

Local Council Financial Affairs

Parish and Town (Local) Councils are responsible for conducting their financial affairs properly. Local Councils are Local Authorities and they are able to function through collection of a share of the Council Tax (the “precept”). The fact they are spending public money means they have to be open, transparent and accountable; they have to agree as a body what money they spend and what on; they have to ensure that the money they spend is in accordance with the law and they should be spending it with value and effectiveness in mind.

This guidance sheet explores what is required by law, what a council may do and the rights of the public with regard to its financial affairs.

Governance and Internal Controls

The local council must ensure that proper practices are in place when carrying out its financial administration. Under s151 of the Local Government Act (LGA) 1972, they must:

“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.”

This officer is very often the clerk but it can be another person. They are known as the **Responsible Financial Officer** (RFO). The RFO is responsible for compiling budgets and precepts and ensures proper practices are adhered to in financial administration. Ultimately, however, financial decisions and propriety lie with the council.

When making decisions to spend money, the law should be followed at all times. The council may only spend money on things which, by law, it has the power to do. Any decisions to spend money should be carried out at properly constituted council meetings, by committees with delegated functions or in certain situations by an officer with the delegated power*.

Section 150 of the LGA 1972, (which says that every cheque or other order for the payment of money by a local council must be signed by two members of the council), has been repealed by a Legislative Reform Order (LRO) which came into force in March 2014.

Looking Further

* More information on powers and delegated functions can be found in guidance sheets 3 and 4 – Powers & Duties and Meetings & Procedures.

This means that councils may now use other forms of payment and ways of banking but it does require them to have safe and efficient arrangements to safeguard public money in place. The two signature rule must not be abandoned until these arrangements are put into place and guidance advises that more than one person should be involved in any payment.

The council's Financial Regulations should make clear the banking arrangements and the processes for making payments.

Local councils will go through a budgeting process each year, forecasting its income and expenditure. It is on this budget the precept demand is based, once any other income is taken into consideration. The precept is collected on the local council's behalf by the principal authority for the area.

When the local council sets the precept, it bears in mind what reserves it may hold and whether these reserves have been earmarked for anything.

Local Councils must complete an **Annual Return**. When doing this, the council must make an **Annual Governance Statement**. This makes up a number of declarations which include:

"We have maintained an adequate system of internal control, including measures designed to prevent and detect fraud and corruption and reviewed its effectiveness."

By agreeing to this declaration, the council affirms that it has internal procedures in place and they have tested them at least once a year to ensure they are adequate and effective.

"Internal Control" refers to the systems the council has in place to ensure that finances are dealt with properly and the law followed, and to the **Internal Audit** which a council must have. The statement confirms that whatever system is in place for the Internal Audit, it continues to be effective. The internal audit is carried out by someone independent from the council who is competent in local council finance and understands accounting processes and the laws which govern local councils.

The kinds of things the internal auditor checks include the following:

- There is a process for the management and assessment of risk
- Standing orders* and financial regulations are up to date
- Proper practices have been followed in the administration of financial affairs.
- Payroll is being properly administered
- Accounts are being kept correctly
- Assets are being properly accounted for

Looking Further

* Councils should have Standing Orders and Financial Regulations in place. More information on Standing Orders can be found in guidance sheet 4 on meetings and procedures.

Financial Regulations are terms of reference for the council which outline the procedures it follows with regards to financial administration. They include budgeting and precept procedures, banking arrangements, payments, assets, insurance, accounting for risk and contracts and tenders. All councils should have adopted Financial Regulations relevant and appropriate to them.

Councils should have both an **asset register** and **risk assessments** in place. These should be reviewed regularly.

Insurance cover should also be continuously reviewed. Councils must, by law, have cover for employers' liability and fidelity risks but also should, at a minimum, carry public liability cover in addition.

Accounts and Audit

Under this heading, the accounting practices outlined are relevant to small and medium sized councils. There are different procedures for councils with income or expenditure exceeding £1 million.

There is a requirement for local councils to prepare accounts on an annual basis. They are then subject to an external audit carried out by a designated professional company.

Councils must approve the annual accounts and then complete an annual return to report these accounts. The annual return declares that statutory duties have been carried out and carries the signature of the Internal Auditor to confirm they have been subjected to this process.

Part of the annual return is to be displayed to the public once it has been certificated by the **External Auditor**.

The External Auditor will provide a date of audit, prior to which members of the public (i.e. electors for the area), may ask questions or raise objections about the accounts. There will be a twenty working day period in which the accounts and supporting documents will be available for public inspection and this will be notified on notice-boards and on council websites. This notice will include the times and places they will be available during this period.

Members of the public should give reasonable notice of the fact they wish to inspect documents and whilst the council is expected to be open and transparent, the council may legally withhold certain personal information.

Looking Further

Governance & Accountability – A Practitioner's Guide is a practical tool covering local councils' responsibilities with regards to financial affairs. It can be downloaded from <http://www.slcc.co.uk/bookstore/details/governance-and-accountability-england-practitioners-guide/43/>

Once this period has expired, the audit takes place. As soon as possible after the audit the council must publicly display its statement of accounts and auditor's certificate.

A notice of public rights of inspection will then be displayed for at least 14 days. This notice will say that the audit has been completed and the annual return is available for inspection.

Loans

A local council may borrow money for something which is capital expenditure as defined in the Local Government Act 2003. This can be something which the council is doing itself, or which is granted to another organisation to do.

A council may borrow from a number of sources but the most popular choice is the Public Works Loan Board (PWLB). The PWLB website can be visited at http://www.dmo.gov.uk/index.aspx?page=PWLB/PWLB_pc_lending

In order to apply for a loan, a local council must first obtain borrowing approval from the Department of Communities and Local Government. In England this is acquired by the council via the County Association of Local Councils (CALC). A list of CALCs can be found at <http://www.nalc.gov.uk>

In its application for borrowing approval the council must show that it has resolved to carry out the project/give the grant and apply for a loan. It must show that it has been properly budgeted and the repayments are affordable and realistic.

The amount that a council may borrow is usually limited to no more than £500,000 per financial year for a single purpose and the cost of the project should be more than the aggregate of the number of electors for the area multiplied by £5.

If the council is borrowing funds to grant to another organisation, it may only borrow to grant to a project which it has the power to do itself.* A council may not borrow to lend to a group or project, such as a village hall, as this is not capital outlay.

VAT and Community Groups

Local councils are able to claim back VAT and for this reason are sometimes approached to purchase things on behalf of other groups.

The only way in which local councils may claim back VAT is on purchases they have made for themselves on things they have the power to spend. This means that if, for example, a Village Hall has approached the council to purchase chairs on its behalf; the council can do one of three things:

- Purchase them with local council funds, and retain ownership of them
- Purchase them with local council funds and grant them to the Hall
- Grant funds to the Hall to contribute to the purchase of their chairs

It is not legal for the local council to purchase something on a group's behalf, reclaim the VAT and then receive funds from the group to cover the purchase less the VAT.

Looking Further

* More information on powers can be found in guidance sheet 3 on powers and duties.