

# MEMBERS' INDUCTION 2023

## Understanding local government finance



Karen Henriksen, Director of Resources

July 2023

# Welcome!

This training is expected to take around two hours

The session is being recorded and the recording and slides will be made available to all members

Feel free to raise questions as we go.

# OBJECTIVES: 1

This training is designed for elected Members who wish to get a better understanding of the Council's finances and how they are managed and governed.

Part of your role as a councillor will be to debate and agree the Council's budget so it is important that you know the basics.

# OBJECTIVES: 2

Members of the Governance and Resources Committee have a role to play in the Council's financial governance. This training aims to provide you with a better understanding of your role in financial governance.

# AGENDA

18:00	Welcome and Introduction to the Training
18:05	Part 1: Financial Governance and Effective Scrutiny
18:50	Part 2: A brief introduction to local government finance and the finances of DDDC
19:50	Part 3: Sources of further information
19:55	Final Questions and Wrap Up

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# Part 1: Financial Governance and Effective Scrutiny

# EXERCISE:

**What methods do we employ to provide effective governance and scrutiny and to make sure that the Council's finances are properly managed?**

# ELEMENTS OF SCRUTINY & GOVERNANCE

- The “Section 151” Officer
- The Constitution
- Governance & Resources C’ttee
- Scrutiny Committee
- Internal Audit
- Public inspection
- External Scrutiny
- Reports in the Public Interest
- CIPFA Financial Management Code<sup>8</sup>



# STATUTORY & EXTERNAL REQUIREMENTS

- Local Government Act 1972, Section 151
- Local Government Finance Act 1988, S114
- Local Government Act 1982
  - Requires the publication of annual accounts
- Local Government and Housing Act 1989
- Local Audit and Accountability Act 2014
- Accounts and Audit Regulations 2015
  - Place responsibilities on the officer responsible for the administration of financial affairs
  - Specify contents of Statement of Accounts
  - Information to be published with Council Tax bill
- CIPFA Codes of Practice e.g.
  - Local Authority Accounting in the UK
  - Financial Management Code
  - Prudential Code

# THE SECTION 151 OFFICER

Section 151 Local Government Act 1972 requires that every LA should “*make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs*”

“Administration” means responsibility for managing the totality of the financial affairs of a LA in all of its dealings

# THE SECTION 151 OFFICER-2

- Has to be a member of a professional accountancy body i.e. bound by very rigorous professional rules and expectations;
- Has very specific legal responsibilities to the local tax payer i.e. case law in 1906 established that the “treasurer” of a local authority is not merely a servant of the authority, but has a fiduciary responsibility to the local taxpayers

# THE SECTION 151 OFFICER-3

- Is legally responsible for ensuring that a council manages its finances properly;
- Has power to veto all future expenditure
- CIPFA guidance defines the role of the CFO in a local authority.

# THE SECTION 151 OFFICER-4

- S114 Local Govt. Finance Act 1988 requires the CFO to report to the Council, in consultation with the Monitoring Officer, if there is or is likely to be unlawful expenditure or an unbalanced budget;
- Section 25 of the Local Government Act 2003 requires the CFO to report to the Council on the following matters when setting budgets:
  - (a) the robustness of the estimates made for the purposes of the calculations, and
  - (b) the adequacy of the proposed financial reserves.

# THE CONSTITUTION

Includes:

- Defined roles for committees, members and officers (scheme of delegation);
- Specific roles for Section 151 Officer, Monitoring Officer and Head of Paid Service;
- Codes of Conduct for Members and employees;
- Financial Regulations
- Contract Standing Orders

# THE GOVERNANCE AND

# RESOURCES COMMITTEE - 1

## Exercises scrutiny over:

- The governance framework;
- Internal audit plan and reports and implementation of recommendations
- Statement of Accounts
- Annual Governance Statement
- Risk Management policy and strategy

# THE GOVERNANCE AND RESOURCES COMMITTEE - 2

Also exercises scrutiny over:

- Management of land, buildings and property;
- Data Protection arrangements;
- The Council's duties as an employer.



# THE SCRUTINY COMMITTEE

The purpose of the scrutiny committee is to:

- provide an independent review of Council decisions either before or after they have been made;
- provide an independent review of decisions made by certain partner authorities; and
- make recommendations regarding the decisions made.

# INTERNAL AUDIT - 1

The internal audit service will:-

- Confirm that there is a sound system of internal control and that internal controls are operating effectively;
- Identify potential weaknesses that managers may not have considered;
- Ensure that risks are being appropriately managed;
- Offer advice and guidance;

# INTERNAL AUDIT - 2

The internal audit service will:-

- Make practical and useful recommendations for improvement so there is less chance of things going wrong or mistakes being missed;
- Share the experiences of other Consortium members and best practice;

# INTERNAL AUDIT - 3

The internal audit service will:-

- Confirm that records are reliable so that management decisions can be based on accurate information;
- Confirm that the Council's policies, financial regulations, procedures and instructions are being followed;
- Confirming that assets are properly safeguarded.

# PUBLIC INSPECTION

- Electors have the right to inspect the accounts of their authority 15 days prior to audit and to question the external auditor
- This gives a right of access to most documents, but not those that would give the enquirer an unfair commercial advantage, or would disclose confidential or personal information
- The External Auditor notifies an “appointed day” as the date from which they will receive representations & queries from electors
- The Council must publish a notice advertising the availability of the accounts for inspection and the rights to challenge the accounts.

# EXTERNAL SCRUTINY

- The Council's external auditors are Mazars
- The appointed auditor is obliged to comply with a Code of Practice
- The external auditor gives an assessment of:-
  - Whether the Statement of Accounts complies with legal requirements & presents fairly the financial position of the authority
  - Arrangements for achieving value for money
  - General financial standing
  - The Council's financial systems
  - Fraud protection & detection arrangements <sup>22</sup>

# REPORT IN THE PUBLIC INTEREST

The external auditor is required to make a report in the public interest if matters arise during the course of an audit which warrant it.

Such a report is a public document issued for the information of local taxpayers to draw attention to things that have gone wrong, and will be of particular concern to Members.

## Such matters, if of substance, might include:-

- Failure to comply with statutory requirements
- Deficiencies in the General Fund
- Qualified audit opinion on the Statement of Accounts
- Weakness in the arrangements for securing economy, efficiency & effectiveness in the use of resources
- Failure to exercise adequate control over the specification or performance of services contracted out
- Failure to properly discharge trustee responsibilities
- Where any item of account is contrary to law
- Where a loss has been incurred by the wilful misconduct of any person



- The **CIPFA Financial Management Code (CIPFA FM Code)** is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability.
- The **CIPFA FM Code** therefore sets the standards of **financial management** that local authorities are expected to meet.

# ANY QUESTIONS?



## Part 2:

A brief introduction to local government finance and the finances of DDDC



How much do  
you know  
about the  
Council's  
finances?

Q1. What is the value of the Council's current capital programme?

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Answer: £36m

Q2. What percentage of our day-to-day spending is funded by government grants in 2023/24 (excluding housing benefits)?

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Answer: 10% (£2.3m)



Q3. What is the band D Council Tax for DDDC for 2023/24 including County, Police, Fire & Average Parish?

- A. Less than £1,000
- B. £1,000 to £1,999
- C. £2,000 to £2,999
- D. £3,000 to £3,999

Q3. What is the band D Council Tax for DDDC for 2023/24 including County, Police, Fire & Average Parish?

Answer: C – it is £2,124.71, including £230.10 for DDDC

Q4. How many properties do we collect council tax from?

Q4. How many properties do we collect council tax from?

Answer: About 35,000

Q5. What type of property is the Council's biggest rate payer?

Q5. What type of property is the Council's biggest rate payer?

Answer: A supermarket

Q6: How many fraud cases have been found by internal and external audit in the last three years?

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Answer: None



# Revenue and Capital Expenditure

What is the difference?

# REVENUE EXPENDITURE 1:

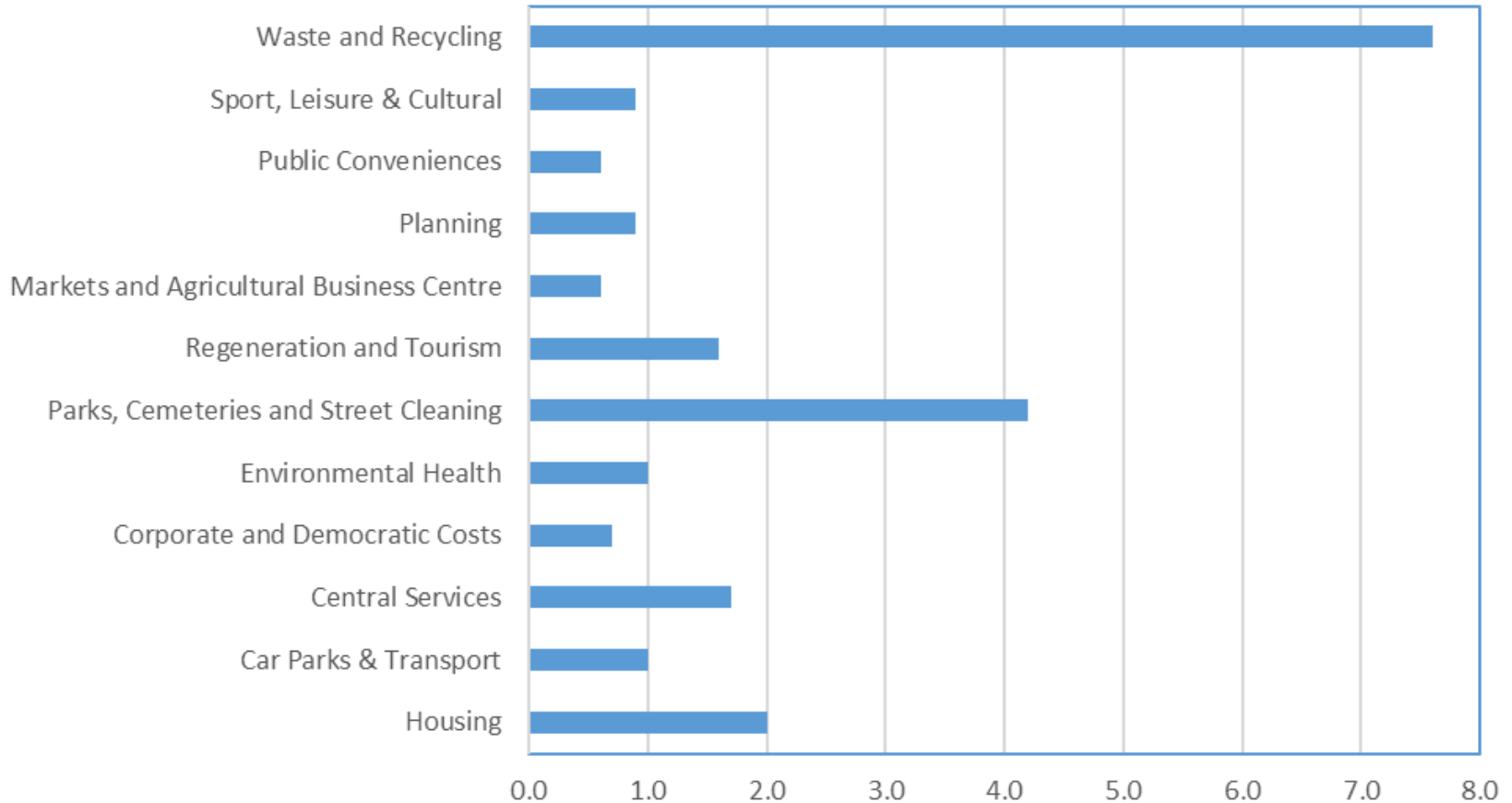
- Covers the **day to day costs** of running a local authority and all the services it provides e.g. salaries, payments to suppliers, as well as the cost of any borrowing;
- All expenditure incurred by a local authority must be charged to a revenue account for the year in which it is incurred, unless
  - The Council determines that it should be capitalised.
  - It can be charged to an earlier or later year in accordance with proper practices.

# REVENUE EXPENDITURE 2:

- Revenue spending is financed from the council tax, government grants, business rates and various fees and charges.
- It is monitored against the annual budget, which is set in March for the subsequent financial year and updated mid-year (the revised estimates).
- We also monitor revenue spending against a rolling 5 year forecast, known as the Medium Term Financial Plan.

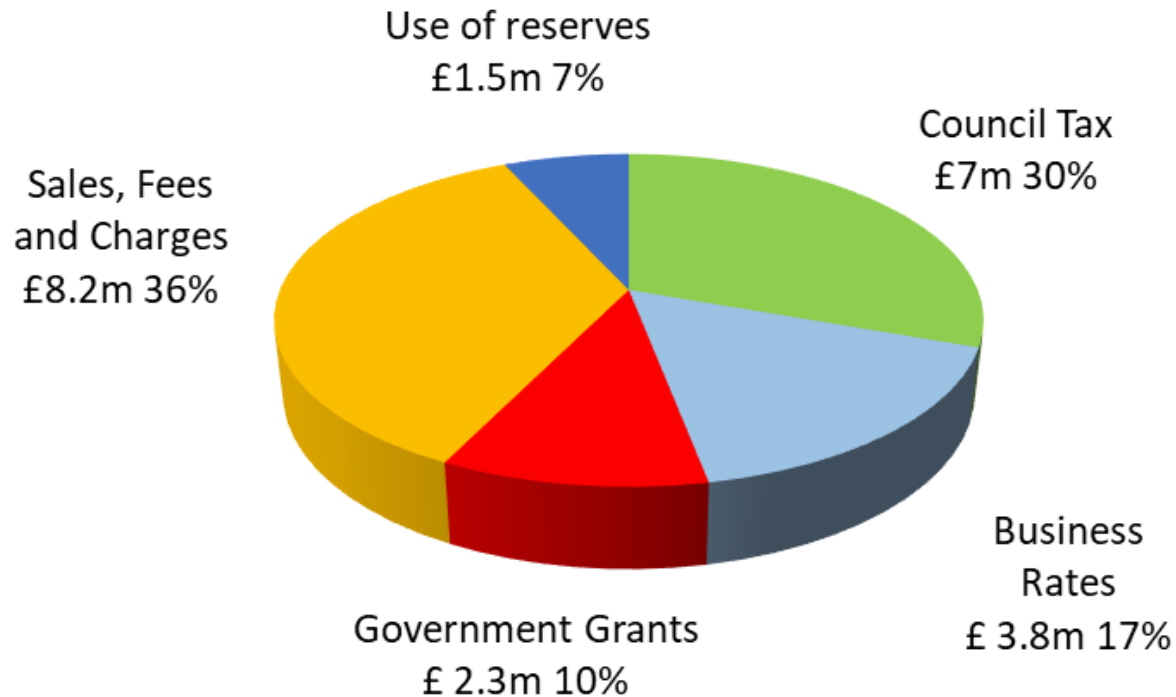
# WHERE THE MONEY GOES...

**Budgeted Gross Revenue Spending 2023/24 £m**  
Total £22.8 million (excl Benefits)



# AND WHERE IT COMES FROM

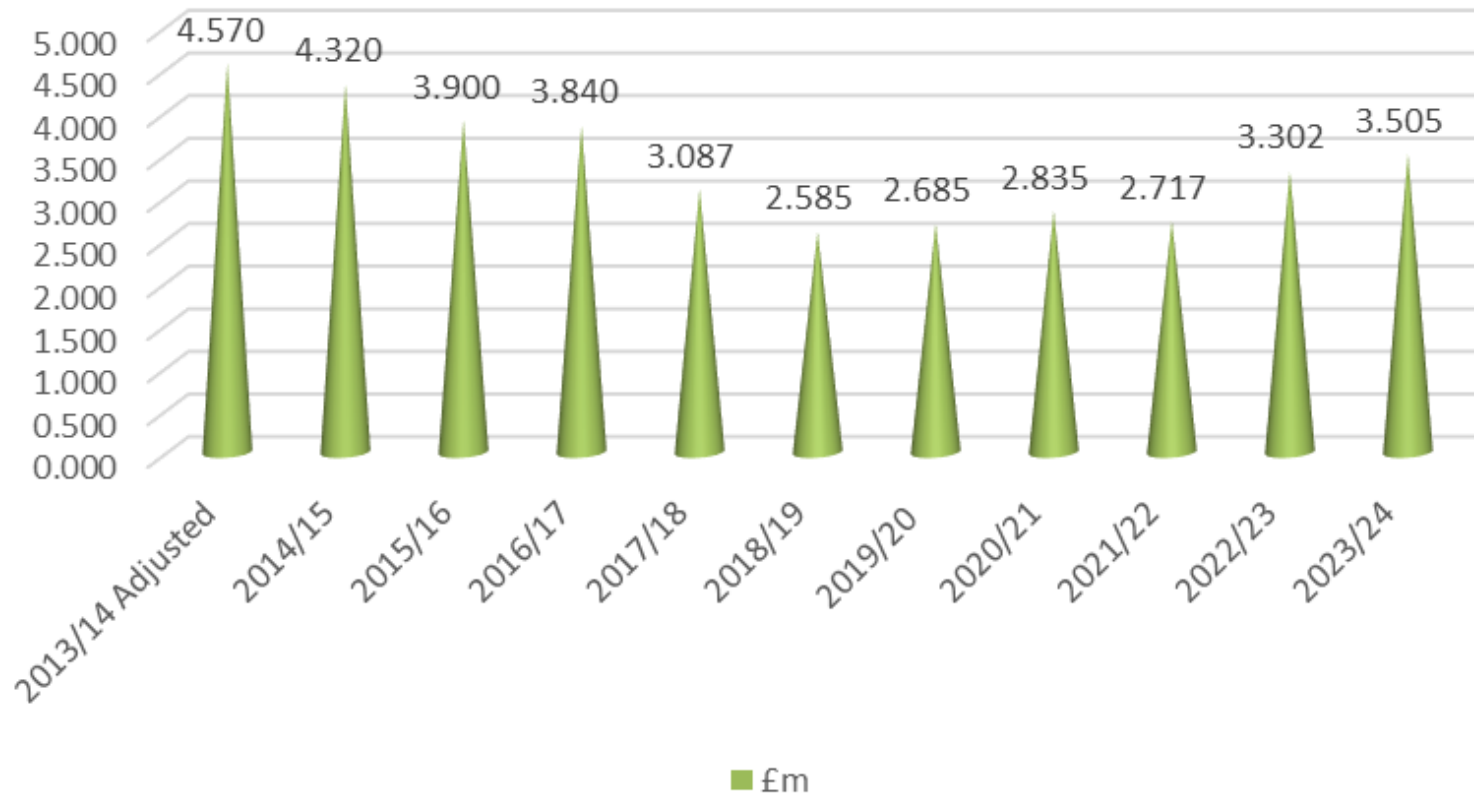
## Expected Revenue Income 2023/24 (excl. benefits) Total £22.8 million



## BUDGET SETTING:

- Provisional Local Government Finance Settlement usually announced by Minister in December, giving funding for following financial year.
- Final announcement in February.
- The Council has a statutory duty to set a balanced budget by 11 March for the financial year starting 1<sup>st</sup> April.

## DDDC Core Spending Power (Excl. council tax requirement)



# INCREASING COST PRESSURES

- Impact of inflation, pay awards and pension costs
- Increase in service demands e.g. homelessness
- Renewal of outsourced contracts
- **But** partially offset at present by higher interest rates on investments



- Comprehensive Spending Review (note: election due 2024)
- Needs and Resources (Fairer Funding) Review
- Review of business rates retention

# REVENUE BUDGET 2023/24

	£
<b>Net Cost of Services</b>	<b>13,569,674</b>
Net Interest	-11,850
Statutory Debt Repayment	211,773
Income from investment properties	-102,556
<b>Funding Requirement</b>	<b>13,667,041</b>
Retained business rates	-3,977,147
Collection Fund Deficits / (Surpluses)	301,872
Rural Services Delivery Grant	-471,000
Funding Guarantee Grant	-626,887
New Homes Bonus	-241,183
Other Government Grants	-132,322
<b>Total External Funding</b>	<b>-5,146,667</b>
<b>Net Revenue Expenditure</b>	<b>8,520,374</b>
Transfer to/(from) strategic reserves	-1,464,926
<b>Council Tax Requirement</b>	<b>7,055,448</b>

# CALCULATING THE COUNCIL TAX 2023/24

$$\text{Council Tax Band D} = \frac{\text{Council Tax Requirement}}{\text{Tax Base}}$$

$$= \frac{\underline{\pounds 7,055,448}}{30,662.53}$$

$$= \pounds 230.10$$

# COUNCIL TAX BANDS

Val'n Band	A	B	C	D	E	F	G	H
Ratio to Band D	6/9	7/9	8/9	1	11/9	13/9	15/9	18/9
DDDC Council Tax £ 2023/24	153.40	178.97	204.53	230.10	281.23	332.37	383.50	460.20

# COUNCIL TAX CAPPING:

- The Provisional Local Government Finance Settlement usually includes details of proposed capping limits.
- Different limits apply to different types of authority.
- For 2023/24, the cap that applied to DDDC was 3%.

# COUNCIL TAX COLLECTION:

The Council collects c£65m p.a. in council tax

**Of the whole bill for 2023/24:**

**70% goes to Derbyshire County Council**



**11% to Derbyshire Dales District Council**



**12% to Derbyshire Police & Crime Commissioner**



**4% to Derbyshire Fire & Rescue**



**3% to local town or parish councils**

# RETAINED BUSINESS RATES:

- The Council does not retain all of the business rates that it collects (c£16.8m in 2023/24);
- Collectible rates are shared:
  - 50% to central government
  - 40% to Derbyshire Dales
  - 9% to Derbyshire County Council
  - 1% to Derbyshire Fire and Rescue
- But there is a system of tariffs and top ups and levies.....

# BUSINESS RATES POOLING:

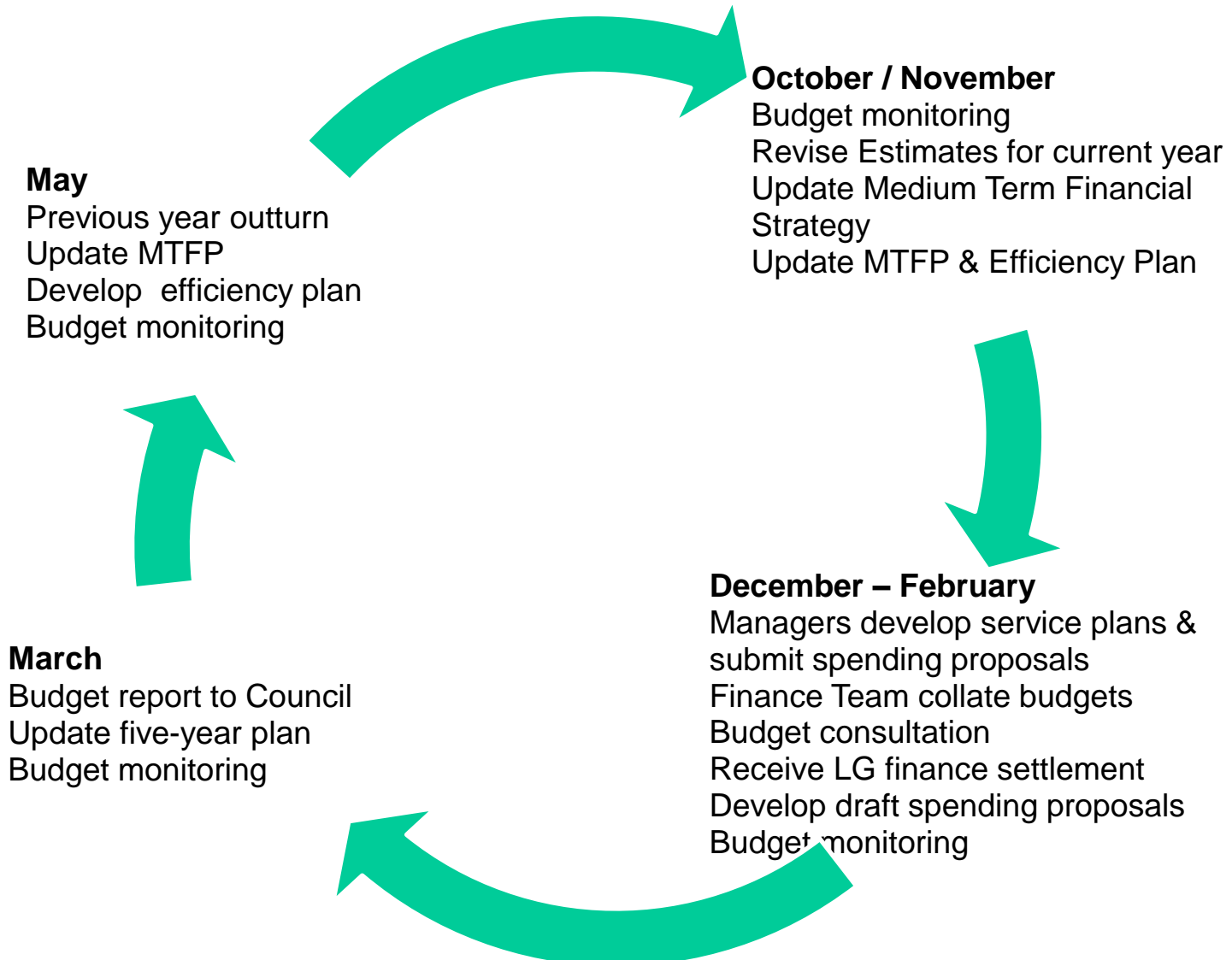
As part of the rates retention scheme, authorities are able to come together, on a voluntary basis, to pool their business rates, giving them scope to generate additional growth through collaborative effort and to smooth the impact of volatility in rates income across a wider economic area.

This not only allows them to pool their resources under the scheme but ensures that they are treated as if they were a single entity for the purposes of calculating tariffs, top-ups, levies and safety net payments.

DDBC entered a Derbyshire Business Rates Pool on 1<sup>st</sup> April 2015.



# THE BUDGET CYCLE:



# BUDGET INTEGRATION WITH OTHER PROCESSES:

- Corporate Plan
- Medium Term Financial Strategy (MTFS)
- Medium Term Financial Plan (MTFP)
- Service Plans
- Capital Programme

# MEDIUM TERM FINANCIAL PLAN

	Original Budget 2022/23 £000s	Revised Budget 2022/23 £000s	Proposed Budget 2023/24 £000s	Forecast 2024/25 £000s	Forecast 2025/26 £000s	Forecast 2026/27 £000s	Forecast 2027/28 £000s
<b>Forecast spending</b>	<b>11,260</b>	<b>11,855</b>	<b>13,667</b>	<b>13,656</b>	<b>13,954</b>	<b>14,248</b>	<b>14,627</b>
Transfers to/(from) reserves	(1,738)	(2,333)	(1,465)	(305)	351	392	393
<b>Net Spending Requirement</b>	<b>9,522</b>	<b>9,522</b>	<b>12,202</b>	<b>13,351</b>	<b>14,304</b>	<b>14,640</b>	<b>15,021</b>
<b>Funded By:</b>							
Income from Council Tax	(6,805)	(6,805)	(6,955)	(7,528)	(7,715)	(7,906)	(8,103)
Income from Business Rates	(1,326)	(1,326)	(3,775)	(4,021)	(4,066)	(4,112)	(4,160)
3% Funding Guarantee	0	0	(627)	(666)	0	0	0
Revenue Support Grant	0	0	(65)	(69)	762	788	816
Rural Services Delivery Grant	(421)	(421)	(471)	(471)	(471)	(471)	(471)
New Homes Bonus	(778)	(778)	(241)	(241)	0	0	0
Services Grant	(115)	(115)	(68)	(68)	0	0	0
Lower Tier Services Grant	(77)	(77)	0	0	0	0	0
<b>Total funding</b>	<b>(9,522)</b>	<b>(9,522)</b>	<b>(12,202)</b>	<b>(13,064)</b>	<b>(11,490)</b>	<b>(11,701)</b>	<b>(11,918)</b>
<b>Savings to be achieved</b>	<b>(0)</b>	<b>(0)</b>	<b>0</b>	<b>286</b>	<b>2,815</b>	<b>2,939</b>	<b>3,102</b>

# FINANCIAL UNCERTAINTIES

- Government's Comprehensive Spending Review (election in 2024)
- Government's Fair Funding Review
- Changes to business rates retention scheme
- Negative Revenue Support Grant, New Homes Bonus, Funding Guarantee & Rural Services Delivery Grant
- Inflation
- Other service cost pressures e.g. renewal of outsourced contracts
- National pay award and grading structure
- National minimum wage
- Interest rates.

# *THE FUTURE?*



Position should be clearer when the government should have completed its reviews and given the Council its new funding levels.

# CAPITAL EXPENDITURE 1:

- Has to have a **benefit beyond one year**, spent on:
- Acquiring or improving land
  - Acquiring, building, improving or replacing roads, buildings & other structures
  - Acquiring, installing or improving plant, machinery & vehicles
  - The making of grants & advances
  - Certain revenue costs can be capitalised at the discretion of the Secretary of State.

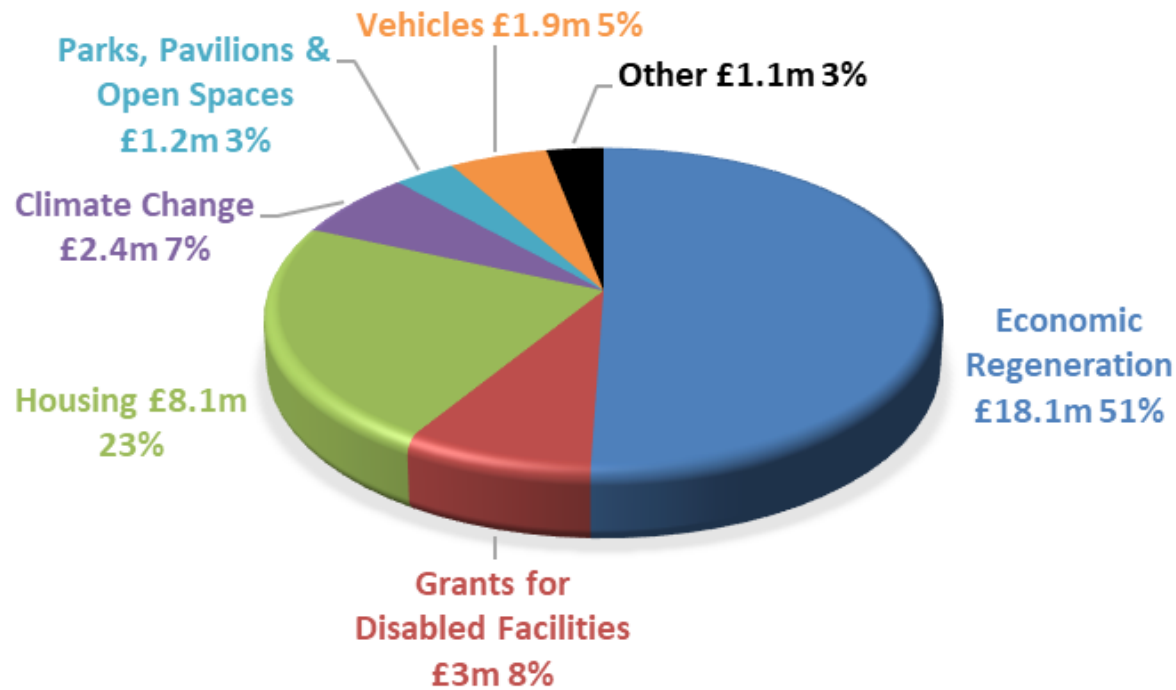
At DDDC this is subject to a de minimis level of £10,000.

# CAPITAL EXPENDITURE 2:

- Capital spending is financed by loans, grants, developer Section 106 contributions, capital receipts from sales of assets or directly from the revenue account, often using reserves.
- It is monitored against a rolling 5 year forecast, known as the Capital Programme.

# CAPITAL SPENDING

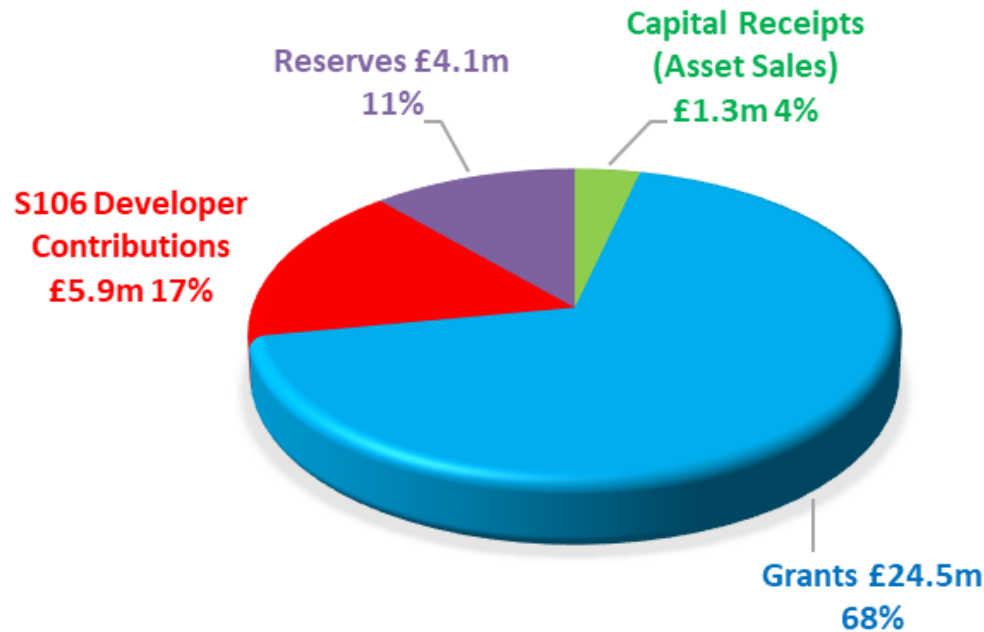
## 5 YEAR PLAN FOR CAPITAL SPENDING APPROVED MARCH 2023 IN £MILLIONS TOTAL £35.8M





# CAPITAL FINANCING

## FINANCING THE CAPITAL PROGRAMME APPROVED MARCH 2023 IN £MILLIONS TOTAL £35.8M



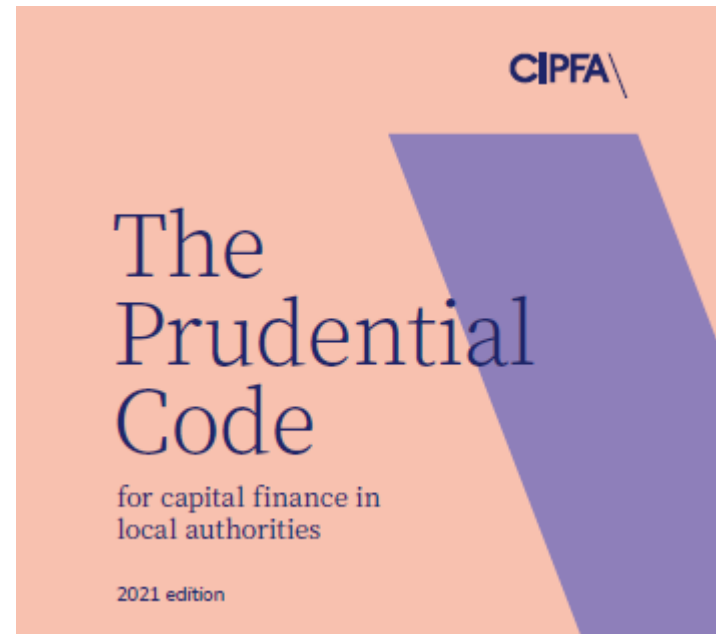
# THE PRUDENTIAL CODE 1

The objectives of the Prudential Code are to ensure, within a clear reporting framework, that:

- a local authority's capital expenditure plans and investment plans are affordable and proportionate
- all external borrowing and other long-term liabilities are within prudent and sustainable levels
- the risks associated with investments for commercial purposes are proportionate to their financial capacity, and
- treasury management decisions are taken in accordance with good professional practice

# THE PRUDENTIAL CODE 2

Councils need to prove that they are complying with the Prudential Code. This is done through a series of prudential indicators that are set locally and approved at the same time as the council sets its budget for the coming year.



# THE PRUDENTIAL CODE 3

In setting or revising its prudential indicators, the local authority is required to have regard to the following matters:

- service objectives, e.g. strategic planning for the authority
- stewardship of assets, e.g. asset management planning
- value for money, e.g. option appraisal
- prudence and sustainability, e.g. risk, implications for external debt and whole life costing
- affordability, e.g. implications for council tax
- practicality, e.g. achievability of the forward plan.

# MEDIUM TERM FINANCIAL STRATEGY

- Aligns the Council's revenue & capital budgetary processes with its main aims & objectives as identified in the Corporate Plan;
- Takes account of legislation & other factors
- Summarises the current financial position
- Sets down overall parameters & objectives for future spending, together with a five-year forecast of the financial position
- Includes a budget risk assessment & sensitivity analysis

# MEDIUM TERM FINANCIAL STRATEGY 2

- Sets out policies in respect of:
  - A Sustainable Budget
  - The Budget Model
  - Budget Consultation
  - Council Tax
  - Approach to Savings
  - Budgetary Control
  - Working Balance
  - General Reserve
  - Strategic Reserves
  - Fees and Charges
  - Service Growth
  - New capital projects

Available on website

# MEDIUM TERM FINANCIAL STRATEGY 3

## □ Budget risk assessment – key risks:

- Lack of resources available to deliver core Council activities (due to reductions in government grants, shortfalls in income from fees and charges and / or business rates, the latter being very volatile);
- Targeted savings or additional income not being achieved;
- Unexpected increases in costs (e.g. unforeseen event, re-tendering of outsourced services, pay & price inflation).

# THE MEDIUM TERM FINANCIAL STRATEGY

- ❑ Corporate savings target of £286,000 a year to be closed by 2024/25\*
- ❑ Savings of c£3m for 2025/26 and beyond be put on hold pending the outcome of the government reviews of Council funding.



\* Sufficient balance in funding uncertainties reserve to cover this

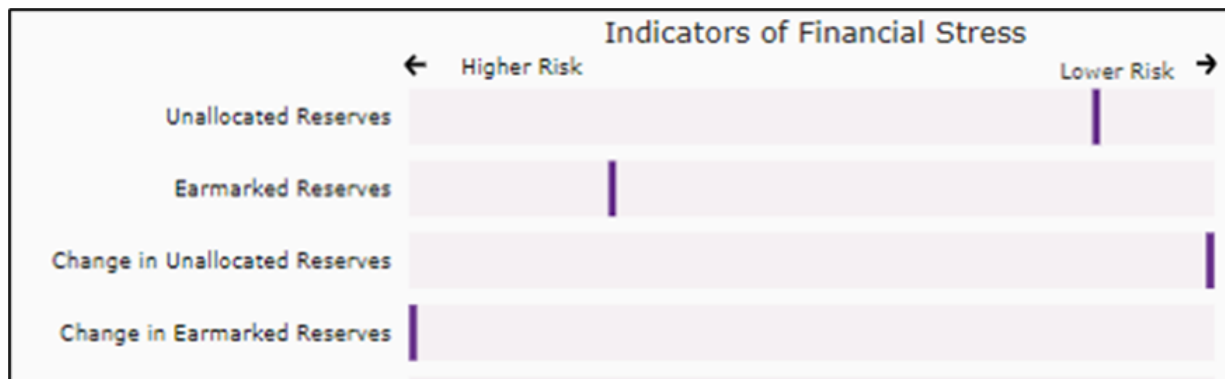


# RESERVES AND BALANCES

	<b>Actual Balance 1 April 2023 £000s</b>	<b>Estimated Balance 31 March 2024 £000s</b>
Working balances	4,776	4,776
Earmarked Reserves	16,871	7,467
Capital Grants & Receipts	3,879	1,655
<b>Total</b>	<b>25,526</b>	<b>13,898</b>

# FINANCIAL RESILIENCE

**Chart 1 – CIPFA Financial Resilience Index Summary 2021/22**



# ANY QUESTIONS?



# Part 3: Sources of Further Information

# REVENUES AND BENEFITS

- Available on the Council's website:

<https://www.derbyshiredales.gov.uk/council-tax>

<https://www.derbyshiredales.gov.uk/benefits>

<https://www.derbyshiredales.gov.uk/business/business-rates>

- Available on .gov.uk:

<https://www.gov.uk/browse/housing-local-services/council-tax>

<https://www.gov.uk/introduction-to-business-rates>

<https://www.gov.uk/housing-benefit>

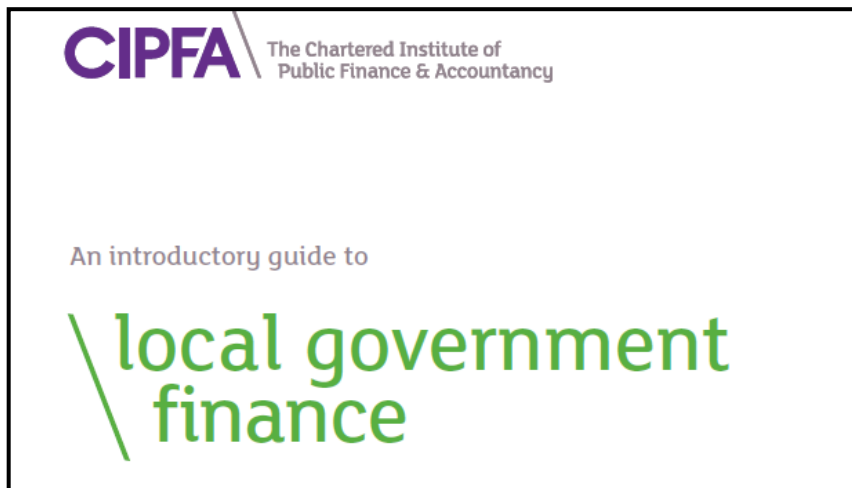
# FURTHER INFORMATION: GENERAL

- Treasury Management Training to be provided January / February
- Other training sessions relating to specific topics could be delivered, if required
- The budget report presented to Council on 2 March 2023\*
- The Medium Term Financial Strategy\*
- Reports from the internal and external auditor presented to G&R Committee\*

\* available on website

# FURTHER INFORMATION: GENERAL

- Copies of CIPFA publications available on request, for example:



- Contact [karen.henriksen@derbyshiredales.gov.uk](mailto:karen.henriksen@derbyshiredales.gov.uk)

# ANY QUESTIONS?



Thank you for attending. The session has been recorded and the recording and slides will be made available to all members