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

The Council's Budget for 2016-17

Summary

1. The County Council on 11th February 2016 will consider the recommendations of Cabinet on the budget for 2016-17 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;
   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 care purchasing, looked after children and Home to School Transport which can be volatile;
   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 adversely affect budget forecasts;
   d) Reserves are adequate for the 2016-17 budget and provide some limited buffer against the 2017-18 budget plan. However for 2018-19 and 2019-20 I would repeat what I said last year the Council should be under no illusion those years will require deep 'cuts' to services and a general council tax increase to remain viable, under the government's plan for local government.

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 2016-17, then the impact on the 2017-18 budget will be even more significant. The budget challenge over the period to 2017-18 and beyond is already extremely challenging 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 authority'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 aligned with the authority's financial strategy; and

   c) must lead the promotion and delivery by the whole authority 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.

Budget Planning & Budget Management

12. 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 2016-18, including the process for consultation.

13. 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.

14. 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.

15. 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.

16. 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.

17. The Council has a proven track record on budget management and this has been confirmed by Ernst & Young in the Annual Audit Letter for 2014-15. The Auditors are required under the Code of Audit Practice (2010) 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.

18. In accordance with guidance issued by the Audit Commission, the value for money conclusion is based on two criteria. The Auditors consider whether the Council had proper arrangements in place for:

    a) Securing financial resilience, and
    b) Challenging how it secures economy, efficiency and effectiveness

19. On 29 September 2015 the Auditors issued an unqualified value for money conclusion and the audit did not identify any significant matters.

20. The Council holds a strategic contingency budget to cover exceptional in year budget pressures, potential risks associated with grant reductions and the business rates retention scheme, and for emergencies. This will be £2.9m in 2016-17 which is appropriate for the current level of risk but as it is planned to completely remove the base budget provision in 2017-18 it will be essential to hold an adequate contingency reserve.

Mitigation of Strategic Financial Risk

21. The estimates for 2016-17 are generally robust and are underpinned by effective financial policies and controls. However, the savings identified will be challenging 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 2017-18 and beyond.

22. As the Council has already delivered budget savings in excess of £170m, each year the challenge becomes harder. However £14m of savings, 40% of the total, are planned to come from support services and corporate budgets, which are considered low risk in terms of deliverability but reductions in these budgets will impact on the Council's capacity to enable, support and invest in the transformation of services.

23. 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 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. A corporate wide contract management board has been established 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. However, these arrangements are being strengthened as this becomes an ever more significant part of the council's business. This will help to ensure that the Council's needs and those of service users are met whilst achieving value for money. In 2016-17 £10m of the £34.4m of savings are planned from contracts across the Council and also specifically within Waste, Highways and Transport Services. These should be considered medium risk but effective contract management will be essential.

24. 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 a demand pressure. There are also additional pressures that are occurring as a consequence of legal rulings and government policy changes. These are new burdens on local government and are a significant challenge for the coming years.

25. As part of the Summer Budget, the Chancellor announced a new 'national living wage' for all workers aged over 25 will be introduced from April 2016. The wage will start at £7.20 and will rise to 60% of median earnings by 2020, which would be £9, according to the Office of Budget Responsibility (OBR) forecasts. It is recognised that the care sector is one of the areas that will be most affected by the introduction of the National Living Wage as staffing costs is the main cost driver for the sector as it is predominantly a low paid activity with a high proportion of care staff either at or close to the minimum wage. The main cost to the Council will be through pressure on rates paid for care to the private and voluntary sector as they seek to recover the additional costs that this change will bring.

26. For more information on adult social care cost pressures please refer to the report presented to Full Council on 17th September 2015 (agenda item 09) http://committeeminutes.suffolkcc.gov.uk/LoadDocument.aspx?rID=090027118190ec42&qry=c_committee%7e%7eCounty+Council

27. The first phase of the Care Act 2014 has been implemented which required additional staff resources, the development of Care Act compliant ICT systems, new rights for carers and prisoners and additional advocacy services. Although the second phase of the Care Act dealing with funding reform was delayed, the costs associated with the first phase are not one-off and funding is needed on a permanent basis. This was recognised in the 2016-17 Provisional Local Government Finance Settlement as £4.4m has

been rolled into the Revenue Support Grant and when combined with expected funding from Health partners this should be sufficient.

28. As part of the Comprehensive Spending Review 2015 the Government announced that for the rest of the current Parliament, local authorities responsible for adult social care will be given additional flexibility on the current council tax referendum threshold to raise council tax by an additional 2% to be used entirely for adult social care. This flexibility is being offered in recognition of demographic changes which are leading to growing demand for adult social care, and increased pressure on council budgets including the 'National Living Wage'. For Suffolk this will generate £5.4m but it will still be challenging for the council to contain the increasing costs of adult care within current budgets.

29. In 2015-16 the Better Care Fund was established. It creates a local single pooled budget to incentivise the NHS and local government to work more closely together, with a view to transforming services so that people are provided with integrated care and support. As well as presenting opportunities for better outcomes through integrated working, the Better Care Fund presents risks as there is no new money and some of the funding is performance related. Also efficiency savings that materialise from closer integration of health and social care could be partly offset by the increasing costs and demands resulting from the aging population.

30. There is a risk that as a result of welfare reform and 'capping' most benefit increases there could be added pressure on social care services. Furthermore low interest rates are a benefit for some sections of society but not those with savings. A consequence of the latter is more self-funders in residential care now have to be funded by the Local Authority as their savings become depleted. The implementation of the Supporting Lives Connecting Communities programme is allowing the Council to manage down demand in adult care services and is essential to managing the Councils budget over the medium term.

31. The CYP directorate is currently facing a financial structural deficit of £3m, mainly caused by the pressure of increasing demand for services at a time of reducing funding. The number of Children in Care in Suffolk has remained relatively stable but the complexity of need of individuals and the corresponding availability of suitable accommodation has meant a requirement for an increase in the number of expensive agency placements for these children. Alongside purchased placements, the other area of significant financial pressure is due to the growth of Special Guardianship Orders (SGOs). These are care arrangements ordered by family courts and enable children to live and have their needs met within their extended family, or with other people closely connected to them. Suffolk, like the vast majority of local authorities in England, has witnessed a significant growth in the use of these orders as an alternative to bringing a child into the care of the Local Authority. As the number SGOs increases by an average of 50 per year, there is significant budget pressure linked to not only the weekly cost of each placement, but also of the on-going support services required to support these

packages. The issue of the financial burden that these care arrangements are placing on local authorities is being raised at a national level.

32. 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 outturn forecast for 2015-16 is likely to be an overspend of £0.7m. In 2014-15 the outturn was £2.3m under budget (0.4%). However as each year becomes more difficult the past is not always a guide to the future.

33. The strategic contingency resources are made up, primarily, of the corporate contingency budget, contingency reserve and the County Fund general reserve. The corporate contingency budget amounts to £2.9m in 2016-17. There are uncommitted balances on the County Fund general reserve (£10.9m) and the contingency reserve (£28.4m). When taken together with the contingency budget this provides resources of £42.2m which would be sufficient to deal with any overspending/shortfall in savings in 2016-17 together with any knock on impact into 2017-18 (after allowing for any use of service reserves) pending a recovery plan being put in place.

34. 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 some capital financing savings to be released in 2016-17. 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 the Schools Organisation Review.

35. As a result of a significant reduction in the level of grant received in relation to education half of the 2016-17 programme is expected to be funded from borrowing. Any further reduction in grants 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 received. If there is some slippage in the delivery of receipts, this can be managed within the flexibility of capital financing arrangements.

36. All borrowing is undertaken within the parameters agreed by the full council each year when setting the budget. For 2016-17, the borrowing parameters are defined in the statement of Prudential Indicators (see **Appendix C, Section D**). The proposed borrowing strategy is for the Council to undertake any new borrowing that is required in 2016-17 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 40% of its total external debt and no more than 70% of its total debt is repayable within less than 5 years. This will mean 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 2016, 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.

37. 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.

38. 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

39. 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 £6.52m at March 2015.

40. 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 2015 was £5.85m.

41. 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 that an initial levy of 15% of claims paid since October 2013 was required. 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 15% reduction, with the shortfall being met by the respective policyholders. Ernst and Young have recently announced there is a potential for a second levy percentage which will be determined and collected in April following results of the current financial year. MMI reported a substantial deficit at 30 June 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 reserves 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 £3.6m, however a further £4.9m remains outstanding in unpaid estimate claims.

42. 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

43. 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.

44. **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 is virtually phased out by 2019-20 and the Council's resources 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.

45. The balances on reserves at the end of March 2015 and forecasts for March 2016, 2017 and 2018 are shown in **Table 1** below:

Table 1: Summary of Reserves (excluding Schools)

	Actual Balance 31/03/2015 £'m	Forecast Balance 31/03/2016 £'m	Forecast Balance 31/03/2017 £'m	Forecast Balance 31/03/2018 £'m
Unallocated Reserves	39.3	47.8	43.0	35.4
Directorate Reserves	27.9	23.6	18.9	15.3
Allocated Reserves for Defined Future Uses	69.7	51.8	38.3	25.3
Reserves for Future Capital and Infrastructure Projects	40.5	35.9	38.3	43.1

Unallocated Reserves

46. Unallocated reserves include the County Fund and Corporate Contingency Reserve. The County Fund General Reserve is a 'back-stop' to the corporate contingency and Service 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 (e.g. if the Bellwin Scheme was activated, the first £1m would have to be met by the Council before costs were eligible for grant);

47. 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.

48. 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.

49. 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 £4.9m.

50. The forecast balance at 31 March 2016 is £10.9m equivalent to 2.2% of the net budget. This is deemed adequate in the current financial climate to cope with unexpected events in 2016-17 to provide stability for the future.

51. The contingency reserve exists to enable the Council to manage the uncertainty of future funding. The increase in 2015-16 reflects the planned movement into the reserve of the underspend on the contingency base budget.

Directorate Reserves

52. Directorate Reserves include service carry forward reserves and the Public Health ring-fenced reserve.

53. 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 looked after children above forecasts, increases in the requirements for purchased care and the impact of severe winter weather.

54. 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 almost half by March 2018.

55. 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.

Allocated Reserves for defined future uses

56. Allocated Reserves for defined future uses includes all earmarked reserves that 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 31/03/2015 £'m	Forecast Balance 31/03/2016 £'m	Forecast Balance 31/03/2017 £'m	Forecast Balance 31/03/2018 £'m
Social Fund Grant	0.8	0.0	0.0	0.0
Living Healthier Lifestyles	0.5	0.1	0.0	0.0
Support to Live at Home (Implementation costs	0.5	0.0	0.0	0.0
Arts and Museums	0.4	0.1	0.1	0.0
Libraries and Archives	0.2	0.2	0.0	0.0
Dignity Ambassadors and Adult Safeguarding	0.2	0.2	0.0	0.0
Music Service	0.5	0.5	0.5	0.5
Suffolk Family Focus	1.9	0.9	0.9	0.9
Adoption Reform	0.8	0.3	0.0	0.0
Home to School Transport	4.7	3.1	2.0	2.0
Universal Childrens Health Services	1.1	0.8	0.3	0.3
Youth Offending Service	0.5	0.1	0.1	0.1
Schools' Choice	0.8	0.8	0.8	0.8
Fire PFI	2.6	2.4	2.2	2.0
Fire Control	0.4	0.2	0.1	0.1
Public Protection Transformation	0.5	0.7	0.5	0.4
Fire Uniform	0.2	0.3	0.3	0.2
Public Health Projects	0.8	0.4	0.4	0.1
Economic Development	0.6	0.4	0.1	0.0
On Street Parking Schemes	2.5	2.2	1.9	1.6
Energy from Waste	4.7	4.2	3.8	3.3
Highways Transformation	1.3	0.9	0.6	0.4
Developer Fees	0.6	0.6	0.6	0.6
Highways Commuted Sums	5.2	4.7	4.2	3.7
Corporate Regeneration	1.0	0.7	0.5	0.2
Energy & PV Panels	0.3	0.2	0.1	0.0
Building Maintenance	0.4	0.3	0.2	0.2
Locality Working	0.5	0.3	0.2	0.1
Elections	1.0	1.0	1.0	0.0
Insurance	5.9	5.0	3.5	2.5
Home of Horseracing	0.2	0.0	0.0	0.0
Redundancy	0.6	0.4	0.2	0.0
Endeavour Card	0.8	0.6	0.3	0.1
Raising the Bar	1.6	0.9	0.2	0.0
Schools Organisation Review	4.9	3.4	1.3	0.5
Transition Fund	0.6	0.4	0.2	0.0
Transformation Fund	6.9	5.4	3.9	2.4
Broadband	6.0	4.2	4.2	0.0
Customer Service	2.6	1.3	0.0	0.0
Apprenticeships	1.4	0.9	0.5	0.0
Projects in Specific Services	3.0	2.9	2.8	2.7
Total Earmarked Reserves	**69.7**	**51.8**	**38.3**	**25.3**

57. The Social Fund Grant Reserve is used to fund committed expenditure on crisis and support grants which replaced community care grants and crisis loans which used to be provided by the Department for Work and Pensions.

58. The Living Healthier Lifestyles Reserve is used to support the Most Active County initiative with sport related activities.

59. 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.

60. The Arts and Museums Reserve will be used to assist in funding the Home of Horseracing Museum in Newmarket.

61. The Libraries and Archives Reserve is to support the Library service and Record Offices with one off funding including on self-service machines and digitisation.

62. The Dignity Ambassadors and Adult Safeguarding Reserve helps to support the ACS directorate in fulfilling its obligations for safeguarding adults under the Care Act.

63. 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.

64. The Suffolk Family Focus reserve was set up for the troubled families initiative which is mostly funded by a Central Government grant. The 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 intergenerational crime, unemployment and low aspirations. These funds will be spent in future years.

65. 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

66. The Home to School Transport reserve was set up to meet costs in any year where there are more than 190 school days as the budget is based on 190 school days and to offset demand pressures and higher inflation from tendered bus services as the need arises.

67. 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 there are agreed plans in place to utilise these monies.

68. 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 use of this reserve to mitigate pressures or invest in the service are agreed by the YOS Board.

69. Schools' Choice is a trader within Suffolk County Council that makes a surplus. This is transferred to this reserve to fund future activity or development.

70. 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 is therefore being made in the earlier years to ensure funds are available to make payments in later years. This is a combination of base budget provision and PFI grant.

71. The Fire Control reserve was created in 2011-12 from the grant provided by CLG to fund the costs of the Fire Control project. This is being used to fund ICT development work.

72. The Public Protection Transformation Reserve has been established to fund activity associated with this transformation project.

73. The Economic Development reserve 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 Innovation Martlesham, the Ipswich Innovation Centre and a contribution to the Local Enterprise Partnership.

74. The On-Street parking 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 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 where necessary and desirable, improving the highway, environment improvements and passenger transport improvements

75. The Energy from 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 contract

76. The Highways Transformation Reserve exists to fund one-off expenditure associated with the transformation programme.

77. 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 where there is a shortfall against the budget.

78. 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.

79. The Corporate Regeneration fund provides match-funding money for capital grants to organisations throughout Suffolk, enabling them to qualify for external grants. To be eligible for support from the CRF, projects must benefit the people of Suffolk by community, economic or environmental regeneration, or a combination of these.

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

81. 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 2015 was £5.9m which is sufficient to meet the estimated level of any additional claims and uninsured losses from previous years.

82. The Redundancy Fund 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.

83. 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 set up and initial running costs of the scheme.

84. 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'.

85. The Schools Organisation Review (SOR) reserve will be 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 phase 3 of the review.

86. A Transition fund of £1.7m 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 has provided time for local organisations to put proposals together, undertake due diligence and discuss options with the Council.

87. The Transformation fund will be used to help deliver the Council's transformation programmes and investment in IT.

88. The Broadband reserve will be used, along with capital receipts, to fund the council's contribution to the Better Broadband for Suffolk programme.

89. The Customer Service Transformation reserve was established to enable a one-off investment to develop the Council's digital presence and processes on an invest to save basis.

90. 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.

91. The earmarked reserves for projects in specific services are held to fund a variety of expenditure.

92. The balances on earmarked reserves are appropriate for the future commitments against them.

Schools' Reserves

93. 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.

94. At 31 March 2015, schools' balances amounted to £23.8m (9.1% of budget). At March 2014 the balance was £26.9m. It is forecast that the balance will decline by March 2016.

95. 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 schools finances are not robust. It is also expected that the funding reform announced in the CSR will in general benefit Suffolk schools from 2017.

96. A number of schools have been identified as holding large balances built up from years of underspending against budget. CYP will work with these schools, and the Schools Forum, to identify which schools are holding balances as prudent budget management or funds are being saved for specify 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.

97. At 31 March 2015 the balance of the Dedicated Schools Grant reserve was £7.1m. It is forecast that the balance at 31 March 2016 will be £1.5m. This large drawdown of reserves in 2015-16 is mainly due to SOR costs for the Thurston Pyramid, funding of academy conversion deficits and passing back to individual schools the underspend against previous years' DSG budget as per the funding regulations.

Recommendation

98. The Council is asked to have regard to this report when making its decisions on the 2016-17 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
26th January 2016