

## Appendix B

### Assessment of 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 Director of Resources 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 Strategic Director Finance and Resources.
5. In support of this requirement, and as part of the development of the budget for 2025/26, a risk assessment has been carried out to establish the minimum level of the General Fund Working Balance for Pendle Council. Details of this assessment are provided below in **Table 1** which indicates that the minimum working balance should be **c£1.0m**. At this level it represents c5% of the Council's net expenditure.

#### Table 1: Risk Assessment for General Fund Working Balance – 2026/27

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Minimum £000	Desirable £000	Area of expenditure / Explanation of risk / Justification for Reserves
172	172	<p><b>Pay</b> – the MTFP includes annual provision for a 3% 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 employees' side is often in excess of the budgeted provision.</p> <p><b>Assessment: Degree of risk / reserve needed:</b>  <b>Low £86k Medium £172k High £258k</b></p> <p><b>Likelihood of risk occurring : Medium</b>  <b>Minimum reserve needed : £172k</b></p>
200	200	<p><b>Prices (Inflation)</b> – the budget assumes that, in the main, price inflation can be managed by Services within a zero cash-limited increase or specific inflation allowances for designated expenditure (e.g.Fuel, Utilities). During the last year, general inflation has remained above the target set by the Government for the Bank of England. Most recently, there has been a slight tick up in inflation – in November 2025 it was 3.2% but it increased in December 2025 to 3.4%. The Bank of England continues to use Bank Rate in an attempt to control inflation whilst at the same time as supporting growth in the economy.</p> <p><b>Assessment: Degree of risk / reserve needed:</b>  <b>Low £200k Medium £300k High £400k</b></p> <p><b>Likelihood of risk occurring : Medium</b>  <b>Minimum reserve needed : £200k</b></p>
100	100	<p><b>Litigation Claims</b> – as the Council faces reductions in resources for future provision of services, there is an increased risk of litigation beyond that which would otherwise be covered by insurance arrangements.</p> <p><b>Assessment: Degree of risk / reserve needed:</b>  <b>Low £100k Medium £200k High £300k.</b></p> <p><b>Likelihood of risk occurring : Low</b>  <b>Minimum reserve needed : £100k</b></p>
50	300	<p><b>Income from Fees and Charges</b> – With the continuing impact of the cost of living crisis combined with a relatively benign outlook for economic growth, the Council's income streams may continue to be impacted. Whilst some budgets have been reduced to reflect more realistic income levels, it is the case that a number of services are also price sensitive and delivered in competition with other providers (e.g. trade waste / building control).</p> <p><b>Assessment: Degree of risk / reserve needed:</b>  <b>Low £50k Medium £100k High £300k</b></p> <p><b>Likelihood of risk occurring : Low</b>  <b>Minimum reserve needed : £50k</b></p>

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Minimum £000	Desirable £000	Area of expenditure / Explanation of risk / Justification for Reserves
200	400	<p><b>Demand Led Pressures on Services</b></p> <p>Both Housing Benefit and Council Tax Support may also come under pressure given the prevailing economy and associated risk of increasing unemployment due to both the cost of living crisis and the potential for a downturn in the economy. The Council spends c£12m on Housing Benefits whereas the cost of Council Tax Support (applied as a discount on council tax bills) is estimated at c£8m.</p> <p>Qualifying expenditure on Housing Benefit is <i>generally</i> matched by Government subsidy in full, however, an increase in, say, the use of temporary accommodation and supported/exempt services resulting in a lower rate of subsidy recovery, can increase the overall net cost to the Council.</p> <p>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.</p> <p style="text-align: center;"><b>Assessment: Degree of risk / reserve needed:</b>  <b>Low £100k    Medium £200k    High £400k</b></p> <p style="text-align: center;"><b>Likelihood of risk occurring : Medium</b>  <b>Minimum reserve needed : £200k</b></p>
-	100	<p><b>Non-achievement of Savings</b> – the level of savings required over the medium term is significant (c£2m) 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. 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 whilst this MTFP contains indicative core funding levels for future years, these may be subject to change at future funding settlements, so increasing the degree of uncertainty within the budget assumptions made on high value budgets.</p> <p style="text-align: center;"><b>Assessment: Degree of risk / reserve needed:</b>  <b>Low £0k    Medium £100k    High £402k</b></p> <p style="text-align: center;"><b>Likelihood of risk occurring : Low</b>  <b>Minimum reserve needed : £0k</b></p>

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Minimum £000	Desirable £000	Area of expenditure / Explanation of risk / Justification for Reserves
200	1,000	<p><b>Unforeseen / emergency expenditure</b> – 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;"><b>Assessment: Degree of risk / reserve needed:</b>  <b>Low £200k    Medium £400k    High £1.0m</b></p> <p style="text-align: center;"><b>Likelihood of risk occurring : Low (assuming Bellwin scheme would apply in certain cases)</b>  <b>Minimum reserve needed : £200k</b></p>
-	500	<p><b>Receipt of capital resources</b> – the overall capital programme assumes a level of income from asset disposals / grants – as the timing of these can sometimes be uncertain it is sometimes considered prudent to set provision aside for additional revenue to help offset any shortfall if expenditure cannot be delayed.</p> <p>The current Capital Strategy is that only new borrowing equivalent to existing commitments plus amounts equivalent to the Minimum Revenue Provision should be incurred to fund the Capital Programme and therefore revenue contributions may be the only viable option in lieu of capital receipts being realised.</p> <p style="text-align: center;"><b>Assessment: Degree of risk / reserve needed:</b>  <b>Low £0k    Medium £200k    High £500k</b></p> <p style="text-align: center;"><b>Likelihood of risk occurring : Low</b>  <b>Minimum reserve needed : £0k</b></p>
100	650	<p><b>Business Rates</b> - Given the volatility inherent in the current rates retention system, it is considered prudent to set aside a level of funding within the working balance to help manage the associated risks.</p> <p>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 2026/27.</p> <p style="text-align: center;"><b>Assessment: Degree of risk / reserve needed:</b>  <b>Low £100k    Medium £400m    High £650m</b></p> <p style="text-align: center;"><b>Likelihood of risk occurring : Low</b>  <b>Minimum reserve needed : £100k</b></p>
1,022	3,422	<b>Total</b>