Report by the Director of Resource Management (Chief Finance Officer)

The Council's Budget for 2017-18

Summary

1. The County Council on 9th February 2017 will consider the recommendations of Cabinet on the budget for 2017-18 and set the council tax for that financial year. The Local Government Act 2003 places a personal duty on the "Chief Finance Officer" (Section 151 Officer) to make a report to the Council when it is considering its budget and council tax. The report must deal with:

   a) the robustness of the estimates; and
   b) the adequacy of financial reserves

2. The Act requires councillors to have regard to the report in making their decisions. Where this advice is not accepted, it should be recorded formally within the minutes of the Council meeting.

3. My assessment is that:

   a) the estimates are robust **at this stage** based on current assumptions and available information taking into account known risks and mitigating strategies. However, demand and costs of providing care for Adults and Children could change this position significantly.
   b) to ensure the Council's plans remain sound, firm financial management across all budgets needs to be exercised but particularly on those higher risk activities of adult care purchasing, children in care and Home-to-School Transport. Adverse trends in these areas will require management action elsewhere to 'live within our means'.
   c) external factors can impact on the budget plan such as a changing economic environment, the financial health of partners and suppliers and the interaction of users of Council services to the re-designed provision being implemented can all impact on budget forecasts;
   d) reserves are adequate for the 2017-18 budget and provide some limited buffer against the financial pressures and reductions to grants in the budget up to 2019-20. However, the Council should be under no illusion that the future financial outlook continues to be extremely challenging and deep 'cuts' to services will be required to remain viable even with a future general council tax increase. Continuing to support the budget with funding from reserves is not sustainable without realistic deliverable savings plans to bring the budget back to balance.

4. This appendix provides further information about how this assessment has been made, including:

   a) The role of the chief finance officer
   b) The effectiveness of financial controls
   c) The effectiveness of budget planning and budget management
   d) The mitigation of strategic financial risks

e) The adequacy of insurance arrangements
f) The capital programme
g) Explanation of reserves

5. In order to deliver this challenging budget continued effective financial management is essential. There can be no let-up on the financial discipline required to manage through this period of significant grant reductions as well as increased costs due to demographic and legislative change. If the budget is not adhered to and any emerging budget pressures are not managed down during 2017-18, then the impact on the 2018-19 budget will be even more severe. The savings targets over the period to 2020 are already extremely difficult without having to recover any permanent carry-forward overspends.

Role of Chief Finance Officer

6. The statutory role of the Chief Finance Officer in relation to financial administration and stewardship of the County Council and their role in the organisation are both key to ensuring that financial discipline is maintained.

7. The statutory duties of the Chief Finance Officer are set out in the Financial Regulations which form part of the Council's constitution. These include the requirement to report to council if there is an unbalanced budget (under Section 114 of the Local Government Act 1988).

8. The Chartered Institute of Public Finance and Accountancy (CIPFA) published a Statement on the Role of the Chief Financial Officer (CFO) in Local Government. The Statement requires that in order to meet best practice the CFO:

a) is a key member of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest;

b) must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the organisation's financial strategy; and

c) must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

To deliver these responsibilities the CFO:

d) must lead and direct a finance function that is resourced to be fit for purpose; and

e) must be professionally qualified and suitably experienced.

Financial Controls

9. Alongside the statutory role of the CFO the Council has in place a number of financial management policies and financial controls which are set out in the Financial Regulations.

10. Other safeguards which ensure that the Council does not over-commit financially include:

    a) the statutory requirement for each local authority to set and arrange their affairs to remain within prudential limits for borrowing and capital investment;

    b) the balanced budget requirement of the Local Government Finance Act 1992 (Sections 32, 43 and 93); and

    c) the auditors' consideration of whether the authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the value for money conclusion).

11. The Council conducts an annual review of the effectiveness of the system of internal control and reports on this in the "Annual Governance Statement". With significant downsizing and the introduction of different service delivery vehicles it is critical that proper systems of internal controls are implemented in any new arrangements. This includes the introduction of revised procedures and effective training.

12. Whilst proper systems of internal controls are in place compliance with them is becoming more of an issue and must be addressed through effective leadership, training and using self-service tools and reinforced through performance management.

Budget Planning & Budget Management

13. The financial planning process is councillor-led as Councillors decide the principles, policies and processes that underpin budget planning. The Cabinet report describes the budget strategy for 2017-18, including the process for consultation.

14. There has also been an examination by the Scrutiny Committee, in advance of the budget being approved. The recommendations made by the Committee have been included and responded to in Appendix A to the Cabinet report.

15. Officers prepare the budget forecasts that are used by councillors as a basis for decision-making. The risks of alternative options have been considered jointly by the respective Directors and lead finance officers together with Cabinet Members.

16. Once the budget has been agreed, the directorates are required to follow the Council's budgetary control policies where they are expected to manage in-year budget pressures within the sum total of their resources. If corrective action is required this should be implemented and, if necessary, service reserves held by each directorate should be used to cover any temporary shortfall pending a permanent financial solution being put in place. All underspends and overspends on directorate budgets are carried forward into service reserves at the year-end, in line with the financial policies.

17. A key factor in effective budget management is the Council's regular monitoring of spending against budgets throughout the year and at the year-end. Budget managers are required to update their forecasts during the year, and these are subject to review within directorate management structures and by Cabinet on a quarterly basis. The development of budget managers and initiatives to strengthen budgetary control and financial management throughout the Council is ongoing.

18. The Council has a proven track record on budget management and this has been confirmed by Ernst & Young in the Annual Audit Letter for 2015-16. The Auditors are required under the National Audit Office's Code of Audit Practice (2015) to form a conclusion on the arrangements the Council has put in place to secure economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion which is based on two criteria. The Auditors consider whether the Council had proper arrangements in place for:

    a) Taking informed decisions
    b) Deploying resources in a sustainable manner; and
    c) Working with partners and other third parties.

19. On 30 September 2016 the Auditors issued an unqualified value for money conclusion. They identified two significant value for money risks in relation to sustainable resource deployment: achievement of savings needed over the medium term and contract management of outsourced services. The audit did not identify any significant matters in relation to the Council's arrangements.

Mitigation of Strategic Financial Risk

20. The estimates for 2017-18 are generally robust and are underpinned by effective financial policies and controls. However, the savings identified will be difficult to deliver within the required timescales and must be managed at the same time as continuing to implement transformational change to deliver further substantial savings from 2018-19 and beyond.

21. As the Council has already delivered budget savings in excess of £200m, each year finding more savings becomes much harder. Of the £31.3m savings planned for 2017-18, £8.9m (28%) are planned to come from support services and corporate budgets, which are considered low political risk in terms of deliverability. However, reductions in these budgets will significantly impact on

the Council's capability and capacity to enable, lead and support organizational change and transform front-line services.

22. The Council is committed to being a smaller and ever-more-effective Council, with a much greater emphasis on commissioning and much lower levels of direct service provision. This approach transfers much of the operational financial risk outside of the Council but it also means that the Council has to adapt and enhance its commissioning, contracting and procurement arrangements and behave in a more business-like way. A corporate-wide Contract Management Board exists to share best practice across the organisation and the corporate procurement and contract management team are working alongside directorate contract managers to ensure that a commercial approach to contract management is taken. During 2016-17 they have led the roll-out of a programme of contract management training. This training was targeted to upskill staff across the organisation in contract management, negotiation skills and general procurement. In 2017-18 £10.6m of the £31.3m of savings are planned from contracts across the council. These should be considered medium-risk but effective contract management will be essential.

23. Further savings of £6m are expected from care services for Adults and these should be considered high risk. The impact of an aging population, increased frailty, and longer life expectancy of people with complex needs results in demand pressure. Suffolk has a higher proportion of adult residents who are aged 75 or over compared to the national average, and the number of people in this age group is also due to increase at a faster rate than the national average over the next few years. In 2017-18 the increase for Suffolk is forecast to be 3% compared to the national average of 2%. It is well-established that the numbers of people with a learning disability who have the most complex needs are increasing as young people survive into adulthood and that people with disabilities in general are living for much longer with a range of health-related conditions. The implementation of the Supporting Lives Connecting Communities programme is allowing the Council to manage demand in adult care services and is essential to managing the Council's budget over the medium term.

24. The adult care budget currently relies on £17m in funding from the health sector via the Better Care Fund to support the base budget in paying for staff, care and reablement services. This is agreed on an annual basis with no agreement yet in place for 2017-18. With the financial problems faced in the heath sector there is a risk that this amount could come under pressure to be reduced which would result in a significant budget pressure. In an attempt to tackle the financial problems of the health and social care sector the respective organisations have come together to produce Sustainability and Transformation Plans (STP) in an attempt to quantify and plan to resolve the budget pressures across the system over the next few years. The details of these are still being worked-through but whilst this is a positive move forward there is a risk of actions in one part of the system resulting in increased costs in another part.

25. The introduction of the National Living Wage, which will rise by 4% in April 2017, has impacted particularly on the care sector. As well as a direct increase in costs to providers it also impacts on providers' ability to recruit staff as they compete with other low-wage employers such as the retail sector. This competition for staff results in higher wages having to be paid and can impact on the Council both in terms of the prices paid for care and the level of service provision available. An increase in the social care precept and the introduction of the Adult Social Care Support Grant should go some way to mitigating this pressure but it will still be very challenging for the council to contain the increasing costs of adult care within current budgets.

26. The Children and Young People directorate is currently reporting an overspend of £8m in 2016-17, of this £3m is on budgets funded by the Dedicated Schools Grant (DSG) and £5m on base budgets. This is due to an increase in the number of children with complex needs requiring placements to meet their needs for either social care or education. In addition, the average age and complexities of the children and young people is increasing too, with older children usually having higher costs and placements of longer duration. Future pressure on budgets is also likely from the same root causes. These could be those with Special Educational Needs, be looked after children, or those on the edge of care such as those with Special Guardianship Orders. Demand and demography funding of £5m is being allocated to the CYP budget in 2017-18 and this will go a long way to making the budget sustainable whilst work to manage down demand continues.

27. When estimating the budget gap for 2017-18 it has been assumed that inflation on prices will be 2%. CPI inflation was 1.2% in November 2016 but is forecast to rise to 2.7% by 2018 and is not expected to return to the Bank of England target of 2% until 2020. This sharp rise in inflation expectations is due to the fall in the value of the pound which is increasing the price of imported goods. This will put pressure on Council budgets, particularly within Highways and Corporate Property where the price of oil impacts on material costs and energy bills.

28. Taking all factors into account it is unlikely that council spending would exceed the net budget by more than 2% (about £10m). This would be manageable within the Council's strategic contingency resources. The latest out-turn forecast for 2016-17 is likely to be an overspend of £6.1m net of budgets funded from the Dedicated Schools Grant. In 2015-16 the out-turn was £2.6m under budget. It is clear that as austerity continues the financial position of the council is becoming more difficult to manage whilst supporting those most vulnerable in our communities.

29. The strategic contingency resources are made up of the contingency reserve and the County Fund general reserve. The current balance on the County Fund general reserve and the contingency reserve is £49.5m. Taking account of the £10.1m of funding required from reserves to balance the council's budget in 2016-17 (£1.6m) and 2017-18 (£8.5m) resources of £39.4m are available which would be sufficient to deal with any overspending/shortfall in savings in 2017-18. However, recovery plans would need to be implemented very quickly during

2017-18 for 2018-19. Service reserves would be used first but some directorates now have less flexibility as their reserves will be reduced due to funding existing overspending. The requirement to deliver further savings by 2020 means that continuing to fund any overspending/shortfall in savings from reserves will not be sustainable. The strategic contingency budget has been completely removed in the 2017-18 budget so it is essential that an adequate contingency reserve is maintained.

30. The continuation of the low interest rate environment and the structure of the existing loans have significantly reduced the risk to changes in interest rates on the council's borrowing costs. This strategy has allowed further capital financing savings to be released in 2017-18. The capital financing strategy going forward will continue to limit new borrowing only to those schemes which are either invest-to-save schemes or where the borrowing is paid for from other resources or where it is absolutely essential to the delivery of the Administration's key priorities, for example new school places and developing Suffolk's infrastructure.

31. As part of the national free school programme there are seven schools that were included in the 2016-19 capital programme that have received approval for funding from the Education Funding Agency and the capital costs of building these, should they be required, will not be funded by Suffolk County Council. As it was planned that these would be funded by a combination of borrowing and developer contributions, the level of borrowing in the 2017-18 programme is lower than expected and the Council is exposed to less risk. Within the 2017-20 capital programme if there were any reduction in grants this could lead to further borrowing and impact on the Council's ability to make further savings from the capital financing budget. Achieving the level of capital receipts required to fund the programme is considered low risk as the majority of this funding has already been achieved. If there is some slippage in the delivery of receipts, this can be managed within the flexibility of the capital financing arrangements.

32. All borrowing is undertaken within the parameters agreed by the full council each year when setting the budget. For 2017-18, the borrowing parameters are defined in the statement of Prudential Indicators (see **Appendix C, Section C**). The proposed borrowing strategy is for the Council to undertake any new borrowing that is required in 2017-18 by temporary borrowing (less than one year to maturity) unless interest rates indicate that long-term borrowing is preferential. The Council will limit the borrowing that is repayable within 12 months to no more than 50% of its total external debt and no more than 75% of its total debt is repayable within less than 5 years. This means that the Council will continue to benefit from the low interest rates that are expected to apply to short-term borrowing in the period to March 2018, while ensuring the Council's susceptibility to any changes in short-term interest rates over the next five years is limited. The interest budget therefore has adequate cover and is considered low risk.

33. The Council has two PFI schemes. One relates to the remodelling and refurbishment of part of the Fire Service's estate and the construction phase is

complete with all the fire stations now operational. This is low risk. The other project is the Energy from Waste Plant at Great Blakenham, which is a multi-million-pound scheme and will receive £102m of Waste Infrastructure grant (formerly known as PFI credits). The plant became operational in December 2014. The overall risk of this project is low/medium with adequate mitigation measures in place.

Adequacy of Insurance Arrangements

34. The Council operates an Insurance Provision that has sufficient sums set aside to meet the outstanding liabilities on claims brought against the Council in relation to its insurance policies. The balance on the Insurance Provision was £7.83m at March 2016.

35. The Council maintains an Insurance Reserve, which contains an amount set aside to meet the potential for further insurance claims that might arise in relation to previous years and any uninsured losses. The balance on the Insurance Reserve at March 2016 was £4.2m.

36. The Council has a contingent liability in relation to its insurance claims with Municipal Mutual Insurance (MMI). In 1992 MMI stopped accepting new insurance business and organised a Scheme of Arrangement to allow for the orderly run-off of the company. Under the Scheme, MMI can reclaim from policy holders any sums paid out against MMI insurance claims since 1993 if this is needed to avoid an insolvent liquidation. The Board of Directors of MMI wrote to policy holders on 13 November 2012 to advise that it had decided to trigger the scheme of arrangement and control of the company passed to the administrators, Ernst and Young LLP. Ernst and Young advised of an initial levy of 15% of claims paid. The Council settled the initial levy during 2013-14 of the claims which had been received up to March 2014. Any future claims that it settles on behalf of MMI will be subject to a reduction, equivalent to the levy, with the shortfall being met by the respective policyholders. On 1 April 2016 Ernst and Young announced a second levy of 10%, increasing the aggregate levy to 25%. The Council settled the second levy during 2016-17. MMI reported a substantial deficit and there are also concerns in relation to future claims especially relating to child abuse and mesothelioma. There is sufficient cover in the Council's insurance reserve to fund the maximum amount of any further levy that may be imposed on claims paid to date by Ernst and Young, as the levy would be £3.4m, however a further £4.6m remains outstanding in unpaid estimated claims.

37. When reviewing the level of the insurance reserve the potential for unforeseen risks is considered, as well as advice from appointed brokers, insurers and other government guidance. The overall level of reserves would allow the Council to respond to emergencies (even if some reserves have to be redeployed from existing purposes). The recovery from an emergency may also require capital budgets to be diverted and/or schemes added to the capital programme and funded from borrowing.

Reserves

38. The Council's policies on the maintenance and use of reserves are set out in the Financial Regulations. The assessment of the adequacy of reserves is based on a review of the likely commitments falling against each category of reserve.

39. **It should be recognised that reserves can only be spent once** and they can impact on the Council's overall level of borrowing as currently they mitigate the need to borrow in the short term. Therefore running reserves down in an unstructured way will have a cost as well as increasing the financial risks the Council faces as Revenue Support Grant will be virtually phased out by 2020-21 and the Council's resources will become more dependent on local economic performance and housing growth. It also reduces flexibility to respond to opportunities for working in partnership with other organisations or investing in transforming council services.

40. The balances on reserves at the end of March 2016 and forecasts for March 2017 and 2018 are shown in **Table 1** below.

Table 1: Summary of Reserves (excluding Schools)

	Actual Balance 31/03/2016 £'m	Forecast Balance 31/03/2017 £'m	Forecast Balance 31/03/2018 £'m
County Fund General Reserve	11.0	11.0	11.0
Corporate Contingency Reserve	38.5	36.9	28.4
Services' Reserves	26.6	17.4	12.1
Public Health Ringfenced Reserve	5.0	4.4	3.9
Renewals Reserves	3.8	3.8	3.8
Earmarked Reserves	63.9	45.5	33.2
Total Non-Schools Reserves	**148.8**	**119.0**	**92.4**
Capital Receipts Reserve	8.4	9.7	5.2
Capital Grants and Contributions Unapplied Reserve	6.5	4.5	1.9
Capital Financing Reserve	27.4	29.1	37.8
Total Capital Reserves	**42.4**	**43.2**	**44.9**
Total Reserves	**191.2**	**162.2**	**137.3**

Unallocated Reserves

41. Unallocated reserves include the County Fund and Corporate Contingency Reserve. The County Fund General Reserve is a 'back-stop' to the corporate contingency and Services' Reserves to be deployed by either Cabinet or the County Council for any purpose within the legal power of the Council. Examples of the purposes for which it might be used include:

a) Dealing with unforeseen in-year budget pressures. Cabinet is empowered to approve in-year allocations to deal with such matters that it considers cannot reasonably be managed by Services;
b) Financing one-off items of expenditure;
c) Exceptional insurance claims;
d) Providing a strategic reserve to deal with such matters as major emergencies. Under the Bellwin Scheme, which provides emergency financial assistance to local authorities in England, the first £1m would have to be met by the Council before costs were eligible for grant;

42. Sources of finance for the County Fund General Reserve come from savings on the corporate budgets of the Council. If the need arose, the reserve could be increased within the agreed budget plan for a particular year, or by transferring balances from other reserves. All these courses of action are becoming increasingly difficult to achieve given the ever-tighter financial climate within which the Council has to work.

43. Given the range of potential calls on the County Fund General Reserve, the Council has agreed that a prudential approach be taken to maintaining its balance. The prudential guidelines require the minimum balance on the County Fund General Reserve to be about 1% of the net budget of the council. Such a percentage takes into account the other significant reserves that are held currently.

44. In the event of the County Fund General Reserve being reduced below 1% of net budget, Cabinet (as advised by the Director of Resource Management) will agree a plan to restore the balance over the next two years. The current 1% prudential “minimum” balance for the reserve is £4.8m.

45. The forecast balance at 31 March 2017 is £11.0m equivalent to 2.3% of the net budget. This is deemed adequate in the current financial climate to cope with unexpected events in 2017-18 to provide stability for the future.

46. The contingency reserve exists to enable the Council to deal with uncertainty in future funding. The decrease in 2016-17 and 2017-18 reflect the planned use of this reserve to balance the overall budget, pending further savings being identified and implemented.

<u>Services’ Reserves</u>

47. Under the Financial Regulations, Services are allowed to hold carry forward reserves. This allows services to:

(a) Manage any delays to service provision
(b) Deter and control overspending
(c) Finance non-recurring expenditure
(d) Provide a contingency for dealing with unforeseen in-year cost pressures, such as excess inflation costs and increases in demand for services e.g. rises in the numbers of children in care above forecasts, increases in the requirements for purchased-care and the impact of severe winter weather.

48. Service reserves are an essential component in the Council's overall framework for financial management. They permit a control regime whereby services are required to be self-reliant and deliver agreed service plans within the resources available. Services are expected to finance in-year budget overspending whilst sustainable solutions are put in place to bring plans back on target. The Council's financial policies incentivise services to achieve savings. As the financial situation becomes more challenging each year these reserves are likely to reduce by over half by March 2018, with CYP absorbing most of their allocation unless the future demand for services can be reduced.

49. The Public Health Grant is ring-fenced for expenditure on Public Health activities. Therefore, any underspend in year on the grant is transferred to a reserve which is also ring-fenced and must be spent on expenditure that is legitimately chargeable to the grant.

Earmarked Reserves

50. Earmarked reserves are used to pay for specific commitments or set aside for anticipated projects and programmes. **Table 2** overleaf sets out the main earmarked reserves with explanations for the more significant items.

Table 2: Forecast Balances on Earmarked Reserves

	Actual Balance 31/03/2016 £'m	Forecast Balance 31/03/2017 £'m	Forecast Balance 31/03/2018 £'m
My Life My Future	0.5	0.2	0.0
Support to Live at Home	0.5	0.0	0.0
Mental Health Projects	0.2	0.1	0.0
Other ACS Earmarked	2.8	1.6	0.0
Youth Offending Service	0.3	0.2	0.2
Universal Children's Health Services	0.9	0.9	0.7
Adoption Reform	0.4	0.1	0.0
Troubled Families	1.6	1.4	1.2
Youth Guarantee Funding	3.7	1.6	0.0
Music Service	0.5	0.5	0.5
Schools' Choice	1.1	0.0	0.0
Other CYP Earmarked	1.7	1.5	1.2
Fire PFI	2.6	2.4	2.2
Public Protection Transformation	1.0	1.0	1.0
Other Fire Earmarked	0.8	0.6	0.2
Public Health Projects	0.7	0.2	0.2
Corporate Regeneration	0.8	0.6	0.4
Energy & PV Panels	0.4	0.5	0.6
Building Maintenance	0.4	0.4	0.4
Locality Working	0.4	0.2	0.1
On-Street Parking Schemes	2.1	1.8	1.5
Green Travel Plan	0.6	0.7	0.9
Waste	4.7	2.0	1.5
Highways Transformation	0.7	0.4	0.2
Developer Fees	0.6	0.5	0.4
Highways Commuted Sums	5.3	5.3	5.4
Strategic Development	1.3	1.1	0.9
Elections	1.0	1.0	0.0
Insurance	4.2	3.2	2.2
Redundancy	0.4	0.3	0.2
Endeavour Card	0.8	0.7	0.5
Raising the Bar	1.1	0.1	0.0
School Organisation Review	3.7	1.6	0.7
Transition Fund	0.4	0.3	0.1
Transformation Fund	6.6	4.6	2.6
Broadband	6.0	6.0	6.0
Customer Service/Digital	1.9	1.3	0.7
Apprenticeships	1.2	0.4	0.4
Total Earmarked Reserves	**63.9**	**45.5**	**33.2**

51. The My Life My Future reserve has been established to provide invest-to-save funding for additional review capacity following a Serious Case Review (SCR) of a customer in supported housing. The aims of the project are to:

a) Carry out a Supporting Lives Connecting Communities (SLCC) approach to reviews for all Learning Disability, Physical Disability and Mental Health customers who are in supported housing environments
b) To ensure customers' needs are being met safely whilst looking for opportunities to meet these needs in a more efficient way
c) To mitigate costs for customers in transition from Children to Adult services, through better joint planning and improved commissioning with CYP services.

52. The Support to Live at Home reserve is to provide project support and implementation funding for this significant multiple-tender exercise to change and improve how homecare is delivered in Suffolk.

53. The Mental Health Projects reserve exists to cover the costs of the review of the Section 75 Partnership working agreement between ACS and the Norfolk and Suffolk NHS Foundation Trust to ensure arrangements between the two bodies are working in the most effective and efficient way.

54. Other ACS Earmarked reserves include funding provided from outside bodies to be used on jointly-agreed projects, funding for additional temporary staffing on specific project work and match-funding for cultural and sporting activities that helps to attract inward investment and beneficial economic impact to Suffolk.

55. The Youth Offending Service is funded from a range of resources including grant income and contributions from Health, the Probation Service and the Police. The grant that the Council receives from central government has been reduced so this reserve is being used to mitigate pressure on the budget before the service is re-shaped.

56. The Universal Children's Health Service provides the Community Nursing and Health Visitors that work in close partnership with the Integrated Teams. This service is entirely funded by Clinical Commissioning Groups (previously the NHS) and Public Health grant. High levels of vacancies have led to the current level of reserves, although these will reduce as recruitment increases.

57. The Adoption Reform reserve was created out of the Adoption Reform Grant received from Central Government in 2014-15. The unspent balance is committed over a period of 2 years on a range of activities to improve Adoption services.

58. The Troubled Families reserve holds income from a Central Government grant that is the main funding source for this initiative. This funding is for local authorities to work with specific families that have serious problems, to provide targeted support to assist in turning their lives around and 'breaking the cycle' of inter-generational crime, unemployment and low aspirations. As the service has engaged with more families than originally planned more grant income has been received than forecast so the use of this reserve in the short term is minimal.

59. The Youth Guarantee Funding is received from the Department for Work & Pensions to fund youth unemployment activities. The main provision in Suffolk is the “MyGo” service for young people helping them access training and work opportunities after full time education. Originally based only in Ipswich the MyGo service has now been extended to Lowestoft.

60. The Music Service (OFSTED rating: Outstanding) reserve has built up as a result of successful trading activity with schools and is available to be used to continue its programme to enable schools to plan, provide and deliver a comprehensive music curriculum for all pupils including, where appropriate, specialist instrumental tuition.

61. Schools’ Choice is a trader within Suffolk County Council that has made a surplus in its first two years of trading which has been transferred to this reserve to fund future activity or development. The trader will become a wholly owned company in January 2017 and as the reserve will no longer be required the funds will transfer to the CYP service reserve.

62. Other CYP Earmarked reserves includes funding for a variety of programmes, including the Safeguarding Children Board, 14-19 development and Suffolk & Norfolk Initial Teacher Training (SNITT)

63. The Fire Private Finance Initiative (PFI) reserve exists to equalise the cost of the contract over the 25 years as the payments in earlier years are smaller than those in later years. An annual contribution was made in the earlier years to ensure funds were available to make payments in later years. This is a combination of base budget provision and PFI grant.

64. The reserves set aside for Public Protection Transformation are to support the changes that have been and are being implemented as part of Suffolk’s Fire and Rescue Integrated Risk Management Plan (IRMP) and for service re-design. Examples include funding the introduction of the on-call crewing reserve to help alleviate on-call availability in areas which have low availability and to continue to increase collaboration with blue-light partners which is being encouraged as part of the Fire reform to improve efficiency and collaboration.

65. The Other Fire Earmarked reserves will be used for a number of programmes including Firebike which is to promote road safety and bike awareness in particular for motorcyclists, Emergency Service Cadets is a joint partnership cadet scheme combining Fire and Police services to develop young people, and Firefighter Fit and Healthy to support young people and their families who are suffering from weight and health issues.

66. The Public Health Projects reserve is set aside for specific projects including Supporting Treatment, Accommodation and Recovery in Suffolk (STARS), housing, healthy schools, health checks (including dental health), mental health, sexual health and smoking/drugs/alcohol prevention programmes.

67. The Corporate Regeneration reserve provides match-funding money for capital grants to organisations throughout Suffolk, enabling them to qualify for external

grants. To be eligible for support projects must benefit the people of Suffolk by delivering community, economic or environmental regeneration, or a combination of all these.

68. The Energy and PV Panels reserve exists to support the revenue costs associated with the roll out of energy saving schemes across the council's estate.

69. The Building Maintenance reserve exists as schools pay up-front for some maintenance services that are delivered through Corporate Property.

70. The Locality Working reserve was established from the Performance Reward Grant and is used to fund locality posts, new ways of working and partnership working.

71. The On-Street Parking Schemes reserve is funded by money collected on behalf of the Council by St Edmundsbury Borough Council and Ipswich Borough Council from On-Street parking. The projects that the surplus funds can be spent on are governed by the Road Traffic Regulation Act. The funds can be used for providing and maintaining car parks, improving the highway, environment improvements and passenger transport improvements

72. The Green Travel Plan reserve exists as in some years the contribution to the cost of implementing and running green travel arrangements is less than the income collected from staff parking. When the cost is more than the income the reserve is used to fund the difference.

73. The Waste reserve will be used to fund a long-term lease for a transfer station and is available to fund one-off expenditure associated with the Energy-from-Waste contract and capital improvements to waste infrastructure.

74. The Highways Transformation reserve exists to fund one-off expenditure associated with the highways transformation programme.

75. The Developer Fees reserve exists because the level of fees collected by the highways service varies from year to year. In any year where the level collected exceeds the budget the surplus is transferred to this reserve to be used in other years when there is a shortfall against the budget.

76. The Highways Commuted Sums reserve contains the amounts paid by developers to cover the additional maintenance work arising from their developments. The amounts held in this reserve can therefore only be used to fund future liabilities associated with highways maintenance.

77. Strategic Development reserves include environment and economic development reserves. The latter was created out of the proceeds from the Local Authority Business Growth Incentive (LABGI) scheme. This was set up in 2005-06 to give local authorities a financial incentive to encourage local business growth. The remaining balance is being focused on Tech East and the Ipswich Waterfront Innovation Centre.

78. The Elections reserve exists to fund the costs of local elections. The current balance in this reserve is expected to be used to fund the cost of the May 2017 election.

79. The Council maintains an Insurance reserve, which contains an amount set aside to meet the potential for further insurance claims that might arise in relation to previous years and any uninsured losses. The balance on the Insurance reserve at March 2016 was £4.2m which is sufficient to meet the estimated level of any additional claims and uninsured losses from previous years.

80. The Redundancy reserve was created in 2010-11 to finance potential redundancies arising from downsizing the Council’s workforce. This will be drawn on in the medium term.

81. The Endeavour Card is for 16-19 year olds to help reduce transport costs for young people. The reserve is being used to fund the running costs of the scheme.

82. The Raising the Bar reserve is being used to fund a structured improvement in pupil attainment and improve capabilities for young people in the world of work together with addressing the recommendations in the RSA report ‘No School an Island’.

83. The Schools Organisation Review (SOR) reserve is being used to fund the revenue costs of the reorganisation including training, programme management, salary safeguarding and those redundancy and premature retirement costs that fall on the local authority during the final phase of the review.

84. The Transition Fund was set up in 2011-12 in order to allow some services to continue which would otherwise have been stopped due to budget cuts. This continues to provide time for local organisations to put proposals together, undertake due diligence and discuss options with the Council.

85. The Transformation Fund is being used to help deliver the Council’s transformation programmes and investment in IT, particularly in Adult and Community Services.

86. The Broadband reserve will be used in 2018-19, along with capital receipts, to fund the council’s contribution to the Better Broadband for Suffolk programme.

87. The Customer Service/Digital reserve was established to enable a one-off investment to develop the Council’s digital presence and processes on an invest-to-save basis.

88. The Apprenticeships reserve was established to fund a local Apprenticeship Service. This includes the delivery of a series of targeted marketing campaigns

to promote the importance of apprenticeships and drive greater take up by businesses and young people.

89. It is my firm opinion that the balances on earmarked reserves are appropriate for the future commitments against them.

Schools' Reserves

90. Schools are legally entitled to hold balances under the delegation arrangements within which they work. Their balances appear within the County Council's balance sheet but can only be used by schools – these balances cannot be spent by the County Council. This similarly applies to the Dedicated Schools Grant which can only be applied to activities legitimately chargeable to the DSG and agreed by the Schools Forum.

91. At 31 March 2016, schools' balances amounted to £25.8m (10.6% of budget). At March 2015 the balance was £23.8m. It is forecast that the balance will decline by March 2017.

92. There are a small number of schools that already have, or are forecasting, budget deficits. Under the Scheme for the Local Management of Schools (LMS scheme) all schools are required to draw up recovery plans to clear these deficits in a maximum of three years if they overspend. However, there is still a potential risk to the local authority if a school closes or becomes a sponsored academy when it has a deficit. In mitigation CYP makes termly risk assessments of all schools and will use its powers to intervene if a school's finances are not robust.

93. A number of schools have been identified as holding large balances built up from years of underspending against budget. CYP will continue to work with these schools, and the Schools Forum, to identify which schools are holding balances as prudent budget management or where funds are being saved for specific purposes, such as capital spend, and those schools where these balances are excessive and there are no robust plans in place for their use. Where balances are excessive CYP will work with the schools governing body to ensure that the funds are properly used for the benefit of the pupils in the school.

94. At 31 March 2016 the balance of the Dedicated Schools Grant reserve was £4.2m. It is forecast that the balance at 31 March 2017 will be £0.7m. This large drawdown of reserves in 2016-17 is mainly due to forecast overspending on the budget for providing services for children with special educational needs.

Recommendation

95. The Council is asked to have regard to this report when making its decisions on the 2017-18 Budget. Where advice in this report is not accepted, this should be recorded formally with reasons in the minutes of the County Council meeting.

Geoff Dobson
Director of Resource Management
24th January 2017