Council finances – guide for negotiators

UNISON BRANCH GUIDANCE

UNISON
the public service union

Contents

Introduction

The UK economy is facing a crisis - the deepest since the 1930s. We all know where responsibility for that crisis lies. It's certainly not with UNISON members or people who depend on the public services we provide. Banks and building societies have been glad of the billions of pounds of taxpayers' money used to cover up their poor management and the personal greed of those who run them and keep the economy afloat. But now they – together with their friends in the City, the CBI and the Conservative party – are calling for public expenditure cuts. That means your job, the services you provide and the services which local communities depend on.

Right across Tory-led local government, the recession is being used as the reason for cuts and redundancies. In the last 15 months alone, 15,000 jobs have gone from UK councils and key services are being slashed everywhere. UNISON is not prepared to swallow that argument. Some councils have lost income as a result of the recession and the Icelandic banking crisis, but we know that overall government grants to local authorities will rise by over 3% this year and that local government has received above-inflation increases in its grants every year since 1997. We also know that while councils in England budgeted to use over £1 billion of their reserves to balance their budgets in 2008, when their accounts were closed they had actually added £242 million to their reserves.

The Local Government Association (LGA) boasts of the fact that it has made 50% more so-called 'efficiency' savings than the government asked it to. And now some councils are adding insult to injury by making the decision to freeze or cut council tax, creating large holes in their own budgets in the process. In doing so, they are putting vital services at risk, threatening your livelihoods and damaging local economies, which depend on spending by council employees and other public service workers. What's happening is as much about the Conservatives' intention to shrink the state as it is about the recession. Many of the redundancies and cuts we have seen are not necessary. When we have looked at council finances, we have frequently seen that many of the problems arise from council tax freezes or cuts, unwise expenditure on consultants or privatisation or just poor financial management.

This guide has been written to help your branch and your activists to understand your council's finances and why council tax freezes and cuts are a bad idea, so that you can argue with your employers and elected representatives for alternatives to cuts and redundancies from a position of knowledge and strength. We need to give our members the confidence that they don't have to take the attack on public services lying down and the knowledge that there is an alternative. Some branches have already mounted successful campaigns across their communities and workplaces by 'opening the books '. Use this guide to start your local fightback today.

Heather Wakefield

About this guide

Council finances can appear daunting. Like any new topic, there is new jargon to learn – and not everyone likes numbers. The local government service group has been working with UNISON branches and regions to help them understand council finances and council tax and we are beginning to get results in negotiations and campaigns over cuts and redundancies.

This guide begins by looking at the financial prospects for local government in England and Wales for 2010/11, based on decisions already made by the government and Conservative party policy. It:

- shows branches and paid officials why it is vital to understand your council's medium term financial strategy and budget preparation
- identifies the financial information available about your council and where to find it
- shows you what you can find out from each of your council's financial documents and highlights the issues that you might need to explore further
- contains a glossary of terms relating to council finance
- helps you develop a communication and campaign strategy.

You may need some advice and support during your initial exploration of your council's finances. If so, please contact your regional head of local government or your regional organiser in the first instance. There may be members of your branch who are council finance experts too. The local government service group will give them further advice if they need it.

Common jargon

Here are some of the terms and words you are likely to find – a more detailed glossary is at the back:

Area based grant

A general government grant for the area. Decisions on how to spend it are made by the local strategic partnership.

Budget

The financial plan for the next financial year - councils must set their budgets by 11 March each year.

Business rates (or national non-domestic rates)

Taxes paid by businesses which the council collects. The money is paid into a central government pot and then re-distributed between councils as part of their funding.

Capital

Spending on an item that will last a long time such as a new school or a new roof.

CIPFA

Chartered Institute of Public Finance and Accountancy

Council tax

Tax collected locally based on the value of a property (in 1991) and the number of people living in the property.

Direct services trading account

Some services must keep separate accounts showing their income and expenditure – a hangover from CCT.

Dedicated schools grant

A sum of money from central government that is distributed to schools by the council using a formula agreed by the schools forum.

Earmarked reserves

Reserves set aside for a specific purpose.

Formula grant

The term given to business rates plus revenue support grant.

General fund

The main council fund for local services.

General fund balance

Unallocated reserves or balances.

General grants

Grant from central government where the council can decide what to spend the money on.

Housing revenue account

A separate account for the housing service for councils that still own their own housing, or have set up an arms-length management organisation (ALMO).

Local strategic partnership

The public bodies that provide services locally plus representatives of business and the voluntary sector.

Medium term financial strategy/plan

A forward look at the council budget for the next three, four or five years.

Out-turn

The actual financial figures for the financial year.

Revenue

Day-to-day expenditure

Revenue support grant

A grant from central government to support the costs of running local services (also see formula grant).

Section 106 agreement

An agreement between a council and a developer that money will be paid to enable things associated with a planning application to be provided.

School reserves

Balances built up by schools that can only be spent by schools.

Specific grants

Grants from central government that can only be spent on the activity they are provided for.

Statement of accounts

The statutory document that details the accounts for a council, published each year.

What is in store – the economic outlook for 2010/11

What is the government doing?

The government is keeping to the comprehensive spending review. It takes the view that reductions in public spending now would be economically damaging and would threaten both the pace of recovery and the ability to move out of recession.

> ***And let me be clear – in line with the government's policy on three-year settlements, it is not intended that the 2010/11 formula grant proposals will be changed from those published today.***
> (Statement on local government finance in England, 2009/10, 26 November 2008, John Healey MP, local government minister)

About 75% of council funding comes from central government.

Formula grant - made up of revenue support grant (RSG), national non-domestic rates (NNDR) for receiving authorities and police grant – will rise by £748 million (2.65%), from £28.248 billion in 2009/10 to £28.996 billion in 2010/11.

Specific and general grants (for example, dedicated schools grant, area-based grant but not PFI grant) will rise by £2.065 billion (4.26%) from £48.437 billion in 2009/10 to £50.502 billion in 2010/11.

Council tax now accounts for about 25% of council income. Decisions about the level of council tax are made by individual local authorities.

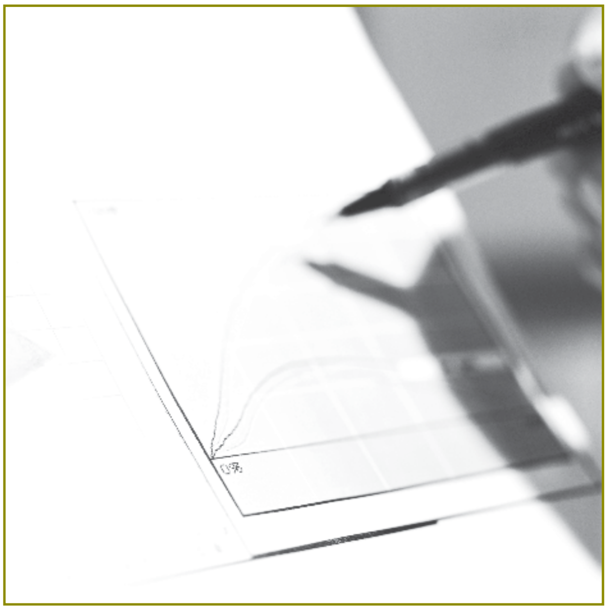
Council tax income (officially called the 'demand on collection funds') increased by £858 million (3.46%) from £24.775 billion to £25.633 billion between 2008/09 and 2009/10.

So the overall outlook for 2010/11 partly depends on the decisions made by councils about their council tax.

Table 1

Financing local government in England 2010/11

Income source	2010/11
Specific and general grants (excluding PFI)	+4.26%
Formula grant	+2.65%
Council tax	+1.8%



Conservative party policy – freezing council tax

The Conservative party is now the dominant force in local government. The Conservative's policy of 'freezing' council tax started out as an option for local councils.

> ***In the current economic downturn the last thing that millions of families need is yet another increase in their council tax bill. That is why we have announced that, in the first two years of a Conservative government, councils will also have the ability to contract with central government to freeze council tax. Those councils that take up the contract will have to undertake to hold the rate of rise in council tax to 2.5% or less; and central government will correspondingly undertake to make a payment…equal to 2.5% of that council's council tax – so that bills can be frozen in each such council for the two-year period.***
> (Control Shift – Returning power to local communities, Conservative party, 17 February 2009)

At the launch of the local government election campaign on 5 May 2009, the Conservative message was 'scour the books for savings' but the original commitment of giving councils 2.5% of their council tax remained implicit.

> ***Whether you're re-elected or new to the job, if you win next June, go through the books, page by page, line by line, see what savings you can make, and do everything you can to get council tax down....But as well as doing everything we can to get council tax down today, we're going to do everything we can to keep it down in the future. That's why the next Conservative government will freeze council tax for two years...We will give local people the power to stop massive council tax rises with referendums.***
> (David Cameron, 5 May 2009)

By the LGA conference in July the message had been refined, there was talk of 'austerity', the need for further savings and now 'less money'.

> ***That's linked in to the second thing we've got to do together – and that's finding innovative ways of working efficiently. Today we're living in a post-bureaucratic age, where more people have access to more information in more ways than ever before. This gives us incredible potential for savings.***
>
> ***You've already shown that you can deliver great value for money.***
>
> ***Local government is officially the most efficient part of the public sector – with councils achieving well in excess of the sector's spending review targets, beating central government savings by a country mile. Now I'm asking you to work with us to smash that record, find even more savings, innovate and help bring us through this debt crisis.***
>
> ***I know I've come here today and given you quite a tough message. More powers, yes. But less money. And more transparency... Yes – this new settlement between central government, local government and local people will be forged against a backdrop of austerity…but rather than entering into this challenge by pretending there will be more money and an easy ride after the election…we will enter into it with an honest assessment of how things are.***

On the ground – local budget cuts

This strategy is already starting to be implemented. Some Conservative councils aren't waiting for the outcome of the general election. They are revising their medium term financial strategies and plans now, incorporating new assumptions that council tax will be frozen, in some cases until 2013/14.

Some councils (for example Leicestershire) are assuming that if they freeze council tax they will get an extra grant worth 2.5% of their council tax but others are basing their plans on the assumption that they will not get a penny (for example Nottinghamshire).

Up and down the country multimillion pound budget reductions by 2013/14 are being announced or planned now. These include:

- Nottinghamshire – is planning budget reductions of £84.9 million in the period 2010/11 to 2012/13, with 1,400 jobs at risk
- North Tyneside – Conservative mayor's budget includes cumulative savings of £126 million over the next five years
- Leicestershire – plans to make £70 million of savings over the next four years
- Suffolk – services are facing savage cuts of more than 25%
- West Sussex – the county council has already made hundreds of staff redundant, as part of a major review of services aimed at reducing its budget by £50 million over the next two years
- Devon – the county council aims to reduce its budget as a result of cuts in public spending by shedding 500 jobs over the next two years to save £20 million
- Birmingham – the city council plans to cut nearly 1,300 jobs in a bid to save £27.7 million.

Why should branch and paid officials get involved?

A proactive approach to council finances by UNISON branches is vital. Don't wait until the council is setting the budget – it can be too late, especially if the key financial decisions were made months or years beforehand. Good forward financial planning can identify threats faced by members at an early stage giving branches more time to influence the final outcome.

Financial information – what to look for and where to find it

This section tells you: what financial documents to ask for, what they will tell you, where to find them and when to engage.

The key documents branches should ask for are:

- the latest medium term financial strategy or plan (MTFS or MTFP)
- the budget for this financial year
- last year's budget and out-turn
- the latest statement of accounts.

What do these documents tell you?

Medium term financial strategy

Every council now has to have an MTFS or MTFP. This will cover a minimum of three years although some cover longer periods and look forward five or even 10 years. It is usually updated each year.

The MTFS should include all the key assumptions about the future that are critical to UNISON members – for example assumptions about inflation, pay and pension contributions and whether jobs might be at risk. There will also be assumptions about the levels of future council tax increases, the cuts/savings that the council plans to make, and the contributions to or from reserves. The MTFS may also give UNISON earlier notice of plans for cuts, privatisation, 'shared services' and PFI schemes.

The budget for this financial year

This is the detailed budget for this year. It tells you about the expenditure plans, usually by service area, whether the council plans to put money into reserves or is balancing the budget by using reserves, how much the council expects to get in government grants and from the council tax.

Last year's budget and actual out-turn

This enables you to compare the detailed plan for last year and what actually happened. For example, which areas under-spent and over-spent and whether the council used reserves or put money into reserves.

Statement of accounts

The statement of accounts is published each year. It is the 'official' set of accounts for the council. It will provide details of:

- the council's accounting policies
- the income and expenditure account – look at the notes to the accounts as they provide more details
- a statement of the movement on the general fund balances (see common jargon). This will tell you whether have they gone up or down
- details of the movements in revenue reserves – schools reserves, earmarked reserves and general fund reserves or balances – have they gone up or down?
- a statement of the capital reserves including details of the level of usable capital receipts – these are capital receipts that are available to finance new capital expenditure
- details of any 'provisions' – A provision is an amount set aside in one year for liabilities or losses which are likely or certain to be incurred, but the amounts or the dates on which they will arise are uncertain
- details of the collection fund account – this is a statutory account for billing authorities. It shows the transactions of the billing authority in relation

to collecting non-domestic rates and the council tax, and how sums have been distributed to preceptors and the council's own general fund
- details of the direct services trading accounts and whether each traded at a surplus or deficit
- details of the housing revenue account (HRA) – local authorities that have kept their housing stock are required to maintain a separate account, the HRA, which sets out the expenditure and income arising from the provision of housing. Other services are charged to the general fund
- details of associated company interests and holdings. A council could have investments and/or interests in companies. Usually the companies in which the council maintains investments are listed in a note to the accounts
- joint finance arrangements with health authorities and primary care trusts
- details of the local government pension scheme and the admitted bodies to the scheme
- the number of employees whose pay (including pension contributions) was £50,000 or more – set out in bands of £10,000
- The total amount of members' allowances paid in the year ending 31 March.

Where do I find them?

Usually these documents can be found by searching on the council's website.
The best councils have a web page that incorporates most – or all – of these documents.

If your council does not do this, UNISON branches should suggest that they do to increase accountability, to make important information available to the local community and to strengthen local democracy.

Here are some helpful tips about finding them:
Statement of accounts
Usually published from June onwards for the previous financial year (1 April to 31 March) - sometimes a draft is published if the auditors haven't signed it off. Go to your council's website and search for statement of accounts. If it doesn't appear here, see if there is an audit committee and check the meetings from June to October.

Medium term financial strategy
Go to your council's website and search for medium term financial strategy. If this fails try again with medium term financial plan. If this also fails, go to the cabinet/executive meetings page and check the February agenda. The budget papers often include the MTFS or plan.

If they don't – look up the agendas for April, May June and July.

Budget
Go to the council's website and search for council budget (insert year). If this fails – go to the February cabinet/executive or council meeting agenda.

Out-turn
Go to your council's website and find the cabinet/executive meetings page. Look up the agendas for June, July, August and September – some councils take longer to close their accounts than others.

Using the medium term financial strategy for bargaining

The MTFS should be a regular item on the agenda of your joint negotiating bodies. Wherever possible, UNISON branches should discuss the proposed MTFS before it is adopted by the cabinet/executive or council.

You need to:
- make it standard practice for your council to supply UNISON with a copy of the draft and final MTFS, the statement of accounts, the draft and final budget for the following financial year and the budget and out-turn report for the previous financial year
- identify when in the financial cycle the MTFS is usually agreed by councillors and which body agrees it (different approaches are adopted in different councils)
- seek formal consultation on the proposed MTFS before it is agreed by the council
- place the MTFS on the agenda of the joint trade union/employer negotiating body at the most appropriate time
- make sure the assumptions about pay inflation (%); price inflation (%); interest rates (%);

percentage vacancy rates; council tax increases (%); fees and charges (increases (%), formula grant increases (£million); budget pressures (£million); savings requirements (£million) are clearly stated
- where there are budget pressures ask for a detailed breakdown.

Information gathering

Ask the council to provide UNISON with the following:
- a copy of the latest statement of accounts
- the relevant extracts from the statement of accounts for the last three years, setting out both the level of school, earmarked and unallocated capital and revenue reserves, together with a copy of changes to the balances – called the statement of the movement in balances
- a copy of the latest medium term financial strategy (MTFS)
- a copy of this year's budget and the budget report to cabinet/executive or council
- a copy of the out-turn report to cabinet/executive or council for the last two years
- the number of properties in each council tax band.

Getting a clearer picture – the key issues

This section looks at a number of financial issues and shows you why it is important to look at these areas.

Budget vs out-turn

A budget is a set of financial plans and it can be very different to what actually happens. It is quite reasonable to approach the preparation of the budget cautiously, but councils may try and present a picture that is bleaker than the real situation.

For example, in a paper to the trade unions, one council said;

However, the bold fact remains that the council's budgets are squeezed each year, to such an extent that the budget rounds in the last three years have started with budget gaps (i.e. projected overspends) of:

- *2007/08 - £940,000*
- *2008/09 - £990.000*
- *2009/10 - £2,000,000.*

But what had actually happened? At the end of the financial year 2007/08 this council reported an over-spend of just £5,000 and added £903,000 to its financial reserve.

At the end of the financial year 2008/09 it reported an under-spend of £54,000 and added £295,000 to its financial reserves. The latest figure for the projected overspend in 2009/10 is now £450, a significant change to the £2 million that had been included in the paper provided to the trade unions.

UNISON sees this happen nationally too.

Before we look at what happened in 2008/09 – look at what happened from 2003/04 to 2007/08.

Every year from 2003/04 to 2007/08 local councils in England budgeted on the basis that they would need to use their reserves to balance their budgets.

In 2003/04, when councils set their budgets, they said they would need to use up £246 million of their reserves. However, when the accounts were finalised they had not taken £246 million out of their reserves, they had put £1,256 million into their reserves.

This was not a one-off. It happened every year.

At budget time, councils said they would need to use some of their reserves but when the accounts were published they had added to their reserves, not reduced them. When councils in England set their budgets for 2007/08 they said they needed to reduce their reserves by £890 million but when the final accounts were published they had added £1,499 million to their reserves.

Table 2

Table comparing English local authority budget assumptions with their final accounts 2003/04 to 2007/08

	Budget assumption All Reserves	Final Accounts All Reserves
Year	£m	£m
2003/04	-246	+1265
2004/05	-572	+1339
2005/06	-511	+810
2006/07	-572	+695
2007/08	-890	+1499

What happened in 2008/09

This was a tough year financially, so when councils set their budgets UNISON was not surprised to see that councils in England were planning on the basis that:

- school reserves would fall by £35 million
- earmarked reserves would fall by £927 million
- unallocated reserves would fall by £231 million
- overall councils planned on the basis that reserves would fall by £1,193 million or £1.193 billion.

But what actually happened?

Table 3
Budget assumptions compared with final accounts - local authorities in England 2008/09

	Schools reserves £m	Earmarked reserves £m	Unallocated reserves £m	All reserves £m
Budget assumption	-35	-927	-231	-1193
Final accounts	-142	+337	+47	+242

In December 2009 the Office of National Statistics published the final account out-turn figures for 2008/09. These showed that

- school reserves did fall – by £142 million – £107 million more than the £35 million forecast
- earmarked reserves did not fall by £927 million – instead they were up £337 million
- unallocated reserves did not fall by £231 million – instead they were up £47 million
- overall councils added £242m to their reserves.

In the face of the biggest economic downturn since the great depression, local authorities had increased their reserves (school, earmarked and unallocated) by £242 million.

Reserves

There are three main types of reserves:

- school reserves
- earmarked reserves
- unallocated reserves.

The table below shows how local authority reserves in England have grown since 1997.

Table 4
Table showing level and use of revenue reserves for English local authorities at 1 April 1997 to 2009

	Revenue reserves £ millions				Non schools% change over previous years
At 1 April	Schools	Other earmarked	Unallocated	Non-schools total	
1997	538	3,354	2,254	5,608	-
1998	499	3,336	2,011	5,347	-4.7
1999	539	3,799	2,064	5,863	9.7
2000	694	3,895	1,863	5,758	-1.8
2001	1,007	4,047	1,755	5,802	0.8
2002	1,103	3,732	1,756	5,488	-5.4
2003	1,132	4,198	2,224	6,422	17.0
2004	1,315	5,484	2,678	8,162	27.1
2005	1,498	6,831	2,774	9,605	17.7
2006	1,596	8,104	2,939	11,044	15.0
2007	1,760	8,112	3,201	11,313	2.4
2008	2,003	9,059	3,304	12,363	9.3
2009	1,861	9,396	3,351	12,747	3.1

Source: Revenue out-turn returns; revised out-turn 08/09

What are the rules about reserves?

There are no rules but there is guidance. The guidance to local authorities from the Chartered Institute of Public Finance and Accountancy (CIPFA) was issued in November 2003 (Local Authority Accounting Panel 55). In November 2008, CIPFA issued revised guidance to local authorities on reserves to reflect the difficult economic circumstances (Local Authority Accounting Panel 77).

Is there a minimum level of reserves that a council must hold?

In Scotland, reserves can be established only where there are explicit statutory powers. Schedule 3 of the Local Government (Scotland) Act 1973 (as amended) permits certain Scottish local authorities to establish a renewal and repair fund, an insurance fund and a capital fund (including capital receipts). Scottish local authorities may 'earmark' specific parts of the general fund reserve.

In England there is no prescribed level of reserves nor is there a prescribed percentage of net revenue expenditure that must be held as reserves. The government and CIPFA both take the view that this is a matter to be determined locally, although the district auditor holds powers under S114 of the Local Government Finance Act 1988, to report to councillors and require them to consider a report on the matter.

> ***Within the existing statutory and regulatory framework, it is the responsibility of the finance director to advise local authorities about the level of reserves that they should hold and to ensure that there are clear protocols for their establishment and use.*** (LAAP 55)

> ***In order to assess the adequacy of unallocated general reserves when setting the budget, chief finance officers should take account of the strategic, operational and financial risks facing the authority.*** (LAAP 77)

CIPFA advises that:

> ***When reviewing their medium term financial plans and preparing their annual budgets local authorities should consider the establishment and maintenance of reserves. These can be held for three main purposes:***
>
> - ***a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves***
> - ***a contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves***
> - ***a means of building up funds, often referred to as earmarked reserves (or earmarked portion of the general fund in Scotland), to meet known or predicted requirements; earmarked reserves are accounted for separately but remain legally part of the general fund.***

Earmarked reserves

Earmarked reserves have grown by more than 100% since 2003. It is critical that every earmarked reserve is reviewed regularly to decide whether the amount is appropriate and whether it is still needed (In the current circumstances this should be done annually).

CIPFA advises:

> ***For each earmarked reserve (earmarked portion of the general fund in Scotland) held by a local authority there should be a clear protocol setting out:***
>
> - ***the reason for / purpose of the reserve***
> - ***how and when the reserve can be used***
> - ***procedures for the reserve's management and control***
> - ***a process and timescale for review of the reserve to ensure continuing relevance and adequacy.***

Note: local authorities will also provide details of the pensions reserve that relates to the local government pension scheme and will list the following other reserves in their accounts:

- the revaluation reserve
- the capital adjustment account
- the available-for-sale financial instruments reserve
- the financial instruments adjustment account
- the unequal pay back pay account.

These reserves are not available to meet revenue or capital expenditure and more detailed explanations for each one are given in the appendix.

Council tax

This section does not apply in Scotland where council tax levels have been frozen.

Local politicians have a tendency to announce council tax freezes before they know what the financial consequences are. Almost always they haven't asked voters or set out clearly the choices at stake. This is a classic example of 'shooting first and asking questions later'.

But apart from fees and charges, such as income from planning applications and leisure centres, the level of the council tax is the only important decision about your council's income that is decided locally. It is irresponsible to make decisions without knowing what the consequences will be or consulting local people.

Council tax was introduced in 1992. When politicians talk about council tax they usually refer to the figure for band D. What you pay depends on the band your property is in – and remember that the valuations use 1991 prices. Band A pays two thirds of band D and band H pays twice band D.

As you can see from the table below, most properties are in the lower bands A, B and C. Only 127,000 out of 22,596,000 properties are in band H but they will gain the most from a cut or freeze in council tax.

Table 5

Number of properties (000s) by council tax band and region (England)

	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H	Total
Valuation band ranges	Under £40,000	£40,001-£52,000	£52,001-£68,000	£68,001-£88,000	£88,001-£120,000	£120,001-£160,000	£160,001-£320,000	Over £320,000	
Ratio to band D	6/9	7/9	8/9	1	11/9	13/9	15/9	2	
North east	659	171	169	92	46	20	12	1	1,169
North west	1,320	609	544	314	182	89	60	6	3,124
Yorks and Humber	1,013	453	378	211	132	63	36	3	2,289
East Midlands	732	434	347	206	121	59	34	3	1,937
West Midlands	737	587	450	258	162	88	54	5	2,341
East of England	356	528	651	433	263	143	97	12	2,482
London	113	447	889	839	500	250	201	56	3,295
South east	318	600	935	727	482	291	233	33	3,619
South west	407	572	540	370	247	125	72	7	2,340
Total England	5,654	4,400	4,903	3,450	2,136	1,128	798	127	22,596
% in band	25.0	19.5	21.7	15.3	9.5	5.0	3.5	0.6	100.0
Cumulative %	25.0	44.5	66.2	81.5	90.9	95.9	99.4	100.0	

Freezing council tax levels may sound like a good idea to politicians but it has long- term consequences. It will create a 'hole' in the council's budget because the government assumes that council tax will rise. In London Boris Johnson has been forced to admit that freezing council tax will lead to a loss of 455 police officers by 2012/13.

The graph below shows how a budget hole of more than £1 million opens up in just three years at a small district council in Sussex that revised the MTFP twice and changed its council tax increase assumptions from increases of 3.5% a year to zero. The council lost the income generated by a 3.5% increase. Under the original proposals it would have income of £9.5 million in 2012/13. Instead this will drop to less than £8.5 million because of the freeze to council tax levels.

In this case, the MTFP for July 2008 was based on annual increases of 3.5% a year.

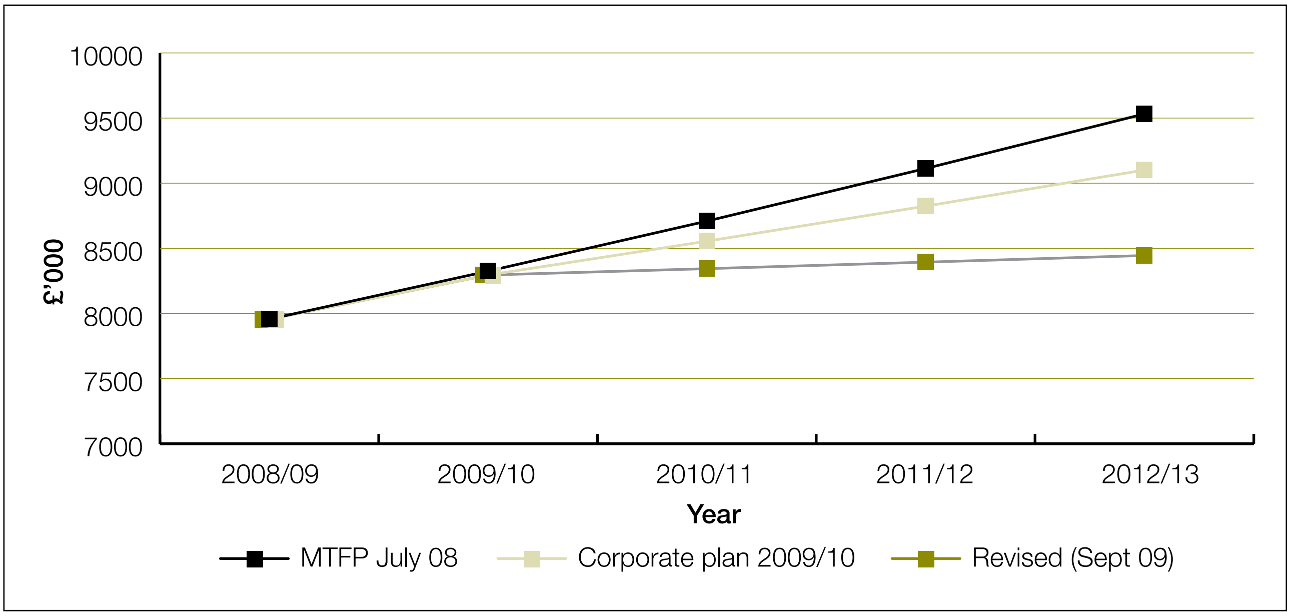
The corporate plan for 2009/10 (February 2009) reduced the actual 2009/10 increase to 3% and assumed 2.5% from 2010/11. The revised corporate plan (September 2009) assumed a freeze on council tax levels from 2010/11, so the only income growth comes from additional properties on which the tax is levied.

Local politicians will often argue that they are saving local taxpayers money by freezing or cutting council tax, but how much are they saving? By 2012/13 the annual saving in this example is just £18.99 a year for a band D property. But public services also form part of the 'social wage' – services and facilities that are provided collectively for everyone.

Around a third of all government spending is on welfare services, such as the National Health Service, state education, social housing, and social care services. The value of these services can be thought of as an income in-kind – a 'social wage' – that represents a substantial addition to people's cash incomes, especially for those at the bottom of the income distribution.

The small financial benefits to individuals from a council tax freeze will usually have be accompanied by cuts in services, reduced access or increases in fees and charges. People who use or rely on public services often find they end up worse off because the increases in fees and charges or the costs of finding an alternative to the public service that is no longer available far outweigh the 'savings' from the council tax freeze.

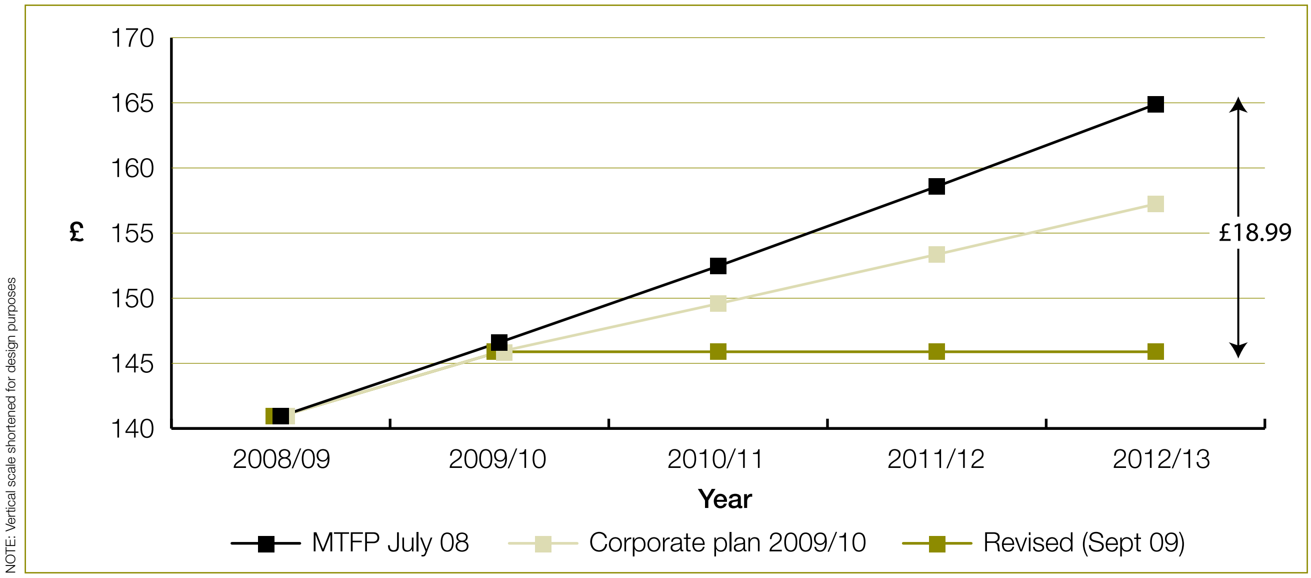
Graph showing the effect of different assumptions on overall council tax income



NOTE: Vertical scale shortened for design purposes

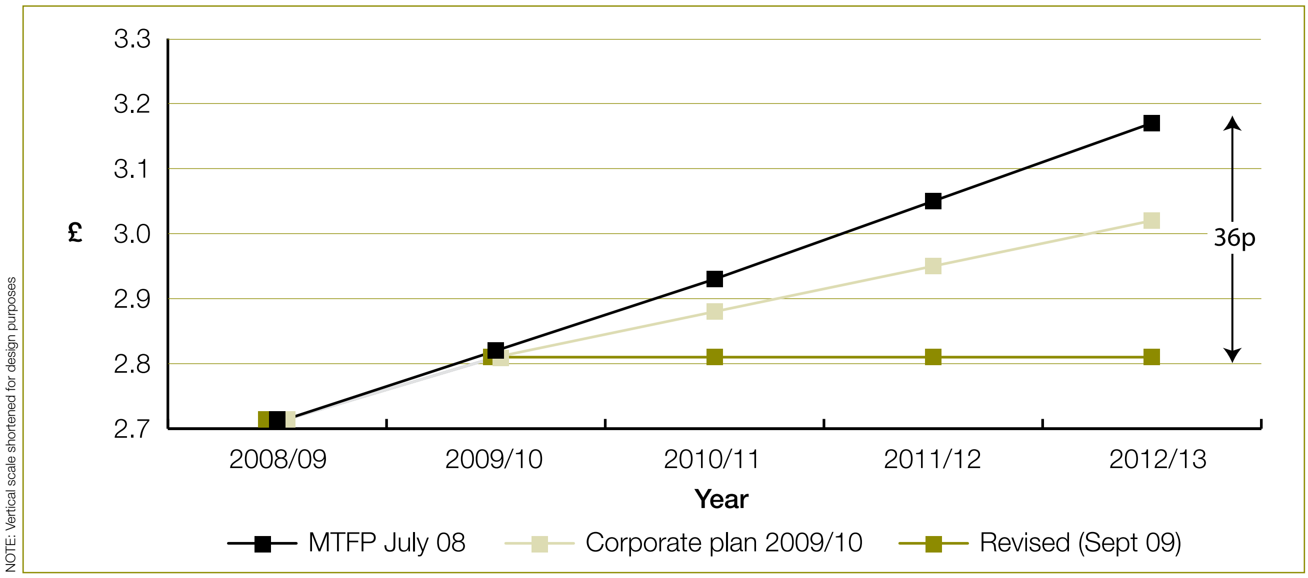
In this example the annual saving for a band D council taxpayer from freezing council tax is shown in the graph. It is just £18.99 a year by 2012/13, while the effect on jobs and services could be enormous.

Graph showing changes to annual band D council tax due to reducing assumptions about council tax



Now look at the weekly saving in the graph below. By 2012/13 the weekly saving is just 36p. That is not even the price of a small carton of milk.

Graph showing changes to weekly band D council tax due to reducing assumptions about council tax



Impact of different council tax bands

All the figures above have been for band D council tax in England – but in some areas most of the properties are in a lower band.

There are 8 council tax bands, A to H. Band A is the lowest and band H is the highest. A band A property is charged two thirds the rate of band D and a band H property is charged twice band D or three times band A.

Look at the table below. It tells you that out of the 420,948 properties in Birmingham, 155,466 are in band A. That is almost 37%. In fact over 83% of the properties in Birmingham are in band C or below so a saving of £20 on the council tax of a band D property in Birmingham won't be felt by over 80% of council taxpayers.

Even in more affluent places like Mid Sussex, over 34% cent of council taxpayers are in the lower bands.

Look at the table below. Again it tells you that 3.23% of the 57,581 properties are in band A, 9.98% are in band B and 21.33% are in band C.

Capital and revenue

Revenue is sometimes described as day-to-day expenditure on pay, energy, paper, food and other everyday items. Capital is spending on items that will last a long time – a new roof, school, or leisure centre.

Generally, councils can't use capital to pay for revenue expenditure but they can use revenue to pay for capital expenditure. One of the important changes that took place in the last few years is the introduction of 'prudential borrowing'.

Basically this means that a council can finance capital expenditure providing it has the necessary revenue stream to repay the borrowing. This includes raising revenue from the council tax.

These are the sort of things you might come across:

- councils that decide to pay for capital expenditure directly from their revenue budgets either within the financial year or a very short period such as two or three years, instead of from borrowing. This might cause unnecessary financial pressures on the revenue budget and lead to cuts in services
- councils that have an annual sum of money in their revenue budgets to pay for 'capital expenditure'. These sums are sometimes called a 'revenue contribution to capital'.

Table 6

Distribution of properties between council tax bands in three different local authorities

	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H	Total
Birmingham	155,466	123,167	72,302	35,260	19,920	8,351	5,648	834	**420,948**
%	36.93	29.26	17.18	8.38	4.73	1.98	1.34	0.20	
Cumulative %	36.93	66.19	83.37	91.74	96.48	98.46	99.80	100.00	
Barrow-in-Furness	19,714	5,454	4,566	2,227	937	231	68	10	**33,207**
%	59.37	16.42	13.75	6.71	2.82	0.70	0.20	0.03	
Cumulative %	59.37	75.79	89.54	96.25	99.07	99.77	99.97	100.00	
Mid Sussex	1,857	5,748	12,284	15,630	10,147	7,578	4,009	328	**57,581**
%	3.23	9.98	21.33	27.14	17.62	13.16	6.96	0.57	
Cumulative %	3.23	13.21	34.54	61.69	79.31	92.47	99.43	100.00	

For example, repairs to a leisure centre might cost £500,000. That is charged directly to the revenue budget instead of using the capital receipts reserve or new borrowing. Assuming interest rates of 5%, £500,000 would cost £36,236 a year over a 25-year period.

Interest on balances

Local authorities invest their capital and revenue balances in the medium and short-term money markets and will earn interest on those investments. This may not have been widely recognised before the Icelandic banking crisis.

Local authorities rely to different extents on the interest from balances to support their revenue expenditure. Some authorities have a policy of using all the interest earned on balances to finance capital investment as opposed to supporting revenue budgets. Some use interest earned on balances as a means of supporting revenue budgets, taking pressure off council tax. Others use a combination of these.

The level of interest that can be earned has fallen significantly. The Bank of England has cut interest rates to 0.5% as part of its response to the economic crisis. Authorities that used interest to finance capital investment may now find that they have a shortfall in their capital budgets and they may be seeking to use revenue to bridge the gap. Authorities that used interest to support revenue budgets may now find that they have a revenue shortfall.

Fees and charges

Councils are reporting significant falls in income due to the recession. The main areas where falls have taken place are:

- planning fees
- land searches
- S106 agreements (revenue and capital) – these are agreements made with developers as part of the process of granting planning permission, in granting permission the developer is required to make financial contributions linked to matters that relate to the planning application
- parking fees.

There is no doubt that any income stream linked to the property market has been affected by the economic downturn. However, UNISON has seen income assumptions that assume that there will be no increase in activity before 2014/15. We think that these assumptions are over-pessimistic and could be used to justify unnecessary cuts.

Inflation and pay

Local authorities will incorporate assumptions about inflation into their MTFPs. These will include assumptions about pay inflation. UNISON made freedom of information requests to every local authority in England, Wales and Northern Ireland asking about the assumptions that they had made about NJC pay increases in 2009/10 when they set their budgets. These revealed that in setting their budgets for 2009/10, on average, NJC authorities had budgeted for pay increases of 2.21% while non-NJC authorities had budgeted for pay increases averaging 2.07%.

Table 7 below lists those assumptions by type of authority.

Table 7
Assumptions about the 2009/10 pay NJC award made by local authorities in setting their budgets

Type of council 2009/10	%
London boroughs (NJC)	2.08
Metropolitan boroughs (NJC)	2.13
County council (NJC)	2.03
Non NJC districts	2.10
Districts (NJC)	2.34
Non NJC county and unitary	1.80
Unitary England (NJC)	2.04
Wales (NJC)	2.07
Northern Ireland (NJC)	2.43
Overall average	2.19
NJC	2.21
Non NJC	2.07
(Source: UNISON freedom of information request)	

Using the information to challenge cuts

Now you have read the previous sections of this branch guidance and you have the information UNISON requested, you should be able to find answers to some of the questions below. These are not abstract questions. They will challenge plans for cuts and enable branches to negotiate on the basis of sound reliable information.

Statement of accounts

- What is the level of the general fund balance or reserve @ 1 April last year and 31 March this year?
- What is the level and breakdown of the earmarked reserves @ 1 April last year and 31 March this year?
- Look at the earmarked reserves and identify which reserves have increased and decreased and which remain unchanged. Ask your council to provide UNISON with a copy of the protocol for each earmarked reserve and the date on which it was last reviewed.
- What is the level of school reserves @ 1 April last year and 31 March this year?

Medium term financial strategy/plan

- What assumptions are being made about budget pressures, formula grant, specific and general grants (including area-based grant); growth in the council tax base; pay; inflation; interest rates; income from fees and charges over the period of the strategy/plan?
- What assumptions are being made about the percentage increase in council tax each year for the period of the strategy/plan?

Budget this year

- Has the council used its general fund balances to support the budget?
- What assumptions were made about pay inflation?
- What assumptions were made about other inflation (e.g. energy)?
- What was the percentage increase in council tax?

Out-turn for the last two years

- Was there an over-spend or an under-spend in the last financial year?
- Was there an over-spend or under-spend in the financial year before that?
- Was there a contribution to or from reserves last year?
- Was there a contribution to or from reserves in the financial year before that?

Digging down to get more details

Budget pressures

When the council is constructing the budget and developing the MTFP it is likely to include sums for budget pressures. These can be caused by demographic change or increased demand for services but councils tend to take a pessimistic view. As well as budget pressures there will be areas where costs have reduced or more income is generated and these need to be taken into account too.

In Nottinghamshire, for example, the council claimed it had a budget pressure in specialist placements for children that meant it needed to spend an extra £3.1 million to be included in 2010/11. Politicians demanded that council tax would be frozen so that budget pressure meant cuts elsewhere. But when the budget monitoring report for 2009/10 was published, children's services was under-spending by more than the budget pressure. So the budget pressure could be dealt with by moving money within the children's services budget.

Branches need details of the budget pressures that are being written into the budgets.

Council tax assumptions

When discussing council tax assumptions with your council, you need to ask the following questions:

- **Has the council looked at the effect of different assumptions on council tax increases and their effect on any budget**

gap? Insist that the council looks at different assumptions about council tax increases including 3%; 3.5%; 4%; 4.5% and 5%

- **What is the actual impact on the council tax payer?** Calculate the weekly cost or saving for a band D property. If you double it and then divide by 3 this gives you the weekly cost or saving for a band A property. Double band D and this gives you the weekly cost or saving for a band H property. (Note: the statement of accounts will usually tell you how many properties there are in each band in your council area).
- **If your council is planning to cut or freeze council tax, is the council including the extra grant the Conservatives say will be available for the first two years - 2011/12 and 2012/13 – if they win the general election?** Where a council is revising its MTFS and is assuming a figure below 2.5% (especially if it is Conservative-controlled) ask them what assumptions they are making about additional grant from central government to replace council tax income.

In the current economic downturn the last thing that millions of families need is yet another increase in their council tax bill. That is why we have announced that, ***in the first two years of a Conservative government, councils will also have the ability to contract with central government to freeze council tax.*** *Those councils that take up the contract will have to undertake to hold the rate of rise in council tax to 2.5 % or less; and central government will correspondingly undertake to make a payment …equal to 2.5 % of that council's council tax – so that bills can be frozen in each such council for the two year period.*
(Control Shift – Returning power to local communities, Conservative party, 17 February 2009)

Fees and charges

Does loss of income from charges account for any of the problems your council says it has?

Clarify the assumptions about significant income. If the council says that income from planning fees and land searches is down, ask the council to supply UNISON with details of the actual income received from:

- planning fees
- land searches
- S106 agreements (revenue and capital)
- parking fees.

You need this information for the financial years 2007/08 and 2008/09 together with the assumptions for each year that have been included in the MTFP. Ask for the information that the council provides quarterly on both activity and income, so that branches are able to monitor actual income with budget assumptions.

Inflation

Are the figures about inflation up to date?

- What are the assumptions about a) pay inflation; b) other inflation incorporated into the 2010/11 budget and for each following year covered by the MTFP?
- How do they compare with the latest figures (eg have they been adjusted for the 2009/10 pay agreement).

Capital and revenue

Is the 'revenue problem' made worse by using revenue to contribute to capital projects? National statistics show that councils are spending more of their revenue budgets on big capital projects. For example Windsor and Maidenhead are cutting services at the same time as they are increasing the revenue contribution to capital projects from £800,000 a year to £1.6 million a year.

Ask your local authority to provide details of a) the level of capital reserves; b) the items within the 2010/11 revenue budget and the MTFP that can be charged to capital.

Interest on balances

Is the right use being made of the interest earned on balances? Is it supporting the revenue budget?

Ask your local authority to supply UNISON with the following details:

- How much interest was earned on balances in the financial year 2007/08 and 2008/09 and what was assumed for 2009/10 and 2010/11?
- How was it spent? Is it used to support revenue, capital, a combination of the two or to support reserves?
- What interest rate assumptions are included in the latest MTFP?
- What contribution does interest on balances make to the MTFP?

Council spending and the local economy

Local government spending is vital to local economies. The local government workforce tends to live and spend locally.

A reduction in the council workforce reduces the amount employees spend in the local economy. So, reducing the local authority wage bill takes money out of the local economy.

> ***For every £1 earned by Swindon's in-house team, an extra 64p is generated in the local economy.*** (Source: Centre for Local Economic Strategies; Exploring the economic footprint of local services)

A simple rule of thumb is that a reduction of £5 million a year takes £8.2 million a year out of the local economy – that is £82 million over a period of 10 years.

The Federation of Small Businesses knows the importance of local spending to local small businesses It says that "eighty-three pence of every pound spent with a local business goes back into the local economy'.

When councils cut their expenditure they are taking money out of the local economy. It is the wrong strategy for an economy that appears to be starting to come out of recession. At best it will prolong the impact of the recession locally and at worst it will prevent recovery and damage the public infrastructure which supports local businesses and employees. This could lead to additional unnecessary future costs.

In 2008, the Association of Public Service Excellence (APSE), CLES and the Institute of Local Government at Birmingham University published research into the role of the local public sector economy. They argued that:

> ***It is increasingly being recognised that the role of the public economy and how and why local authorities spend their resources, is a critical component in building a sustainable future for communities and that public sector spend is significant in employment and procurement terms and therefore increasing our understanding of the best means of ensuring that this spend is maximised to develop local economies is of vital importance in ensuring the resilience of local places and providing wide opportunities for local people and businesses.***
> Creating resilient local economies; Association of Public Service Excellence, CLES and the Institute of Local Government at Birmingham University; 2008

The report *Exploring the Economic Footprint of Public Services* looked at how a local authority direct services department (Swindon Commercial Services) contributed through the totality of its spending by ensuring that there was a virtuous multiplier effect in terms of both the goods, works and services it bought and the impact of employment spending in the local economy.

The researchers used the local economic multiplier model (LM3) developed originally by the New Economics Foundation (NEF) to measure the multiplier effect on the local economy of procurement and employment spend.

They showed that:

- for every £1 invested in the Street Scene service area in Swindon, 64 pence is reinvested in the local economy
- 95.7% of employees of Swindon Commercial Services live within the local authority
- 97% of employees of the Street Scene service area live within the local authority
- these employees re-spend 52.5 pence in every pound in the local economy
- 32.4% of the Street Scene service area's expenditure upon suppliers goes to local companies and organisations

- when national organisations with a local branch are factored in, this figure rises to 51.3%
- local suppliers re-spend 30.8 pence in every pound in the local economy
- 45.7% of the building services expenditure with suppliers goes to local companies and organisations
- this figure rises to 71.7% when national organisations with a local branch are factored in.

Look at the long term

Another danger is that councils could adopt short-term budget cutting or council tax freezing strategies for short-term political advantage that create long-term social and economic problems for parts of the local community.

This is precisely what happened in the 1980s. The social and economic cost has been considerable – long term unemployment, poverty across generations, ill-health – with a substantial cost to the taxpayer that far exceeds the short-term gains.

Look at the equality impact

There are likely to be significant equalities issues especially if change affects services that are predominately undertaken or used by women, black and ethnic minorities, the elderly and disabled people.

Branches should insist that an Equality Impact Assessment of the MTFP is undertaken.

Economic impact assessment

Branches should insist that the council undertakes a local economic assessment so that in reaching its decisions it considers the impact on the local economy and the consequences its proposals will have for local communities and local businesses.

Developing a local strategy

Local authorities collectively spend £2.2 billion a year on temporary agency staff and £1.8 billion a year on external consultants. (Source: IDEA)

Every branch will face a different set of local conditions. You will need to decide how you are going to approach your employer, local councillors and MPs, local media and local community groups. Involving activists and members in developing your strategy will be critical.

Having looked at the financial information you have gathered and – hopefully – discussed it with your council, it would be useful to ask yourself whether your council is:

- a Conservative council implementing David Cameron's strategy before the general election is even held
- a council creating its own budget problems by deciding to freeze council tax
- a council that has the money (or could raise it)
- a council where what is proposed is not a good use of public money
- a council where the problems are caused by economic mismanagement
- a council whose decisions will damage local jobs and the local economy
- a council that has the balance wrong – the extra costs are a small price to pay for badly needed public service.

It may be more than one of these or none at all, but you will need a framework for describing to others what your council is doing.

Agency staff and consultants

One way in which a council can save money is by cutting its spending on agency staff and consultants.

Ask your council whether it knows how much it spent on agency staff in each of the last three years. You and they might be surprised just how big it is. Do the same for consultants.

Developing a media strategy

Once you have looked at your council's finances and discovered that there are alternatives to council tax freezes, cuts and redundancies, you will need to develop a communication strategy to help you put your new-found knowledge to best effect – in the workplace and in the local community. Here are some ideas to get you started.

Get your message clear

- Identify the key facts about your council's finances and any planned changes to council tax.
- Be clear about any proposals to cut jobs and services or increase charges.
- Identify three clear messages that you want to tell the local press and media, your branch activists to get across in their workplaces and members to use in their networks in the community.

Get the message across

- Call workplace meetings to discuss the facts with members and activists.
- Write a regular news-sheet for members and community organisations.
- Organise briefings for the local press and media.
- Talk to local community organisations and service user groups.
- Hold public meetings to tell local people how council tax freezes and cuts will affect them.
- Lobby your councillors and MP's – some may not understand council finances themselves.

Likely scenarios

Here are some of the scenarios you might encounter, and arguments you may want to use against them.

Your council has got the money it needs - or could raise it

- Show how your council under-spent last year (or the year before) when it was predicting a tough financial year.
- Compare what actually happened (out-turn) with budget predictions.
- Describe how the council increased its reserves.
- Highlight expenditure on consultants or agency staff as evidence.
- Explain that there is no need to charge capital costs to revenue when the council is sitting on large reserves.
- Argue that an 'x%' increase in council tax could solve the problem.

Cuts are not a good use of public money

- Cuts now lead to higher costs later. For example, cutting home care leads to 'bed blocking' in hospitals and the need for costlier and earlier residential care.
- Cuts in your council now will lead to higher demand and costs elsewhere in the public sector.
- Fewer jobs mean a lower tax 'take' for the Treasury.
- Employing private consultants or agency staff costs more than direct employment.

Your council mismanaged its finances

- The financial problems are caused by earlier decisions or failure to deal with issues earlier, for example, privatisation that left pension costs with the council.
- Your council is creating a hole in the budget by irresponsible decisions to freeze council tax.
- The better-off gain most by council tax freezes, while the majority lose services.
- Freezing or cutting council tax only puts a small amount of money in people's pockets, while services and jobs are massively affected.

Local jobs and the local economy

- Council jobs are vital to the local economy.
- Lost spending power will impact badly on local businesses and the recovery.
- For every £1 your council spends, 64 pence is generated in the local economy.

Maintaining services and council tax level

- Maintaining council tax is a small price to pay for badly needed public services, which are even more crucial in a recession.
- Compare the small savings in bands A to C with the human cost of losing the service or higher charges.

Conservative council implementing David Cameron's strategy – even before the election

- Compare this with the letter sent from the shadow local government minister that created uncertainty about planning, which has undermined vital housing development
- Show how this undermines the potential for local economic recovery.

Glossary

Accounting period

The period of time covered by the accounts - normally a period of twelve months commencing on 1 April.

Accounting policies

The principles, bases, conventions, rules and practices applied by an organisation that specify how the effects of transactions and other events are to be reflected in its financial statements.

Accruals

Sums included in the final accounts to recognise revenue and capital income and expenditure attributable to the accounting period, but for which payment has not been received or made by 31 March.

Acquired operations

Operations comprise services and division of service as defined in the Best Value Accounting Code of Practice (BVACOP). Acquired operations are those operations of the local authority that are acquired in the period.

Actuarial gains and losses

For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses); or the actuarial assumptions have changed.

Amortised cost

The allocation of the write-down of the useful economic life of the council's grants for the accounting period.

Appropriation

The transfer of sums to and from reserves, provisions and balances.

Assets

Items which have value to the council in monetary terms. These include:

- current assets, which will be consumed within the next financial year (for example, cash and stock)
- fixed assets, which provide benefits over their useful life for more than one year and can be tangible (e.g. school buildings) or intangible (e.g. computer software licences).

Operational assets

Fixed assets held and occupied by a local authority and used in the direct delivery of services. For example, land and buildings; vehicles; plant; furniture and equipment; infrastructure assets that form part of the economic or social framework of the area and whose function is not transferable (highways, bridges and footpaths); community assets (assets that the local authority intends to hold in perpetuity, that have no determinable useful life and may have restrictions on their disposal, for example works of art, windmills and picnic sites).

Non-operational assets

Fixed assets held by a local authority but not directly occupied, used or consumed in the delivery of services, such as investment properties, assets under construction and surplus assets, held for disposal.

Audit of accounts

An independent examination of the council's financial affairs.

Balances

The total revenue reserves required to provide a working balance during the financial year, for example in periods when expenditure exceeds income.

Best Value Accounting Code of Practice (BVACOP)

Details standard definitions of service and total cost which enables spending comparisons to be made with other local authorities.

Budget

The forecast of net revenue and capital expenditure over the accounting period.

Capital charges

This is a general term used for the notional charges made to service expenditure accounts for the use of fixed assets. The term covers depreciation, impairment charges (included in gross expenditure) offset by the amortisation of government grants deferred (included in income).

Capital expenditure

Expenditure on assets which have a long-term value – this Includes the purchase of land, purchase or cost of construction of buildings and the acquisition of plant, equipment and vehicles

Capital financing costs

These are the revenue costs of financing the capital programme and include the repayment of loan principal, loan interest charges, loan fees and revenue funding for capital.

Capital financing requirement

Statutory requirement to ensure that over the medium term the net borrowing by the Council will only be for capital purposes.

Capital receipts

Proceeds received from the sale of property and other fixed assets.

Collection fund

A separate fund that records the income and expenditure relating to council tax and non domestic rates.

Corporate democratic core

Those activities which the local authority is engaged in specifically because it is an elected multi-purpose authority - this includes the costs of corporate policy making, representing local interests, representatives and duties arising from public accountability.

Creditor

Amounts owed by the council for work done, goods received or services rendered but for which payment has not been made at 31 March.

Debtor

Sums of money owed to the authority but unpaid at 31 March.

Depreciation

The allocation of the cost of the useful economic life of the council's fixed assets for the accounting period through general wear and tear, consumption or obsolescence.

Discontinued operations

Operations comprise services and division of service as defined in BVACOP. Discontinued operations are those operations of the local authority that are discontinued in the period.

Earmarked reserves

Those elements of total council reserves which are retained for specific purposes

Finance Lease

A lease whereby all the risks and rewards of ownership of a fixed asset are with the lessee – in substance the asset belongs to the lessee.

Financial Instrument

A contract that gives rise to a financial asset of one entity and a financial liability of another entity - for example, at its simplest, a contractual right to receive money (debtor) and a contractual obligation to pay money (creditor).

General fund

The main revenue fund of the council - income from the council tax (or precept) and government grants are paid into the fund, which pays for the cost of providing services.

Government grants

Payments by central government towards local authority expenditure - they are receivable in respect of both revenue and capital expenditure.

Government grants deferred

Grants or contributions received which have supported wholly or in part the acquisition of fixed assets, net of the appropriate share of depreciation on those assets for which a depreciation charge is made.

Impairment

A reduction in the value of a fixed asset to below its carrying amount on the balance sheet, due to damage, obsolescence or a general decrease in market value.

Liquid resources

Cash and current asset investments that can be easily converted to known amounts of cash without penalty, or can be traded in an active market.

Long-term contract

A contract entered into for the design, manufacture or construction of a single substantial asset, or the provision of a service (or a combination of assets and services which together constitute a single project), where the project life falls into more than one accounting period.

Long-term debtors

Sums of money due to the authority originally repayable within a period in excess of 12 months but where payment is not due until future years

Net book value

The value of fixed assets included on the balance sheet, being the historical cost or a current revaluation less the cumulative amounts provided for depreciation.

Net debt

The council's borrowings less liquid resources

Non-distributed costs

Overheads for which no service now benefits - they include unused fixed assets and certain redundancy and pension costs.

Operating lease

A lease where the risks and rewards, and therefore ownership, of the asset remain with the lessor.

Precept

The amount levied by one authority which is collected by another. For example a county council is a precepting authority and a district council is the collecting authority.

Provision

This is an amount which is put aside to cover future liabilities or losses that are considered to be certain or very likely to occur, but the amounts and timing are uncertain.

Prudential indicators

Prudential indicators are a set of financial indicators and limits that are calculated in order to demonstrate that councils' capital investment plans are affordable, prudent and sustainable. They are outlined in the CIPFA prudential code of practice. The code was introduced in 2004, to underpin the system of capital finance in local government. All councils must adhere to this. There are 11 prudential indicators that must be used to cover the categories of affordability, prudence, capital spending, external debt/borrowing and treasury management. They take the form of limits, ratios or targets which are approved by council before 1 April each year and are monitored throughout the year on an ongoing basis. A council may also choose to use additional voluntary indicators.

Public works loan board (PWLB)

A central government agency that provides loans for one year and above to authorities at favourable rates which are only slightly higher than the government can borrow itself.

Reserves

The accumulation of surpluses, deficits and appropriations over past years - reserves of a revenue nature are available and can be spent or earmarked at the discretion on the council. Some capital reserves, such as the fixed asset restatement account cannot be used to meet current expenditure.

Revenue contributions

This refers to the financing of capital expenditure directly from revenue rather than from loans or other sources.

Revenue expenditure

The day-to-day expenditure of the authority on such items as employees and equipment

Revenue expenditure funded from capital under statute

Expenditure which may be funded from capital, but which does not result in fixed assets owned by the council. These costs are included in the net cost of services shown in the income and expenditure account.

Revenue support grant (RSG)

Grant paid by central government to local authorities in aid of service provision.

Stocks

Items of raw materials, work in progress or finished goods held at the financial year end, valued at the lower of cost or net realisable value.

Trust funds

Funds administered by the council for such purposes as prizes, charities and specific projects, on behalf of minors.

Appendix

The revaluation reserve

This reserve represents the store of gains on revaluation of fixed assets not yet realised through disposal. The revaluation reserve was created on 1 April 2007 with a zero opening balance and therefore the closing position on the reserve at 31 March 2009 only shows revaluation gains accumulated since 1 April 2007. This reserve is not available to meet revenue or capital expenditure.

The capital adjustment account

The capital adjustment account contains the amounts which are required by statute to be set aside from capital receipts for the repayment of external loans, and the amount of capital expenditure financed from revenue, capital receipts and capital grants. It also contains the difference between the amount provided for depreciation and that required to be charged to revenue to repay the principal element of external loans. It is not available to meet revenue or capital expenditure.

The available-for-sale financial instruments reserve

This reserve records unrealised revaluation gains arising from holding available-for-sale investments, plus any unrealised losses that have not arisen from impairment of the assets. This reserve is matched by investments within the balance sheet and as such the resources are not available to the authority.

The financial instruments adjustment account

This account provides a balancing mechanism between different rates at which gains and losses (such as premiums on the early repayment of debt and soft loans) are recognised under the SORP and are required by statute to be met from the general fund. The balance on this account does not represent resources available to the authority.

The unequal pay back pay account

This account absorbs the effect of applying statutory provisions that allow the impact on the general fund of settlements of back pay to be deferred until cash is actually paid (rather than when a provision becomes necessary).

UNISON has more than a million members delivering essential services to the public. Services that protect, enrich and change lives.

We want to see changes that put people before profit and public interest before private greed. Add your voice to our campaign to create a fairer society.

a million voices for public services

To find out more or add your voice to our million voices for change go to unison.org.uk/million

add your voice

UNISON campaigning for a fairer society

unison.org.uk/million

UNISON
the public service union

Join UNISON online or call 0845 355 0845

Designed by UNISON Communications Unit. Published and printed by UNISON, 1 Mabledon Place, London WC1H 9AJ.
CU/April 2010/19091/2000/UNP 11150/Stock no. 2894