

**APPENDIX 1
Introduction**

1. The Local Government Act 2003 requires the Councils Chief Finance Officer (Section 151 Officer) to comment upon the adequacy of the Council's Reserves. This report sets out that opinion.

Adequacy of Reserves

2. In normal circumstances the Council would need to set lower and upper limits for the level of reserves over the medium term consistent with its financial strategy and assessment of risks i.e. budget pressures and longer term external funding. The latter is key as it is fairly certain that Central Government financial grant support is likely to be constrained to low levels of annual increase.
3. However, for 2009-10 circumstances are not normal and before coming to any view it is worth examining the likely level of reserves that Central Bedfordshire Council can expect to inherit at 1st April 2009. These are based upon the best estimates at the time of writing (Dec 2008).

General Fund (GF) Reserves Forecast

	BCC	CBC share	MBDC	SBDC	Total
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Balance @ 31-3-08	12.728	8.019	4.690	1.310	14.019
Expected Movement 2008/9	772	.486	(.757)	(1.210)	(1.481)
Expected Balance 31-3-09	13.500	8.505	3.933	.100	12.538

4. The CBC share of the County Council general fund reserve is set at 63% being the taxbase apportionment with Beds Borough. This basis if apportionment is generally agreed with the Borough as the fallback position and is the relevant calculation for GF reserves.
5. In addition, Central Bedfordshire Council can expect to inherit a significant sum by way of currently earmarked reserves. The expected position of these at 31st March 2009 totals around £21.4m for Central Bedfordshire.
6. Earmarked reserves are set aside for specific purposes and will require to be reviewed for their sufficiency and appropriateness in line with best practice as set out by CIPFA (LAAP 55 – Guidance note on Local Authority Reserves and Balances)

7. In view of the unusual circumstances, this review can be expected to be a more fundamental root and branch review than might normally be the case and it is fully expected that several current reserves will discontinue as they will simply no longer be required or be inappropriate for the new Council.
8. Such a review, however, will be more appropriate following closedown of all predecessor authority accounts when the position is known with certainty and the new Council has determined financial priorities. Members can expect a more detailed report upon that issue later in the year.
9. However, whilst it is acknowledged that a large proportion of the above will undoubtedly need to be retained for the purpose intended, it can be reasonably ascertained from an initial broad assessment by officers, that between 30% - 50% can safely be returned to the general fund reserve in 2009/10 as their purpose will either no longer be relevant or the risk diminished in the new unitary council.
10. Therefore, of the total earmarked reserves expected to come forward from the 31st March closedown position, taking a mid point of 40%, it is estimated that some £8.6m should be utilised as part of Central Bedfordshire's opening general fund reserve, thus increasing the opening amount to an estimated £21.1m, before application of brought forward transitional costs estimated at £10.8m. (See paras. 18-19 below)

Risk factors

11. For Central Bedfordshire, there are perhaps three main risks in considering the minimum level of general fund reserve:
 - that the budget allocations for each service prove insufficient
 - that the flow of transitional cost spend will temporarily deplete general fund reserves to below a minimum acceptable level
 - the exceptionally low interest forecast expectations during 2009/10
12. Risk associated with the budget will be covered within the budget report, however, a number of the potentially high risk issues associated with the budget are already known to the new Council and thus have already been taken into account in setting out a proposed budget for 2009/10. These include:
 - Public Spending Review outcomes (CSR 07 is in place)
 - Grant Floor Protection (still in place next year)
 - Formula Grant (CB proportion in line with 3rd year of settlement)
 - School funding (Grant disaggregation appears broadly in line with expectations)

- New statutory responsibilities (None of significance)
 - Capping Limit (budget within assumed 5% upper limit)
13. There are of course other risk factors but the above are the main ones. Whilst the above have largely been mitigated within the budget setting exercise, it remains unlikely that each individual service budget has been allocated such that in the very first year of Central Bedfordshire, all will turn out to have been accurate assessments. It would be unrealistic not to expect a degree of “churn” in year 1 that will result in some adjustment in 2010/11.
14. The main risk, therefore, applying to and affecting the general fund reserve is that of a corporate overspend within 2009-10. Whilst there must be a higher risk of this than in normal circumstances, the Management Team are confident that in overall terms the budget envelope is robust and that the risk of overspend has been mitigated as far as possible for 2009/10. Nevertheless, an exceptional level of budget monitoring is required to keep this risk in check from day 1.

Minimum level of General Fund (GF) Reserve

15. The minimum level of general fund reserves is normally set at a level that would allow the Council to pay its creditors, (including employees) for one week, should it suffer major cash flow difficulties. This is a common approach to setting minimum levels of reserves in both the public and private sectors, and is the methodology employed by all the existing authorities in Central Bedfordshire.
16. This cash flow position is, of course, significantly mitigated for the new authority by the level of other earmarked reserves and provisions it holds at any one time. Provisions are separate to Earmarked Reserves and are set aside for specific known liabilities, though the exact timing of their use may not be known. Central Bedfordshire will inherit approx £6.5m of such provisions from the County Council. For the purpose of this exercise they have been prudently ignored in calculations, nevertheless, those are balances that will transfer and be in hand during 2009/10 and depending on the circumstances, may also be temporarily available if required.
17. **It is important, therefore, to set the minimum level and based upon the foregoing information this equates to £4.68m for Central Bedfordshire, being one weeks equivalent of payroll, supplies and services and 3rd party payments. This should, therefore, be set as the Central Bedfordshire policy for the minimum General Fund Reserve level in 2009/10.**
18. Actual cash flow will of course vary from a straight-line model, but the aim will be to maintain GF reserves at or above the £4.68m level and to inform the Portfolio Holder and Executive if there are any occasions when the GF reserve drops below that level.

Transitional Funding cash flow

19. The shadow authority is currently on track to expend around £10.8m during 2008-9. Indications are that during 2009-10 Central Bedfordshire will expend up to a further £11.1m. These are the 2 peak years for transitional cost spend with any further spend being unlikely, if anything some may slip into 2011/12. As part of the proposed budget for 2009-10, there will already be built in the first “repayment” back toward transition costs, currently estimated at £5.853m.
20. Assuming a reasonably even flow of spend and replenishment during 2009/10, a modelled cash flow based upon the above assumptions would indicate that Central Beds would not drop below its minimum acceptable level of General Fund reserve. There would be a closing margin of circa £330k being the degree of flexibility in hand.
21. On that basis, the Director of Corporate Resources as the Council’s statutory S151 officer is content that the Council will maintain an adequate level of general reserve during 2009/10.