


Local government financial overview 2015/16

Self-assessment tool for councillors

ACCOUNTS COMMISSION 



This self-assessment brings together a number of potential questions for councillors related to [Local government in Scotland: Financial overview 2015/16](#) . It is designed to help councillors identify how well informed they are about each area and to highlight areas where they may wish to ask further questions.

We have also included a high-level guide to the main service expenditure on an accounting basis (as identified in the accounts) and on a funding basis (as used for budgeting purposes).

How well informed am I?

Questions for councillors to consider

What do I know?

Do I need to ask further questions?

Annual accounts and financial transparency (paragraphs 10 to 12)

- Does the management commentary of our annual accounts provide a clear and easily understandable account of the council's finances?

Funding and income (paragraphs 13 to 25)

- How do you consider potential changes to income streams and their impact on spending and services as part of medium and long-term planning?
- Is income from fees and charges clearly reported?
- What increases in fees and charges are planned and how will these affect our citizens? Do you consider local economic impacts?

How well informed am I?

Questions for councillors to consider

What do I know?

Do I need to ask further questions?

- How do your fees and charges compare to other councils?

Capital investment (paragraphs 26 to 28)

- Is your capital investment programme appropriately funded?
- Do you know what slippage there has been in capital projects and why? Are you assured that appropriate action is being taken?

Council budgeting (paragraphs 37 to 42)

- Do service budgets reflect your priorities?
- Are potential overspends highlighted to you as they occur and before year-end?
- Are there services where you are consistently over or under spending against your budget? Are such variances adequately explained?

Council workforces (paragraphs 43 to 45)

- Are exit packages supported by business cases setting out the total estimated costs and savings?

Reserves (paragraphs 46 to 49)

- Do you know what levels of reserves are needed, and why?
- Do you think reserves are being used effectively?

Debt (paragraphs 50 to 62)

- Are there clear links between the capital programme and our treasury management strategy?

How well informed am I?

Questions for councillors to consider

What do I know?

Do I need to ask further questions?

- Do you know what the implications that different types of borrowing options have on future revenue budgets?
- Do you know the split in debt between General Fund and HRA (where applicable)? Is this reported within your management commentary?
- Do you know how debt repayments affect what money is available to spend on services?

Financial strategies and plans (paragraphs 72 to 77)

- Do you have a long-term financial strategy covering five to ten years?
- Are there clear links between the financial strategy and the vision for the future?
- Is the long-term financial strategy supported by detailed plans covering a minimum of three years?
- Do financial plans set out the implications of different levels of income, spending and activity?
- Is there a clear link between the council's revenue plans and the budget information you are asked to approve?

Funding gaps, savings and service transformation (paragraphs 78 to 87)

- Do financial plans identify the differences between income and expenditure for the next three years?
- Do you know the actions being taken to close the funding gap?
- Do you know what plans there are to redesign services and deliver savings?

How well informed am I?

Questions for councillors to consider

What do I know?

Do I need to ask further questions?

- Are savings plans realistic within agreed timescales?
- Are all savings clearly identified and categorised as recurring or non-recurring (ie, one-off) savings?
- Is the council reliant on non-recurring savings?
- Do you know what will happen to the reserves if savings are not made?

Scrutiny considerations (paragraph 88 to 89)

- Do you feel you have the knowledge and expertise to scrutinise your finances effectively?

The differences between financial information presented on a funding and an accounting basis

Council accounts show spending on services on an accounting basis which is higher than the amounts council's budget to spend

1. Councils prepare their annual accounts based on International Financial Reporting Standards. These are the same standards followed by large private sector companies and they set out the principles and rules that apply for accounting. The Code of Practice on Local Authority Accounting in the United Kingdom, published annually by CIPFA, interprets how these standards are to be applied to councils.

2. Some spending on services recorded in the accounts does not need to be funded from available resources in the year. Conversely some of the things that councils do need to fund in the year, by statute and regulation, are not required to be treated as spending by companies. Councils set their budgets on the basis of what needs to be funded in the year. This means they budget for the amounts they need to either pay or to set aside.

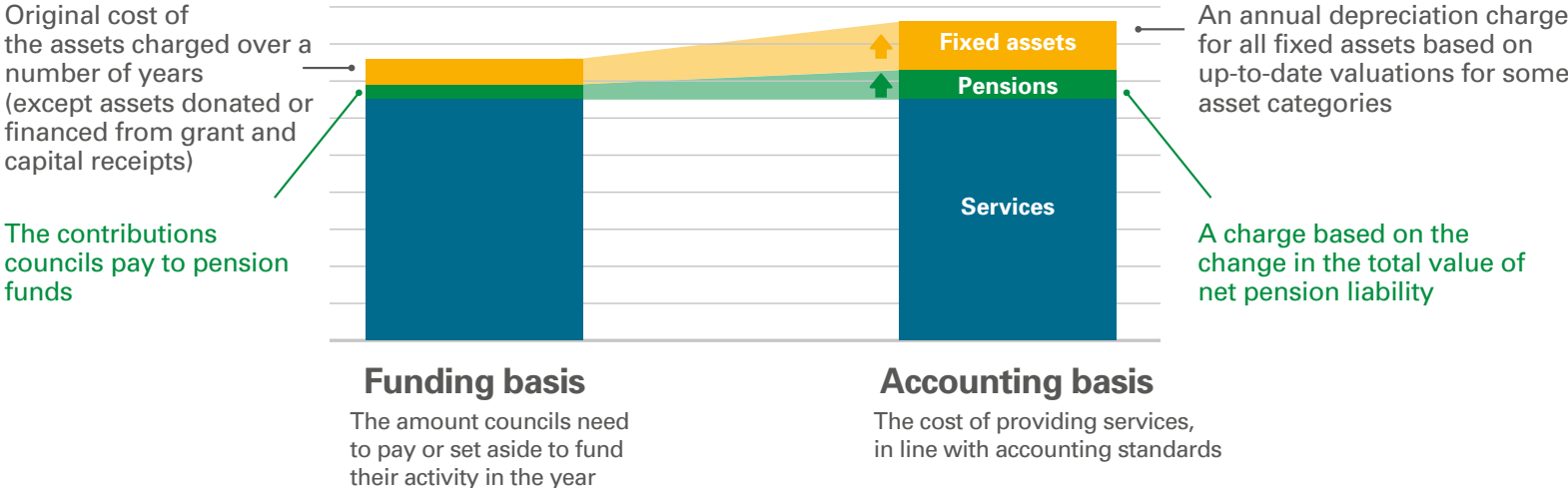
3. Councils' annual accounts include details of the adjustments necessary to get from an accounting basis to a funding basis. However, this complex area is not always well explained. Councils have found it difficult to link the figures in the annual accounts with those in budget reports. The [Exhibit 1 \(page 5\)](#) overleaf shows the main differences between service expenditure on an accounting basis (as identified in the accounts) and on a funding basis (as used for budgeting purposes).

4. From 2016/17, councils will be required to include an expenditure funding analysis showing more clearly the differences between the figures in the accounts and those that officers and members will be more familiar with from budget reports. The Commission welcomes this development as it is hoped this will present figures councillors are more familiar with and therefore make the accounts more useful at a local level and improve scrutiny of the accounts.

Exhibit 1

The main differences between a funding basis and an accounting basis

The main differences are in respect of pensions and fixed assets.



Source: Audit Scotland



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