The Chartered Institute of
Public Finance & Accountancy

CIPFA

CIPFA Financial Resilience Index

(December) 2022

Executive summary

CIPFA Resilience Index shows local authority reserves have grown but the medium term outlook remains uncertain and risky.

The December 2022 Financial Resilience Index, from CIPFA, shows that English local authority reserves have grown to £31bn – up from £29bn in 2020-21. The index pulls together publicly available data on a range of financial health indicators into a single dashboard.

However, the increase in reserves does not show the full picture. In the 2021-22 financial year, central government made grants to councils to be used over more than one year (including COVID grants to local businesses). A large part of these increased reserves will have been earmarked for distribution in 2022-23. In total, £27bn worth of reserves across English local authorities have already been earmarked, with only £4bn unallocated.

In addition, many councils will be using these reserves during the current year to fund the unforeseen additional costs of inflation and energy increases as well as additional demand for services since their budgets were set in March 2022.

Reserves are an important dimension of resilience; but not the only one. The Resilience Index also includes indicators of financial standing; the predictability, buoyancy and diversity of income streams; cost and demand pressures and management and governance judgements of auditors and regulators.

While the short-term picture based on the increases in reserves may appear sustainable, we remain concerned about the medium and long term outlook for local government finances, which largely remain uncertain and risky.

A significant proportion of council budgets are spent on social care services (for both adults and children)with amounts still increasing within certain types of authority. Interest payments (to fund borrowing and capital expenditure) continue to place financial pressure on other council services with increases evident in parts of the sector.

The lasting impact of COVID and inflationary pressures on council finances remains to be seen but the wider resource base still needs reform. Short term increases in reserves should not detract from the much needed focus on the longer term financial health of local authorities.

Continuing delays in the implementation of the government's long planned reforms to fair funding, business rates and social care and significant uncertainties about public spending beyond 2025 exacerbate risk and uncertainty and are likely to increase the need to hold reserves to strengthen financial resilience.

In order to reduce reserves, longer term funding settlements for local authorities would be needed and it is perhaps no coincidence that the last time total reserves fell (in 2016-17) it followed the introduction of four year financial settlements for local authorities.

77 Mansell Street, London E1 8AN
+44 (0)20 7543 5600

The Chartered Institute of Public Finance and Accountancy.
Registered with the Charity Commissioners of England and Wales No 231060
Registered with the Office of the Scottish Charity Regulator No SC037963.

www.cipfa.org/

01/2023