

Financial Management- an explanation of Local Government Finance

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Aims of this training

By the end of the training you should be able to understand:

- key financial terms
- the financial constraints that the Council is under and how to deliver financial sustainability
- the annual financial management cycle- how you contribute

Contents

- Key terms
- How we are funded, some history and future funding projections
- Financial sustainability
- Roles and responsibilities
- The financial cycle

Key terms

- Revenue versus Capital
- General Fund reserve and other reserves
- Accruals, matching, creditors, debtors
- Provisions
- De minimis
- Variance, overspend, underspend and slippage
- Virements
- (Housing Revenue Account)

QUESTION

- Where does the Council get its Revenue funding from?

Revenue Funding

- Council Tax
- Retained Business Rates/ Revenue Support Grant (RSG)
- New Homes Bonus
- Specific grants/ contributions

- Sales, Fees and Charges

- Other income- Treasury, Estates and Commercial
- Use of Reserves (can only spend them once)

Reserves

	Balance as at 31st March 2019	Transfers out 2019/20	Transfers in 2019/20	Balance at 31st March 2020	Transfers out 2020/21	Transfers in 2020/21	Balance at 31st March 2020
Earmarked Reserve	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cemetery Mausoleum Reserve	161	(1)	7	167	(2)	10	175
Childrens Services Reserve	7	(2)	52	57	(9)	43	91
Climate Change Grant Reserve	28	(2)	0	26	(1)	0	25
Community Right to Challenge Reserve	45	(45)	0	0	0	0	0
Environmental Warranty Reserve	209	(209)	0	0	0	0	0
Funding Equalisation Reserve	0	0	68	68	0	329	397
Growth Area Fund Reserve	53	0	0	53	0	0	53
Hitchin Museum Donations	0	0	0	0	0	0	0
Homelessness Grants Reserve	262	(59)	210	413	(208)	276	481
Housing & Planning Delivery Reserve	1,142	(168)	95	1,069	(101)	54	1,022
Information Technology Reserve	82	(4)	0	78	(20)	0	58
Insurance Reserve	34	0	0	34	0	0	34
Land Charges Reserve	94	0	0	94	(28)	0	66
Leisure Management Maintenance Reserve	47	0	30	77	(51)	0	26
MHCLG Grants Reserve	1,814	(77)	2,004	3,741	(685)	11,242	14,298
Museum Exhibits Reserve	12	0	1	13	0	1	14
Neighbourhood Plan Reserve	41	(3)	40	78	0	20	98
Office Move IT Works	7	(7)	0	0	0	0	0
Paintings Conservation Reserve	11	0	0	11	0	0	11
Property Maintenance Reserve	72	(72)	0	0	0	0	0
S106 Monitoring Reserve	36	(17)	0	19	(19)	0	0
Special Reserve	1,395	(220)	0	1,175	(432)	0	743
Street Furniture	21	(21)	0	0	0	0	0
Street Name Plates	16	0	0	16	0	0	16
Syrian Refugee Project	115	(182)	339	272	(16)	194	450
Taxi Licences Reserve	13	0	2	15	(8)	0	7
Town Centre Maintenance	45	0	8	53	0	8	61
Traffic Regulation Orders	347	(1)	0	346	0	40	386
Waste Reserve	631	0	99	730	0	19	749
Waste Vehicles Reserve	253	0	301	554	0	359	913
Welfare Reform Grants Reserve	190	(121)	116	185	(122)	521	584
Total Earmarked Reserves	7,183	(1,211)	3,372	9,344	(1,702)	13,116	20,758

	Balance at 1 April 2020	Net Movement in Year	Balance at 31 March 2021
	£'000	£'000	£'000
Usable Capital Receipts	1,941	(808)	1,133
Earmarked Reserves	9,344	11,414	20,758
Capital Grants Unapplied	938	(39)	899
General Fund Reserve	9,378	(513)	8,865
Total Usable Reserves	21,601	10,054	31,655

Council Tax

- Billing and precepting (HCC, PCC, District and Parish)
- Council Tax base and discounts (e.g. SPDs and CTRS)
- Limits on Council Tax increases- 2% or £5 (band D)
- Covering inflation and population (household) increases

Business Rates/ RSG

- Split between Gov't (50%), District (40%), County (10%)
- But also tariffs, top-ups, baselines and safety nets
- Sets how much funding you “need”!
- Rewards growth?
- Mandatory discounts and s31 grants
- Appeals, VOA backlogs and provisions

New Homes Bonus

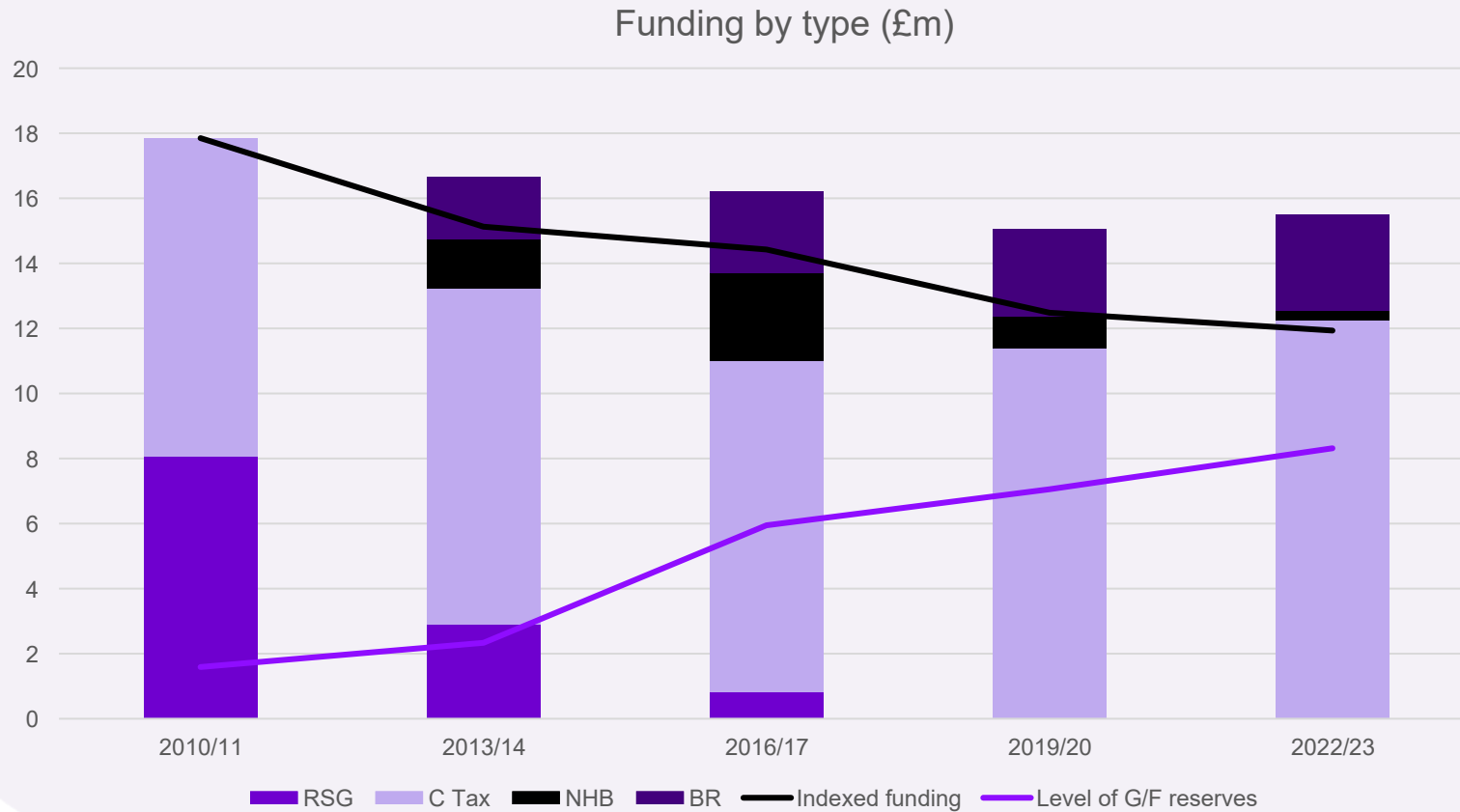
- Reward for new housing (and bringing back in to use)
- 80% District/ 20% County- base amount based on average Council Tax
- Briefly paid for 6 years in full- now 2 years and only on growth above a certain level
- On its way out? A replacement?

POLL

In 2022/23, roughly how much of the Council's funding came from Council Tax?

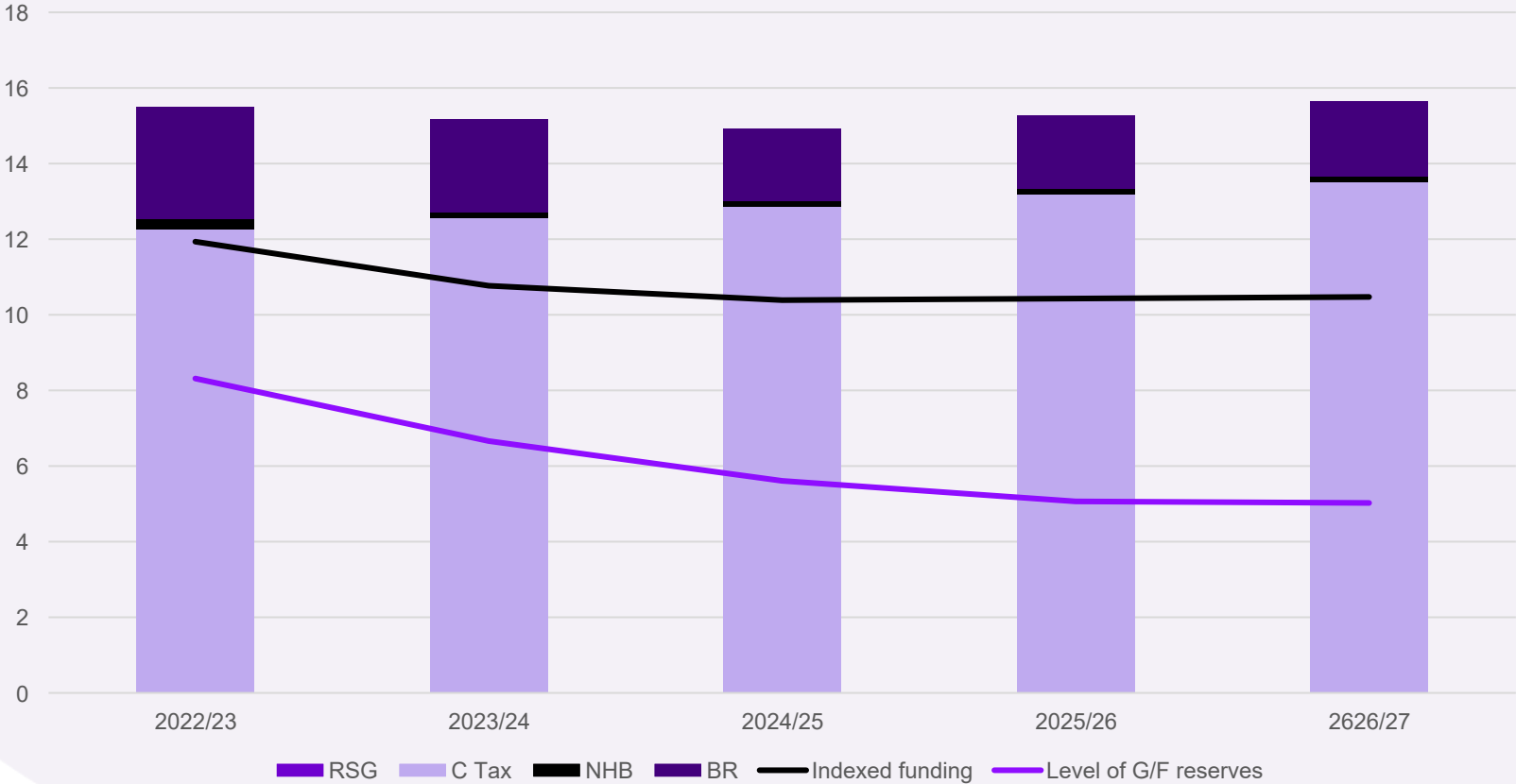
- 20%
- 40%
- 60%
- 80%
- 100%

Some History



The future???

Funding by type (£m)



QUESTION

- Where does the Council get its Capital funding from?

Capital Funding

- Capital Receipts- selling capital assets
- Revenue- can't afford?
- Capital grants
- S106
- Borrowing- internal (against reserves) and external

Revenue cost of capital

- Short-term: funded from capital reserves- impact is lost investment income (increasing towards 1%)
- Medium term- internal borrowing- MRP charge (2.5% over 40 years)
- Long-term- external borrowing- MRP + interest (5% per year)

- New “discretionary” capital- 5% minimum threshold
- MRP spreads the revenue cost- same total cost
- Exceptions to MRP- during construction, clear exit plan

GROUP WORK

Discuss the following questions?

- What is 'financial sustainability'?
- How do we get there?

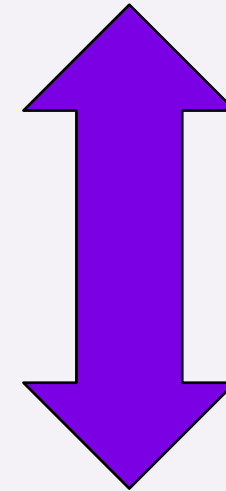
Legal stuff

- LGA 1972 s151- Council responsible for effective financial management, s151 Officer
- LGFA 1988 s114- s151 Officer reports if spend will exceed funding
- LGA 2003- medium term financial strategy, “balanced and robust budget”, “adequate reserves” (s25 report)
- Localism Act 2011- Council Tax referendums
- LGFA 2012- Business Rate retention, localised CTRS

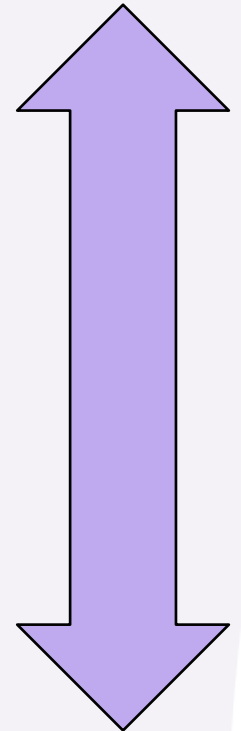
Roles and responsibilities

- Council- set the MTFs and the annual budget (headline detail of how we will spend money and overall responsibility for setting a “balanced budget”)
- Cabinet- responsible for oversight of in-year budget delivery (linked to Council plan delivery) and recommends the budget to Council
- Budget managers- provide services in line with budget (scope and amount), monitor spend/ take action, proposals for future years (+ and -)

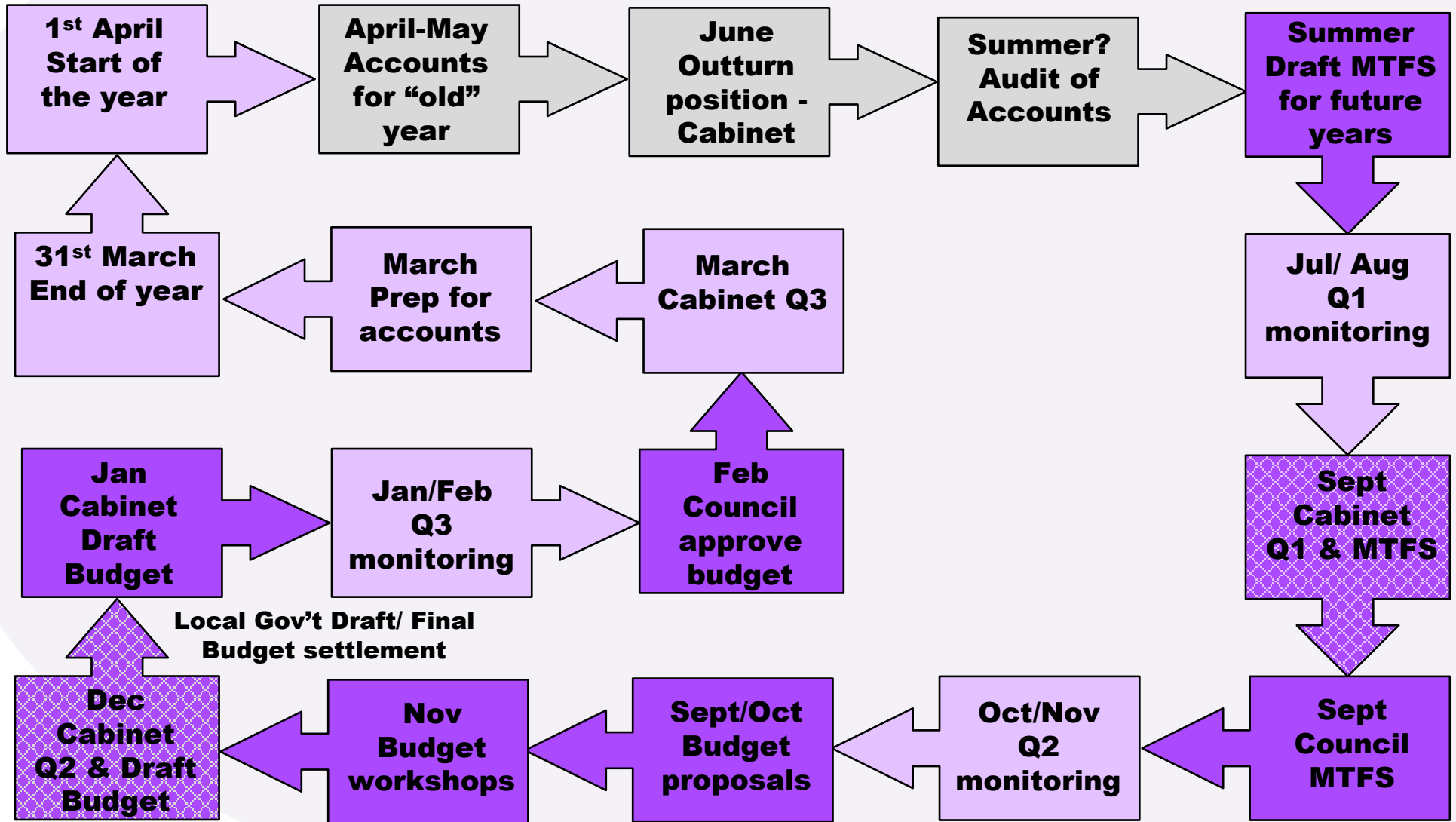
**FAR
“challenge”**



**Finance
support**



Financial cycle



How to set a budget

Current budget

- +/- remove any previous one-off/ short-term impacts
- + cost inflation (pay, contract, increments)
- - sales, fees and charges inflation (CPI +2%?)
- + other things that mean it costs more to deliver the same level of service (e.g. legislative changes)
- + cost of delivering new or additional levels of service (must be linked to Council Plan)
- - efficiency savings, new/ additional income generation
- - service reduction, stopping services (linked to Council Plan)
- +/- effect of changes in specific grant funding

= New year budget

Principles of budget monitoring

- Forecast of estimated spend for the year
- Start with cost of delivering as-is
- If overspend- any changes to bring cost down, virement
- If underspend- any virements needed, not a chance to do something new/ additional
- Consider future year impacts
- What can't be sorted and needs to be reported
- Clear, concise (politically acceptable) explanations

Summary

- Key terms
- How we are funded, some history and future funding projections
- Financial sustainability
- Roles and responsibilities
- The financial cycle

Questions?