**Money Matters**

**Update on the County Council's Reserves Position for 2015/16**

|  |  |
| --- | --- |
| **Contents** | **Page** |
| **1. Introduction** | **3** |
| **2. Summary** | **3** |
| **3. Reserves** | **4** |
| **4. Impact of 2015/16 Outturn Forecast** | **5** |
| **5. Conclusion** | **6** |
| **6. Annex A – Strategic Investment Reserve** | **7** |
| **7. Annex B – Downsizing and Risk Management Reserve** | **8** |
| **8. Annex C – Service Reserve** | **9** |

Money Matters – Update on the County Council's Reserves Position for 2015/16

**1. Introduction**

An integral part of the County Council's financial management is the use of reserves. This report sets out an estimated position of the reserves in light of the monitoring information provided elsewhere in this report.

**2. Summary**

As at 1st April 2015 the County Council had total reserves of £424.650m. Of this £95.952m is held for schools and its use is restricted. Therefore the County Council's reserves are £328.698m.

Based on the latest information on the level of commitments excluding schools this will be reduced by £84.039m in 2015/16. Future years' commitments reduce this balance to £87.406m by 31st March 2018. Note this does not take into account the 2015/16 potential overspend of net £33.251m as detailed in Appendix A.

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



\* includes the growth deal £39.5m.

School Reserves

|  |  |  |  |
| --- | --- | --- | --- |
| **Reserve Name** | **Opening Balance as at 1st April 2015** | **YTD actuals 2015/16** | **Forecast Closing Balance as at  31st March 2016\*** |
|  | **£m** | **£m** | **£m** |
| School Reserves | **- 95.952** | **6.073** | **- 89.879** |

* At this stage the plans beyond March 2016 are not known in any detail to predict when this reserve will be spent.

**3. Reserves**

**3.1 County Fund Balance**

The County Fund balance is the general balance that is required to be held to cover emergency expenditure; as a contingency against demand led expenditure being higher than anticipated; if costs increase by more than provided for in the budget (especially pay awards); loss of income and general cash flow purposes. In considering these various factors the County Council has held a County Fund balance at £36m. It is anticipated that the County Fund will be maintained at this level.

**3.2 Business Rates Volatility Reserve**

Business rates are an increasingly important source of finance for local authorities. However, the income to be derived can be very difficult to predict and can fluctuate significantly. This situation arises as the business rates depend upon the growth in the rateable value and the impact of any valuation appeals. In the last quarter of the 2014/15 financial year there was a surge in the number of valuation appeals submitted. The results of these are not known therefore representing a risk around the income to be received. In addition, there is to be a national review of the business rates system, details of which are not anticipated to be released before March 2016. Even if the result of the review does not impact upon the total amount of business rates at the national level there is a potential for individual authorities to be either 'winners' or 'losers' in the overall allocation. Consequently, it is deemed prudent to maintain this reserve at its current level until the results of the review are known.

**3.3 Strategic Investment Reserve**

This reserve is held to fund an agreed programme of investment in areas including, economic development, libraries regeneration, increasing employment opportunities and the development of apprenticeship programmes. As at 1st April 2015 this had a balance of £21.391m. There are approved commitments of £20.375m reducing the balance to show £1.016m. Details of the approved commitments are shown in Annex A.

Note: on reviewing the reserves it was clear that there were £22.691m of strategic investments that required financing by reallocating an equivalent sum from the Risk Management Reserve.

**3.4 Reserves held to deliver Organisational Change**

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

3.4.1 Downsizing Reserve

The Downsizing Reserve is predominantly used to fund voluntary redundancies arising from the reduction in the size of the organisation which is the outcome of the recent and future period of austerity. The opening balance was £80.606m of which £84.560m is committed leaving anoverspend of £3.954m.

Note: on reviewing the reserves it is clear that the £3.954m will require financing by reallocating an equivalent sum from the Risk Management Reserve.

Regarding the redundancy position, originally £79m was set aside of which £12.284m was incurred during 2014/15 leaving £66.716m of the opening balance on 1st April 2015 for redundancies. We are now forecasting £11.102m will be incurred in 2015/16 with £41.711m falling in 2016/17 and £13.904m in 2017/18.

3.4.2 Risk Management Reserve

The Risk Management Reserve was made up as a result of extraordinary Treasury Management performance during 2014/15 and previous years. This reserve is now available to help the authority manage risks to funding and service delivery going forward. This reserve had an opening balance of £82.020m with commitments of £57.742m, leaving a balance of £24.278m. However £26.645m of this budget needs to be transferred to the Strategic Investment Reserve and Downsizing Reserve as detailed in 3.3 and 3.4.1, leaving an over committed position of £2.367m.

Details of the commitments are shown in Annex B.

**3.5 Service Reserves**

The County Council hold numerous reserves for specific service provision. In total these amounted to £103.681m at 1st April 2015. The latest monitoring position has identified that these will reduce to £47.757m by 31st March 2018. Details are shown in Annex C.

**3.6 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. At this stage the plans are not known in detail to predict when they will be spent however this reserve cannot be used for any other purpose.

**4. Impact of 2015/16 Outturn Forecast**

The monitoring report submitted to Cabinet is showing a potential demand on resources of £33.251m as a result of the forecast outturn.

**5. Conclusion**

This position clearly indicates that the reserve position for Lancashire County Council is forecast to reduce significantly and as Section 151 Officer I will advise on the appropriate statutory levels required by 31st March 2018.

**Annex A – Strategic Investment Reserve**



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



**Annex C – Service Reserves**

