

COUNCILLOR ON LINE TRAINING

UNDERSTANDING LOCAL GOVERNMENT FINANCE

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WHAT IS AVAILABLE?

The on-line training materials have been prepared to assist you in developing your information and knowledge base as a Councillor.

The materials cover 7 distinct subject areas of which 'Understanding Local Government Finance' is one. The other materials cover Induction, the Code of Conduct, the Council as an Employer, Understanding the Law, Health and Safety and Diversity and Inclusion.

LET'S GET STARTED

This module is about the 'Understanding Local Government Finance' and it covers the following key elements:-

- ▶ General principles of accounting
- ▶ Accounting and strategy guidance
- ▶ Financial Regulations and Risk Assessment
- ▶ Budgets and precepts
- ▶ Internal and External Audit
- ▶ Insurance
- ▶ Income and Expenditure Powers
- ▶ Other sources of income

PURPOSE OF THE MODULE

To support you in:-

- ▶ Maintaining an effective framework for managing the council's financial resources
- ▶ Understanding the common terms and regulatory framework
- ▶ Understanding the powers and sources of income available to the Council

SOME KEY DEFINITIONS

To start off with, let's examine some key definitions:-

- ▶ The flow of funds – surplus and deficit
- ▶ Receipts, payments and the cashbook
- ▶ Income and expenditure, debtors and creditors
- ▶ Assets and liabilities
- ▶ Budgets, precepts and business plans
- ▶ Audits and accounting practice
- ▶ Insurance and indemnities

Now let's examine each one in more depth.....

THE FLOW OF FUNDS

- ▶ Money will flow into and out of the Council
- ▶ A surplus is when more money comes in than flows out
- ▶ A deficit is when more money flows out than comes in
- ▶ Time periods are important as although monthly deficits may occur this may balance out over the year
- ▶ It is important therefore that the RFO manages the cash flow and makes regular reports to the Council on reported situations

RECEIPTS AND PAYMENTS

- ▶ Planning individual payments and receipts is termed managing the cash flow
- ▶ All receipts and payments must be recorded in the Council's cashbook – the cashbook is possibly the most important accounting record. There is no prescribed format and it can be a notebook, ledger, spreadsheet or a specialist accounting package
- ▶ It is vital that the cashbook is reconciled to bank statements on a regular basis and reported to the Council

INCOME AND EXPENDITURE

- ▶ Councils with receipts or payments of over £200k are required to produce an income and expenditure account at the end of the financial year
- ▶ Income and expenditure accounts match transactions to the period to which they relate
- ▶ Adjustments are made for debtors, creditors, accruals and prepayments (e.g. funds received from a Hall booking might not be received until after the end of the financial year but the amount due must be credited to the year in which the income was due)

ASSETS AND LIABILITIES

- ▶ An asset is something the Council owns which has a financial value e.g. a short term asset is money in the bank whereas a long term asset might be land that the Council owns which cannot be used in the short term for any specific purpose
- ▶ A liability is a promise made to pay for something in the future e.g. repayment of a loan
- ▶ A balance sheet needs to be prepared for Councils with an annual income/expenditure budget of over £200k which records all assets and liabilities
- ▶ It is a good idea for Councils to prepare a business plan covering several years which can be used to plan future expenditure

BUDGETS AND PRECEPTS

- ▶ Approving a budget is a legal requirement (Local Government Finance Act 1992)
- ▶ It should be accurate and well thought out
- ▶ It should reflect the Council's aspirations for the coming year
- ▶ The budget together with an assessment of the level of reserves informs the decision on the level of the precept
- ▶ Precept should be agreed in January each year for submission to the principal council

AUDIT ARRANGEMENTS

- ▶ An audit is a process of checking Council's accounts to ensure accuracy and that they are a fair reflection of the activity undertaken in the previous financial year
- ▶ The Internal Auditor tests the validity of the accounts and the financial control environment (The Accounts and Audit Regulations 2014 require all Councils to have an adequate and effective internal audit in place)
- ▶ Guidance relating to the appointment of Internal Auditors is contained in the Practitioner's Guide to Governance and Accountability 2014 Update) – your Clerk will have a copy for your reference
- ▶ There is a duty for the Council to produce an annual return by 30 June each year at the latest

AUDIT ARRANGEMENTS (CONTINUED)

- ▶ The annual return is externally audited each year by an External Auditor appointed by the Wales Audit Office
- ▶ The annual return has a number of sections for completion including a summary statement of the accounts, a statement of assurance and the annual report of the Internal Auditor
- ▶ In each audit year a number of specific themes are included in the audit and these are announced in advance of the commencement of the annual audit process
- ▶ Audits are based on the concept of 'reasonable assurance.'
- ▶ External auditors can issue an unqualified opinion or a qualified opinion and can made recommendations for Councils to take on board.

INSURANCE AND INDEMNITIES

- ▶ A Council must insure itself
- ▶ This will include third party and employer's liability and insurance for property it owns or leases, fidelity, money, personal accident, libel and slander, legal expenses and motor vehicles
- ▶ Most specialist insurers offer combined policies designed to match the needs of Councils
- ▶ The Council should indemnify its members which would provide them with cover when appointed to serve on other bodies

THE RESPONSIBLE FINANCIAL OFFICER (RFO)

- ▶ Every Council must have one (Section 151 of the Local Government Act 1972)
- ▶ The Clerk often covers the role within their job description
- ▶ The RFO decides the format of the Council's accounts and is responsible for maintaining all supporting records and ensuring they are up to date.
- ▶ The RFO completes the accounts for audit as soon as possible after the end of the financial year.

WHAT THE COUNCIL MUST DO IN LAW

- ▶ Appoint a Responsible Financial Officer (RFO)
- ▶ Define the duties of the RFO
- ▶ Must have in place an adequate and effective system of internal audit based on a limited assurance regime
- ▶ Year end accounts must be approved by 30 June
- ▶ Accounts published by 30 September

OTHER DUTIES OF THE COUNCIL

- ▶ Maintain measures to prevent and detect fraud – it is no use shutting the stable door after the horse has bolted
- ▶ Identify all duties of personnel who deal with financial matters
- ▶ Only write off bad debts with the approval of the RFO
- ▶ Above all ensure that the Council maintains an appropriate scrutiny and monitoring role in relation to the management of its finances

FINANCIAL REGULATIONS

- ▶ Every Council should approve a set of financial regulations which outline the financial structure, identify records to be kept and outline the RFO's duties
- ▶ They will include arrangements for preparing the budget, budgetary control measures, payment and banking arrangements, accounting/audit/risk management measures, loans and investments, administration of income processes and purchasing and contracts
- ▶ Model regulations are available to One Voice Wales members

RISK ASSESSMENT

- ▶ A good way of keeping a close eye on the financial position is to conduct a risk assessment
- ▶ Each element of risk is looked at separately e.g. level of general reserves
- ▶ You then look at the consequence of the risk and the likelihood of it occurring using a method that creates a severity score for each risk
- ▶ Against each risk identified you outline measures that can be taken to reduce, minimise or control the risk
- ▶ The risk register is then used to regularly monitor the position

EXPENDITURE POWERS

- ▶ The law stipulates what Councils have the power to spend money on
- ▶ Acts of Parliament and Acts/Measures of the National Assembly for Wales give Councils expenditure powers for specific items or services
- ▶ If a Council spends money on items or services not covered by an expenditure power they could be acting 'ultra vires' i.e. beyond their powers

OTHER SOURCES OF INCOME

Can include:

- ▶ Shared funding through partnership working
- ▶ Grants
- ▶ Receipts from amenities e.g. village hall booking fees
- ▶ Charitable Gifts
- ▶ Community Infrastructure Levy from principal authority
- ▶ Loan sanctions and borrowing
- ▶ Community Funds e.g. Windfarms

USING FINANCES WISELY

The challenge is to work effectively both to seek out sources funding but also to make the most effective use of the financial resources available and to account for and record these in an open and transparent manner.

NOW TEST YOURSELF

Try to answer the following :-

- 1) Explain the difference between an asset and a liability.
- 2) Why is it important to develop an annual budget?
- 3) Explain the difference between internal and external audit.
- 4) Why is risk assessment an important feature of managing the finances of the Council?
- 5) How would you explain the term 'ultra vires?'

WHAT NEXT?

Now that you have a basic understanding of Local Government Finance, you are strongly recommended to ask your Council to provide you with the opportunity to attend a training course on this subject.

The training offered by One Voice Wales is interactive and explores all elements of the Council's financial role in the depth that you would expect from your representative body. It will also give you the opportunity to engage with other Councillors enabling you to share experiences and learn from your peer group.