

Money Matters
Update on the County Council's Reserves
Position as at 30th June 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.

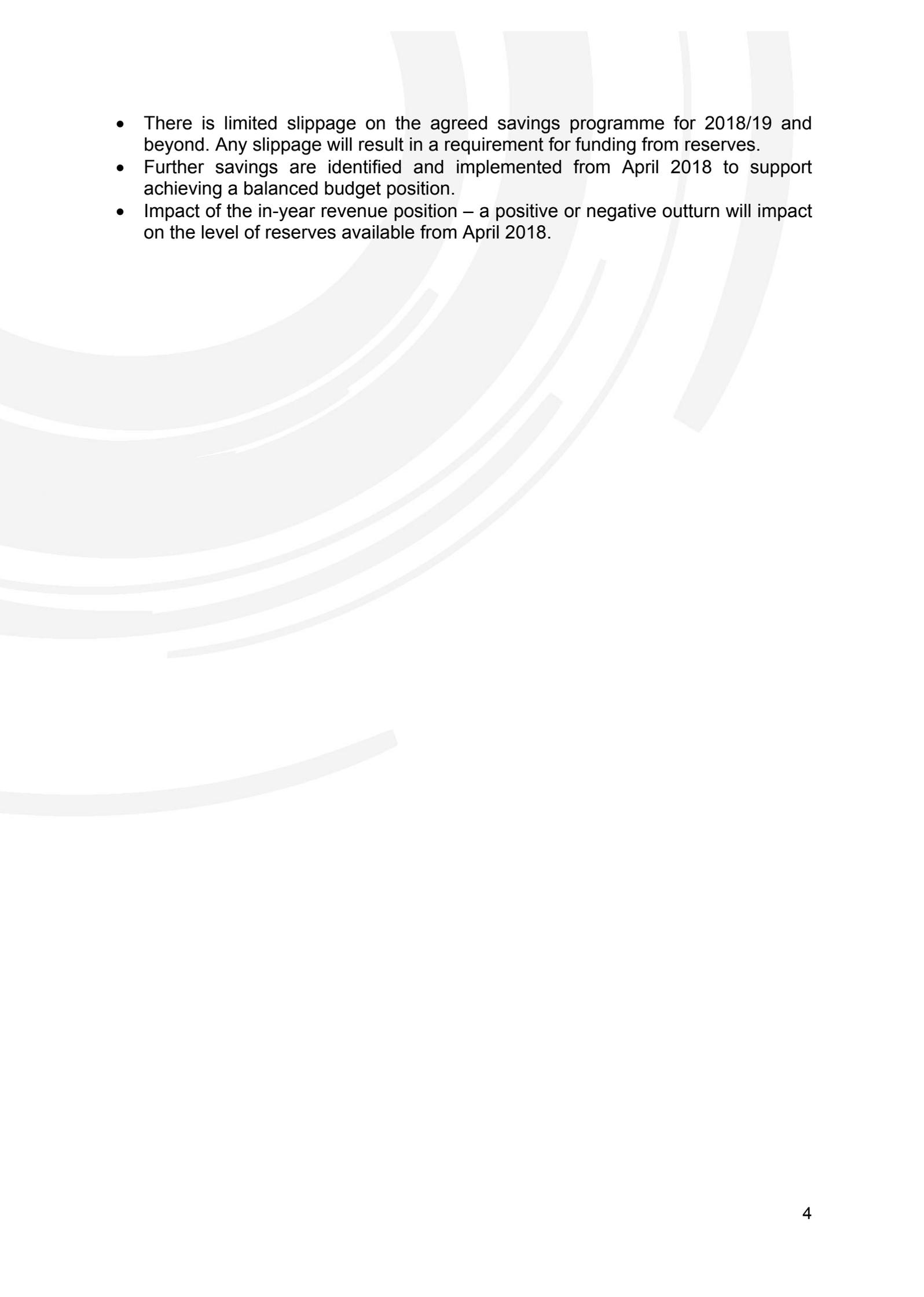
At Full Council in February 2017 the revenue budget included a forecast commitment from the Transitional Reserve of £88.040m in 2018/19 to support the reported financial gap at that time. However, following a review of the Medium Term Financial Strategy (MTFS) for Cabinet based on the financial position at the end of June 2017 (Appendix B) it has been identified that the gap between forecast expenditure and funding in 2018/19 is of £87.221m. The value of the uncommitted Transitional Reserve is currently £91.498m 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 £90.205m gap which would leave £1.293m for 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 £9.501m.

The budget monitoring position for the financial year 2017/18 (Appendix A) is reporting a forecast underspend of £5.022m. **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 then 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.

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- 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 2021
	£m	£m	£m	£m	£m	£m	£m
County Fund (3.1)	-36.000	3.995	0.000	-32.005	0.000	0.000	-32.005
SUB TOTAL - COUNTY FUND	-36.000	3.995	0.000	-32.005	0.000	0.000	-32.005
Strategic Investment Reserve (3.2)	-4.446	1.630	0.037	-2.779	1.779	0.060	-0.940
Downsizing Reserve (3.3.1)	-18.913	9.853	0.000	-9.060	9.060	0.000	0.000
Risk Management Reserve (3.3.2)	-10.439	2.578	3.001	-4.860	4.422	0.000	-0.438
Transitional Reserve (3.4.1)	-159.014	72.740	-6.806	-93.081	1.583	0.000	-91.498
To facilitate the transition of services (3.4.2)	-3.000	0.000	3.000	0.000	0.000	0.000	0.000
Service Reserves (3.5)	-13.038	3.412	0.758	-8.867	0.670	0.073	-8.124
SUB TOTAL - LCC RESERVES	-208.850	90.213	-0.010	-118.647	17.515	0.133	-100.999
Schools/Non-LCC Service Reserves (3.5)	-18.989	1.914	0.010	-17.065	1.003	-0.687	-16.749
SUB TOTAL - SCHOOLS/NON LCC RESERVES	-18.989	1.914	0.010	-17.065	1.003	-0.687	-16.749
GRAND TOTAL	-263.839	96.122	0.000	-167.717	18.518	-0.554	-149.753

Table 1 demonstrates the available balance of the Transitional Reserve of £91.498m 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 (£32.005m), non LCC reserves (£16.749m) and other reserve balances totalling £9.501m 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	2019-20	
<i>MTFS Funding Gap</i>	90.205	98.637	
Available reserves to support financial gap	90.205	1.293	91.498

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 holds a County Fund balance at £32.005m.

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, reducing the balance from £36.000m to its current balance of £32.005m. This 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, £1.630m is forecast to be spent in 2017/18, £0.037m transferred to the Transitional Reserve and a further £1.839m forecast to be spent by 2019/20 leaving a balance of £0.940m.

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 £9.853m of which £8.422m is committed for estimated redundancy costs. 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 £3.016m will be spent in 2017/18 in addition to £3.001m uncommitted reserves transferring to the Transitional Reserve and a transfer into the reserve from Waste Services for £0.438m. It is forecast that a further £4.422m is committed in 2018/19 leaving a balance of £0.438m at the end of 2019/20. This balance is committed in 2020/21.

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 these plans agreed by Cabinet that were agreed 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 £79.459m will be spent in 2017/18, with transfers into the reserve of £6.719m and transfers from other reserves of £6.806m. It is forecast that a further £1.583m is committed in 2018/19 leaving a balance of £91.498m 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, however it is considered appropriate now for this to be combined with the Transitional Reserve and any future funding requirements of this type can 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 £5.326m in 2017/18, transfers to the Transitional Reserve totalling £0.768m and spend from these reserves of £1.060m in later years to leave a

balance of £24.873m at the end of 2019/20. However of this balance only £8.124m 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
Liquid Logic - Children's Services	0.001	Risk Management Reserve	Transitional Reserve	Balance no longer required in Risk Management Reserve
Economic Development - GAMMA	0.017	Strategic Investment Reserve	Transitional Reserve	Balance no longer required in Strategic Investment Reserve
Early Action/Early Response	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	3.000	Transition of services reserve	Transitional Reserve	Balance no longer required in Transition of Services Reserve
Roundabout Sponsorship	0.031	Service Reserves	Transitional Reserve	Balance no longer required in Service Reserves
Service Reserves - capital funding (Non-LCC)	0.010	Service Reserves	Transitional Reserve	Balance no longer required in Service Reserves
Service Reserves - County hall refurbishment	0.727	Service Reserves	Transitional Reserve	Balance no longer required in Service Reserves
TOTAL	6.806			

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	0.730	0.000	-0.539	0.539	0.000	0.000
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	1.630	0.037	-2.779	1.779	0.060	-0.940

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	1.431	0.000	0.000	0.000	0.000	0.000
Total on Downsizing Reserve	-18.913	9.853	0.000	-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	0.433	0.000	-0.352	0.352	0.000	0.000
Provision to mitigate against risk DoLS- Deprivation of Liberty Safeguards	-2.900	0.194	0.000	-2.706	2.706	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	1.089	0.000	-1.365	1.365	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
Waste Insurance Excess	0.000	-0.438	0.000	-0.438	0.000	0.000	-0.438
Total on Risk Management Reserve	-10.439	2.578	3.001	-4.860	4.422	0.000	-0.438

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	17.163	0.000	-0.024	0.000	0.000	-0.024
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	1.346	0.000	-1.432	1.433	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	0.050	0.000	0.050	0.150	0.000	0.200
Compensation Payments	-1.235	0.484	0.000	-0.751	0.000	0.000	-0.751
CSC - Leaving Care	0.000	0.090	0.000	0.090	0.000	0.000	0.090
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
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	-6.806	-6.806	0.000	0.000	-6.806
Total on Transitional Reserve	-159.014	72.740	-6.806	-93.081	1.583	0.000	-91.498

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 2021
	£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	-0.131	0.000	-1.665	0.000	0.000	-1.665
SEN Reform/Implementation Grant	-2.493	0.249	0.000	-2.244	0.000	0.000	-2.244
Cultural Services Reserve	-0.385	0.000	0.000	-0.385	0.108	0.068	-0.210
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	0.300	0.000	-1.068	0.000	0.000	-1.068
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 Renew al 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 Renew al Reserve	-0.300	0.000	0.000	-0.300	0.300	-0.060	-0.060
Public Health Grant	-1.788	1.535	0.000	-0.252	0.017	0.000	-0.235
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	0.000	0.000	-0.042	0.042	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
LCC Reserves Sub Total	-13.038	3.412	0.758	-8.867	0.670	0.073	-8.124
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	0.083	0.000	-0.360	0.000	0.000	-0.360
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	0.674	0.000	0.000	0.000	0.000	0.000
LEP reserve	-1.862	0.000	0.000	-1.862	0.000	0.000	-1.862
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	0.120	0.000	-0.682	0.000	0.000	-0.682
School Catering Repair And	-1.827	0.390	0.000	-1.437	1.617	0.000	0.180
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	1.400	0.000	-0.199	-0.400	-0.400	-0.999
Waste Plant Rectification	-0.966	0.000	0.000	-0.966	0.000	0.000	-0.966
Non- LCC Reserves Sub Total	-18.989	1.914	0.010	-17.065	1.003	-0.687	-16.749
GRAND TOTAL	-32.027	5.326	0.768	-25.932	1.673	-0.614	-24.873