**Money Matters**

**Update on the County Council's Reserves Position as at 31st December 2015**

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

**1. Introduction**

This report sets out the reserves position in line with the current budget monitoring report. The Money Matters Report agreed at Cabinet on 26th November 2015 identified an estimated reserves requirement of £144m being needed to support the revenue budgets in 2016/17 and 2017/18. This reflected both the Risk Reserve position and the estimated funding gap based on the MTFS less identified savings. Following the finance settlement, the requirement has increased to £145m.

This report states the existing plan of reserves commitments plus the impact of creating the Transitional Reserve. In some cases, this has meant a significant change to the original plans for the reserves. The transfers to the Transitional Reserve are proposed from existing reserves that do not yet have binding commitments, are reserves from non-statutory services or are reserves intended for capital funding. The capital reserves can be replaced by borrowing which will then release these funds for the Transitional Reserve whilst also allowing the County Council to continue with its capital programme.

By 31st March 2018 it is expected that there will only be the £36m County Fund and a residual £20.613m of service reserves. All other reserves will have been spent.

**2. Summary**

As at 1st April 2015 the County Council had total reserves of £424.650m. Of this, £95.951m is held for schools and its use is restricted. Therefore the County Council's reserves were £328.699m. This total includes £65.454m of partner / non-LCC funds held for joint projects which are included in the figures shown within this report.

So far this year, there has been a further £30.042m added to reserves. There are £99.189m of outstanding in-year commitments. This will leave a balance on reserves at 31st March 2016 of £259.552m. There are commitments of £148.219m in 2016/17 and £54.721m of commitments in 2017/18. This will leave the £36m County Fund and £20.613m of Service Reserves by 31st March 2018. The remaining service reserves by this date are mainly for long-term PFI commitments and waste plant maintenance.

**The 2015/16 forecast net overspend of £9.591m as detailed in Appendix A has been set against the proposed Transitional Reserve.**

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



Note: the Service Reserves reflect the inclusion of the actual income and committed expenditure for the Growth Deal of £39.5m.

**3. Reserves**

**3.1 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 £36m. It is proposed this balance is retained as a prudent safeguard against any unexpected financial pressures.

**3.2 Business Rates Volatility Reserve**

Business rates are an important source of finance for the authority. However, this income can fluctuate depending upon changes in rateable value and the impact of any valuation appeals. In the last quarter of the 2014/15 financial year there was a sudden increase in the number of valuation appeals. The results of the appeals are not likely to be known until early 2016.

In addition the Chancellor has announced a national review of the business rates system. This will see local government retaining 100% of all business rates although it has been indicated that this will also come with "new responsibilities". More details of the reform of business rates are expected when the Government consultation on business rates is published.

Also, from 1st April 2016, the Secretary of State has given approval for Lancashire County Council to form a business rates pool with 9 of the local District Authorities, enabling the pool to retain all business rates growth. The County Council will retain 10% of any growth. Currently, 50% of all growth above a set level is returned to Central Government.

It is proposed that £5m from this reserve is transferred to the Transitional Reserve. Any Business Rates risks will be met in future by either the County Fund or the Transitional Reserve.

**3.3 Strategic Investment Reserve**

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

This reserve currently has a balance of £35.971m. It is proposed that £31.721m be transferred to the Transitional Reserve and £2.920m set aside for other commitments. This will leave a balance of £1.330m which is planned to be used in 2016/17.

Details of the commitments are shown in Annex A.

**3.4 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.

**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.

This reserve currently has a balance of £86.663m. It is proposed that £10.417m be transferred to the Transitional Reserve. There are a further £16.069m of forecasted redundancy costs for this year. It is estimated that there are £60.177m of redundancy costs in 2016/17 and 2017/18 which will reduce the reserve to a nil balance by 31st March 2018.

Details of the commitments are shown in Annex B.

**3.4.2 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 currently has a balance of £52.426m. It is proposed that £18.683m be transferred to the Transitional Reserve and £20.843 set aside for other commitments.

The remaining balance of £12.9m is planned to be used in 2016/17, leaving a nil balance by 31st March 2017.

Details of the commitments are shown in Annex B.

**3.5 Service Reserves**

The County Council holds numerous reserves for specific service provision.

Currently, the reserves total £142.681m. It is proposed that £51.369m be transferred to the Transitional Reserve. There are existing commitments to services of £49.766m (including a £39.5m commitment to the Growth Deal).

There are known commitments of £19.897m in 2016/17 and £1.036m in 2017/18 that will reduce the balance to £20.613m by 31st March 2018. The majority of the balance in 2018 relates to long term PFI programmes and ongoing funding for Waste Plant maintenance.

Details of the Service Reserves 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. 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 2015** | **YTD actuals 2015/16** | **Forecast Closing Balance as at 31March 2016** |
|  | **£m** | **£m** | **£m** |
| School Reserves | 95.951 | 7.221 | 88.730 |

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

The current monitoring report is showing a potential demand on resources of £9.591m as a result of this being the current forecast outturn overspend position. This has been committed against the Transitional Reserve.

**5. Transitional Reserve and capital borrowing**

The plans announced at 26th November Cabinet for the period 1st April 2016 until 31st March 2018 are heavily supported by reserves. It is proposed that a new Transitional Reserve would be created to provide a source of funding for these plans. So far, the Cabinet plans have specifically identified £65.959m use of reserves during the period. In addition, there was a funding gap identified in the Medium Term Financial Strategy which was also planned to be funded from reserves. As a result, a target of £143.973m was set for the Transitional Reserve in November 2015. Following the financial settlement and revisions to the MTFS report at Appendix C, the updated reserves requirement has increased to £145m.

It is also proposed that any external consultancy support to design and implement the County Council's future organisation model, is funded from the Transitional Reserve. This external consultancy support was highlighted in financial reports to Cabinet in August 2015 and November 2015.

In total, this report identifies £117.190m of reserves that can be used to create the Transitional Reserve. These transfers can be made from existing reserves that do not yet have binding commitments, are reserves from non-statutory services or are reserves intended for capital funding.

£61.281m of the Transitional Reserve originates from previous reserves set aside to fund capital work, which can now be replaced by borrowing. £55.909m relates to non-capital work and will be transferred directly from other reserves.

It is proposed that the current forecasted in-year overspend of £9.591m is set against the Transitional Reserve. This would leave a balance of £107.599m available to support the financial plans for the next two years which will go towards meeting the overall £145m that is required. If the planned changes to the Minimum Revenue Provision (MRP) policy are applied this year, then it is expected that this will be sufficient to cover the current forecast overspend of £9.591m and therefore the full £117.190m will be available for the Transitional Reserve assuming a balanced position in 2015/16.

The contribution to the Transitional Reserve and the amount of capital spending that is to be replaced by borrowing is tabulated below. The additional cost of the borrowing is reflected in the attached capital programme and MTFS reports.



The creation of the Transitional Reserve will have a significant impact on certain current non-capital approvals for the use of the reserves. For example:

* Within the Strategic Investment reserve, £9.038m was set aside for Promoting Sustainable Employment for Young People (approved by Cabinet in February 2012). Of this, it is proposed that £8.263m is transferred to the Transitional Reserve. This will affect the Authority's work regarding apprenticeships and lead to the programme ceasing at the end of March 2016.
* Within the Strategic Investment Reserve there is £3m set aside for Sustainable Employment in Adults (approved by Cabinet in February 2013). It is proposed the full £3m is transferred to the Transitional Reserve. This was to provide a 3 year programme aimed at retraining and reskilling opportunities for adults across Lancashire, to enable them to access employment opportunities. This programme would then cease in March 2016.
* Within the Strategic Investment Reserve there is £1.3m set aside for joint working with Lancashire Constabulary in the "Early Action / Early Response" scheme. The reserve was to fund staffing for preventative work but only very limited recruitment has taken place. The remainder of the reserve is currently unused.
* From the Downsizing Reserve, £10.417m has been found by recalculating the estimated VR costs and a reduction in the estimate of the cost of the Adult Social Care Review. This recalculation does not impact directly on frontline services.
* Within Service Reserves, there is £6.215m set aside for Public Health. Having reviewed the proposed commitments for this reserve, £5.315m can be made available for the Transitional Reserve and this will be ringfenced to Public Health transformation.
* Within Service Reserves, there is £2.964m set aside for Development Services. These were planned to be used for one-off projects such as IT replacement or economic development activities. It is estimated that £2.136m can be made available for the Transitional Reserve.
* Within Service Reserves, there is £1.103m set aside for Buildings Repair and Renewals. This reserve could be transferred to the Transitional Reserve and any Buildings Repair work could be capitalised and replaced by borrowing.

**6. Conclusion**

Following the 26th November Cabinet decision recommending the use of reserves to support the financial plans for 2016/17 and 2017/18, the commitments against reserves have been reviewed.

This would enable the creation of an estimated £117.190m Transformation Reserve which will help to support the financial strategy for the next two years. The majority of this reserve has been created by replacing the use of reserves for capital work with borrowing, without affecting service delivery. The remainder of the Transitional Reserve originates from under-utilised reserves or from non-statutory services. The total amount of reserves funding required is currently estimated to be £145m.

By 31st March 2018, apart from the £36m County Fund and the £20.613m Service Reserves, all reserves will have been utilised. This will leave the County Council with minimal reserve resources to support its operations and manage risks after this date.

**7. Annex A – Strategic Investment Reserve**



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



**9. Annex C – Service Reserves**

