

Protocol for the Management and Use of Reserves

1. CIPFA's Guidance Note on Local Authority Reserves and Balances states that 'it is important that local authority councillors take responsibility for ensuring the adequacy of reserves and provisions when setting the budget'. The Guidance Note requires the Section 151 Officer (the Head of Corporate Finance) to advise members about the level of reserves they should hold and to ensure that there are protocols for their establishment and use.
2. The Council's Financial Regulations state that for each reserve established, the purpose, usage and basis of transactions should be clearly identified, and that authorisation and expenditure from reserves is by the appropriate Corporate Director of Head of Service in consultation with the Head of Corporate Finance.
3. When a reserve is to be established, the Head of Corporate Finance must be satisfied:
 - a) Of the reason for the reserve, and its purpose.
 - b) That setting up the reserve complies with the latest version of the Code of Practice on Local Authority Accounting in the United Kingdom
4. Contributions to and from reserves shall be included in the Council's accounts, which are approved by the Head of Corporate Finance and the Administration Committee.
5. Control of Reserves shall involve:
 - a) An annual review of the relevance and adequacy of reserves, as part of the Head of Corporate Finance's budget report.
 - b) Monthly budget monitoring of the Council's overall revenue position to assess the potential extent of the use of general reserves in any year.
 - c) A year end assessment by the Head of Corporate Finance of the potential use of reserves in order to optimise the Council's financial position, with any such use reported to the Administration Committee as part of the report on final accounts.
 - d) It should also be noted that the External Auditor may wish to review the level of reserves at any time, and that the Head of Corporate Finance will take into account any views expressed by the External Auditor on reserves as part of the budget report.
6. This report takes into account the assessment of reserve requirements in appendix B. Developments are: the amalgamation of the 2 planning reserves which were previously separated, the amalgamation the service provision and service pressure reserves, and the deletion of the Adult Care Management reserve. The Insurance Reserve has been subject to actuarial review, which has shown that £1.1million can be transferred to the General Reserve, and this report reflects that transfer as at 31.3.2008. Appendix B notes that £375k of this will be needed to increase the minimum reserve level consequent upon the transfer to cultural services to a Trust to be funded via Airport gift aid.

Reserve (usable reserves only)	Reason/Purpose	Management and Control	Use	Estimated balances
General Reserve (including future liability)	To fund any overspend on the Council's annual budget. To ensure that the Council has funds to cover unexpected events in the short and medium term. To provide a prudent basis for operating.	As per 5 (a) to (d) above	To fund any overspend on the Council's annual budget – in which case, if the level goes below the minimum shown in Appendix B, the reserve will need to be replenished the following year	31.3.08 £6.55million. transfer to specific risk management £1m 31.3.09 minimum £4.525million Adequate, See Appendix B, Adequacy of Reserves
General Reserve – Specific Risk Management	In recognition of the potential risk resulting from reliance on gift aid from the Airport Company to fund charitable partners of the Council.	As per 5 (a) to (d) above	To fund key partners if the Airport Board is unable to provide gift aid – in which case, the base budget and reserve requirement will need urgent reassessment to determine future requirements	31.3.08 £1.4million use in year – nil 31.3.09 £2.8million Adequate, see Appendix B Adequacy of Reserves
General Reserve – Invest to save	To provide funds to enable the Luton Excellence project to use to deliver ongoing revenue reductions and service improvements, and to fund invest to save schemes for the benefit of the Council – see invest to save scheme	As per 5 (a) to (d) above, plus report to CLMT, FPP and Exec in accordance with Lex approval scheme and invest to save scheme on specific proposals for use	In accordance with the Luton Excellence governance arrangements and the invest to save scheme	31.3.08 £2.6m approx net use in year £1.6m approx 31.3.09 £1m This reserve is above the level required for adequacy.
General Reserve – reorganisation etc	To ensure that the Council can fund any reorganisations recosts arising directly from the implementation of the 2006-7 budget	Approved by Executive on the recommendation of the Head of Corporate Finance	To fund costs arising from organisational development including claims that may arise	31.3.08 £2.8million approx, use in year might be £1.8m 31.3.09 may be £1m, appears adequate for 2008/09 budget.
General Reserve – Service Provision & pressures	To enable underspends to be carried forward for use in the following financial year	Use approved by Executive and implemented by Head of Corporate Finance	To fund carry forwards. Any funding not approved for carry forwards can be used for in year pressures	31.3.08 £284k plus £750k held on behalf of 3 rd party. Not relevant to adequacy.
Housing Revenue Account – Revenue Reserve	To fund any overspend on the HRA budget. To ensure sufficient funds to cover unexpected events. To provide a prudent basis for operating.	As per 5 (a) to (d) above	To fund any overspend on the HRA's annual budget – in which case, the reserve may need to be replenished the following year	31.3.08 £3.4m use in year – 1.6m est. 31.3.09 £1.2m Adequate

Reserve (usable reserves only)	Reason/Purpose	Management and Control	Use	Estimated balances
Housing Revenue Account – capital reserve	To fund any overspend on the HRA annual budget. To ensure that the Council has funds to cover unexpected events. To provide a prudent basis for operating.	As per 5 (a) to (d) above	To fund any overspend on the HRA's annual budget – in which case, if there is a capital programme in excess of the major repairs allowance, the reserve will need to be replenished	31.3.08 £800k use in year nil 31.3.09 £800k Adequate
Housing Revenue Account – major repairs reserve	To comply with legislation regarding the use of the major repairs allowance	As per 5 (a) to (d) above	To fund major repairs in accordance with decent homes standard and business plan requirements up to 2010/11	31.3.08 £0m use in year nil 31.3.09 £0m Statutory requirement to fund major repairs allowance – question of adequacy not applicable to revenue budget
Central Insurance Reserve	To enable the Council to self-insure risks where no external cover is obtainable, and/or where self insurance is better value	As per Insurance procedures	To pay claims by departments for items/incidents which are met by self-insurance, subject to validation and to any excess	31.3.08 £3.6m in year £100k Net projection for 31.3.09 £3.8m (excs provisions)- Actuarial review shows adequate.
Dedicated Schools Grant Reserve	To enable schools to carry forward funds not spent in any particular year for use on future projects	As per 5 (a) and (b) above, with detailed assessments by Children & Learning	Schools-specific reserves for their expenditure (also used for inter-schools loan scheme). Central funds limited to DSG spend.	31.3.08 £6.5m net change in year – £0.5m 31.3.09 £6m Adequate
General Reserve – Planning, including development plan	To allow for unpredictable costs of enquiries/income reductions in planning, and in development plan production	As per 5 (a) to (d) above	To fund any overspend of the Council's overall budget resulting from a reduction in planning fees or a major planning enquiry. To fund major spend pressures in relation to development plan production	31.3.08 £186k use 0 31.3.09 £186k Planning income has been buoyant, although the housing market is experiencing problems.
Pension Reserve	To fund future pension-related liabilities	Review by Head of Corporate Finance on receipt of pensions information plus annual reviews	Voluntary funding of Council liabilities in respect of pensions costs including any early retirements	31.3.08 £700k use in year nil, 31.3.09 £700k adequate.