

**Worcester City Council
Minimum Working Balances Requirement**

1. Background

The minimum working balance is a risk balanced calculation which is intended to set aside resources to provide a buffer in the event that a single or multiple risks become a reality.

Working balances can only be spent once and therefore if a situation arises where they are required the Council will need to consider:-

- taking corrective action to fund any on-going costs/lost income
- replenishing the working balance to have a buffer for the future

Working balances are vital because they provide the Council with funding and time to respond.

2. Setting the minimum working balance

The Council should regularly review the level of working balances based on the risks it is facing. The key risks being:-

- risks that could increase costs (e.g. higher inflation, review of major contracts)
- the delivery of efficiency savings
- future level of budget reductions
- risks that could impact on cashflow (e.g. delayed direct debit receipts)
- reduced income receipts (e.g. car parking and planning)
- increased borrowing cost
- reduced investment income
- the Council faces an unforeseen cost or reduction in grant (eg change to new homes bonus)

Working balances are not required if the risk is already covered. For example, if the availability of temporary borrowing would cover delayed receipts and this is easily available or if reserves/base budget are already held or cover the risk. However, a full list of risks and proposed mitigation should be recorded and reviewed in case the mitigation changes.

3. Minimum Working Balances 2017/18

A minimum working balance of C£1.4m has been calculated for 2017/18 as follows:-

Risk	Current Mitigation	£m
Increased inflation (1%)	Already assuming 2% pay and 2.3% non pay	0.300
Failure to deliver 25% of efficiencies in 2017/18	Efficiencies owned by services and within service plans	0.250
Delay in collecting Council tax/NNDR direct debits	Would cover by temporary borrowing	0.000
5% reduction in income (not grant)	Income target set prudently with a track record of income exceeding budget. Income contingency budget of £0.230m held within base budget	0.270
Increased borrowing costs	All borrowing is fixed and there is no new borrowing requirement in the MTFE	0.000
Reduced investment income by 0.5%	Interest based on 0.5% and there is a good track record of delivering returns over base rate	0.080
Unforeseen cost	Reserves are held for specific purposes and could be redesignated in the event of an unforeseen cost. Would managed a cost up to £0.500m before looking at reserves	0.500
TOTAL MINIMUM WORKING BALANCE		1.400

4. Review of Key Risks

In terms of scale a reduction of income is the most prominent risk within the minimum working balances calculation and the inclusion of a £0.230m income contingency reflects that the consequences of this risk are being managed. Part of the risk management process should look for events that may trigger a reduction in income. This is likely often linked a change in the economy, particularly with car parking and planning income but could also include competition or reduction in activity due to closure (essential building works, changing surface parking to a MSCP).