Appendix A

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 legally remain 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 Financial Services Manager) 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 2016/17 should be in the region of £1.25m (i.e. maintain the current position). This represents c2.5% of the Council's Gross Revenue Expenditure.

6. Details of the Council's other reserves, including forward projections, are provided at **Appendix G**.

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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
75	**100**	**Pay** – the MTFP includes annual provision for a 1% pay award. The pay award for 2016/17 is not yet agreed and the Union side are proposing to consult their members on the offer made by the Employers' side. Hence, there is the risk that the final agreed pay award exceeds that currently assumed. **Assessment: Degree of risk / reserve needed:** **Low £0k Medium £75k High £100k** **Likelihood of risk occurring : Medium** **Minimum reserve needed : £75k**
100	**200**	**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 low levels during 2016/17. Using the contract with Liberata as an example a variance of +/-1% in the inflation factors used in the Council's contract with Liberata equates to c+/-£50k. **Assessment: Degree of risk / reserve needed:** **Low £100k Medium £200k High £300k** **Likelihood of risk occurring : Low** **Minimum reserve needed : £100k**
150	**300**	**Income from Fees and Charges** – although there are some signs of a recovery in the economy, it still appears weak and as a result 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). **Assessment: Degree of risk / reserve needed:** **Low £30k (1%) Medium £150k (5%) High £300k (10%)** **Likelihood of risk occurring : Medium** **Minimum reserve needed : £150k**
250	**500**	**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£25m on Housing Benefits whereas the cost of Council Tax Support (applied as a discount on council tax bills) is estimated at c£7m. Housing benefit is matched by Government subsidy in full. 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. **Assessment: Degree of risk / reserve needed:** **Low £250k Medium £500k High £750k** **Likelihood of risk occurring : Low** **Minimum reserve needed : £250k**

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Minimum £'000	Desirable £'000	Area of expenditure / Explanation of risk / Justification for Reserves
110	**165**	**Non-achievement of Savings** – the level of additional savings required for the 2016/17 budget is significant at £1.15m (with greater savings assumed in each subsequent year of the MTFP). Whilst arrangements are in place to manage the implementation of the savings it is recommended that additional reserve cover be provided to mitigate the risk of some not being realised. The risk assessment is based on 10% cover (low), 15% (medium) and 20% (high). **Assessment: Degree of risk / reserve needed:** **Low £110k Medium £165k High £220k** **Likelihood of risk occurring : Low** **Minimum reserve needed : £115k**
200	**400**	**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) **Assessment: Degree of risk / reserve needed:** **Low £200k Medium £400k High £800k** **Likelihood of risk occurring : Low (assuming Bellwin scheme would apply in certain cases)** **Minimum reserve needed : £200k**
100	**200**	**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
250	**500**	**Business Rates Pooling** – 2016/17 marks the first year of the Lancashire Business Rates Pool. The Council has opted to join the Pool as a result of which it will not pay any levy to Government. The downside risk of Pool membership is the Council will not benefit from the Government's safety net protection. The safety net is set at 92.5% of an authority's NNDR baseline. For Pendle its baseline in 2016/17 is £3.73m. The safety net is £3.45m. Should rates income fall below the baseline the Council will have to fund the shortfall. The budget for 2016/17 assumes retained rates income of £4.2m. Given this is the first year of the Pool combined with the on-going volatility in relation to Appeals and recent tribunal decisions (e.g. purpose built GP surgeries and health centres) it is considered prudent to set aside a level of funding within the working balance to help manage the risks.
1,235	**2,365**	