

Local Government Finance

(without numbers)

Mannie Ketley, Finance Associate, LGA

Coverage

- Members role in finance
 - How finance decisions are made
 - Some key financial issues and terminology
 - Useful sources of further information
 - **Speak to your Chief Finance Officer (CFO)
for queries on specific numbers**
-

Local authorities have financial status

- Between us spend well 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
-

Local authorities powers (1 of 2)

- Tax raising:
 - Controlled through Local Govt Act 1992
 - Council Tax
 - Billing authorities – *they generate the bills and collect monies*
 - Precepting authorities – they benefit from the CT collected
 - Business Rates
-

Local authorities powers (2 of 2)

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

Financial Reporting / accountability

- Financial year - runs from 1 April to 31 March
- A set of financial statements is produced
- Financial statements are:
 - Often long, complex, hard to understand
 - Refined annually
 - Controlled by guidance from CIPFA, International Financial Reporting Standards (IFRS), central Government
 - Prescriptive about Statements to be included

Your Audit Committee will have some understanding of these statements (but they are very technical)

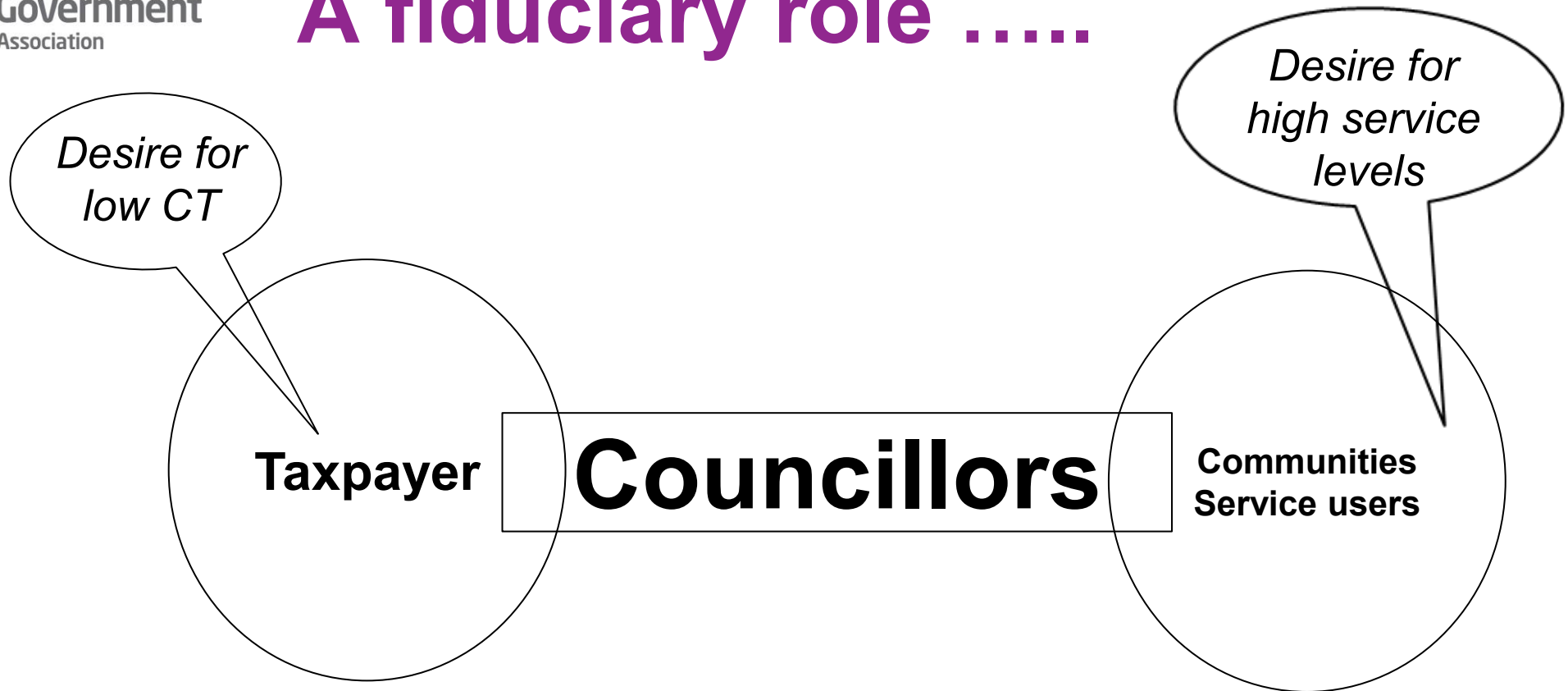
Overarching responsibilities of elected members

All members have a **governance role**.....some more explicit than others

Role is twofold:

Stewardship	Responsible for careful management of public money, assets etc. – ie ensuring sound controls, transparency, openness
Fiduciary responsibility	Responsibility to use public money responsibly – i.e. only agreeing to spend money lawfully, obligation to consider short and long term implications

A fiduciary role



- Must look beyond immediate year
 - Consider capital and revenue decisions
 - **Pay attention to your CFO's Section 25 report at budget setting time, have a look at the one from earlier this year.**
-

Sources of funding

- Council Tax
 - Business Rates
 - Fees and Charges
 - Grants – general and service specific
 - Contributions from reserves – ringfenced or general reserves
-

A few weird things...

- Revenue and capital
 - Gross and net
 - Ringfencing
 - Useable v 'Unusable' reserves
 - Minimum Revenue Provision (MRP)
-

Revenue v capital

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)

Rule of thumb: cannot use capital income to fund revenue spend

Gross and Net

- **Gross budget = Total expenditure excluding any income offsets**
 - **Net budget = Gross budget net of fees & charges and service specific grants**
 - **Net budget is then financed from Council Tax, Business Rates, General Grants and any contributions from reserves to enable a legally balanced budget to be set.**
-

“Ringfencing”



Some funding can only be used for specified purposes

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

Usable Reserves

- Councils are allowed to hold reserves: *often known as General Reserve and Earmarked Reserves*
- Reserves result from an authorities activities
- This money can be used in the future
- 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”

- Derive from accounting adjustments
 - Show on an authority's balance sheet
 - Cannot be spent (*since they are not backed by cash income*)
 - Examples:
 - Changes in valuation of assets
 - Pensions reserve
 - Capital adjustment account
-

Minimum Revenue Provision (MRP)

- The minimum amount charged to the revenue account for financing capital expenditure initially funded from borrowing
- Is important for prudent accounting
- Comprises an interest and a capital element
- Is governed by complex rules that are open to interpretation

Your CFO will be able to explain your councils MRP policy

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.
- Legal duties to declare publicly if a balanced budget cannot be set – Section 114

Get to know your CFO

Budget setting

- This is the allocation of resources to priorities
- Full Council sets Council Tax and 'budget and policy framework'
- 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 (Feb/March for the next April)
- Essential to have a 3-5 year (medium term) financial plan
- Must heed the comments made by you CFO (in their Section 25 Report)

Ask for:

Annual Budget and Medium Term Financial Plan / Strategy

Audit Committee

- Sometimes known as:
 - Audit & Governance Committee
 - Audit, Risk and Governance 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
-

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: your Internal Auditor

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
(usually presented to the Audit Committee)

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
-

Current 'hot potatoes'

- Local Government Reorganisation
 - Exceptional Financial Support / S.114 notices
 - Inflation and cost of living (including potential impact of Middle East crisis)
 - Service pressures, e.g. Temp accommodation, Social Care, Home to School transport
 - Implementation of SEND reforms/ DSG deficits
 - Local Audit Reform
 - High Value Council Tax surcharge
-

Key advice

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

Useful sources of information

[Finance Unpacked | Local Government Association](#)

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

Contact details

- First contact: your Chief Finance Office
 - Any queries about support that the LGA can provide, contact them on:
financeimprovement@local.gov.uk
-