

Money Matters

Update on the County Council's Reserves

Position as at 30th June 2016

Contents	Page
1. Introduction	3
2. Summary	3
3. Reserves	5
4. Impact of 2016/17 Outturn Forecast	7
5. Transfers between Reserves	8
Annex A – Strategic Investment Reserve	9
Annex B – Downsizing and Risk Management Reserve	10
Annex C – Transitional Reserve & Transition of Services Reserve	11
Annex D – Service Reserves	12

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:

Reserve Name	Opening Balance as at 1 April 2016	YTD actual 2016/17	Forecast Closing Balance as at 31 March 2017
	£m	£m	£m
School Reserves	86.022	-5.794	80.228

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:

TRANSFERS BETWEEN RESERVES	£m	Transfer from	Transfer To	Reason
Young Person's Travel	-0.194	Strategic Investment Reserve	Transitional Reserve	Additional spend needed
School Crossing Patrols	-1.500	Risk Management Reserve	Transitional Reserve	Reserve not required
Delay in Wellbeing & Prevention Service Offer	-3.000	Risk Management Reserve	Transitional Reserve	Additional spend needed
Unallocated surplus	-4.664	Downsizing Reserve	Transitional Reserve	Reserve not required
Schools Forum money	-0.416	Former CYPDFM* General	1093306 Schools DSG Reserve	Surplus transferred back to Schools
Schools Forum money	-0.884	Former CYPDFM* General	Transitional Reserve	Reserve not required
Adult fee increases	-1.365	1293755 Adult Social Care - Transit	Transitional Reserve	Uncommitted balance in Adult Social Care for work being funded from Transitional Reserve
To facilitate the transition of services	-3.000	Transitional Reserve	Facilitate of transition of services	Transfer to keep separate from Transitional Reserve

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
	£m	£m	£m	£m	£m	£m	£m	£m
<u>Downsizing Reserve</u>								
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

<u>Risk Management Reserve</u>	£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 Report Council 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

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
YOT - General Youth Offending	-1.024	0.010	0.000	-1.014	0.210	0.103	0.000	-0.701
Former CYP DFM* General	-5.902	0.770	1.300	-3.832	3.793	0.000	0.000	-0.040
Former CYP Directorate Grant Funded	-1.852	0.278	0.000	-1.574	1.574	0.000	0.000	0.000
Crime & Disorder	-0.714	0.714	0.000	0.000	0.000	0.000	0.000	0.000
Schools – Fulwood High School Private	-1.014	0.070	0.000	-0.944	0.060	0.070	0.080	-0.734
Finance Initiative Earmarked Reserve Schools – Private Finance Initiative - Building Schools for the Future Wave 1	-6.311	-0.560	0.000	-6.871	-0.600	-0.490	-0.370	-8.331
LSCB Reserve	-0.449	0.013	0.000	-0.436	0.000	0.000	0.000	-0.436
Museum Acquisition Fund	-0.002	0.000	0.000	-0.002	0.000	0.000	0.000	-0.002
Queen Street Steam Engine Repair Fund.	-0.204	0.020	0.000	-0.184	0.000	0.000	0.184	0.000
Lancaster City General Acquisitions Fund	-0.008	0.000	0.000	-0.008	0.000	0.000	0.008	0.000
Lancaster Adult Learning HQ General	-0.429	0.280	0.000	-0.149	0.000	0.000	0.000	-0.149
Former Adults Directorate Grant Funded	-0.537	0.131	0.000	-0.406	0.335	0.000	0.500	0.428
Adult Social Care - Transitional Reserve	-4.004	0.660	1.365	-1.979	1.979	0.000	0.000	0.000
Health Services	-4.100	4.100	0.000	0.000	0.000	0.000	0.000	0.000
Better Care Fund Reserve	-1.368	0.000	0.000	-1.368	1.368	0.000	0.000	0.000
BSOG Reserve	0.000	-0.864	0.000	-0.864	0.864	0.000	0.000	0.000
Roundabout Sponsorship Income	-0.048	-0.100	0.000	-0.148	0.000	0.000	0.000	-0.148
Improved Outcomes Partnership	-0.057	0.057	0.000	0.000	0.000	0.000	0.000	0.000
UK & Ireland Civinet Network	-0.030	0.017	0.000	-0.013	0.000	0.000	0.000	-0.013
Waste PFI Compensation Payments Reserve	-0.482	0.015	0.000	-0.467	0.467	0.000	0.000	0.000
Equipment Renewal Reserve	-0.331	0.060	0.000	-0.271	0.000	0.000	0.000	-0.271
Joint Service Needs Assessment Reserve	-0.104	0.000	0.000	-0.104	0.000	0.000	0.000	-0.104
Multi Agency Data Exchange Reserve	-0.051	0.000	0.000	-0.051	0.000	0.000	0.000	-0.051
Parking Reserve Fund Reserves	-0.144	0.000	0.000	-0.144	0.000	0.000	0.000	-0.144
Building Design & Consultancy Reserve	-0.020	0.000	0.000	-0.020	0.000	0.000	0.000	-0.020
NoW Card Renewal	-0.400	-0.030	0.000	-0.430	0.400	-0.050	-0.050	-0.130
Energy Surveys	-0.066	0.000	0.000	-0.066	0.000	0.000	0.000	-0.066
Priorities Contingencies Reserve	-0.010	0.010	0.000	0.000	0.000	0.000	0.000	0.000
Waste Plant Rectification	-7.500	6.500	0.000	-1.000	1.000	0.000	0.000	0.000
Former Finance & Information DFM General	-0.060	0.000	0.000	-0.060	0.000	0.000	0.000	-0.060
Former OCE General Reserve	-0.727	0.727	0.000	0.000	0.000	0.000	0.000	0.000
Economic Development Reserve	-0.027	0.027	0.000	0.000	0.000	0.000	0.000	0.000
Lancashire Enterprise Partnership (LEP) Reserve	-1.553	0.000	0.000	-1.553	0.000	0.000	0.000	-1.553
Growth Deal	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Champions Funds	-0.003	0.000	0.000	-0.003	0.003	0.000	0.000	0.000
Former Corporate DFM Schemes	-1.830	1.830	0.000	0.000	0.000	0.000	0.000	0.000
Election Reserve	-1.251	-0.400	0.000	-1.651	1.651	-0.400	-0.400	-0.800
Local Member & Gateway Grant	-0.083	0.000	0.000	-0.083	0.083	0.000	0.000	0.000
School Catering Repair And Maintenance	-1.743	-0.210	0.000	-1.953	0.000	0.000	0.000	-1.953
Funding of Capital Projects - Resources	-0.147	0.000	0.000	-0.147	0.000	0.000	0.000	-0.147
Public Health	-0.628	0.523	0.000	-0.105	0.115	0.000	0.000	0.010
TOTALS	-45.214	14.647	2.665	-27.902	13.302	-0.767	-0.048	-15.415