

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 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 in [Table 1](#) which indicates that the minimum working balance during 2018/19 should remain at **£1.0m**. At this level it represents c2% of the Council's gross revenue expenditure.
6. Details of the Council's other reserves, including forward projections, are provided at [Appendix G](#).

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 MTFP includes annual provision for a 2% pay award. However, as future pay awards within the MTP period are not yet agreed, there is a risk of the current assumptions on pay being exceeded. There can also be movement on increments.</p> <p>Assessment: Degree of risk / reserve needed: Low £0-50k Medium £75k High £100k</p> <p>Likelihood of risk occurring : Low Minimum reserve needed : £50k</p>
150	300	<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 indications are pointing to growing inflationary pressures over the medium-term, uncertainty of the Brexit deal or no deal and other recent global developments, such as the hike in fuel costs during 2018/19. 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.</p> <p>Assessment: Degree of risk / reserve needed: Low £150k Medium £300k High £450k</p> <p>Likelihood of risk occurring : Low Minimum reserve needed : £150k</p>
125	250	<p>Income from Fees and Charges – although there are some signs of a recovery in the economy it is not yet sustained. Together with much uncertainty around Brexit plus strain on the retail sector, 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 £25k (1%) Medium £125k (5%) High £250k (10%)</p> <p>Likelihood of risk occurring : Medium Minimum reserve needed : £125k</p>

Appendix A

Minimum £000	Desirable £000	Area of expenditure / Explanation of risk / Justification for Reserves
240	480	<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£23m on Housing Benefits whereas the cost of Council Tax Support (applied as a discount on council tax bills) is estimated at c£7m.</p> <p>Qualifying expenditure on Housing Benefit is generally matched by Government subsidy in full.</p> <p>However, 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>The Council has also recently seen a notable increase in Supported Accommodation applications. The rate of subsidy for this category of accommodation is 60% and not 100% if the landlord is not an RSL. This has been recognised to an extent in the Firming Up adjustments in Appendix D, however, if this trend continues this additional provision will not be sufficient to cover the Council's financial risk exposure.</p> <p>Assessment: Degree of risk / reserve needed: Low £240k Medium £480k High £720k</p> <p>Likelihood of risk occurring : Low Minimum reserve needed : £240k</p>
100	150	<p>Non-achievement of Savings – the residual level of savings required for the 2019/20 budget is c£0.4m (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 cover be provided to mitigate the risk of some not being realised or implementation lead in times being longer. The risk assessment is based on 25% cover (low), 35% (medium) and 50% (high). This recognises the amount of savings achieved since 2010 and the fact that decisions on budget savings may become increasingly difficult. It should be noted that this MTFP does not contain any future years where the core funding level of the Council is known, so increasing the degree of uncertainty within the budget assumptions made on high value budgets.</p> <p>Assessment: Degree of risk / reserve needed: Low £100k Medium £140k High £200k</p> <p>Likelihood of risk occurring : Low Minimum reserve needed : £100k</p>

Appendix A

Minimum £000	Desirable £000	Area of expenditure / Explanation of risk / Justification for Reserves
150	300	<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>Assessment: Degree of risk / reserve needed: Low £150k Medium £300k High £600k</p> <p>Likelihood of risk occurring : Low (assuming Bellwin scheme would apply in certain cases) Minimum reserve needed : £150k</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. The current Capital Strategy is that no new borrowing should be incurred to fund the Capital Programme and therefore revenue contributions is the only viable option in lieu of capital receipts being realised.</p>
100	200	<p>Business Rates - Given the volatility inherent in the current rates retention system combined with ongoing membership of the Lancashire Pool and the regime's imminent overhaul, it is considered prudent to set aside a level of funding within the working balance to help manage the associated risks.</p> <p>Business Rates Retention has been running since 2013/14 and a level of income has been achieved, therefore the initial business rates volatility reserve has been transferred into the Budget Support Reserve.</p> <p>To manage residual risk it is proposed that an amount of £100k is retained in the working balance.</p>
1,015	1,955	Total