Appendix A

Assessment into 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, and as part of the development of the budget for 2021/22, 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 should remain at **£1.0m.** At this level it represents c2% of the Council's gross revenue expenditure.

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Table 1: Risk Assessment used to calculate minimum general reserves – 2021/22

Minimum £000	Desirable £000	Area of expenditure / Explanation of risk / Justification for Reserves
75	**150**	**Pay** – the MTFP includes annual provision for a 2% pay award. However, as future pay awards within the MTFP period are not yet agreed, there is a risk of the current assumptions on pay being at variance to the budget as the pay claim received by the employers' side is often in excess of the budgeted provision. This is despite the Government's freeze on public sector pay. **Assessment: Degree of risk / reserve needed:** **Low £0-75k Medium £75-150k High £150-£300k** **Likelihood of risk occurring : Low** **Minimum reserve needed : £75k**
75	**300**	**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, potential uncertainty of the implications of Brexit and other recent global developments, such as potentially variable essential costs such as fuel costs. 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 £75k Medium £300k High £450k** **Likelihood of risk occurring : Low** **Minimum reserve needed : £75k**
50	**175**	**Income from Fees and Charges** – Together with continuing impact of the Covid-19 Pandemic, the 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 land charges, markets, planning fees 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 £25k (1%) Medium £50k (3%) High £150k (7%)** **Likelihood of risk occurring : Medium** **Minimum reserve needed : £50k**

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Minimum £000	Desirable £000	Area of expenditure / Explanation of risk / Justification for Reserves
250	**480**	**Demand Led Pressures on Services** – the most significant is likely to be the ongoing impact of the Covid-19 Pandemic. Whilst Government has made some funding provision for 2021/22, it is not known how long the Pandemic will continue to impact on the Council's activities, both in terms of costs pressures and loss of income. Both Housing and Council Tax Support may also come under pressure given the prevailing economy and associated risk of increasing unemployment due to the impact of Covid-19. 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. Qualifying expenditure on Housing Benefit is *generally* matched by Government subsidy in full, however, an increase in, say, supported services (referred to below) at a lower rate of recovery, can increase the overall net cost to the Council. In recent years, the Council has experienced an increase in Supported Accommodation enquiries and applications. The rate of subsidy for this category of accommodation is 60% and not 100% if the landlord is not a Registered Social Provider. Notwithstanding, an estimate is provided in the budget , if this trend continues this additional provision will not be sufficient to cover the Council's financial risk exposure. Additionally, 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 £400k High £700k** **Likelihood of risk occurring : Low** **Minimum reserve needed : £250k**

Minimum £000	Desirable £000	Area of expenditure / Explanation of risk / Justification for Reserves
100	**500**	**Non-achievement of Savings** – the level of savings required for over the medium term is c£xm according to the most recent Medium Term Financial Plan (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 10% cover (low), 25% (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. **Assessment: Degree of risk / reserve needed:** **Low £100k Medium £250k High £500k** **Likelihood of risk occurring : Low** **Minimum reserve needed : £100k**
150	**300**	**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 £150k Medium £300k High £600k** **Likelihood of risk occurring : Low (assuming Bellwin scheme would apply in certain cases)** **Minimum reserve needed : £150k**
0	**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. The current Capital Strategy is that only new borrowing equivalent to the previous year's Minimum Revenue Provision should be incurred to fund the Capital Programme and therefore revenue contributions is the only viable option in lieu of capital receipts being realised. As Capital Receipts in hand are included in the capital resourcing budget, the minimum required has been assessed as zero.

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Minimum £000	Desirable £000	Area of expenditure / Explanation of risk / Justification for Reserves
`150	300	**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. Business Rates Retention has been running since 2013/14 and a level of income has been achieved, therefore the initial business rates volatility reserve was transferred into the Budget Strategy Reserve. Taking into account Collection Fund monitoring to date, the provisions made to cover the risk of appeals and bad debts and an amount held for the volatility in Business Rates, it is proposed to set aside a minimum amount for 2020/21.
150	250	**Bond Reserve Cover** – It is proposed that the Bond Reserve balance of £250k is transferred to another specific reserve to provide financial cover to mitigate against the greater risk of NHB being withdrawn with effect from 2020/21. The Bond Reserve was originally set aside to provide resources in the event service(s) provided by Liberata needed to be brought back in house. The desired amount remains at £250k, however, given the financial outlook of the council, it is anticipated that any services returning in-house would be subject to a robust financial review with alternative delivery models fully explored, such as shared services or opportunities to share managerial supervision. .
1,000	**2,655**	**Total**