Appendix F

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 Finance 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 Director of Finance.

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 Kirklees. Details of this assessment are provided below in **Table 1** which indicates that the minimum working balance should be **c£15.0m**.

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Table 1: Risk Assessment for General Fund Working Balance – 2025/26

Minimum £000	Desirable £000	Area of expenditure / Explanation of risk / Justification for Reserves
1,200	**2,500**	**Pay** – the opening MTFP includes annual provision for a 4% pay award for 24/25 and 2% thereafter. This has been increased by 1% across all years as part of the current MTFP update and the budget gap updated accordingly. 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. An increase of 1% in the annual pay award would result in an increased cost of £2.5m. **Assessment: Degree of risk / reserve needed:** **Low £0-2.5m Medium £2.5m High £6m-£6.5m** **Likelihood of risk occurring: Medium** **Minimum reserve needed: £1.2m**
1,000	**1,500**	**Prices** – the budget assumes that, in the main, price inflation can be managed by Departments within a zero cash-limited increase or specific inflation allowances for designated expenditure (e.g. National Living Wage, IT software, Utilities). Inflation is now nearing the Bank of England target level of 2% which should reduce the impact of the inflation within the sector. Inflation contingency in central budgets only covers the waste contract and energy inflation. **Assessment: Degree of risk / reserve needed:** **Low £0.5m Medium £1.0m High £1.5m** **Likelihood of risk occurring: Medium** **Minimum reserve needed: £1.0m**
500	**500**	**Litigation Claims** – 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. **Assessment: Degree of risk / reserve needed:** **Low £1.0m Medium £2.0m High £3.0m** **Likelihood of risk occurring: Low** **Minimum reserve needed: £1m**
1,000	**1,000**	**Income from Fees and Charges** – With 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). **Assessment: Degree of risk / reserve needed:** **Low £0.5m Medium £1.0m High £2.0m** **Likelihood of risk occurring: Medium** **Minimum reserve needed: £1.0m**

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Minimum £000	Desirable £000	Area of expenditure / Explanation of risk / Justification for Reserves
4,000	**5,000**	**Demand Led Pressures on Services** – the most significant is likely to be the ongoing impact of the cost of living and how this could potentially create additional demand for Council services and/or place pressure on the Council's income. Both Adult and Children's Social Care can be subject to significant demand-led pressures. This can vary from one year to the next and both have been significantly impacted by post Covid-19 'bounce' and the continuing backlog of pressures in the Health Service, alongside recent increased costs for refugees (incl Ukraine). Both Housing 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£60m on Housing Benefits whereas the cost of Council Tax Support (applied as a discount on council tax bills) is estimated at c£36m. 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. Pressures in current year are c £4.4m. **Assessment: Degree of risk / reserve needed:** **Low £3.0m Medium £4.0m High £5.0m** **Likelihood of risk occurring: Medium** **Minimum reserve needed: £4.0m**
500	**500**	**Grant income** – there is a risk that the MTFS is built on optimistic assumptions of income that may prove unsustainable over the life of the plan; especially assumptions on growth in Adults grant income. **Assessment: Degree of risk / reserve needed:** **Low £0.5m Medium £1.0m High £2.0m** **Likelihood of risk occurring: Low** **Minimum reserve needed: £0.5m**

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Minimum £000	Desirable £000	Area of expenditure / Explanation of risk / Justification for Reserves
3,000	**4,000**	**Non-achievement of Savings** – the scale of savings required by the Council to achieve a balanced budget in 2025/26 (and across the rest of the MTFS period) is such that it will require a fundamental shift in how the Council operates which may not be possible in the time available. 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 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 £2.0m Medium £3.0m High £4.0m** **Likelihood of risk occurring: Medium** **Minimum reserve needed: £3.0m**
500	**500**	**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 £500k Medium £1,000k High £1,500k** **Likelihood of risk occurring: Low (assuming Bellwin scheme would apply in certain cases)** **Minimum reserve needed: £500k**
1,000	**1,000**	**Unbudgeted borrowing costs** – there is a risk that unbudgeted in-year financial losses are funded by a reduction in reserves. This may necessitate the Council having to undertake external borrowing at a time when interest rates are rising (as the Council cannot borrow internally). The interest cost of a £20m loan at 5% would be £1m per annum. **Assessment: Degree of risk / reserve needed:** **Low £500k Medium £1m High £2m** **Likelihood of risk occurring: Medium** **Minimum reserve needed: £1m**

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Minimum £000	Desirable £000	Area of expenditure / Explanation of risk / Justification for Reserves
1,000	**1,000**	**Delay in repayment or default on loans made by the Council** – there is a risk on loans made by the Council to third party organisations (including: 103 New Street £12.2m, KSDL £3.8m, Kirklees College £13.3m, Kingsgate £5.5m at 31.3.24) potentially resulting in the need to write off the loans, or to agree to extend loan repayment periods, with a resulting cashflow cost. **Assessment: Degree of risk / reserve needed:** **Low £500k Medium £1m High £2m** **Likelihood of risk occurring: Medium** **Minimum reserve needed: £1m**
0	**0**	**Changes in fair value of Council long-term investments** – there is a risk that the deterioration in the capital value of the Council's investments (in the CCLA) that, without the statutory override, would otherwise have to be charged to the Council's revenue account. The cost on the initial investment was £10m. **Assessment: Degree of risk / reserve needed:** **Low £0 Medium £1m High £2m** **Likelihood of risk occurring: Low** **Minimum reserve needed: £0m**
0	**5,000**	**Safety Valve Programme** – there is a risk that if the savings on the High Needs Budget are not achieved in line with the requirements of the Safety Valve Agreement, it may be withdrawn and once the statutory override allowing Councils to carry the High Needs Budget deficit on the Balance Sheet (rather than charge it to revenue) expires, the Council will have to fund it. Depending on the scale of the deficit at the time, it would likely result in a s114 notice. **Assessment: Degree of risk / reserve needed:** **Low £0m Medium £5m High £10m** **Likelihood of risk occurring: Low** **Minimum reserve needed: £0m**
0	**0**	**Receipt of Capital Resources/ Capital Plan Funding –** 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. The current Capital Strategy reflects substantial levels of capital receipts each year to fund the capital programme (2024/25: £12.2m, 2025/26: £8.4m, 2026/27: £23.9m; 2027/28: £14.6m; 2028/29: £5.9m). Further borrowing or revenue contributions could be required in lieu of capital receipts being realised (unless other funding sources can be found or expenditure delayed), with the risk that further borrowing is not prudent, sustainable or affordable as required by the Prudential Code. **Assessment: Degree of risk / reserve needed:** **Low £0k Medium £1.0m High £2.0m** **Likelihood of risk occurring: Low** **Minimum reserve needed: £0k**

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Minimum £000	Desirable £000	Area of expenditure / Explanation of risk / Justification for Reserves
0	**0**	**VAT- Partial Exemption** – If the PE limits are breached there is a risk that c£3m could be potentially lost (based on £60m input tax in 2022/23 & a 5% PE limit). Anything above that would depend on the VAT incurred on the project(s) that was the cause of the partial exemption breach. There is the possibility a breach could be managed through HMRC's averaging rules which looks at partial exemption over 7 years (which can be a combination of actual and forecast) – if the average over 7 years is less than 5%, repayment to HMRC is not required. **Assessment: Degree of risk / reserve needed:** **Low £0m Medium £0m High £3m** **Likelihood of risk occurring: Low** **Minimum reserve needed: £0m**
1,300	**2,600**	**Collection Fund –** Business Rates: Given the volatility inherent in the current rates retention system 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. 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 2024/25. A 1% reduction in collection equates to c £0.5m for Business Rates. Council Tax: alongside potential shortfalls in new build projections in the Council Tax base there is an increased risk of bad debts as a consequence of the ongoing cost of living crisis. A 1% reduction in collection equates to c £2.1m. **Assessment: Degree of risk / reserve needed:** **Low £1.3m Medium £2.6m High £3.9m** **Likelihood of risk occurring: Low** **Minimum reserve needed: £1.3m**
15,000	**25,100**	**Total**