



Money Matters
Update on the County Council's Reserves
Position as at 30th September 2017

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Money Matters – Update on the County Council's Reserves Position for 2017/18

1. Executive Summary

1.1 Introduction

As at 1st April 2017 the County Council had total reserves of £343.048m. Of this, £79.209m 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 to support the budget.

At Full Council in February 2017 the budget report included a forecast required commitment from the Transitional Reserve of £88.040m in 2018/19 to support the reported financial gap at that time. However, following a review of the Medium Term Financial Strategy (MTFS) for Cabinet in September 2017 based on the financial position at the end of June 2017 it was identified that the gap between forecast expenditure and funding in 2018/19 was £90.205m.

The updated Medium Term Financial Strategy (MTFS) based on the financial position at the end of September 2017 (Appendix B) identifies the gap between forecast expenditure and funding in 2018/19 as £64.765m.

The value of the uncommitted Transitional Reserve is currently £94.201m and whilst it is anticipated that further revenue savings for 2018/19 will be identified, Table 2 of this report shows the impact of utilising the Transitional Reserve to fund the £64.765m gap which would leave £29.436m available for use in 2019/20 based on current forecasts. Table 2 demonstrates the funds that are forecast to be available to support the budget gap in 2018/19 and part of 2019/20. However, in order to set a legal budget further savings will need to be made.

Table 1 also shows available balances in the Strategic Investment Reserve, Risk Management Reserve and Service Reserves where work is currently underway to review if there are further commitments or other conditions (such as grant requirements) that means that these funds cannot be transferred to the Transitional Reserve. The total of the balances under review is £9.425m.

The budget monitoring position for the financial year 2017/18 (Appendix A) is reporting a forecast underspend of £7.498m. **Please note that this is not currently included within the forecast reserves position in this report.**

In summary, this report indicates that there are sufficient funds within the Transitional Reserve to support the budget gap between forecast expenditure and available funding

in 2018/19 but not in 2019/20 and beyond. 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 2018/19 and beyond. Any slippage will result in a requirement for funding from reserves.
- Further savings are identified and implemented from April 2018 to support achieving a balanced budget position.
- Impact of the in-year revenue position – a positive or negative outturn will impact on the level of reserves available from April 2018.

2. Reserves

Table 1 illustrates the summary forecast position in respect of the Council's reserves:

Table 1

Reserve Name	Approved at Full Council Feb 2017	2017/18 Forecast Spend	2017-18 transfers to / from other reserves	2017/18 Forecast Closing Balance	2018-19 Forecast Spend	2019-20 Forecast Spend	Total as at 31 March 2020
	£m	£m	£m	£m	£m	£m	£m
County Fund (2.1)	-36.000	3.276	0.000	-32.724	0.000	0.000	-32.724
SUB TOTAL - COUNTY FUND	-36.000	3.276	0.000	-32.724	0.000	0.000	-32.724
Strategic Investment Reserve (2.2)	-4.446	1.350	0.037	-3.059	1.240	0.410	-1.409
Downsizing Reserve (2.3.1)	-18.913	8.422	1.431	-9.060	9.060	0.000	0.000
Risk Management Reserve (2.3.2)	-10.439	3.939	3.001	-3.499	3.499	0.000	0.000
Transitional Reserve (2.4)	-159.014	71.328	-8.259	-95.945	1.744	0.000	-94.201
To facilitate the transition of services (2.4.1)	-3.000	0.000	3.000	0.000	0.000	0.000	0.000
Service Reserves (2.5)	-13.038	3.760	0.723	-8.556	0.534	0.006	-8.016
SUB TOTAL - LCC RESERVES	-208.850	88.800	-0.068	-120.118	16.076	0.416	-103.626
Schools/Non-LCC Service Reserves (2.6)	-18.989	1.437	0.010	-17.542	1.011	-0.687	-17.218
SUB TOTAL SCHOOLS/NON LCC RESERVES	-18.989	1.437	0.010	-17.542	1.011	-0.687	-17.218
GRAND TOTAL	-263.839	93.513	-0.058	-170.384	17.087	-0.271	-153.568

Table 1 demonstrates the available balance of the Transitional Reserve of £94.201m to support the financial gap/shortfall. Table 2 shows that this balance could support 2018/19 budget gap and part of the 2019/20 budget. This would result in the only remaining balance on reserves being County Fund (£32.724m), non LCC reserves (£17.218m) and other reserve balances totalling £9.425m which are subject to further review to determine if they can be transferred to the Transitional Reserve. This reserves position is not sufficient to cover the financial gap post 2018/19.

Table 2

	2018-19 £m	2019-20 £m	
<i>MTFS Funding Gap</i>	64.765	90.292	
Available reserves to support financial gap	64.765	29.436	94.201

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 is forecast to hold a County Fund balance at £32.724m by the end of 2017/18.

Part of this reserve has been used to support the budget amendment agreed by Full Council in July 2017 totalling £3.995m in 2017/18. As part of budget monitoring at Quarter 2 it is forecast that a reduced balance of £3.276m is required due to capitalisation of some expenditure and some delays in implementing some elements of the budget amendment.

This reduction to the County Fund balance was on the basis that this is still a prudent and reasonable amount to keep in the County Fund for emergency situations as described above with benchmarking of other Local Authorities completed to support the reduction.

2.2 Strategic Investment Reserve

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

On 1st April 2017 this reserve held a balance of £4.446m. Of this balance, £1.350m is forecast to be spent in 2017/18, £0.037m transferred to the Transitional Reserve and a further £1.650m forecast to be spent by the end of 2019/20 leaving a balance of £1.409m. The element of this balance relating to Economic Development (Boost) is required post 2019/20 to support a future funding bid agreed by Cabinet.

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 2017 this reserve held a balance of £18.913m. In 2017/18 spend against the reserve is forecast to be £8.422m; this is committed for estimated redundancy costs. Additionally £1.431m uncommitted funds within this reserve is to be transferred to the Transitional Reserve. Expenditure of £9.060m is forecast to be spent in 2018/19; 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 £10.439m on 1st April 2017. It is forecast that £3.939m will be spent in 2017/18 in addition to £3.001m uncommitted reserves transferring to the Transitional Reserve. It is forecast that a further £3.499m is committed in 2018/19 leaving a nil balance at the end of 2018/19.

Details of the commitments are shown in Annex B.

2.4 Transitional Reserve

A Transitional Reserve was created for 2016/17 to provide a source of funding for those plans that were agreed by Cabinet to be heavily supported from reserves, including agreed savings and the financial gap/shortfall that the County Council was reporting.

This reserve had a balance of £159.014m on 1st April 2017. It is forecast that £78.559m will be spent in 2017/18, with transfers into the reserve of £7.231m and transfers from other reserves of £8.259m. It is forecast that a further £1.744m is committed in 2018/19 leaving a balance of £94.201m at the end of 2019/20.

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 previously been set aside from the Transitional Reserve because of this specific nature of the approval. It was agreed at Cabinet on the 14 September 2017 for this reserve to be combined with the Transitional Reserve and any future funding requirements of this type to be funded from the Transitional Reserve.

Details are shown in Annex C.

2.5 Service Reserves

The County Council holds numerous reserves for specific service provision.

As at 1st April 2017 service reserves totalled £32.027m, of which £18.989m are non LCC Reserves.

There are forecast costs of £5.197m in 2017/18, transfers to the Transitional Reserve totalling £0.790m and transfers into the service reserve from the balance sheet totalling £0.058m; this gives a net transfer out of the service reserve of £0.732m. Spend from these reserves of £0.864m in later years to leave a balance of £25.233 at the end of 2019/20. However of this balance only £8.016m are LCC Reserves.

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.

3. Transfers between Reserves

TRANSFERS BETWEEN RESERVES	£m	Transfer from	Transfer to	Reason
Risk Mgt - Liquid Logic - Children's Services	-0.001	Risk Management Reserve	Transitional Reserve	Balance no longer required in Risk Management Reserve
Strategic Investment - GAMMA	-0.017	Strategic Investment Reserve	Transitional Reserve	Balance no longer required in Strategic Investment Reserve
Strategic Investment - Early Support	-0.020	Strategic Investment Reserve	Transitional Reserve	Balance no longer required in Strategic Investment Reserve
Risk Management Reserve - Fairness Commission	-3.000	Risk Management Reserve	Transitional Reserve	Balance no longer required in Risk Management Reserve
Transition of services reserve	-3.000	Transition of Services Reserve	Transitional Reserve	Balance no longer required in Transition of Services Reserve
Service Reserves - roundabout sponsorship	-0.031	Services Reserve	Transitional Reserve	Balance no longer required in Services Reserve
Service Reserves - capital funding (Non-LCC)	-0.010	Services Reserve	Transitional Reserve	Balance no longer required in Services Reserve
Service Reserves - County hall refurbishment	-0.727	Services Reserve	Transitional Reserve	Balance no longer required in Services Reserve
Review for Adult Social Care (Newtons)	-1.431	Downsizing Reserve	Transitional Reserve	Balance no longer required in Downsizing Reserve
Service Reserves – Cultural Services Reserve	-0.022	Services Reserve	Transitional Reserve	Balance no longer required in Services Reserve
TOTAL	-8.259			

Annex A – Strategic Investment Reserve

STRATEGIC INVESTMENT RESERVE	Approved at Full Council Feb 2017	2017/18 Forecast Spend	2017-18 transfers to / from other reserves	2017/18 Forecast Closing Balance	2018-19 Forecast Spend	2019-20 Forecast Spend	Total as at 31 March 2020
	£m	£m	£m	£m	£m	£m	£m
Economic Development - GAMMA	-0.017	0.000	0.017	0.000	0.000	0.000	0.000
Economic Enterprise Zone Strategic Development	-0.500	0.000	0.000	-0.500	0.500	0.000	0.000
Economic Development - Exertis	-0.500	0.000	0.000	-0.500	0.500	0.000	0.000
Economic Development - Boost Continuation	-1.269	0.450	0.000	-0.819	0.000	0.350	-0.469
Armed Forces Apprentice Costs	-1.483	0.243	0.000	-1.240	0.240	0.060	-0.940
Early Action /Early Response	-0.020	0.000	0.020	0.000	0.000	0.000	0.000
Core Systems Transformation	-0.657	0.657	0.000	0.000	0.000	0.000	0.000
Total on Strategic Investment Reserve	-4.446	1.350	0.037	-3.059	1.240	0.410	-1.409

Annex B – Downsizing and Risk Management Reserves

DOWNSIZING & RISK MANAGEMENT RESERVES	Approved at Full Council Feb 2017	2017/18 Forecast Spend	2017-18 transfers to / from other reserves	2017/18 Forecast Closing Balance	2018-19 Forecast Spend	2019-20 Forecast Spend	Total as at 31 March 2020
<u>Downsizing Reserve</u>	£m	£m	£m	£m	£m	£m	£m
Redundancy provision	-17.482	8.422	0.000	-9.060	9.060	0.000	0.000
Review for Adult Social Care (Newtons)	-1.431	0.000	1.431	0.000	0.000	0.000	0.000
Total on Downsizing Reserve	-18.913	8.422	1.431	-9.060	9.060	0.000	0.000

<u>Risk Management Reserve</u>	£m	£m	£m	£m	£m	£m	£m
Adults Remodelling Reserve	-0.784	0.519	0.000	-0.265	0.265	0.000	0.000
Provision to mitigate against risk DoLS- Deprivation of Liberty Safeguards	-2.900	0.224	0.000	-2.676	2.676	0.000	0.000
DOLS Grant	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Impact of Fairness Commission Report Council Welfare Provision and the Care and Urgent Needs	-3.000	0.000	3.000	0.000	0.000	0.000	0.000
Social Work Dedicated Review Team	-2.454	1.896	0.000	-0.558	0.558	0.000	0.000
Liquid Logic - Children's Services	-0.001	0.000	0.001	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
Total on Risk Management Reserve	-10.439	3.939	3.001	-3.499	3.499	0.000	0.000

Annex C – Transitional Reserve & Transition of Services Reserve

TRANSITIONAL RESERVE	Approved at Full Council Feb 2017	2017/18 Forecast Spend	2017-18 transfers to / from other reserves	2017/18 Forecast Closing Balance	2018-19 Forecast Spend	2019-20 Forecast Spend	Total as at 31 March 2020
	£m	£m	£m	£m	£m	£m	£m
SPEND FROM THE TRANSITIONAL RESERVE							
Use of reserves in future years as per 26th Nov Cabinet paper - revised in Feb 16 (BoP) 16/17 & 17/18 spend	-17.187	16.513	0.000	-0.674	0.000	0.000	-0.674
Use of reserves in future years to cover revenue shortfall	-57.106	57.106	0.000	0.000	0.000	0.000	0.000
Apprentices & Graduate salaries	-2.778	1.100	0.000	-1.678	1.678	0.000	0.000
Young Person's Travel	-0.500	0.500	0.000	0.000	0.000	0.000	0.000
Prevention and Early Help Fund	-1.000	1.000	0.000	0.000	0.000	0.000	0.000
Children Centre provision WPEH	-0.658	0.613	0.000	-0.045	0.000	0.000	-0.045
Lancs Enterprise Advisor Network	0.000	0.143	0.000	0.143	0.066	0.000	0.209
Compensation Payments	-1.235	0.478	0.000	-0.757	0.000	0.000	-0.757
Museums - One off Contribution to Regimental Consortium	0.000	0.207	0.000	0.207	0.000	0.000	0.207
Economic Development - Marketing Lancashire and LEP Support	0.000	0.650	0.000	0.650	0.000	0.000	0.650
Additional investment to support savings implementation	0.000	0.250	0.000	0.250	0.000	0.000	0.250
Remaining Balance	-84.782	0.000	0.000	-84.782	0.000	0.000	-84.782
TRANSFERS INTO THE TRANSITIONAL RESERVE							
Council Tax Collection Fund surplus in 2016/17	7.720	-7.720	0.000	0.000	0.000	0.000	0.000
Business Rates Collection Fund Surplus 2016/17	-1.488	1.488	0.000	0.000	0.000	0.000	0.000
Business Rates Pooled Fund, Surplus 2016/17	0.000	-0.512	0.000	-0.512	0.000	0.000	-0.512
Additional 2017/18 Funding (Business Rates and New Homes Bonus)	0.000	-0.487	0.000	-0.487	0.000	0.000	-0.487
Transfer to/from other reserves	0.000	0.000	-8.259	-8.259	0.000	0.000	-8.259
Total on Transitional Reserve	-159.014	71.328	-8.259	-95.945	1.744	0.000	-94.201

TRANSITION OF SERVICES RESERVE	Approved at Full Council Feb 2017	2017/18 Forecast Spend	2017-18 transfers to / from other reserves	2017/18 Forecast Closing Balance	2018-19 Forecast Spend	2019-20 Forecast Spend	Total as at 31 March 2020
	£m	£m	£m	£m	£m	£m	£m
To facilitate the transition of services	-3.000	0.000	3.000	0.000	0.000	0.000	0.000

Annex D – Service Reserves

Reserve Name	Approved at Full Council Feb 2017	2017/18 Forecast Spend	2017-18 transfers to / from other reserves	2017/18 Forecast Closing Balance	2018-19 Forecast Spend	2019-20 Forecast Spend	Total as at 31 March 2020
	£m	£m	£m	£m	£m	£m	£m
Children's Services Reserve	-1.534	-0.038	0.000	-1.572	0.000	0.000	-1.572
SEN Reform/Implementation Grant	-2.493	0.249	0.000	-2.244	0.000	0.000	-2.244
Cultural Services Reserve	-0.305	0.000	-0.036	-0.341	0.341	0.000	0.000
Homelessness Grant	-0.080	0.080	0.000	0.000	0.000	0.000	0.000
Adult Social Care - Transitional Res	-2.469	0.000	0.000	-2.469	0.000	0.000	-2.469
Better Care Fund Reserve	-1.368	0.160	0.000	-1.208	0.000	0.000	-1.208
Bus Stations Reserve	-0.853	0.756	0.000	-0.097	0.097	0.000	0.000
Roundabout Sponsorship Inco	-0.031	0.000	0.031	0.000	0.000	0.000	0.000
Improved Outcomes Partnership	-0.006	0.006	0.000	0.000	0.000	0.000	0.000
Waste General Reserve	-0.178	0.020	0.000	-0.158	0.020	0.020	-0.118
Equipment Renewal Reserve	-0.005	0.000	0.000	-0.005	0.000	0.000	-0.005
County Hall Refurbishment Work	-0.727	0.000	0.727	0.000	0.000	0.000	0.000
Economic Development	-0.027	0.000	0.000	-0.027	0.000	0.000	-0.027
Champions Funds	-0.004	0.004	0.000	0.000	0.000	0.000	0.000
Local Member & Gateway Gran	-0.166	0.166	0.000	0.000	0.000	0.000	0.000
NoWCard Renewal Reserve	-0.300	0.300	0.000	0.000	-0.060	-0.060	-0.120
Public Health Grant	-1.788	1.553	0.000	-0.234	0.017	0.000	-0.217
Emergency Planning	-0.137	0.025	0.000	-0.112	0.046	0.046	-0.021
Financial Investigations Reserve	-0.045	0.045	0.000	0.000	0.000	0.000	0.000
Public Transport Consortium	-0.371	0.329	0.000	-0.042	0.042	0.000	0.000
LMCR Grant	-0.042	0.010	0.000	-0.032	0.032	0.000	0.000
Support Fund for Shale Gas	-0.020	0.020	0.000	0.000	0.000	0.000	0.000
Syrian Refugee Reserve	-0.077	0.077	0.000	0.000	0.000	0.000	0.000
RDPE Reserve	-0.011	0.011	0.000	0.000	0.000	0.000	0.000
Political Admin Set Up Costs	0.000	-0.013	0.000	-0.013	0.000	0.000	-0.013
LCC Reserves Sub Total	-13.038	3.760	0.723	-8.556	0.534	0.006	-8.016
School PFI							
Schools - Fleetwood High School PFI Earmarked	-0.938	0.079	0.000	-0.859	0.070	0.080	-0.709
Schools – Private Finance Initiative - Building Schools for the Future Phases 1, 2, 2a & 3	-8.557	-0.850	0.000	-9.407	-0.490	-0.370	-10.267
Not LCC Reserves							
Youth Offending Team Reserve	-0.946	0.018	0.000	-0.928	0.103	0.000	-0.825
Lancs Safeguarding Children Board Reserve	-0.443	0.018	0.000	-0.425	0.000	0.000	-0.425
Queen St Engine Repair Fund	-0.199	0.000	0.000	-0.199	0.099	0.000	-0.099
Lancaster City Gen Acqsts Fund	-0.009	0.000	0.000	-0.009	0.003	0.003	-0.003
Health Services - Earmarked	-0.674	0.665	0.000	-0.008	0.008	0.000	0.000
LEP reserve	-1.862	0.076	0.000	-1.786	0.000	0.000	-1.786
Cap Funding Reserve (Non LCC)	-0.010	0.000	0.010	0.000	0.000	0.000	0.000
DfT Funding for P/Ship (not LCC monies)	-0.802	0.000	0.000	-0.802	0.000	0.000	-0.802
School Catering Repair And	-1.827	0.090	0.000	-1.737	1.617	0.000	-0.120
JSNA reserve	-0.104	0.000	0.000	-0.104	0.000	0.000	-0.104
MADE reserve	-0.053	0.000	0.000	-0.053	0.000	0.000	-0.053
CC Election Reserve	-1.599	1.341	0.000	-0.258	-0.400	-0.400	-1.058
Waste Plant Rectification	-0.966	0.000	0.000	-0.966	0.000	0.000	-0.966
Non- LCC Reserves Sub Total	-18.989	1.437	0.010	-17.542	1.011	-0.687	-17.218
GRAND TOTAL	-32.027	5.197	0.732	-26.097	1.545	-0.681	-25.233