**Money Matters**

**Update on the County Council's Reserves Position as at 30th June 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. Therefore the County Council's reserves were £314.647m and included £15.730m held on behalf of other organisations and not at the direct discretion of LCC to spend.

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.

The forecast reserves position contained an approved commitment from the Transitional Reserve of £46.518m in 2017/18 to support the previously reported financial gap. However, following a review of the MTFS (Appendix C) it is now identified that £47.978m is required in 2017/18 (an additional £1.460m). The additional requirement **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 overspend of £11.267m. If this is the financial outturn 2016/17 for the County Council this will be a further commitment against the Transitional Reserve that **is not currently included within the forecast reserves position in this report due to this being an early forecast within the 2016/17 financial year.**

In summary, by 31st March 2018 it is expected that there will only be the £36.000m County Fund and a residual £35.058m of service reserves which includes £8.355m school PFI expenditure and £4.931m which is not LCC money, meaning in effect the available balance of £21.772m. All other reserves will have been spent. If the additional funding is required of £11.267m (budget monitoring forecast overspend), this will result in a balance of service reserves being available as at 31st March 2018 of £23.791m which includes £8.355m school PFI expenditure and £4.931m which is not LCC money, in effect leaving £10.505m available within reserves.

When reviewing the County Council's reserves in conjunction with the Medium Term Financial Strategy (Appendix C) the funding requirement to bridge the financial gap in 2018/19 would total £83.900m. Therefore from the forecast contained within this report there will not be sufficient funds within reserves to support the 2018/19 budget.

In summary, this report indicates that there is potentially sufficient funds within reserves to deliver a balanced budget in 2017/18. However this is dependent upon a number of key factors:

* The forecast in year overspend is minimised.
* 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. As any slippage will result in a requirement for funding from reserves.

However, it must also be noted that the County Council is currently seeking to find any further additional savings opportunities, linked primarily to the zero based budget review work-streams.

**3. Reserves**

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

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Reserve Name** | **Approved as at 1st 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 | 8.118 | 0.194 | -2.658 | 0.739 | 0.643 | 0.000 | -1.276 |
| Downsizing Reserve (3.3.1) | -64.841 | 42.384 | 4.664 | -17.793 | 17.753 | 0.040 | 0.000 | 0.000 |
| Risk Management Reserve (3.3.2) | -15.784 | 6.733 | 4.500 | -4.552 | 4.164 | 0.000 | 0.000 | -0.387 |
| Transitional Reserve (3.4) | -141.837 | 67.189 | -14.251 | -88.899 | 73.787 | 0.530 | 0.000 | -14.582 |
| To facilitate the transition of services (3.4) | 0.000 | 0.000 | -3.000 | -3.000 | 0.000 | 0.000 | 0.000 | -3.000 |
| Service Reserves (3.5) | -45.214 | 14.647 | 2.665 | -27.902 | 13.302 | -0.767 | -0.048 | -15.415 |
| **TOTAL** | **-314.647** | **139.071** | **-5.228** | **-180.804** | **109.746** | **0.446** | **-0.048** | **-70.660** |

*Note: 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.*

**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 £36.000m. It is proposed this balance is retained as a prudent safeguard against any unexpected financial pressures.

**3.2 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.

The reserve currently has a balance of £10.971m. £8.118m is forecast to be spent in 2016/17, £0.194m is being transferred to the Transitional Reserve and another £1.382m is forecast to be spent by 2019/20 leaving a balance of £1.276m.

Details of the commitments are shown in Annex A.

**3.3 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.

**3.3.1 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 £64.841m. In 2016/17 spend against the reserve is forecast to be £42.384m of which £38.136m is committed for estimated redundancy costs. The value required for redundancy costs is currently being reviewed and will continue to be closely monitored as individual services restructure to confirm whether the value and phasing of the commitment remains appropriate.

In addition, as part of the review of this reserve an uncommitted amount of £4.664m has been transferred to the Transitional Reserve. There are currently an estimated £17.793m of costs by 2019/20 which will leave a nil balance on the reserve at 31 March 2020.

Details of the commitments are shown in Annex B.

**3.3.2 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 has a balance of £15.784m on 1st April 2016. It is forecast that £6.733m will be spent in 2016/17 in addition to £4.500m uncommitted reserves transferring to the transitional reserve. It is forecast that a further £4.164m is committed in 2017/18 leaving a balance of £0.387m at the end of 2019/20.

Details of the commitments are shown in Annex B.

**3.4 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 £141.506m 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 £66.264m. After additional net transfers in from other reserves and transfer in of surplus balances on the 2015/16 council tax, business rates and new homes totalling £14.251m the forecast balance on the reserve at the end of 2019/20 is a surplus of £14.582m.

Details of the commitments are shown in Annex C.

**3.4.1 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.

**3.5 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 £14.647m in 2016/17, transfers to the Transitional Reserve of £2.665m and spend from reserves of £12.487m in later years to leave a balance of £15.415m at the end of 2019/20. £9.065m of this balance relates to long term PFI programmes and £5.728m is not LCC money.

Details of the Service Reserves are shown in Annex D.

**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:



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

The current monitoring report is showing an overspend of £11.267m. Any overspend at the year-end will need to be funded from the Transitional Reserve.

**5. Transfers between Reserves**

A further review of reserves held has identified areas where there are no commitments and therefore the following transfers between reserves that have been included in this report are:



 **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 | 0.423 | 0.000 | **0.119** | 0.000 | 0.000 | 0.000 | **0.119** |
| 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** | 0.096 | 0.000 | 0.000 | **-1.387** |
| 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 | 5.000 | 0.000 | **0.000** | 0.000 | 0.000 | 0.000 | **0.000** |
| Core Systems Transformation  | -0.657 | 0.649 | 0.000 | **-0.008** | 0.000 | 0.000 | 0.000 | **-0.008** |
| **Total on Strategic Investment Reserve** | **-10.971** | **8.118** | **0.194** | **-2.658** | **0.739** | **0.643** | **0.000** | **-1.276** |

**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 | 38.136 | 0.000 | **-12.713** | 12.713 | 0.000 | 0.000 | **0.000** |
| Transitional costs associated with Transformation Programme | -2.328 | 2.248 | 0.000 | **-0.080** | 0.040 | 0.040 | 0.000 | **0.000** |
| Review for Adult Social Care (Newtons) | -7.000 | 2.000 | 0.000 | **-5.000** | 5.000 | 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** | **42.384** | **4.664** | **-17.793** | **17.753** | **0.040** | **0.000** | **0.000** |
|  |  |  |  |  |  |  |  |  |
| **Risk Management Reserve** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** |
| Occupational Health  | 0.003 | 0.000 | 0.000 | **0.003** | 0.000 | 0.000 | 0.000 | **0.003** |
| Adults LD Remodelling Reserve  | -0.784 | 0.784 | 0.000 | **0.000** | 0.000 | 0.000 | 0.000 | **0.000** |
| Provision to mitigate against risk DoLS- Deprivation of Liberty Safeguards | -2.900 | 0.725 | 0.000 | **-2.175** | 2.175 | 0.000 | 0.000 | **0.000** |
| Impact of Fairness Commission ReportCouncil Welfare Provision and the Care and Urgent Needs | -3.000 | 3.000 | 0.000 | **0.000** | 0.000 | 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 | 0.664 | 0.000 | **-1.989** | 1.989 | 0.000 | 0.000 | **0.000** |
| Liquid Logic - Children's Services | -0.400 | 0.260 | 0.000 | **-0.140** | 0.000 | 0.000 | 0.000 | **-0.140** |
| Liquid Logic - Adult Social Care | -0.250 | 0.000 | 0.000 | **-0.250** | 0.000 | 0.000 | 0.000 | **-0.250** |
| 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** | **6.733** | **4.500** | **-4.552** | **4.164** | **0.000** | **0.000** | **-0.387** |

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

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **TRANSITIONAL RESERVE** | **Approved as at 1st 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** |
| **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 | -65.856 | 37.405 | 0.000 | **-28.451** | 23.061 | 0.000 | 0.000 | **-5.390** |
| Use of reserves in future years to cover revenue shortfall | -64.804 | 18.286 | 0.000 | **-46.518** | 47.978 | 0.000 | 0.000 | **1.460** |
| Delay in Wellbeing & Prevention Service Offer | -4.755 | 3.315 | 0.000 | **-1.440** | 0.000 | 0.000 | 0.000 | **-1.440** |
| Children's Newtons + Skylake | -0.200 | 0.241 | 0.000 | **0.041** | 0.000 | 0.000 | 0.000 | **0.041** |
| To fund shortfall on domestic abuse contracts (C&D) | -0.238 | 0.238 | 0.000 | **0.000** | 0.000 | 0.000 | 0.000 | **0.000** |
| To facilitate the transition of services | -3.000 | 0.000 | 3.000 | **0.000** | 0.000 | 0.000 | 0.000 | **0.000** |
| Brierfield Mill - May16 approval for Capital spend | 0.000 | 0.250 | 0.000 | **0.250** | 0.000 | 0.000 | 0.000 | **0.250** |
| PwC Consultancy packages | 0.000 | 1.033 | 0.000 | **1.033** | 0.000 | 0.000 | 0.000 | **1.033** |
| Older People's Residential & Nursing Homes | 0.000 | 1.700 | 0.000 | **1.700** | 0.000 | 0.000 | 0.000 | **1.700** |
| Repayment of funds held for East Lancs CCG | 0.000 | 0.544 | 0.000 | **0.544** | 0.000 | 0.000 | 0.000 | **0.544** |
| Supported Living and Domiciliary Care Fees for 2016/17 | 0.000 | 3.500 | 0.000 | **3.500** | 0.000 | 0.000 | 0.000 | **3.500** |
| Apprentices & Graduate salaries | 0.000 | 0.177 | 0.000 | **0.177** | 2.248 | 0.530 | 0.000 | **2.955** |
| Young Person's Travel  | 0.000 | 0.500 | 0.000 | **0.500** | 0.500 | 0.000 | 0.000 | **1.000** |
| Unallocated Balance on Transitional Reserve | -2.984 | 0.000 | 0.000 | **-2.984** | 0.000 | 0.000 | 0.000 | **-2.984** |
| **TRANSFERS INTO THE TRANSITIONAL RESERVE** |  |  |  |   |   |   |  |
| Council Tax Collection Fund surplus 2015-16 | 0.000 | 0.000 | -7.037 | **-7.037** | 0.000 | 0.000 | 0.000 | **-7.037** |
| Returned New Homes Bonus 2015-16 | 0.000 | 0.000 | -0.399 | **-0.399** | 0.000 | 0.000 | 0.000 | **-0.399** |
| Business Rates Collection Fund Deficit 2015-16 | 0.000 | 0.000 | 2.334 | **2.334** | 0.000 | 0.000 | 0.000 | **2.334** |
| Clayton Park Conference Centre Limited | 0.000 | 0.000 | -0.542 | **-0.542** | 0.000 | 0.000 | 0.000 | **-0.542** |
| Transfer to / from other Reserves | 0.000 | 0.000 | -11.607 | **-11.607** | 0.000 | 0.000 | 0.000 | **-11.607** |
| **Total on Transitional Reserve** | **-141.837** | **67.189** | **-14.251** | **-88.899** | **73.787** | **0.530** | **0.000** | **-14.582** |
|  |  |  |  |  |  |  |  |  |
| **TRANSITION OF SERVICES RESERVE** | **Approved as at 1st 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** |
| To facilitate the transition of services | 0.000 | 0.000 | -3.000 | **-3.000** | 0.000 | 0.000 | 0.000 | **-3.000** |

**Annex D – Service Reserves**

