**Money Matters**

**Update on the County Council's Reserves Position as at 31st December 2016**

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Money Matters – Update on the County Council's Reserves Position for 2016/17

**1. Executive Summary**

**1.1 Introduction**

As at 1st April 2016 the County Council had total reserves of £400.669m. Of this, £86.022m was held for schools and its use is restricted.

This report sets out the reserves position in line with the current budget monitoring report.

**1.2 Summary**

As part of the process of redesigning its services the County Council has previously explicitly recognised that it will need to significantly utilise its reserves over the next 2 financial years.

At Full Council in February 2016 the revenue budget included an approved commitment from the Transitional Reserve of £46.518m in 2017/18 to support the reported financial gap at that time. However, following a review of the Medium Term Financial Strategy (MTFS) for Cabinet in December 2016 (as at 30th September 2016) it was identified that a revised value of £60.350m was required in 2017/18 which resulted in an additional £13.832m added into the MTFS in total.

A further quarterly review of the MTFS has taken place as at 31st December 2016 (Appendix B) it is now identified that £54.045m is required in 2017/18 (a reduction of £6.305m compared to the figures reported to Cabinet in December). The reduction **has been included within the reserves forecast detailed within this report.**

The budget monitoring position for the financial year 2016/17 (Appendix A) is reporting a forecast underspend of £15.298m. **Please note that this is not currently included within the forecast reserves position in this report.**

In summary, by 31st March 2018 it is expected that there will only be the £36.000m County Fund and a residual £91.699m of service reserves which includes £8.354m school PFI expenditure and £4.944m which is not LCC money, meaning in effect the available balance of £78.401m. All other reserves will have been spent. If the additional contribution from revenue is available of £15.298m (budget monitoring forecast underspend), this will result in a revised balance of service reserves being available as at 31st March 2018 of £93.699m.

When reviewing the County Council's reserves in conjunction with the Medium Term Financial Strategy (Appendix B) the funding requirement to bridge the financial gap in 2018/19 would total £85.162m. Although there are reserves available at 31st March 2018 of £93.699m (if the currently forecast underspend is achieved) there are commitments in 2018/19 of £10.450m (excluding non LCC commitments) therefore the available balance to support the 2018/19 budget is £83.249m resulting in there not being sufficient funds within reserves to support the 2018/19 budget. The table in Section 2 clearly demonstrates that there are not sufficient funds to support the budget gap in 2018/19. In order to set a legal budget therefore further savings will need to be made.

In summary, this report indicates that there are sufficient funds within the Transitional Reserve to deliver a balanced budget in 2017/18 as per the agreed financial strategy. However this is dependent upon a number of key factors and risks which are as follows:

* All values within reserves that are currently reported to be available funds are transferred into the transitional reserves with no further commitments emerging in these areas now that the transfer has taken place.
* There is limited slippage on the agreed savings programme for 2017/18 and 2018/19. Any slippage will result in a requirement for funding from reserves.

**2. Reserves**

The table below illustrates the summary forecast position in respect of the Council's reserves:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Reserve Name** | **Opening Balance as at 1 April 2016** | **2016-17 Forecast Spend** | **2016-17 Transfers to / from other reserves** | **2016-17 Forecast Closing Balance** | **2017-18 Forecast Spend** | **2018-19 Forecast Spend** | **2019-20 Forecast Spend** | **Total as at 31 March 2020** |
|   | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** |
| County Fund (3.1) | -36.000 | 0.000 | 0.000 | -36.000 | 0.000 | 0.000 | 0.000 | -36.000 |
| Strategic Investment Reserve (3.2) | -10.971 | 2.351 | 5.194 | -3.426 | 1.543 | 0.883 | 0.060 | -0.940 |
| Downsizing Reserve (3.3.1) | -64.841 | 14.171 | 28.062 | -22.608 | 13.548 | 9.060 | 0.000 | 0.000 |
| Risk Management Reserve (3.3.2) | -15.784 | 3.155 | 4.872 | -7.757 | 7.757 | 0.000 | 0.000 | 0.000 |
| Transitional Reserve (3.4.1) | -141.837 | 59.863 | -54.712 | -136.685 | 74.125 | 0.530 | 0.000 | -62.031 |
| To facilitate the transition of services (3.4.2) | 0.000 | 0.000 | -3.000 | -3.000 | 0.000 | 0.000 | 0.000 | -3.000 |
| Service Reserves (3.5) | -45.214 | 8.893 | 10.800 | -25.521 | 10.325 | -0.340 | -0.683 | -16.219 |
| **TOTAL** | **-314.647** | **88.434** | **-8.784** | **-234.997** | **107.298** | **10.133** | **-0.623** | **-118.189** |
| Forecast underspend 2016/17 | 0.000 | 0.000 | -15.298 | -15.298 | **0.000** | **0.000** | **0.000** | -15.298 |
| *MTFS Funding Gap (for information)* |   |   |   |   |  | *85.162* | *115.392* | *200.554* |
| Available reserves to support financial gap | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 83.249 | 0.000 | 83.249 |
| **TOTAL (not including MTFS Funding Gap included above for information)** | **-314.648** | **88.434** | **-24.082** | **-250.295** | **107.298** | **93.382** | **-0.623** | **-50.238** |

*Note 1: the Service Reserves reflect the inclusion of the actual income and committed expenditure for the Growth Deal of £52.825m. This cannot be seen in the table above as these are funds that come into reserves and are spent during the year and therefore have a net nil impact.*

*Note 2: £0.415m has transferred from Service Reserves to Schools Reserves which are not included in this report.*

The above table demonstrates that following the application of the remaining available reserves of £83.249m to support the financial gap/shortfall within the 2018/19 budget the only remaining balance on reserves are County Fund (£36.000m), non LCC reserves (£13.898m) and 2019/20 commitments (-£0.340m). This draw down from reserves in 2018/19 is not sufficient to cover the whole financial gap in this financial year and provides confirmation that there are no reserves left to support the financial gap in future years.

**2.1 County Fund Balance**

The County Fund is the balance set aside to cover the authority against a serious emergency situation (e.g. widespread flooding); a critical and unexpected loss of income to the authority and for general cash flow purposes. In considering these various factors the County Council holds a County Fund balance at £36.000m. It is proposed this balance is retained as a prudent safeguard against any unexpected financial pressures.

**2.2 Strategic Investment Reserve**

This reserve is held to fund an agreed programme of investment in areas including economic development, increasing employment opportunities and green energy.

On 1st April 2016 this reserve held a balance of £10.971m. £2.351m is forecast to be spent in 2016/17, £5.194m is being transferred to the Transitional Reserve and another £2.486m is forecast to be spent by 2019/20 leaving a balance of £0.940m.

Details of the commitments are shown in Annex A.

**2.3 Reserves held to deliver Organisational Change**

The County Council currently has two reserves to deliver organisational change: the Downsizing Reserve and the Risk Management Reserve.

**2.3.1 Downsizing Reserve**

The Downsizing Reserve is predominantly used to fund voluntary redundancies arising from the reduction in the size of the organisation.

On 1st April 2016 this reserve held a balance of £64.841m. In 2016/17 spend against the reserve is forecast to be £14.171m of which £8.210m is committed for estimated redundancy costs. In the previous report to Cabinet in December 2016 the profile of redundancy payments was revised resulting in revised commitment estimates of £12.109m in 2017/18 and £9.060m in 2018/19, resulting in £21.470m being transferred to the Transitional Reserve as it was no longer required.

In addition, as part of the review of this reserve a further uncommitted amount of £6.992m has been transferred to the Transitional Reserve, with an additional £0.400m transferred to into the Downsizing Reserve. Expenditure of £1.439m is forecast to be spent in 2017/18 leaving a nil balance on the reserve.

Details of the commitments are shown in Annex B.

**2.3.2 Risk Management Reserve**

The Risk Management Reserve was created as a result of extraordinary Treasury Management performance during 2014/15 and previous years. This reserve is available to help the authority manage risks to funding and service delivery going forward.

This reserve had a balance of £15.784m on 1st April 2016. It is forecast that £3.155m will be spent in 2016/17 in addition to £4.872m uncommitted reserves transferring to the Transitional Reserve. It is forecast that a further £7.757m is committed in 2017/18 leaving a nil balance at the end of 2019/20.

Details of the commitments are shown in Annex B.

**2.4 Transitional Reserve**

The plans announced at 26th November Cabinet for the period 1st April 2016 until 31st March 2018 are heavily supported by reserves. A Transitional Reserve has been created to provide a source of funding for these plans and the balance at the 1st April 2016 was £141.837m. Cabinet plans have specifically identified £134.519m use of reserves during the period which includes the funding gap identified in the Medium Term Financial Strategy (MTFS) for 2016/17 and 2017/18 of £72.331m. Additional net transfers in from other reserves and transfer in of surplus balances on the 2015/16 council tax, business rates, new homes bonus, a Clayton Park Conference centre saving, a Prevention and Early Help underspend and a VAT repayment this totals £54.712m. The forecast balance on the reserve at the end of 2019/20 is a surplus of £62.031m. However this will not be available if the balance is utilised in 2018/19 to support the revenue budget gap.

Details of the commitments are shown in Annex C.

**2.4.1 Reserve to facilitate the transition of services**

At Full Council on 11th February 2016 a budget amendment was approved that requested a £3.000m contingency be made available from reserves to facilitate the transition of services. This has been set aside from the Transitional Reserve because of this specific nature of the approval.

Details are shown in Annex C.

**2.5 Service Reserves**

The County Council holds numerous reserves for specific service provision.

As at 1st April 2016 service reserves totalled £45.214m. There are forecast costs of £8.893m in 2016/17, transfers to the Transitional Reserve of £10.929m, and a transfer to the schools reserve of £0.415m, in addition to an offsetting transfer into a non- LCC reserve in relation to Health monies of £0.544m. There is forecast spend from these reserves of £9.303m in later years to leave a balance of £16.219m at the end of 2019/20. £9.064m of this balance relates to long term PFI programmes and £4.834m is not LCC money.

Details of the Service Reserves are shown in Annex D.

**2.6 Schools**

Under statute schools have delegated budgets. It is the responsibility of the individual schools to maintain reserves to cover risks and meet future plans. As schools make their own delegated decisions on when to use reserves, no forecast is made. School reserves cannot be used for any other purpose. The current status of schools' reserves is as follows

|  |  |  |  |
| --- | --- | --- | --- |
| **Reserve Name** | **Opening Balance as at 1 April 2016** | **YTD actual 2016/17** | **Forecast Closing Balance as at 31st March 2017** |
|  |  |  |  |
|  | **£m** | **£m** | **£m** |
| School Reserves | -86.022 | 3.196 | -82.826 |

**3. Impact of 2016/17 Outturn Forecast**

The current monitoring report is showing an underspend of £15.298m. Any underspend at the year-end can be transferred to the Transitional Reserve.

**4. Transfers between Reserves**

In the previous reports to Cabinet in September and December the transfers below were agreed between reserves:



A further review of reserves held has identified additional transfer between reserves has been included in this report:



 **Annex A – Strategic Investment Reserve**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **STRATEGIC INVESTMENT RESERVE** | **Opening Balance as at 1 April 2016** | **2016-17 Forecast Spend** | **2016-17 Transfers to / from other reserves** | **2016-17 Forecast Closing Balance** | **2017-18 Forecast Spend** | **2018-19 Forecast Spend** | **2019-20 Forecast Spend** | **Total as at 31 March 2020** |
|  | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** |
| Promoting Sustainable Employment for Young People | -0.304 | 0.304 | 0.000 | **0.000** | 0.000 | 0.000 | 0.000 | **0.000** |
| Young Person's Travel  | -0.194 | 0.000 | 0.194 | **0.000** | 0.000 | 0.000 | 0.000 | **0.000** |
| Economic Development - GAMMA | -0.017 | 0.017 | 0.000 | **0.000** | 0.000 | 0.000 | 0.000 | **0.000** |
| Economic Enterprise Zone Strategic Development | -0.500 | 0.500 | 0.000 | **0.000** | 0.000 | 0.000 | 0.000 | **0.000** |
| Economic Development - Exertis | -0.500 | 0.500 | 0.000 | **0.000** | 0.000 | 0.000 | 0.000 | **0.000** |
| Economic Development - Boost Continuation | -1.929 | 0.643 | 0.000 | **-1.286** | 0.643 | 0.643 | 0.000 | **0.000** |
| Armed Forces Apprentice Costs | -1.770 | 0.287 | 0.000 | **-1.483** | 0.243 | 0.240 | 0.060 | **-0.940** |
| Early Action /Early Response | -0.100 | 0.100 | 0.000 | **0.000** | 0.000 | 0.000 | 0.000 | **0.000** |
| Green Energy Fund | -5.000 | 0.000 | 5.000 | **0.000** | 0.000 | 0.000 | 0.000 | **0.000** |
| Core Systems Transformation  | -0.657 | 0.000 | 0.000 | **-0.657** | 0.657 | 0.000 | 0.000 | **0.000** |
| **Total on Strategic Investment Reserve** | **-10.971** | **2.351** | **5.194** | **-3.426** | **1.543** | **0.883** | **0.060** | **-0.940** |

**Annex B – Downsizing and Risk Management Reserves**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **DOWNSIZING & RISK MANAGEMENT RESERVES** | **Opening Balance as at 1 April 2016** | **2016-17 Forecast Spend** | **2016-17 Transfers to / from other reserves** | **2016-17 Forecast Closing Balance** | **2017-18 Forecast Spend** | **2018-19 Forecast Spend** | **2019-20 Forecast Spend** | **Total as at 31 March 2020** |
| **Downsizing Reserve** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** |
| Redundancy provision | -50.849 | 8.210 | 21.470 | **-21.169** | 12.109 | 9.060 | 0.000 | **0.000** |
| Transitional costs associated with Transformation Programme | -2.328 | 0.000 | 2.328 | **0.000** | 0.000 | 0.000 | 0.000 | **0.000** |
| Review for Adult Social Care (Newtons) | -7.000 | 5.961 | -0.400 | **-1.439** | 1.439 | 0.000 | 0.000 | **0.000** |
| Unallocated surplus | -4.664 | 0.000 | 4.664 | **0.000** | 0.000 | 0.000 | 0.000 | **0.000** |
| **Total on Downsizing Reserve** | **-64.841** | **14.171** | **28.062** | **-22.608** | **13.548** | **9.060** | **0.000** | **0.000** |
|  |  |  |  |  |  |  |  |  |
| **Risk Management Reserve** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** |
| Occupational Health  | 0.003 | 0.000 | -0.003 | **0.000** | 0.000 | 0.000 | 0.000 | **0.000** |
| Adults LD Remodelling Reserve  | -0.784 | 0.000 | 0.000 | **-0.784** | 0.784 | 0.000 | 0.000 | **0.000** |
| Provision to mitigate against risk DoLS- Deprivation of Liberty Safeguards | -2.900 | 0.424 | 0.000 | **-2.476** | 2.476 | 0.000 | 0.000 | **0.000** |
| Impact of Fairness Commission ReportCouncil Welfare Provision and the Care and Urgent Needs | -3.000 | 0.000 | 0.000 | **-3.000** | 3.000 | 0.000 | 0.000 | **0.000** |
| School Crossing Patrols | -1.500 | 0.000 | 1.500 | **0.000** | 0.000 | 0.000 | 0.000 | **0.000** |
| Social Work Dedicated Review Team | -2.653 | 1.156 | 0.000 | **-1.497** | 1.497 | 0.000 | 0.000 | **0.000** |
| Liquid Logic - Children's Services | -0.400 | 0.275 | 0.125 | **0.000** | 0.000 | 0.000 | 0.000 | **0.000** |
| Liquid Logic - Adult Social Care | -0.250 | 0.000 | 0.250 | **0.000** | 0.000 | 0.000 | 0.000 | **0.000** |
| Payment of additional allowances when staff are on leave | -1.300 | 1.300 | 0.000 | **0.000** | 0.000 | 0.000 | 0.000 | **0.000** |
| Transfer to Transitional Reserve for Wellbeing | -3.000 | 0.000 | 3.000 | **0.000** | 0.000 | 0.000 | 0.000 | **0.000** |
| **Total on Risk Management Reserve** | **-15.784** | **3.155** | **4.872** | **-7.757** | **7.757** | **0.000** | **0.000** | **0.000** |

**Annex C – Transitional Reserve & Transition of Services Reserve**



**Annex D – Service Reserves**



*Note: included in the LCC Waste Plant Rectification reserve at 31st March 2017 is a forecast £0.491m held for Blackpool Borough Council.*