requirements; earmarked reserves are accounted for separately but remain legally part of the General Fund.
3. Local authorities also hold other reserves that arise out of the interaction of legislation and proper accounting practice. These are reserves, which are not resource-backed and cannot be used for any other purpose. An example is the Revaluation Reserve which is a reserve that records unrealised gains in the value of fixed assets. The reserve increases when assets are revalued upwards, and decreases as assets are depreciated or when assets are revalued downwards or disposed of. Reserves of this type do not form part of the annual review of the adequacy of reserves.
4. Section 25 (1) (b) of the Local Government Act 2003 requires the Chief Financial Officer (in Pendle's case, this is the Head of Central and Regeneration Services) to report to the Council on the adequacy of the proposed financial reserves. Guidance is published by the Chartered Institute of Public Finance and Accountancy (CIPFA) on the establishment and maintenance of local authority reserves and balances. The level and utilisation of reserves will be determined formally by the Council, informed by the advice and judgement of the Chief Financial Officer.
5. In support of this requirement a risk assessment has been carried out to establish the minimum level of the General Fund Working Balance for Pendle. Details of this assessment are provided below and indicate that the minimum level of general reserves during 2015/16 should be in the region of £1.25m (current position). This represents c2.0% of the Council's Gross Revenue Expenditure.
6. Details of the Council's other reserves, including forward projections, are provided at [Appendix H](#).

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Table 1: Risk Assessment used to calculate minimum general reserves

Minimum £'000	Desirable £'000	Area of expenditure / Explanation of risk / Justification for Reserves
50	75	<p>Pay – the budget includes the agreed pay award for staff in 2015/16 and there is, therefore, no requirement to provide resource cover for 2015/16. However, there is likely to be continuing pressure for pay awards post 2016/17</p> <p>Assessment: Degree of risk / reserve needed: Low £0k Medium £50k High £ 75k Likelihood of risk occurring : Low Minimum reserve needed : Nil</p>
50	200	<p>Prices – the budget assumes that price inflation can be managed by Departments within a zero cash-limited increase or specific inflation allowances for designated expenditure (e.g. fuel / utilities). The prospects generally are for inflationary pressures to be maintained at or around current levels during 2014/15 as austerity measures continue. A variance of +/-1% in the inflation factors used in the Council's contract with Liberata equates to c+/-£50k.</p> <p>Assessment: Degree of risk / reserve needed: Low £50k Medium £100k High £200k Likelihood of risk occurring : Medium Minimum reserve needed : £50k</p>
200	400	<p>Income from Fees and Charges – although there is some optimism in the markets of a recovery in the economy, this is not currently being reflected in changes to the Council's fees and charges budgets. The current economic climate may continue to impact on a range of income streams from activities such as planning, land charges, markets and industrial estates. A number of services are also price sensitive and delivered in competition with other providers (e.g. trade waste / building control).</p> <p>Assessment: Degree of risk / reserve needed: Low £40k (1%) Medium £200k (5%) High £400k (10%) Likelihood of risk occurring : Medium Minimum reserve needed : £200k</p>
360	720	<p>Demand Led Pressures on Services – the most significant is likely to be Housing and Council Tax Support given the prevailing economy and associated risk of increasing unemployment. The Council spends c£36m on Housing & Council Tax Support – housing benefit is matched by Government subsidy in full whereas for Council Tax Support only c90% subsidy is received. The subsidy regime is complex and given the significance of this income to the Council's overall financial position it is considered prudent to provide for a 1% variance in the level of subsidy receivable. Errors can lead to overpayments which attract a lower level of subsidy and are also difficult to recover from the customer.</p> <p>Assessment: Degree of risk / reserve needed: Low £360k Medium £720k High £1.08m Likelihood of risk occurring : Low Minimum reserve needed : £360k</p>

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Minimum £'000	Desirable £'000	Area of expenditure / Explanation of risk / Justification for Reserves
85	255	<p>Non-achievement of Savings – the level of additional savings required for the 2015/16 budget is significant at £1.1m (as is the target in each subsequent year of the MTFP) - the requirement is also predicted to increase year on year over the current Medium Term planning period. Whilst arrangements are in place to manage the implementation of the savings it is recommended that additional reserve cover be provided against the risk of falling short of the target. The risk assessment is based on 5% cover (low), 10% (medium) and 15% (high).</p> <p style="text-align: center;">Assessment: Degree of risk / reserve needed: Low £85k Medium £170k High £255k Likelihood of risk occurring : Low Minimum reserve needed : £85k</p>
400	800	<p>Unforeseen / emergency expenditure – there is a risk that unexpected events may occur which require expenditure to be incurred or income to be foregone that has not been budgeted. Examples might include, adverse weather, flooding, business continuity linked to loss of key service/building (to the extent not covered by insurance)</p> <p style="text-align: center;">Assessment: Degree of risk / reserve needed: Low £200k Medium £400k High £800k Likelihood of risk occurring : Medium Minimum reserve needed : £400k</p>
100	200	<p>Receipt of capital resources – the overall capital programme assumes a level of income from asset disposals / grants – as the timing of these can sometimes be uncertain it is considered prudent to set provision aside for additional revenue to help offset any shortfall if expenditure cannot be delayed</p>
1,245	2,650	