

Date/Dyddiad: 13 November 2014  
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Leighton Andrews AC/AM  
Minister for Public Services  
Welsh Government  
Cardiff Bay  
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CF99 1NA

Dear Minister

### Use of Reserves

Thank you for your letter dated 23<sup>rd</sup> October 2014.

To begin with, in light of the continued financial pressures we face, I would agree with your comments regarding the need for local authorities to look at all the options available to them, including the appropriate use of reserves. This has once again been brought into sharp focus following the publication of the Provisional Settlement for 2015/16 showing a reduction in funding for the Vale of 3.5%.

In this continuing scenario of austerity, reserves will form a vital part of the Council's financial planning framework as a means of providing a degree of security against future levels of expenditure and to manage the burden across financial years.

The Council has always taken a prudent approach with regard to specific reserves and uses them to mitigate known risks (financial and service) and contingent items, e.g. Insurance Fund. Other reserves have been established to fund Council priorities, e.g. Visible Services and in particular the Capital Programme, e.g. School Investment Strategy Reserve, Project Fund, Building Fund. This is important as the Council has limited capacity to realise sufficient sums from the sale of assets for capital investment. Sums have also been set aside to assist in budget management and the Council's reshaping services programme, e.g. Early Retirement Fund. The Housing Revenue Account Reserve is ring-fenced to Housing and the majority will be used to fund improvements to the Council's housing stock.

Following the expected use of £2.5m in 2014/15, the Council's General Fund Reserve is projected to stand at £11.46m as at 31st March 2015. As detailed in the Council's latest Medium Term Financial Plan and as approved by Council on 29th September 2014, the 2015/16 base budget includes the use of a further £2.5m from the General Fund Reserve and another £1.5m in 2016/17. The Council's Section 151 Officer currently believes that the minimum balance on the General Fund Reserve should be no less than £7m. This is considered sufficient to cover unforeseen expenditure whilst, in the short term, maintaining a working balance.

Unforeseen expenditure can be substantial and several instances can occur in a year. Whilst there is no set requirement for the minimum level for the General Reserve, some commentators use 5% of the net budget as a guide. For the Vale this is about £10.7m. However, in view of the prudent approach the Council takes with regard to specific reserves, £7m is considered a reasonable minimum.

The Council presently benefits from a reasonable level of reserves, however, they are not inexhaustible and have taken years of careful financial management to develop to their current level. As part of the normal Budget and Closure of Accounts processes, an examination of the level of reserves is undertaken to ascertain their adequacy and strategy for use. A view to their level (i.e. whether the amount held in the fund is sufficient to requirements) and purpose (i.e. whether the need to hold the fund is still relevant) is then taken by members.

The requirement for each specific reserve is also considered in light of the Council's priorities and it has been deemed necessary to move funding from lower priority areas to higher priority areas. As a result, it has recently been proposed as part of our initial revenue budget proposals for 2015/16 that £3.5m of specific reserves are un-earmarked and transferred to the Schools Investment Strategy Reserve to allow for the continued investment in school buildings and their development.

Attached is a table that sets out the Authority's actual reserves as at 31st March 2014 and shows the estimated reserves balance for each year up to 31st March 2018. The Council is forecasting the use of general and specific reserves totalling £37.7m from 2014/15 onwards, which represents 54% of the balance as at 31st March 2014. These levels of reserves are still deemed to be adequate as known risks are largely covered and the General Fund Reserve does not fall below £7m.

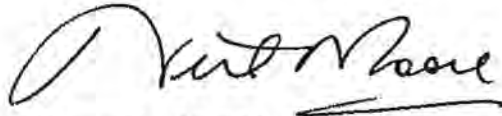
It should also be noted that it is the Authority's contention that over £6m of the 2013/14 reserves figure actually relate to provisions (i.e. liabilities that have already occurred) and will be a matter that we will be discussing further with our external regulators.

The Council is planning to use a considerable amount of its specific reserves over the coming years. However, as reserves are a non-recurring means of funding, they can only be used as part of a specific financial strategy. The consequence of not doing so will only be to increase the already exacting level of savings required in future years.

Finally, I would like to thank you for supporting the fundamental principal that it is the responsibility of authorities to make their own decisions in this matter.

I trust, therefore, that this response clarifies the Council's position in relation to the use of its reserves but should you require any further information, please do not hesitate to contact me.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Neil Moore', with a horizontal line underneath the name.

Councillor Neil Moore  
Leader of the Council

**VALE OF GLAMORGAN****ANALYSIS OF RESERVES**

<b>Name</b>	<b>Bal</b>	<b>Est</b>	<b>Est Bal</b>	<b>Comments</b>	<b>Est Bal</b>	<b>Est Bal</b>	<b>Est Bal</b>
	<b>31/03/14</b>	<b>Mov'nt</b>	<b>31/03/15</b>		<b>31/03/16</b>	<b>31/03/17</b>	<b>31/03/18</b>
	<b>£,000</b>	<b>£,000</b>	<b>£,000</b>		<b>£,000</b>	<b>£,000</b>	<b>£,000</b>
Youth Service	165	-128	37	To assist with the implementation of the Youth Engagement & Provision Framework in schools, Intervention and Youth Service building recovery costs.	0	0	0
Repairs and Renewals Catering	121	-90	31	The primary use is to fund enhancements to premises and the replacement of Catering equipment, ensuring Environmental Health Officer requirements and Health & Safety obligations within school Catering premises are met.	0	0	0
Catering Improvements	180	-80	100	This reserve is to be used to assist with repayment of the Cashless Catering system implementation.	0	0	0
<b>Social Services</b>							
Legislative Changes	205	0	205	To cover additional burdens on the authority due to changes in legislation eg Deprivation of Liberties Standards	0	0	0
Social Services Fund	220	-220	0	As part of the reserves review £220k has been transferred to the School Investment Strategy reserve.	0	0	0
Social Services Plan	4,193	-168	4,025	To support the approved Social Services Budget Reduction Programme.	1,950	980	330
Social Services Pressures	1,668	0	1,668	To cover short term childrens placements which have a high cost e.g. remand, that cannot be accommodated within the current operational budget.	1,418	1,168	918
Grant Exit Strategy	415	0	415	To pay potential redundancy costs if Welsh Government grants were discontinued	415	0	0
Youth Offending Service	70	-50	20	To assist with funding of building works, upgrade software and assist with potential funding reductions. As part of the reserves review £50k has been transferred to the School Investment Strategy reserve.	20	20	20
<b>Visible &amp; Housing</b>							

**VALE OF GLAMORGAN**

**ANALYSIS OF RESERVES**

Name	Bal	Est	Est Bal	Comments	Est Bal	Est Bal	Est Bal
	31/03/14 £,000	Mov'nt £,000	31/03/15 £,000		31/03/16 £,000	31/03/17 £,000	31/03/18 £,000
<b><u>Housing Revenue Account</u></b>	6,406	-3,514	2,892	The fund is ring fenced by statute for use by the Housing Revenue Account.	2,573	641	654
<b><u>General Reserves</u></b>							
Council Fund	13,960	-2,500	11,460	The working balance of the Authority can be used to support General Fund expenditure or to reduce the Council Tax.	8,960	7,460	7,460
<b><u>Specific Reserves</u></b>							
<b><u>Learning and Schools</u></b>							
Excluded Pupils	123	-10	113	This is to support schools whose finances have been detrimentally affected by excluded pupils.	93	73	53
School Invest to Save	180	145	325	The reserve is used to support the Voluntary Early Retirement and Redundancy scheme as part of the Schools saving programme.	245	200	200
Union Duties	39	-39	0	As part of the reserves review £39k has been transferred to the School Investment Strategy reserve.	0	0	0
Schools Rationalisation and Improvements	934	-215	719	This reserve will meet the costs of school restructuring and reorganisation and support schools in the improvement of their teaching and learning facilities. £300k per annum has been ringfenced within the reserve to assist schools in the capital loans scheme.	601	568	555
Sports Facilities	114	-114	0	As part of the reserves review £114k has been transferred to the School Investment Strategy reserve.	0	0	0
Library Fund	171	0	171	To facilitate the refurbishment of library buildings and other service enhancements. This fund enables projects to matchfund the CyMAL grant.	0	0	0
<b><u>Learning and Schools (cont'd)</u></b>							
Adult Community Learning	240	-63	177	To finance future funding deficits as a result of Welsh Government reductions.	0	0	0

**ANALYSIS OF RESERVES****VALE OF GLAMORGAN**

<b>Name</b>	<b>Bal 31/03/14 £,000</b>	<b>Est Mov'nt £,000</b>	<b>Est Bal 31/03/15 £,000</b>	<b>Comments</b>	<b>Est Bal 31/03/16 £,000</b>	<b>Est Bal 31/03/17 £,000</b>	<b>Est Bal 31/03/18 £,000</b>
Heritage Coast	39	-8	31	Income received from visitors which is used to fund general projects and to match-fund expenditure incurred by the Friends of the Heritage Coast.	26	21	16
Council Workshop	29	0	29	To be used in respect of future works on Council workshops.	0	0	0
Coastal Works	900	0	900	To assist in the ongoing liabilities that will arise following the coastal developments in the Vale.	790	680	680
Employment Training	35	0	35	To assist with phasing of receipts for the Employment and Training Services contract (Work Programme)	0	0	0
<b>Managing Director</b>							
Human Resources	197	-197	0	As part of the reserves review £197k has been transferred to the School Investment Strategy reserve.	0	0	0
Asset Management Plan	150	-150	0	As part of the reserves review £150k has been transferred to the School Investment Strategy reserve.	0	0	0
IT Improvements	125	-125	0	As part of the reserves review £125k has been transferred to the School Investment Strategy reserve.	0	0	0
Property	131	-11	120	To fund the replacement of IT/equipment and consultancy costs.	95	95	95
Flexitime	23	-23	0	As part of the reserves review £23k has been transferred to the School Investment Strategy reserve.	0	0	0
Internal Audit	90	-90	0	As part of the reserves review £90k has been transferred to the School Investment Strategy reserve.	0	0	0
Exch/Revenue/H.Ben	283	0	283	To finance Department of Works and Pensions projects and equipment.	193	193	193

**Managing Director cont'd**

**ANALYSIS OF RESERVES****VALE OF GLAMORGAN**

Name	Bal	Est	Est Bal	Comments	Est Bal	Est Bal	Est Bal
	31/03/14	Mov't	31/03/15		31/03/16	31/03/17	31/03/18
	£,000	£,000	£,000		£,000	£,000	£,000
Visible Services	4,924	-786	4,138	To be used for initiatives to improve Visible Services, including Parks and Highway services and potential costs of collaborative waste disposal initiatives.	2,612	1,990	1,382
Jenner Park	795	-50	745	To provide funds for improvements at Jenner Park Stadium	0	0	0
Bad Weather Reserve	431	-50	381	To fund necessary works during periods of severe weather conditions.	331	281	231
Feasibility Study	5	-5	0	Reserve used.	0	0	0
Building Services Improvement	158	-63	95	Monies set aside for improvements to the Building Services department.	50	50	50
Rural Housing Needs	88	0	88	Funding required to fill gap identified by Welsh Government	0	0	0
Housing General Fund	8	0	8	Contribution for a prison leavers housing adviser.	0	0	0
<b>Development</b>							
Regulatory Improvements	871	-81	790	Monies set aside for Licensing, Gaming and Health, Safety issues and private housing issues and to be used for any future issues arising from the shared services collaboration.	690	590	490
Disabled Facilities	320	-100	220	To fund increased cost of Disabled Facility Grants due to additional Occupational Therapist post speeding up approvals	0	0	0
Temporary Empty Homes Officer	135	-45	90	To be used for 2 year appointment of Empty Homes Officer.	45	0	0
Urban Development Plan	206	-32	174	Set aside for potential additional costs relating to the production of the Local Development Plan.	0	0	0
Rural Development Plan	35	14	49	To be used in connection with the Plan and as matchfunding for grants.	25	25	25
Development	250	-220	30	Monies set aside to cover various commitments within the Directorate, including the Planning files scanning project	0	0	0
Building Control	87	0	87	Reserve set aside to fund any future deficits on Building Control Trading Account.	87	87	87
Regeneration Fund	1,457	0	1,457	To fund various regeneration schemes in the Vale, including committed capital schemes	807	357	357
<b>Development cont'd</b>							

**ANALYSIS OF RESERVES****VALE OF GLAMORGAN**

Name	Bal	Est	Est Bal	Comments	Est Bal	Est Bal	Est Bal
	31/03/14	Mov't	31/03/15		31/03/16	31/03/17	31/03/18
	£,000	£,000	£,000		£,000	£,000	£,000
Corporate Governance	338	0	338	This reserve has been set aside in respect of local government governance and development issues e.g. collaboration, mergers and support for the reshaping agenda. The fund is also a useful contingency provision for improvements required urgently e.g. as a result of an inspection report.	263	188	113
Single Status	50	-50	0	As part of the reserves review £50k has been transferred to the School Investment Strategy reserve.	0	0	0
Early Retirement	1,761	-725	1,036	Used to finance the cost of early retirement as a result of the Reshaping Service Programme. As part of the reserves review £725k has been transferred to the School Investment Strategy reserve.	936	836	736
Events	593	-150	443	To provide funds to promote the Vale of Glamorgan particularly in respect of tourism and economic development.	293	143	0
Shops	116	-50	66	To be used to carry out Council owned shop improvements	0	0	0
Insurance Fund	669	0	669	To fund potential claims on the Authority.	669	669	669
Energy Management Fund	218	65	283	Energy saving schemes initially funded from this reserve and services make repayments to the fund once savings are achieved.	308	298	302
<b>Capital</b>							
Computer Renewal Fund	4,476	-93	4,383	Set aside to meet the costs of replacement and renewal of computer hardware and software, telecommunication systems and infrastructure.	3,820	3,657	3,357
Capital Scheme Commitments	2,098	-2,098	0	Reserve used.	0	0	0



**VALE OF GLAMORGAN**

**ANALYSIS OF RESERVES**

Name	Bal	Est	Est Bal	Comments	Est Bal	Est Bal	Est Bal
	31/03/14	Mov't	31/03/15		31/03/16	31/03/17	31/03/18
	£,000	£,000	£,000		£,000	£,000	£,000
Welfare Reforms	963	-500	463	To fund pressures on the Authority resulting from changes to the Welfare Benefit System. As part of the reserves review £500k has been transferred to the School Investment Strategy reserve.	463	463	463
Legal	529	-119	410	To fund purchase of hardware, software and general equipment and to provide for external counsel fees. As part of the reserves review £100k has been transferred to the School Investment Strategy reserve.	350	350	350
Trainee Appointments	389	0	389	To fund the appointment of trainees and interns to support the Reshaping Service programme.	289	189	89
Freedom of Information	14	-14	0	To contribute to the Freedom of Information officer costs. As part of the reserves review £9k has been transferred to the School Investment Strategy reserve.	0	0	0
Legal Claims	1,870	0	1,870	To fund future legal cases and judicial reviews.	1,870	1,870	1,870
Print Room	41	-41	0	As part of the reserves review £41k has been transferred to the School Investment Strategy reserve.	0	0	0
Corporate and Customer Services	748	-125	623	To fund the purchase of hardware, software and equipment and to fund a public opinion survey.	573	523	473
Communications/ Exhibitions	67	-67	0	As part of the reserves review £67k has been transferred to the School Investment Strategy reserve.	0	0	0
Active Citizenship	7	-7	0	Reserve used	0	0	0
<b>Corporate</b>							
Election Expenses	180	0	180	Set aside for the Council Elections.	180	180	0

**VALE OF GLAMORGAN****ANALYSIS OF RESERVES**

Name	Bal	Est	Est Bal	Comments	Est Bal	Est Bal	Est Bal
	31/03/14	Mov'nt	31/03/15		31/03/16	31/03/17	31/03/18
	£,000	£,000	£,000		£,000	£,000	£,000
School Investment Strategy	5,612	2,168	7,780	To be used to fund schemes identified as part of the Schools Investment Programme. As part of the reserves review £3.5m has been transferred into this reserve from other specific reserves.	5,010	3,849	3,065
Capital Fund	288	0	288	To assist in funding future capital commitments	0	0	0
Project Fund	5,432	-1,188	4,244	This fund is to be used to finance capital and revenue projects, with repayment of such advances being credited back to the fund.	2,660	2,320	2,280
Council Building Fund	7,083	-2,072	5,011	The fund is available in respect of repairs and maintenance of Council Buildings. As part of the reserves review £1m has been transferred to the School Investment Strategy reserve.	4,090	3,660	3,535
Repairs and Renewals Vehicle	1,963	256	2,219	This fund is primarily for the replacement of plant and vehicles. Vehicles are purchased from the fund with an equivalent "rental" amount reimbursing the fund.	2,141	2,141	2,141
<b>TOTAL SPECIFIC RESERVES (excl HRA)</b>	<b>56,315</b>	<b>-7,864</b>	<b>48,451</b>		<b>34,408</b>	<b>28,714</b>	<b>25,125</b>
<b>School Balances</b>							
School Balances	3,241	-1,531	1,710	These are the end of year balances retained by individual schools. They can only be used by the particular school under the Statutory LMS framework. Movements are as and when required by each school.	710	710	710
Schools Long Term Sickness	696	-196	500	To fund potential long-term sickness costs.	300	300	300
<b>TOTAL SCHOOLS RESERVES</b>	<b>3,937</b>	<b>-1,727</b>	<b>2,210</b>		<b>1,010</b>	<b>1,010</b>	<b>1,010</b>