

# Local Government Association briefing

## Local authority reserves

### March 2018



On 27 February 2018 council funding was discussed at Treasury Questions. The amount of money local authorities' hold in their reserves was debated as part of this session.<sup>i</sup> This briefing sets out the LGA's key messages on the subject and our analysis which is based on the Ministry for Housing, Communities and Local Government data.

### Key messages

- Local authority reserves have been subject to debate in Parliament. Critics of local government have suggested that the funding challenge facing councils could be resolved if we drew down on our £23 billion of reserves.
- The £23 billion figure quoted for local authority reserves includes councils, fire authorities, schools, national parks, the Greater London Authority (GLA) and combined authorities. Councils do not have control over the entirety of this money as for example schools reserves can only be used by the schools that have put the reserves aside. Therefore any decision on them will be down to each school's governing body.
- Councils' own reserves are, in fact, much less, at £16.7 billion. Of this £13.3 billion is ring-fenced or earmarked for specific projects and to cover known liabilities. This leaves £ 3.4 billion of general and unallocated reserves that can be used to cover any unexpected events and to protect councils' financial integrity.

# Briefing

### Further information

#### Local authority reserves

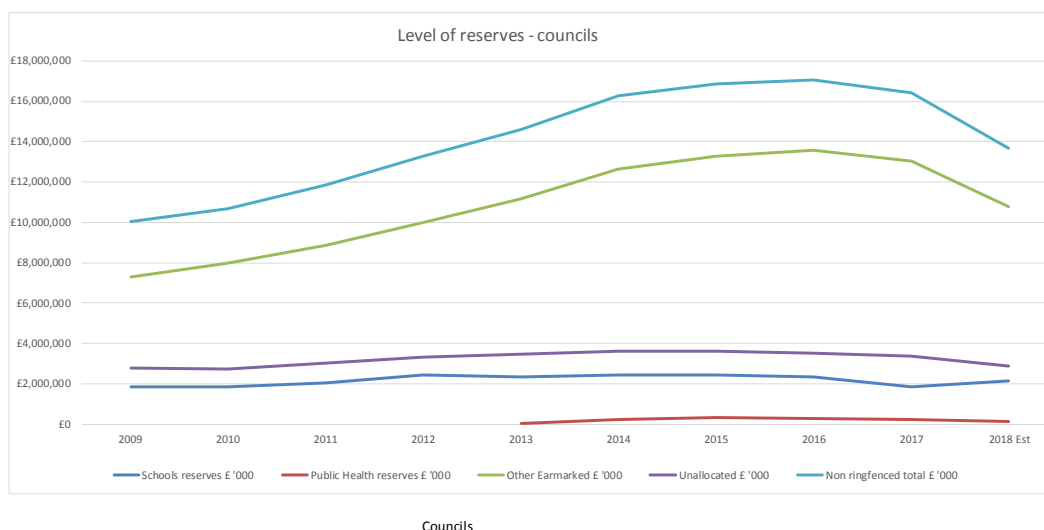
Set out in the below table is a summary of the published figures for reserves as at 31 March 2017.<sup>ii</sup>

All figures £ milion				
	Total	Schools	Total	Total
	Councils		Other bodies	England
				(Councils plus other)
Schools reserves		1,839	0	1,839
Ringfenced Public health reserves	246		0	246
Other earmarked financial reserves	13,040		3,779	16,818
Unallocated financial reserves	3,382		812	4,194
	16,668			23,097

#### Level of reserves

The below table shows that the amount of reserves being held by local authorities peaked in 2015/16 and has been declining since. It shows that in 2009 the total reserves

held by councils was £10 billion, in 2015 it was £17.2 billion and in 2017 it had fallen to £16.7 billion. This is a consequence of the financial challenges faced by local government<sup>iii</sup>.



## Purpose of reserves

In accordance with CIPFA guidance, earmarked reserves are held for a number of purposes:

- Sums set aside for major schemes such as capital developments or asset purchases.
- Insurance reserves.
- Reserves of trading and business units.
- Reserves retained for service department use.
- Reserves for unspent revenue grants.

The nature and purposes of these reserves means that from year to year funds will flow in and out as projects progress, grants are received, insurance costs are incurred and on the other hand capital receipts are set aside for future capital investment, insurance funds are topped up to prudent level or authorities seek to set aside funds which will allow them to invest to generate future revenue savings. Some authorities will have accumulated reserves as part of a plan to ease future budget reductions and to allow longer term savings to come to fruition. However, it is not a proper use of reserves to just draw down to support revenue budgets with no clear plan for how the gap will be bridged in future years when reserves are no longer available.

<sup>i</sup> Treasury Questions, Hansard, available at: <https://hansard.parliament.uk/commons/2018-02-27/debates/345BE9FD-3B07-4F8D-99A7-9516637AD67E/LocalAuthorityFunding>

<sup>ii</sup> Ministry of Housing, Communities and Local Government, *local authority revenue and expenditure*, available at: <https://www.gov.uk/government/collections/local-authority-revenue-expenditure-and-financing>

<sup>iii</sup> LGA analysis of Ministry of Housing, Communities and Local Government, *local authority revenue and expenditure*, available at: <https://www.gov.uk/government/collections/local-authority-revenue-expenditure-and-financing>