



Yorkshire Local Councils Associations

Introduction to Local Council Finance and Budgeting



Copy of presentation and handouts

In the handout section of the webinar dashboard, there are a templates/models, including the presentation. We will send additional handouts after the session. The webinar is being recorded.

We will look at the questions you raise during the presentation.

We will send a paper out next week to participants with all questions and answers



Acronyms used

IA – internal auditor

AGAR – Annual Governance and Accountability Return

LGA – Local Government Act

S137 – Section 137 (of the LGA 1972)

I&E – Income and Expenditure

R&P – Receipts and Payments

VAT – Value added tax

MHCLG – Ministry for Housing, Communities and Local Government

RFO – Responsible Financial Officer

NALC – National Association of Local Councils



The current definitive guide for Proper Practices and other guidance

Governance and Accountability for Local
Councils – a Practitioner’s Guide 2019
(England)

Also see the Good Councillor’s Guide to
Finance and Transparency:
hope everyone has a copy

Who has responsibility?

- The Council has ultimate responsibility
- It is dealing with public money which requires the highest levels of probity, accountability and transparency
- There are links to having robust employment policies and regimes, eg pensions and salaries

Financial powers of local councils

- Expenditure always supported by a power
- Some may be under S137 of LGA 1972
- Procurement – A council must have a policy for contracts – goods and services
- Check your council's financial regulations for this
- Financial regulations are mandatory – cllrs should have a copy

Accounting basis

- < £200,000 can choose between I&E or R&P
- > £200,000 for three continuous years must complete on an I&E basis

Cash Book

- Electronic format
- Keep it simple
- Separate columns for VAT and Section 137 payments
- See handout provided – this is a simple method
- Councils with larger turnover use bespoke systems

A look at questions raised

Ongoing expectations

- Expect and remember to:
 - Sign cheques at meetings and initial cheque stubs
 - Establish a robust system for BACS payments with built in security
 - Receive regular bank reconciliation and see bank statements
 - See budget against spend comparisons
 - Be vigilant with regard to the frequency of internal control and see written reports from these meetings – see handout
 - Ensure that the *council*, not the clerk, appoints the internal auditor
 - Take advice!

The council's own Internal Controls



- A completely different exercise to IA
- This is the council exercising some controls of its own
- How to do it is not defined in legislation – just that the council will do it
- Reference to the handout and see Governance and Accountability

Lawful council expenditure

- On the agenda to either approve or to be informed (ie if clerk has used delegated powers)
- Agreed by council
- Spend and income reported to a meeting and minuted
- Delegation of spend to an officer is lawful

Lawful council expenditure

- No one other than an officer can be delegated to spend money
- This includes the chairman
- A reminder about powers - always check that there is power to spend – the Broadband example.....

More general issues

- Transfers between accounts via electronic banking and telephone banking is OK
- Electronic banking – define the Council’s robust conditions in financial regulations
- Council’s insurance policy is important – fidelity guarantee
- Make sure risk assessment on assets is being done because this has financial implication

Loan Sanction

- Borrowing is allowed but with specific rules and regulations
- Generally, a council can borrow to exercise its functions; but not to help it with revenue funding (unless in exceptional circumstances)
- Councils have implied power to borrow but each application is subject to getting permission from MHCLG
- Excellent method of getting projects done, ie street lighting, cemeteries, community halls, playing fields, purchase of land, purchase of building for new council office

Investments, contingency and capital receipts



- A council is permitted to invest money, ie from sale of land or another asset
- Take advice on long term investments – more than 12 months
- The council's funds is divided into two categories – revenue and capital
- Revenue money is that which is used from day to day on general administration
- Capital money is usually money which a council is putting aside to purchase an asset or funds derived from sale of land or other property disposal
- Creation of a capital fund needs careful consideration – it cannot be brought back to revenue
- The application of money from sale of land can only be applied to specific purposes – Capital Receipt Regulations 2003 (see handout we are sending)

A look at questions raised

Investments, contingency and capital receipts



- Contingency – how much should a council keep? Nothing defined in law. Governance and Accountability states between 3-12 month running costs
- Level of reserves should be risk assessed on a regular basis
- Difference between allocated and general reserves

The Asset Register

What does Governance and Accountability say:

“Most assets should be recorded at their actual purchase cost. If that is unknown a proxy value can be used based on external professional advice. Authorities may apply the insurance value of the asset at the time of first recording as a proxy”.

- Record assets that are high in value and have a useful life of more than one year
- Community assets at nominal value – eg cemetery
- Long term investments also need recording in the asset register as do loans to other groups by the council
- No depreciation – hard for some people to understand

The budgeting months

October/November/December

- Develop an Audit Plan – the cycle is continuous not just at the year end
- See budget handout – simple example
- To at least include last years, present year and future year figures, ie three columns
- Project both income and expenditure
- Budget to accompany a written report from clerk/RFO with explanations

The budgeting months - November/December/January

- Present draft budget to council for refinement
- Council may have a finance committee – ensure it has robust terms of reference
- Part of process is to identify projects for the next year for costing in
- Council can usually work out how much its precept will cost a band D household
- Precept is an amount demanded from the principal authority that is recharged on council tax payers
- Precepts remain uncapped

Transparency Code for Smaller Authorities



- From year 2017/2018 local councils with turnover not exceeding £25,000 are exempt from routine external audit
- Turnover is the greater of income or expenditure
- AGAR will still have to be completed but not sent automatically to the external auditor.
- Such authorities will have to abide by the code which requires them to publish certain financial information online
- See the handout we will send – explains fully what is required

Transparency Code for other authorities



- No Code for councils with turnover between £25,001 and £199,999
- Expected to embrace the Code for smaller authorities
- Code for councils with turnover over £200k
- See NALC booklet – ‘Good Councillors Guide to Finance and Transparency’ (on YLCA and NALC website)

Quick look at the year end

April to June



- Accounts to be approved by council by **30 June**
- Balance the cash book asap after 31 March
- Reclaim VAT (can do more frequently if sufficient to claim - £100+)
- Arrange internal audit as soon as possible
- Make sure that the external audit papers arrive and read them as soon as they do! Note relevant dates and plan ahead – you need to get all the dates to fit!
Not easy

April to June cont.

- Complete the AGAR
- AGAR to be approved by council
- Ensure that the council thinks carefully about its responses in the Return – this is a legal declaration
- It is fine to give a ‘no’ answer but provide explanation

April to June cont.

- If your council has turnover over £25,000 - send the AGAR to the external auditor with other documentation as requested in the audit pack – detailed instructions are given
- If your council has turnover less than £25,000 – Declare exemption from external audit as soon as possible after the year end (at a meeting) and send form to external auditor

Adequate system of internal control and review of the effectiveness of this

- An assertion in the AGAR
- How does your Council do this? You might be struggling to recall?
- Many forget to do it IA should check that it had been done
- Page 10 of Governance and Accountability explains the basis of it

April to June cont.

- Make a date for the internal auditor to do his/her work
- Make sure that the internal audit is **very** robust and detailed
- Particularly note whether your council is one of the 5% selected for a more thorough audit
- Make sure you give enough time for the public's inspection rights:
- This (from 2016) has to be calculated by the Council
- A single period of 30 working days which must include the first ten working days of July

Other year-end actions

Reclaiming VAT

- Use form 126 (or 100) – can go back 3 years
- Can only claim for payments made on ‘non business supplies’
- Can also claim where council has helped another group and given the goods away
- Can also claim where money is given from external sources for a specific purpose, ie grants

Helpful resources

Governance and Accountability for smaller authorities in England
March 2019

The Good Councillors Guide 2018

The Good Councillors Guide to Finance and Transparency 2018

Being a Good Employer 2016

(All available from the YLCA via the Council Clerk in paper form or electronically)

Local Councils Explained by Meera Tharmarajah (former head of legal services at the National Association of Local Councils)

Local Council Administration, by Paul Clayden, 11th edition

YLCA website www.yorkshirelca.gov.uk (log in details from the council clerk)

Ask the clerk if the council has purchased these publications – you should be able to borrow them to help you to develop your knowledge.

A look at questions raised

Thank you for participating.
You will get an e-mail upon
conclusion of this webinar and
we would appreciate feedback.