



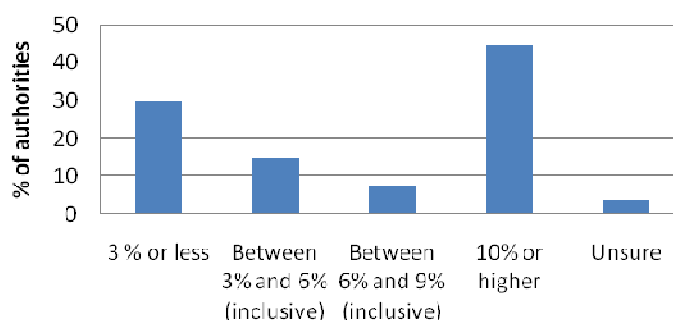
1 April 2009

Survey: Current Picture of Council Reserves

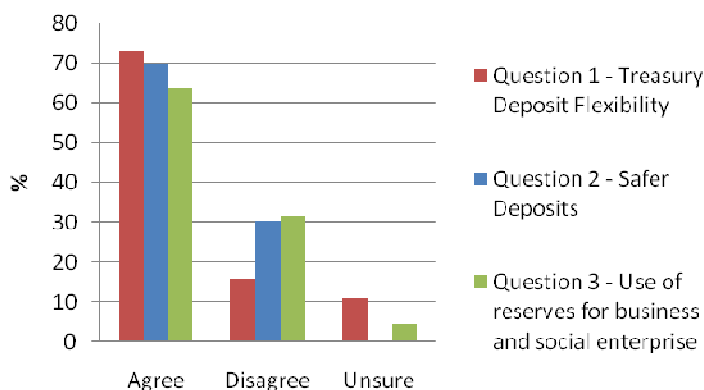
We surveyed 80 representatives from across Local Authority finance departments over a period of approximately 3 weeks until the 23rd February 2009. From our survey, assuming the results played out across the rest of England, we estimate that there is £11.6bn currently available in total reserves, £2.2bn (19%) of which is currently unallocated.

As we can see from Graph 1, over 40% of all authorities surveyed hold more than 10% of their gross budget in reserves, and 30% hold less than 3%. This graph represents total reserves as they stand at the time of surveying.

Graph 1: Proportion of Gross Budget held as Reserves



Graph 2: Importance of the Following Uses of Reserves:



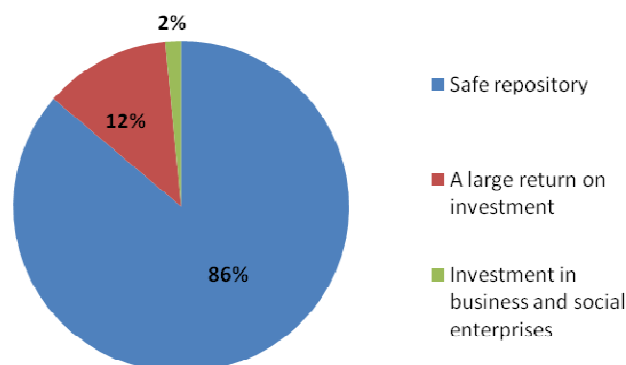
We also asked respondents to give their opinions on the best use of reserves (see graph 2). Over 70% of people agreed that greater flexibility should be given to Local Authorities with reserves deposited with the Treasury. This could include, for example, an extension of the time period a deposit could be made. Also, 70% agreed that there was a need for a safer place to deposit a proportion of their reserves. More interestingly though, over 60% of respondents thought that reserves should be used to stimulate small businesses and social enterprises in their local area.

However, when asked to prioritise the most important use of reserves (Graph

3), 86% of people thought that a safe repository was the most important factor, 12% thought that a large return on investment was most important, and only 2% thought that investment in small businesses and social enterprises was most important.

Until the Icelandic banking collapse of 2008, there was little reason to doubt that Local Authority reserves were safe. However, since then, many authorities have begun to question whether funds need to be located elsewhere in order to ensure that there is an element of protection. This led to the idea floated by a number of Authorities that a mutual fund be set up to support local initiatives. However, the full scope of this must be

Graph 3: The first priorities for the use of reserves



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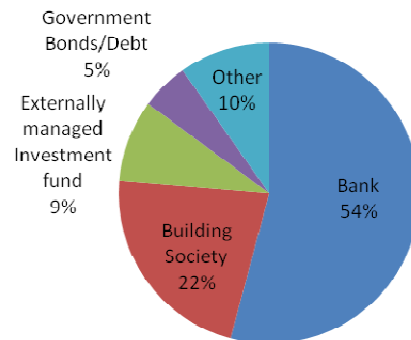
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fully articulated before proceeding.

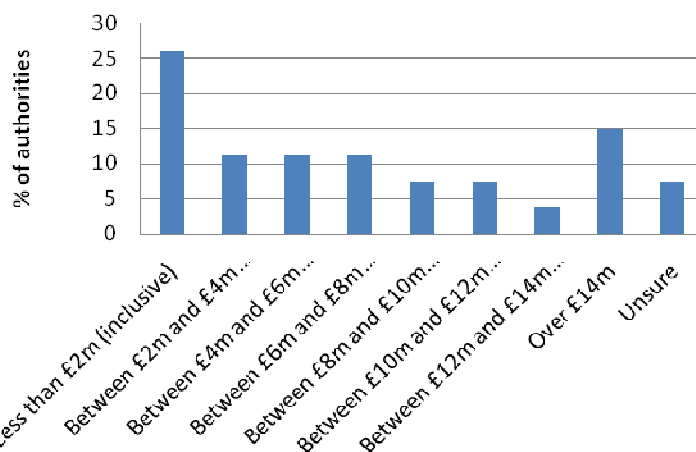
However, a number of Local Authorities are exploring the idea of using their excellent credit ratings to provide financial support to businesses and initiatives in their local area, thereby bypassing the need for cash reserves. There is no doubt that there is an increasing demand for Councils to be far more innovative with their finances in the current climate, and potentially beyond.

The current picture according to our survey estimates that 54% of reserves are currently held in commercial banks (see graph 4). Obviously, if one of the primary aims of holding reserves in banks was to ensure a decent proportion of safe reserves—Local

Graph 4: Location of Local Government Reserves



Graph 5: Local Government unallocated reserves



Authorities should be looking to manage their funds very wisely, and look to diversify where possible. The survey showed us that most Councils do this already.

The timescales of investment and levels of unallocated funds vary between Authorities. As we can see from graph 5, almost 25% of authorities hold less than £3million in unallocated reserves, but 15% actually hold more than £14million.

There are obviously differences between the way that authorities manage their finances. We can see from graph 6 that different types of authority invest different proportions of their unallocated reserves. County Councils hold 25% unallocated reserves compared to only 15% in

Unitaries. However, this needs further exploration as our data does not allow us to extrapolate sufficiently across the country.

In conclusion, there is not a single approach for the best use of reserves for all Councils, or a single best financial strategy. However, we will be making some recommendations and policy proposals in the coming months on how Local Authorities can stimulate growth and wider improvement of local areas, focussing on innovative long-term financial products and sensible risk management than current systems allow.

Graph 6: Ratio of unallocated reserves to total reserves

