

Local Government Finance Debunked

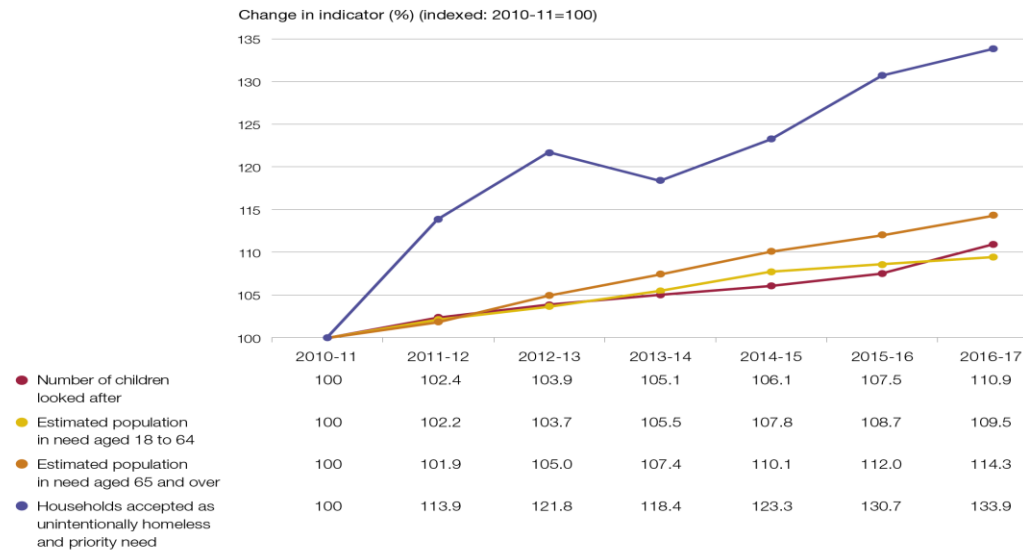
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Key issues

- Scarcity!
- Choices!

Figure 4
Change in demand in key local authority service areas in England

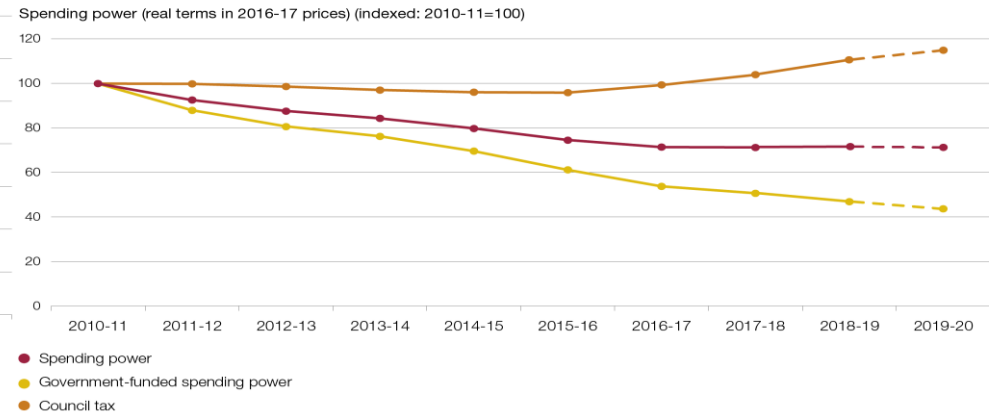
There has been growth in actual or potential demand in a range of core service areas



Source: National Audit Office analysis of departmental data. See standalone methodology

Figure 1
Estimated change in spending power of local authorities in England, 2010-11 to 2019-20

Previous reductions in spending power have largely levelled off but this is a combination of ongoing reductions in government funding and anticipated increases in council tax



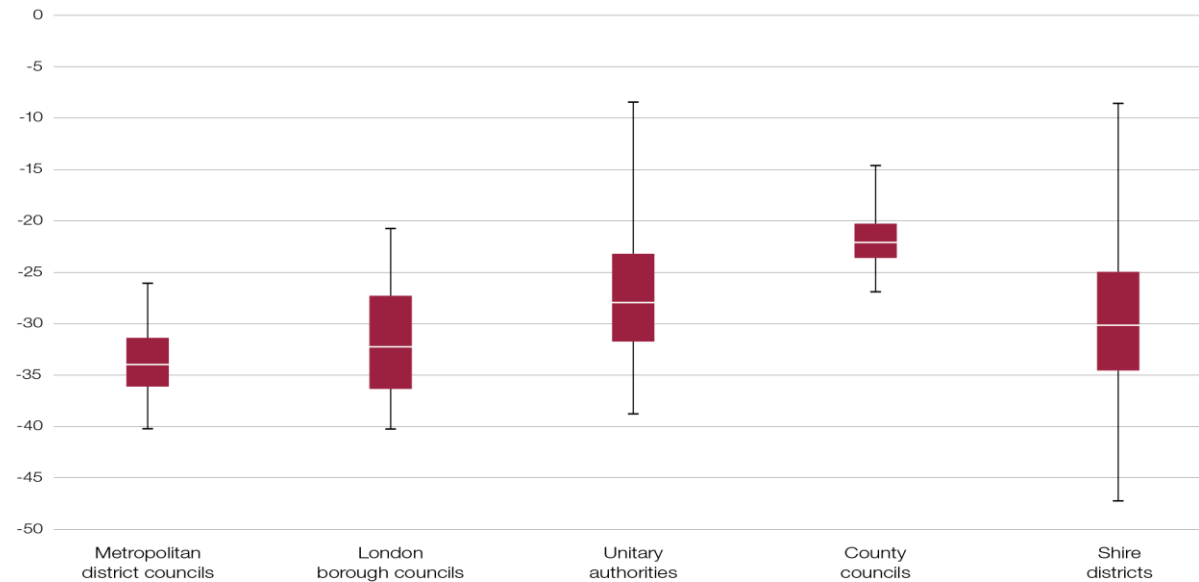
Spending Power

Figure 2

Change in spending power by type of local authority in England, 2010-11 to 2017-18

There is variation in the level of reductions in spending power both between and within different local authority types

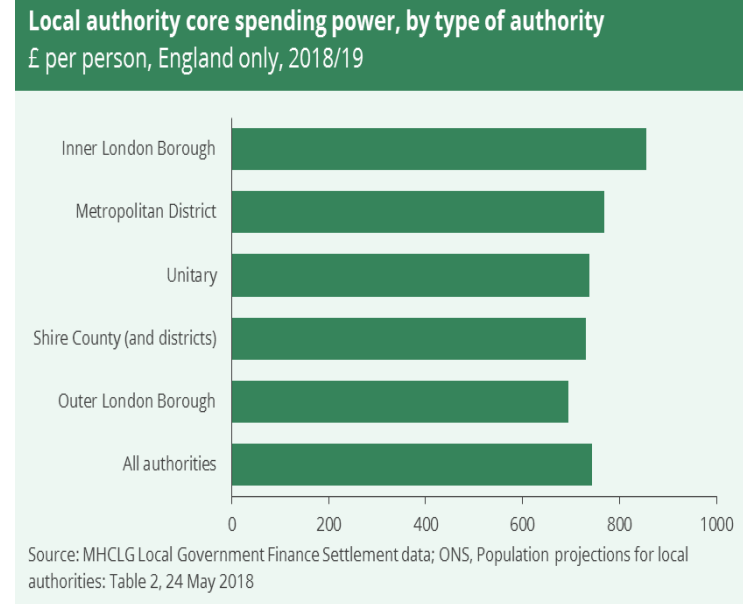
Change in spending power 2010-11 to 2017-18 (%) (real terms)



Note

1 The white line in the centre of each block shows the median. The top and bottom of each block show the upper and lower quartiles respectively. The top and bottom error bars show minimum and maximum values respectively.

Source: National Audit Office analysis of Ministry of Housing, Communities & Local Government data. See standalone methodology



Expenditure & income

Revenue (day to day expenses)	
Providing services Paying benefits Repaying debt and interest	Government grants Business rates Council tax Charges for services Investment income
Capital (things that last)	
Buildings Land Infrastructure Vehicles Plant & machinery	Grants Capital receipts Borrowing Developer contributions / planning gain

“Ringfencing”



- Some funding can only be used for specified purposes
 - Some grants e.g.. Dedicated Schools Grant
 - Council Housing rents
 - Income from parking fines
 - Public Health

Local authorities have financial status

- Power of general competence
- Tax raising powers (to a point)
- Power to borrow (prudently)
- Power to invest (sensibly)
- Fiduciary and statutory duties

Financial duties on the council

- Provide 'Best Value'
- Set a balanced budget each year
- Set a prudent level of borrowing
- Maintain adequate reserves
- Establish a system of internal controls
- Publish accounts
- Be transparent about spending – publish details

Reserves

- Councils (unlike eg NHS Trusts) are allowed to hold reserves
- Reserves are (what everyone else calls) savings
- Councils need reserves
 - To manage risk
 - To set funding aside for future projects
 - Simply to carry money forward
- Money in reserves is someone's taxes locked away

Borrowing and lending

- Councils can borrow for capital purposes
- Borrowing has to be ‘affordable, sustainable and prudent’
- Councils may not borrow ‘ahead of need’.

- Councils may invest/ lend surplus funds
- Investment must take account of security, liquidity & yield (in that order)
- Money market speculation is banned

Financial governance

- **Audit Committee**
 - Independently chaired
 - Approves the annual accounts
 - Receives internal & external audit reports
- **External Audit**
 - Independent firm of auditors
 - Audits the councils accounts
 - Tests governance arrangements
 - Provides a value for money judgement
 - Investigates matters in the public interest
- **Statutory Finance Officer**
 - 'Section 151' e.g. 'Director of Finance
 - Usually head of finance function providing:
 - Effective financial advice to councillors and officers
 - Organising & maintaining a sound system of financial governance & control
 - Ensuring the council follows all of its legal duties in financial matters.
- **Internal Audit**
 - Provides assurance on internal control processes and procedure through independent reviews
 - Function could be in-house, by a private company or in partnership

The Councillor's Role

- Make sure money is used wisely and well - priorities and outcomes.
- Full council sets council tax and 'budget and policy framework', borrowing and investment policies
- Cabinet proposes budget to council
 - Scrutiny has a pre-decision role
 - Role of political groups
- Officers manage the budget, members scrutinise financial decisions and monitor impact.
- Good practice to have a 3-5 year plan.
- Receive audit reports.

Government Spending Review

Fair Funding
Review



Business Rates
Retention

Local Government
Finance Settlement

Questions?



Table Task: Revenue or Capital expenditure?

1. Filling in a small pot-hole in a council car park?
2. Re-surfacing the entire car park?
3. The annual cost of the council's refuse collection contractor, who operates the service under a seven-year contract?
4. Adding webcasting equipment to the council chamber costing £50,000?
5. Redundancy costs of officers as part of a re-structuring programme?

Answers

1. Filling in a pot-hole in a council car park? **Revenue as it is repairs.**
2. Re-surfacing the entire car park? **Capital as it improves the asset.**
3. The annual cost of the council's refuse collection contractor, who operates the service under a seven-year contract? **Revenue as refuse collection is an on-going regular service.**
4. Adding webcasting equipment to the council chamber costing £50,000? **Capital expenditure as the cost is almost certainly above the council's de-minimis limit.**
5. Redundancy costs of officers as part of re-structuring programme? **It depends! Redundancy costs are staff related and so revenue, but if the re-structure is agreed to be a transformation project then capital resources can be used.**