

Local Government Finance

(without numbers)

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Coverage

- Members role in finance
 - How finance decisions are made
 - Some key financial issues and terminology
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Local authorities have financial status

- Between us spend over £100bn in public money each year
 - Councils have lots of powers - and these have changed over time
 - *But* also heavily regulated by central government through legislation – some new, some old
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Local authorities powers (1 of 2)

- Tax raising:
 - Controlled through Local Govt Act 1992
 - Council Tax
 - Billing authorities and Precepting authorities
 - Business Rates
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Local authorities powers (2 of 2)

- Localism Act 2011
 - Power of general competence
 - Council Tax referendum
 - Borrowing
 - Prudential code
 - Power to invest
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Overarching responsibilities of elected members

Stewardship	Responsible and careful management of public money, assets etc.
Fiduciary responsibility	Relationship of trust with stakeholders eg taxpayers and service users

For those with a governance role..... there is a responsibility for overseeing the strategic direction of the council and obligations related to accountability

A fiduciary role



Pay attention to your CFO's Section 25 report at budget setting time

A few weird things...

- Revenue and capital
 - Gross and net
 - Ringfencing
 - ‘Unusable’ reserves
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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 Revenue (see above)

Gross and Net

- Gross budget = **includes** all specific grants, fees & charges, use of reserves
 - Net budget = **excludes** income from specific grants, fees & charges, use of reserves
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“Ringfencing”



Some funding can only be used for specified purposes

- Some grants e.g. Dedicated Schools Grant
- Council Housing rents (separate Housing Revenue Account)
- Income from parking fines

Reserves

- Councils are allowed to hold reserves
- Reserves are money set aside for a future purpose
- 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

Ask for: a list of your authorities reserves and why they are held

“Unusable reserves”

- The council’s balance sheet shows something called ‘unusable reserves’.
 - Not backed by cash income
 - Non-cash items e.g. changes in valuation of assets
 - So not allowed to spend them
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Budget setting

Allocation of resources to priorities

- Full Council sets Council Tax and 'budget and policy framework'
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- Executive (administration) proposes a budget to the Council
- Scrutiny often has a pre-decision role
- Officers manage the budget
- A balanced budget must be set each year
- Essential to have a 3-5 year (medium term) financial plan

Ask for:

Annual Budget and Medium Term Financial Plan/ Strategy

Statutory Finance Officer

- Chief finance officer or ‘Section 151’
- eg ‘Director of Finance’ / ‘Director of Resources’
- Usually the head of the council’s finance function and central in providing:
 - Effective financial advice to councillors and officers
 - Organising and maintaining a sound system of financial governance and control
 - Ensuring that the council follows all of its legal duties in financial matters.

Get to know your CFO

Audit Committee

- Committee reporting to Full Council (“those charged with governance”)
 - Oversight of governance, risk management and internal controls
 - Receives audit reports
 - Gives **assurance** that things are working well
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Internal audit

- Various ways to delivery this function, models include: an internal team, a partnership or a private audit firm
- Provides ‘on the ground’ detailed support and challenge
- Reports shared with Audit Committees

Know who your Internal Auditor is

External audit

- Independent firm of auditors
- Audits the councils accounts
- Tests governance arrangements
- Provides a 'value for money' report
- Investigates matters in the public interest

Ask for: Annual Audit Letter and 'ISA260' report

The Councillor's Role

- Make sure money is used wisely and well
 - Agree a medium term financial strategy
 - Allocate budgets to services (agree savings)
 - Set Council Tax
 - Set borrowing and investment policies
 - Scrutinise financial decisions
 - Receive audit reports
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Current 'hot potatoes'

- Inflation and cost of living
 - The Government's latest Fiscal Statement
 - Funding reforms:
 - Council Tax and Business rates
 - Social Care
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Key advice

- Finance follows the rules (strategy, planning, delivery, monitoring, reporting)
- “It’s only adding up and taking away...”
- Jargon abounds – always ask

[See also...](#)

[LGA Councillor workbook: Local government finance](#)

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