

Understanding Local Government Finance

May 2022

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Dagenham**

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The Finance Team



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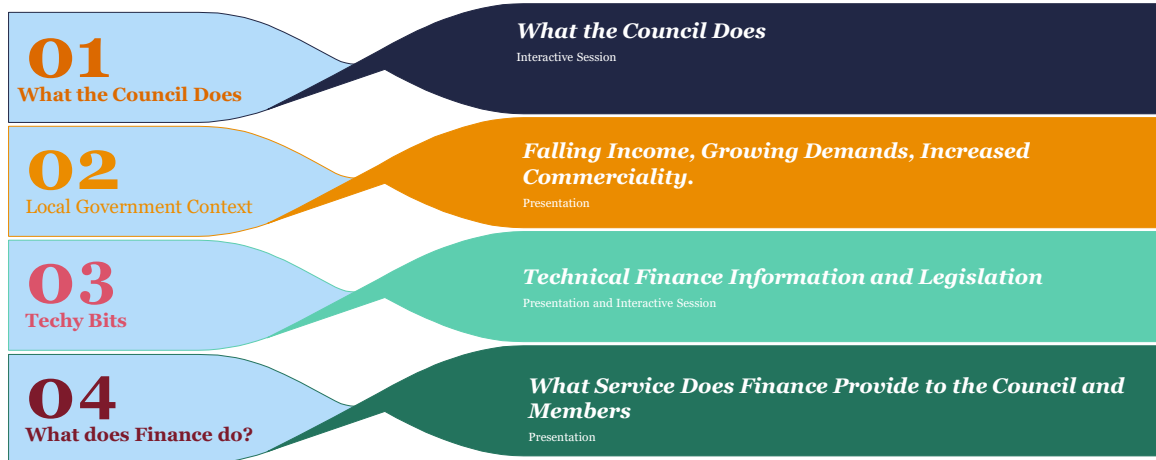


Paul Ingram
Chief Information Officer

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Agenda



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01

What the Council Does

What the Council Does

Interactive Session

What does the council do?

If you asked a resident what the council does,
they might only list a couple of services.

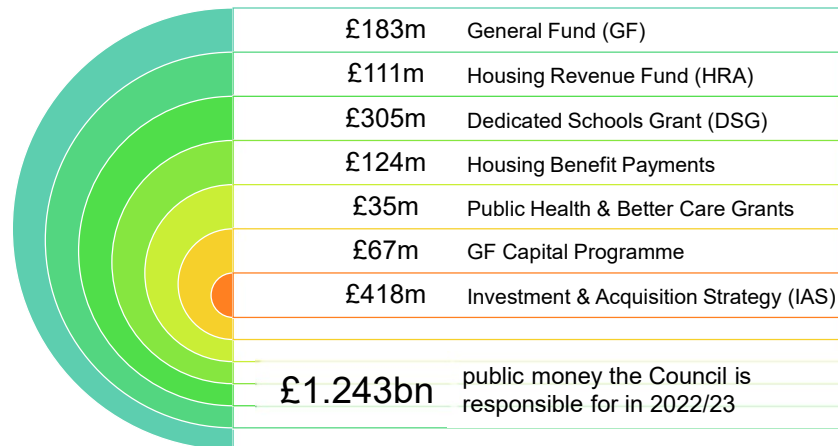
Let's see how many services you can think of...



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How much money are we talking?



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02

Local Government Context

Falling Income, Growing Demands, Increased Commerciality.

Presentation



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Local Government Context



Source: Institute for Government analysis of DLUHC, Local authority revenue expenditure and financing in England: individual local authority data – revenue outturn. Excludes grants for education services, police and public health. 2019/20 data includes one month of emergency Covid-related funding (March 2020), which increased the proportion of funding from government grants.

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IfG Study just published looked at the impact of austerity on Local Gov over the past decade. These are their general findings...

The scope of the state has shrunk locally, across England. The overall picture is of smaller local authorities, doing less than they did in 2010, but these dynamics played out differently across England.

Grant cuts were largest in the most deprived areas. Central government grants were cut deepest in the most deprived areas because the way cuts to grant funding were distributed took little account of how dependent on grants local authorities were in 2009/10. This, in turn, meant that the most deprived areas cut spending the most – even though the government acknowledges that deprived areas have higher needs for some council services.

Growth in demand for social care added a separate pressure. At the same time, increases in demand for adults' and children's social care added a separate pressure. As far as is measurable, these demands – notably increases in the older population and the number of children in the care of local authorities – bore no relation to deprivation. By the end of the decade these areas made up three quarters of all local authority spending.

The least deprived areas increased spending on social care the most. The least deprived areas were more likely to protect, and in some cases increase, spending on social care.

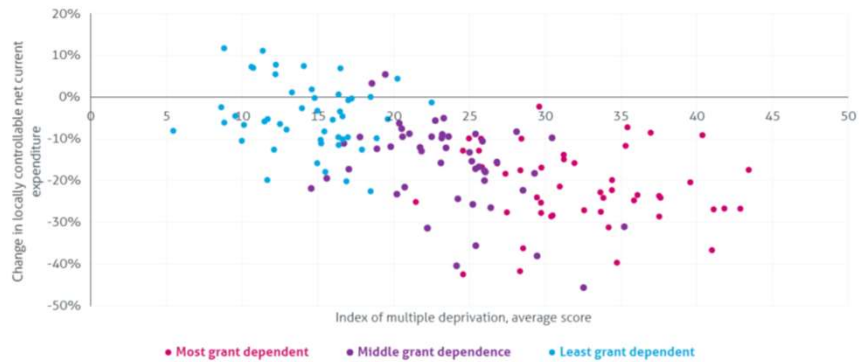
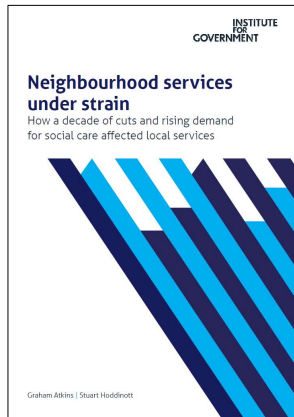
The combination of grant cuts and social care demand meant a range of local authorities cut neighbourhood services spending deeply. The combined effects of grant cuts and increases in demand for social care squeezed the rest of local authority spending, including neighbourhood services. As the biggest pressures were effectively distributed randomly, there are no clear patterns between overall pressure from grant cuts and social care demand, and region, rurality, political control or deprivation. All local authorities reduced spending on neighbourhood services, but scale varied hugely – from 5% in East Sussex to 69% in Barking and Dagenham.

Some local services became harder to access. As a result, there are now fewer libraries, less frequent waste collection and, in local authorities outside London, fewer accessible bus routes. But in the case of some other services, local authorities appear to have made spending cuts without obvious reductions in quality or accessibility. Almost half of local authorities improved the quality of roads they maintained during the 2010s and over 90% of councils reduced the time they took to process applications from housing benefit recipients for changes in circumstance.

Government lacks good performance data on most neighbourhood services!

The chart shows that local authorities are reliant on Council Tax (the blue bars) for half their income, compared to a third in 2009/10. Also, councils' spending on locally controllable services fell in real terms each year between 2009/10 and 2016/17. It has since slightly increased, but only to 2015/16 levels in the last year before the pandemic.

Local Government Context



Source: Institute for Government analysis of MHCLG, English indices of deprivation 2010 & DLUHC, Revenue budget 2009/10, & revenue outturn summary 2009/10 and 2019/20. Net current expenditure excludes precepts and levies;

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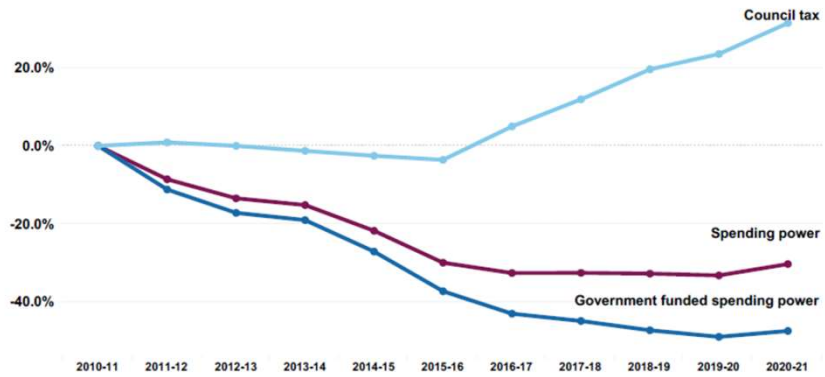
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This chart is showing the relationship between changes in expenditure and the index of multiple deprivation, whilst also showing an indication of how reliant on grant funding each local authority has been. It shows that the most deprived areas have seen the largest budget reductions and that these areas were most reliant on grant funding.

Local Government Context



Change since 2010-11 (indexed: 2010-11=0%) (real terms in 2019-20 prices)



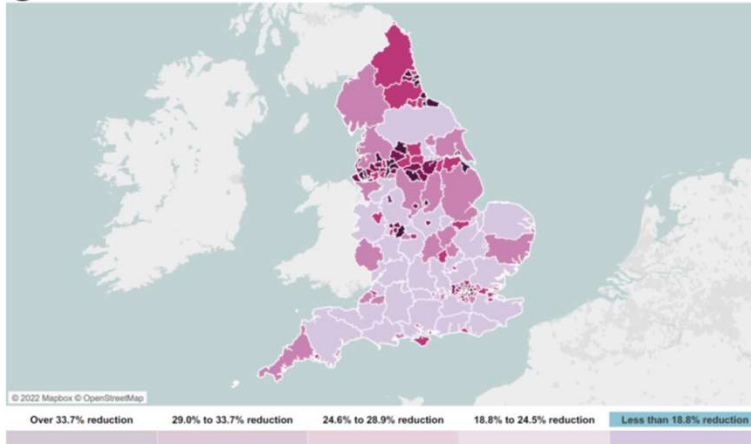
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<https://www.nao.org.uk/other/financial-sustainability-of-local-authorities-visualisation-update/#viz>

Local Government Context

i Change in spending power in single tier and country councils (%), 2010-11 to 2020-21 (real terms in 2019-20 prices)



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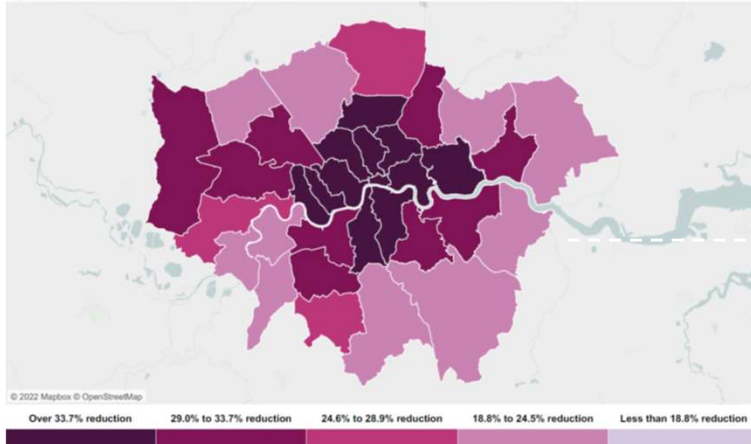
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Here's a chart showing the change in spending power across the country - the darker the pink colour the greater the reduction (Hackney was the greatest (-40.2%))

<https://www.nao.org.uk/other/financial-sustainability-of-local-authorities-visualisation-update/#viz>

Local Government Context

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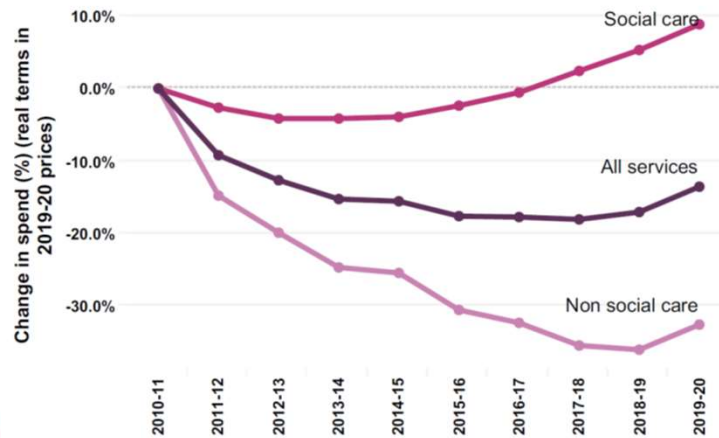
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We can zoom into London Boroughs, and whilst LBBD isn't the highest (-30.4%), the inner London Boroughs are all between 35-40%, the Boroughs a similar shade to us are all around 30%, and the lighter pink colours between 19-25%.

<https://www.nao.org.uk/other/financial-sustainability-of-local-authorities-visualisation-update/#viz>

Local Government Context



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One final chart is to look at the trend of how this Borough has been funded – it's clear the blue line (Council Tax) increases after 2015-16 after a period of CT freezes and is now a much greater proportion of funding than what comes through from business rates and grants from government.

Local Government Context



Fair Funding Review: a review of relative needs and resources - Technical consultation on relative need - December 2017
Summary of responses received and Government response

December 2018
Ministry of Housing, Communities and Local Government

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Fair Funding Review – a review of the government calculation of how much grant LAs need to provide services to their area – now probably out of date (should have been introduced in 2020 (before COVID) and suggested that it might be introduced in 2023 this seems unlikely due to the consultation that would need to have already started.

Low interest = RoI difficult but cheap borrowing

Search for commercial investments – some LAs criticised for their pursuit of purely commercial returns – CIPFA view is that this goes against the purpose of what a LA should be doing and isn't for the public good. We aren't in this position and have been praised as a model of good investment.

Demographic changes (general not LBBD) – we buck the trend compared to most of England – fewer old people and therefore less pressure on ASC with a much larger population on children and young people and a greater need for CSC.

COVID happened



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Key outcomes – LAs under huge financial pressure with cost forecasts above £6.9bn. Also, reduction in income of £2.8bn from sales, fees & charges, commercial and other income excl. CT and NDR. Future financial uncertainty and financial pressure will continue.

Council Finances Under Pressure



- Section 114 Notices
- Capitalisation Directions
- Public Interest Reports

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S114 notices are issued where a LA has unlawful expenditure or spending “likely to exceed the resources available to it to meet that expenditure”. In popular diction, this is known as the ‘bankrupt council’. Croydon have issued two, and Northampton, Slough and Nottingham have all issued S114s, although others have been rumoured to be close.

Capitalisation Directions - Authorities in Croydon, Copeland, Eastbourne, Bexley, Luton, Peterborough, Redcar and Cleveland, Slough and Wirral will be reviewed and some have been withdrawn but still are a measure of last resort following lengthy discussions with DLUHC.

Local Gvt Act 2003 (Sec16(2) and 20) allows the government to give permission for councils treat revenue as if it was capital.

Each Direction is specific to the council, time and value limited and does not provide any additional grant funding.

Any consequent borrowing must be paid back over an asset life of no more than 20 years, and at a penalty of 1% over the PWLB rate.

MHCLG will conduct an “external assurance review” may send in commissioners to run the council in most serious cases.

Currently 8 Directions have been granted (inc. LB Bexley and Croydon).

The last eighteen months have seen the publication of several public interest reports (PIRs), including Nottingham City Council, two at the London Borough of Croydon, Northampton Borough Council and Pembrokeshire County Council.

Reports in the public interest are issued under the Local Audit and Accountability Act 2014. Schedule 7 places a duty on a local auditor to consider whether, in the public interest, they should make a report on any matter coming to their attention during the audit and relating to the authority (or connected entity to the authority), so that the recommendation can be considered by the relevant authority and brought to the attention of the public.

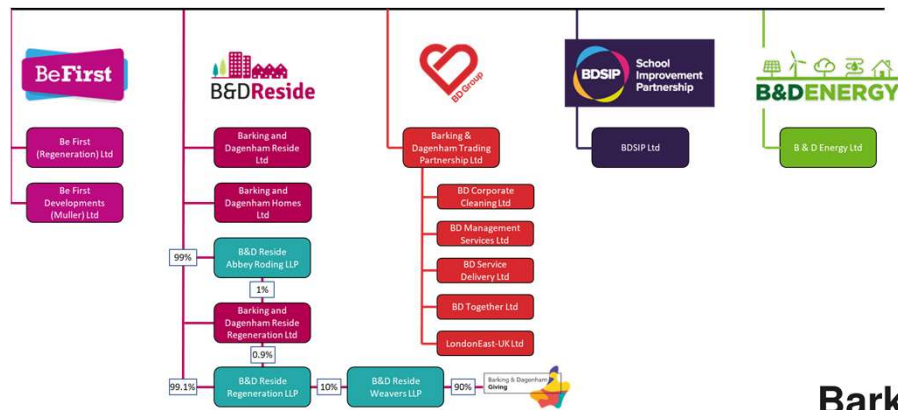
The content of these reports has been varied, but there is a common theme running through each one of significant weaknesses in governance.

These weaknesses have also been found in value for money governance reviews at Sandwell Borough Council, inspection reports at Liverpool City Council, assurance reviews and DLUHC reports. Key findings include:

- an absence of the right culture and understanding of the Nolan Principles
- a need for greater transparency in decision making
- a need for more effective risk management
- weakness in challenge via audit committees or the scrutiny function
- lack of capacity and expertise for operating in specific markets
- lack of time for considered challenge, with governance principles disregarded
- the need for more effective capability in commercial skills
- lack of effective leadership

Council Finances Under Pressure

- LBBD have innovated to relieve this pressure



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Council Finances Under Pressure

LBB financial forecast position

	2023-24	2024-25	2025-26
Savings to find	£6.161m	£10.952m	£9.291m
% of net budget	3.29%	5.70%	4.79%

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Summary Model - MTF 3 February 2022

	2023/24 Budget	2024/25 Budget	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast	2028/29 Forecast
NET COST OF SERVICES	147,212	162,200	162,200	175,437	167,190	162,242
Financial Planning						
Change - Existing Items	-	10,242	10,242	11,476	11,746	8,776
Change - To Be Identified	-	-	-	10,367	10,412	10,291
Overall	-	10,242	10,242	21,843	22,158	19,067
Change	-	6,200	6,200	11,400	11,400	6,400
Reserves						
Contributions to Unrestricted Reserves	3,270	4,262	4,262	-	-	-
Contributions from Restricted Reserves	12,476	12,476	12,476	12,476	12,476	12,476
2022 - 28 Reserves/Other Reserves	15,746	-	-	-	-	-
Use of Annual Reserves	-	-	-	-	-	-
Net Contributions/Other Reserves	19,016	16,738	16,738	12,476	12,476	12,476
Funding						
Grants	48,200	48,200	48,200	48,200	48,200	48,200
Other Grants	14,242	14,242	14,242	14,242	14,242	14,242
2022 Grants	24,200	27,450	27,450	-	-	-
2022 Reserves Grant	-	-	-	12,750	-	-
Change/Effect on Contribution Fund	1,242	2,463	2,463	-	-	-
Company Dividends	-	12,476	12,476	12,476	12,476	12,476
Reserves Income	10,746	10,746	10,746	10,746	10,746	10,746
Reserves as Contribution Fund	45,746	45,746	45,746	45,746	45,746	45,746
Council Revenue	11,204,000	10,910,000	10,910,000	12,070,126	12,148,222	12,148,222
Expenditure on Items @ 01	1,204,000	1,204,000	1,204,000	1,204,000	1,204,000	1,204,000
Council Tax Precept @ 01	45,746	45,746	45,746	52,000	52,000	52,000
Percentage Increase in Council Tax	4.9%	4.9%	4.9%	2.9%	2.9%	2.9%

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We still have financial pressures to find solutions for!

MTFS is published within Cabinet Papers – the latest version was approved by Cabinet in Feb and Assembly in March, with the next review taking place now for publication in July. Inflation is currently a huge uncertainty along with all the other challenges related to sustainable funding that we face.

Council Finances Under Pressure

“If we have to reduce budgets by 20%, how would you approach this?”



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What are the government plans?

- Review of Relative Needs & Resources (Fair Funding)
- Business Rates Revaluation & Reforms
- Council Tax increases
- Reliance on other income (but not being too commercial)



Department for Levelling Up,
Housing & Communities



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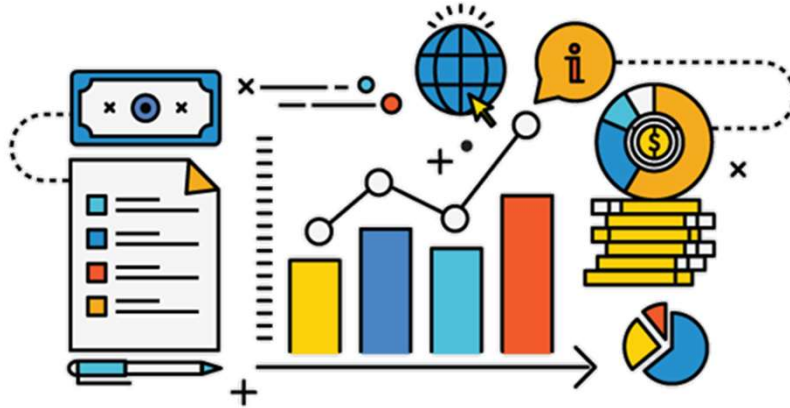
Michael Gove Secretary of State for Levelling Up, Housing and Communities and Minister for Intergovernmental Relations

03

Techy Bits

Technical Finance Information and Legislation

Presentation and Interactive Session



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What else do you need to know?

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What else do you need to know?

- The Law
- What counts as revenue and capital (and why it matters)
- Ring-fenced funding:
 - HRA
 - DSG
 - Public Health/Better Care Fund
- Reserves
- Financial Stress
- Key Reports

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The Law

- Local Government Act 1972 Section 151
 - The council must make provision for effective financial management
 - The “Section 151 Officer”
- The Local Government Act 2003
 - “Balanced” and “robust” budget with “adequate” reserves
 - Councils must follow “proper accounting practice”
- The Local Government Finance Act 1988 Section 114
 - Section 151 Officer must report publicly if they consider the council is unlikely to balance its budget

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The Law

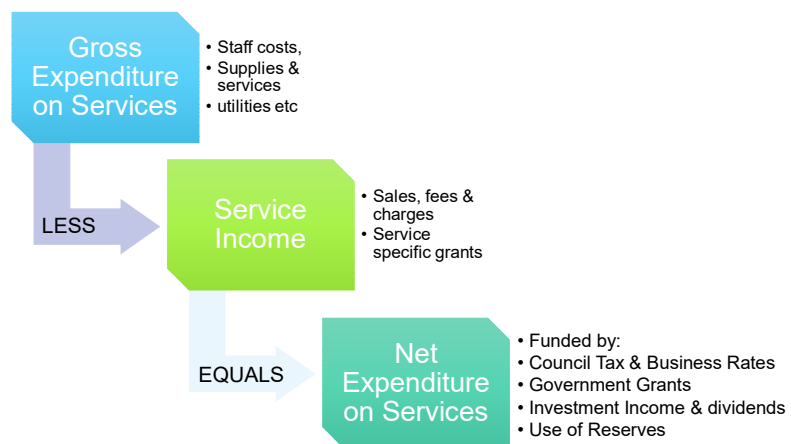
- Localism Act 2011
 - Local referendum on “excessive” rises in Council Tax
 - The General Power of Competence
- Local Government Finance Act 2012
 - Business Rates Retention
 - Localise Council Tax Support – abolish Council Tax Benefit
- Local Audit and Accountability Act 2014 – Schedule 7
 - Power for the external auditor to issue a public interest report on “a significant matter that has come to their attention”

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Schedule 7 – Nottingham City Robin Hood Energy, Northampton BC on local to football club, Croydon on general financial position, Sandwell Council on their Governance

The Budget



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Revenue vs. Capital

- Capital means the purchase, construction or development of assets that will be of benefit for more than one year.
- This means things such as land, buildings, equipment or some IT developments.
- For Councils this will also include infrastructure such as roads and bridges.
- Capital expenditure is budgeted and accounted for separately from the main revenue budget.

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Incl. flexible use of capital receipts

Revenue vs. Capital



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<https://forms.office.com/r/QLWavfXiFv>

REVENUE:

- Running costs expenditure – under 1 year useful life
- Employee costs, maintenance and repairs, utility bills, supplies and services
- Income sources CAN be spent on capital expenditure

CAPITAL

- Expenditure on funding and improving assets – over a 1 year life
- New build, renovation, new vehicles and infrastructure
- Most councils have a “de minimis” level before expenditure becomes capital
- Income sources CANNOT be spent on revenue expenditure without government approval

FLEXIBLE USE OF CAPITAL RECEIPTS

Local Government Act 2003 Sec 15(1)

Allows qualifying revenue expenditure to be funded by capital receipts generated in years where flexibility is available (NOT new borrowing)

Qualifying expenditure is

Designed to generate ongoing revenue savings
And/or transform service delivery that will reduce cost or demand
This flexibility now available to 2023/24

How is Capital Expenditure funded?

- Capital Expenditure can be funded from
 - Specific Capital Grants or contributions
 - Capital Receipts from the sale of assets such as land or buildings
 - Revenue Contributions or Reserves
 - Borrowing – this in turn will result in additional revenue costs in the form of Interest and “Minimum Revenue Pressure – MRP”. This spreads the cost of the asset over its lifetime. (A bit like a mortgage). If the expenditure results in savings these could be used to pay these costs.

These options give us additional flexibility for the Capital Programme but are not cost free.

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Incl. RTB

Housing Revenue Account

- This is a specific ring fenced account used to support the Council Housing Stock. Funding comes directly from rents and service charges from tenants and leaseholders. It must be kept separate from the General Fund.
- Despite the name it also pays for capital expenditure – improving and increasing the housing stock
- Prior to 2016 was well funded but now under pressure from Right to Buy and four years of mandatory rent reductions.

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Incl. RTB

- Introduced in the 1980s, reinvigorated with larger discounts in 2012
- Government promised that the homes sold would be replaced “one for one”
- However, approx. 70,000 homes sold between 2011/12 and 2017/18 with just 11,300 new homes built (source: LGA 2019)
- New rules on the use of RTB receipts from 2021/22:
 - Councils can build over 5 years not 3
 - 40% of receipts used to new property instead of 30%
 - RTB can be used for a wider range of housing inc. shared ownership

Schools and Education Funding

- Maintained Schools are considered part of the Council's overall financial position but financial management is largely delegated to Heads and Governing Bodies.
- Currently the Council is still involved in setting the Local Funding Formula but moving towards a centralised National system
- Council does have responsibility for the £47m High Needs Budget – special schools and ARPs and support for pupils with SEND.
- Also has responsibilities for Early Years (2, 3 and 4 year olds) and Central Services to Schools

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Other ringfenced funding

- Public Health Grant
- Better Care Fund and Improved Better Care Fund
- Many other specific grants and schemes
- Housing Benefit

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Commercial Property Income

- The Local Government Act 2003 allows councils to trade their services, via a company
- Our MTFS assumes £12.5m in dividend income per year
- Any income received can be used to fund services (net of any debt repayment costs)
- Risk is a key issue in all such decisions
 - Is the council's money suitably **Secure**?
 - Is the council ensuring that its overall funding is suitably **Liquid**?
 - Only then can the investment **Yield** be considered.

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Reserves

- **Earmarked Reserves**

- “Saving up” to meet an expected future cost
- Held for a specific purpose or project
- A forecast total of £89.3m as at 31 March 2022

- **General Fund Balances**

- Unallocated funding carried forward from previous years, currently £17m at LBB
- Legislation requires councils to carry a “minimum level of reserves” – currently £12m at LBB
- They can only be spent once!

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Local Government Audits

	2018-19	2019-20	2020-21	2021-22
Publication of Draft Accounts	31 May 2019	31 Aug 2020	31 July 2021	31 July 2022
Completion of Audit Deadline	31 July 2019	30 Nov 2020	30 Sept 2021	30 Nov 2022
Audit Committee Sign Off	23 Oct 2020	July 2022	Dec 2022	Mar 2023

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There are currently very tight timescales for the preparation and audit of the council's final accounts

Many councils, including LBBD, are experiencing significant delays in the accounts audit process

The external audit market is under significant pressure due to

- The knock-on effects of private sector audit issues, requiring auditors to be more sceptical
- A renewed focus on material account balances
- A shortage of auditors – both firms and individuals

04

What Finance Does

What Service Does Finance Provide to the Council and Members

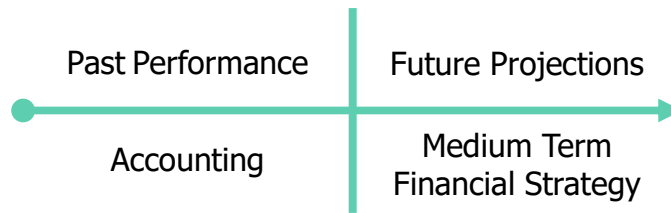
Presentation



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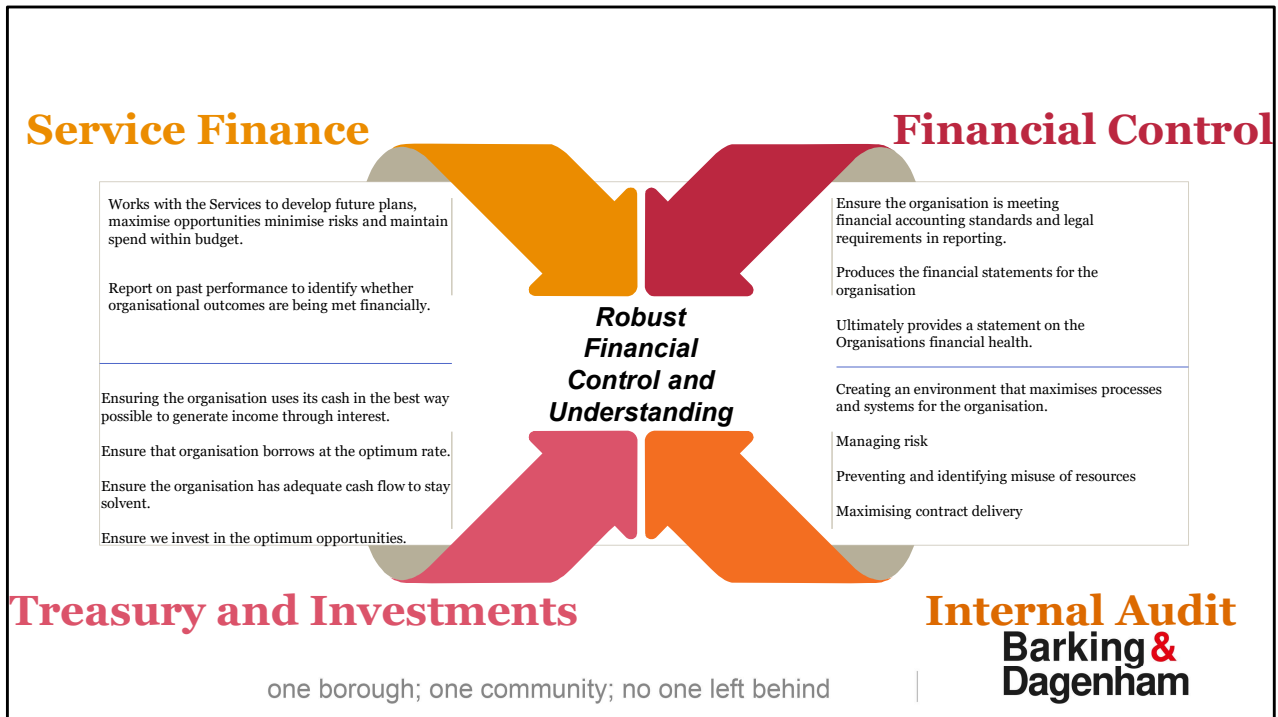
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What do we do?



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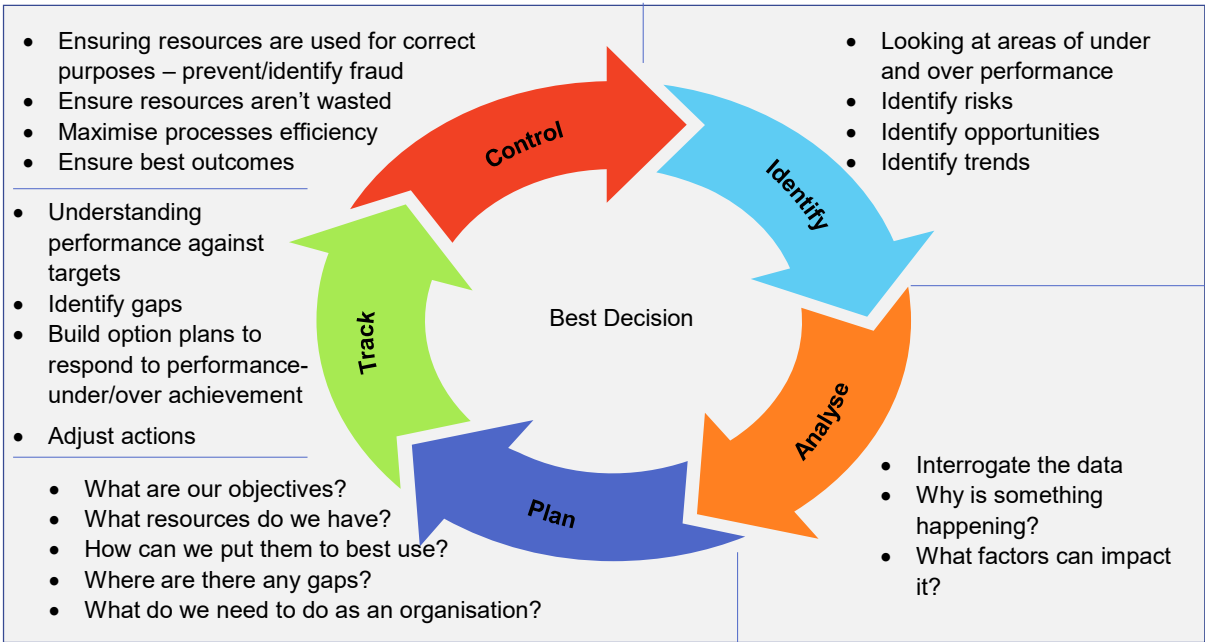
Four Key Sectors in Finance – we work together but have distinct roles and responsibilities.

Service Finance

Treasury and Investment – Capital included – best use of assets includes disposals as well as investment opportunities

Financial Control

Internal Audit



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What that means for Members



Reporting on past performance identifies warning signs for Members. It also identifies possible opportunities.

It will create decision points on future actions to address risks or maximise opportunities both in the short term and long term.



Horizon scan - look at what is coming down the track

Scenario plan – look at the different ways things could play out

Build a plan to deliver the Organisation objectives and deliver Value for Money

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Four sections work together to support the organisation and to provide Members both the past perspective, and the future planning and strategizing function.

This is done whilst ensuring financial control and accounting standards are being met and adhered to.

What does good look like?

- Corporate strategy makes clear the priorities and aims of the organisation
- Service planning that translates these into measurable actions
- Integrated capital and revenue planning
- Robust business cases for new projects
- Financial Stability – MTFS

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All these elements are interlinked.

Aligning spend to priorities and ensures focus on what the organisation wants and needs to achieve. This also means aligning Capital and Revenue as often projects will require both aspects.

Robust Business Plans, ensure that the best outcomes are delivered for the best price ‘bang for your buck’ and that we know what the risks are that need to be monitored. This allows us to respond and be agile to risks and opportunities.

Financial Stability is essential for service delivery – this is built and demonstrated through the MTFS – it lays out how we are going to meet our objectives and what steps financially we need to take – savings and growth. The money is where it needs to be.

Key Reports

- **MTFS and Budget Planning Reports**
 - July and November/December Cabinet
- **Budget and Council Tax Setting**
 - February – must be approved by Cabinet and Assembly
- **Outturn Report**
 - June Cabinet
- **Regular Budget Monitoring**
 - Monthly Revenue and Quarterly Capital Cabinet (Sept – Feb)
- **Treasury Management Annual Report & Strategy**
 - June and February Cabinet

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MTFS – Longer-term medium strategy. This spans four years and ensures the Council has long term stability. It is key for allocated resources at a high level for the delivery of organisation outcomes. For understanding what measures need to be taken to deliver financial stability.

Budget planning and setting – takes the funding envelope (how much money you have to play with) for the year and breaks it down to granular detail between directorates, then down to department levels and down to the lowest level in the Council.

Council Tax will be set – Finance take two key considerations into account before making a recommendation to Members 1, the uplift possible as dictated by Central Gov, and 2, What income is needed to balance the MTFS.

Monthly monitoring - Reporting, Control and Decision Points.

Treasury Management Annual Report and Strategy – best investments, best borrowing rates and timings to deliver the organisations outcomes

What should Members consider in reports?

If proposing something new – do we have the money, is the proposal the best for value for money, will it deliver the Organisations outcomes?

What are the main risks to achieving the outcomes – how are we monitoring those risks? Where are we reporting that monitoring?

Are there any warning signs – be sure you know what a warning sign would look like and how you could identify it – i.e., RAG rating

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Value for Money is a balance of cost, output and outcome

Do you have the information you need to evaluate whether a service provides value for money over time?

How do you compare with other providers (councils, private sector, third sector?)

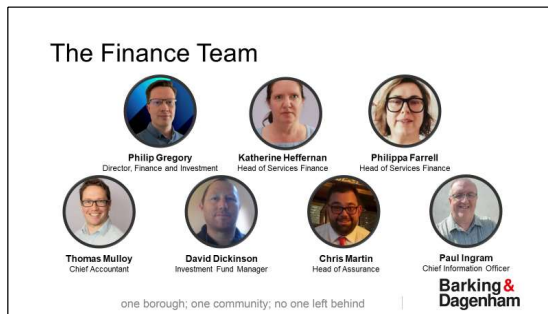
Stress Testing – This will identify key factors that could impact delivery. We can monitor these

KPIs – this is something we are looking at developing further but ensuring for the money you are getting the outcome that is needed for the Council. Members will see performance and spend data so checking they align is key.

Always ask questions - we are here to help you and make sure you can fulfil your responsibilities

The end

- Recap:
 1. There is no money!
 2. Future Funding is uncertain
 3. You have an important governance role



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one borough; one community; no one left behind

**Barking &
Dagenham**