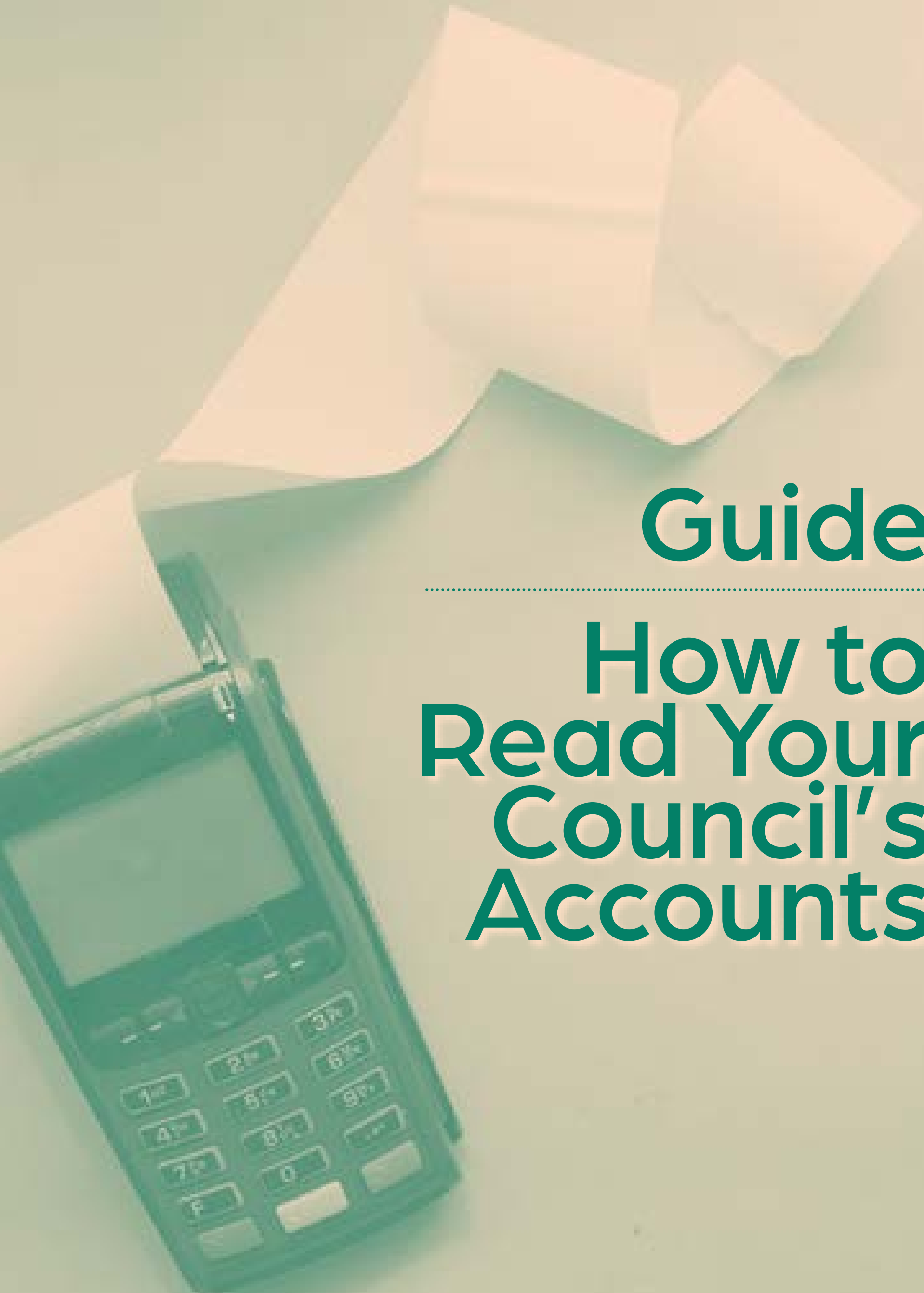

Guide

How to Read Your Council's Accounts

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Introduction

Local authorities are required to publish **accounts** every year that show how they spend their money. These cover a financial year: for example 2022/23 accounts would cover the period from 1st April 2022 to 31st March 2023. They look back at spending that has already happened: the **budget** is a forward-looking plan for how to spend money.

Councils first publish **draft accounts**. Over 30 days, the public then has the right to inspect the accounts and in England residents have the right to ask questions about them to the auditor. They can also file an objection if they would like the auditor to investigate the lawfulness of an item of spending or whether it is in the public interest.[1] The council has to publish a **notice of inspection** to announce the dates of the period to exercise the public rights before it starts. Once this period is over, the council's external auditor undertakes an audit. The **audited accounts** are then published.

Until 2020, this process took place over the summer months, culminating in the publication of accounts by the end of July. The timescale is guided by the Accounts and Audit Regulations 2015. However, due to the pressure the Covid-19 pandemic put on local authorities, the deadline for audited accounts has been moved in amendments to the legislation, first to the end of November in 2020 and 2021, then to the end of September from 2022 to 2027. Despite the extended deadline, many local authorities' audited accounts have not been published on time in recent years, with the backlog in some cases several years. This is deeply worrying, as it impacts financial planning in local authorities, with knock-on effects to monitoring and whole government accounts.

1 See our guide: Reclaim Local Democracy: How To Challenge Your Council's Financial Decisions for more detail on the rights to inspect accounts, ask questions and object to accounts.

The inspection period should start no later than the first working day of August following the end of the financial year - however, this does not always happen, and a 2021 change to the legislation simply states that the authority must publish a notice stating that the period for exercising public rights is delayed and reasons for the delay.

Accounts are prepared according to the Code of Practice on Local Authority Accounting in the United Kingdom, published by the Chartered Institute of Public Finance and Accountancy, CIPFA.

It is best to have an idea of what you are looking for when you dive into the accounts, unless you have a reason to read them just out of interest. Council accounts usually run up to well over 100 pages, and you are unlikely to simply come across anything interesting by reading them. A lot of the things that could reveal something new or indicate issues you might be looking for will likely be in the notes.

This guide is a tool to help you navigate the accounts. It will tell you what you can expect to find in the accounts and what to look out for. It is based on experience of looking through accounts, rather than technical expertise in accountancy - although we have benefitted from the expertise of an accountant to check our workings. At the end of this guide, we suggest some resources that will help you find more information. The aim of this publication is to make our task as ordinary residents wanting to scrutinise our local council spending a bit less daunting.

What you can expect to find in council accounts

Council accounts usually start with a **narrative report** or commentary. This might include things like how the authority is structured and governed, the political make-up of the council, and some social indicators. It usually includes a financial plan several years into the future (most often five). This is called Medium Term Financial Strategy (MTFS), but you might also find it under a more visionary name like the Wigan Deal 2030.

The narrative report also summarises the financial performance of the council and the different statements that will follow, as well as gives an overview of where the council's funding comes from and how it is used. Especially as council funding is undergoing significant changes in the 2020s, there is often useful information relating to changes in funding, pilot schemes the council is involved in and so on.

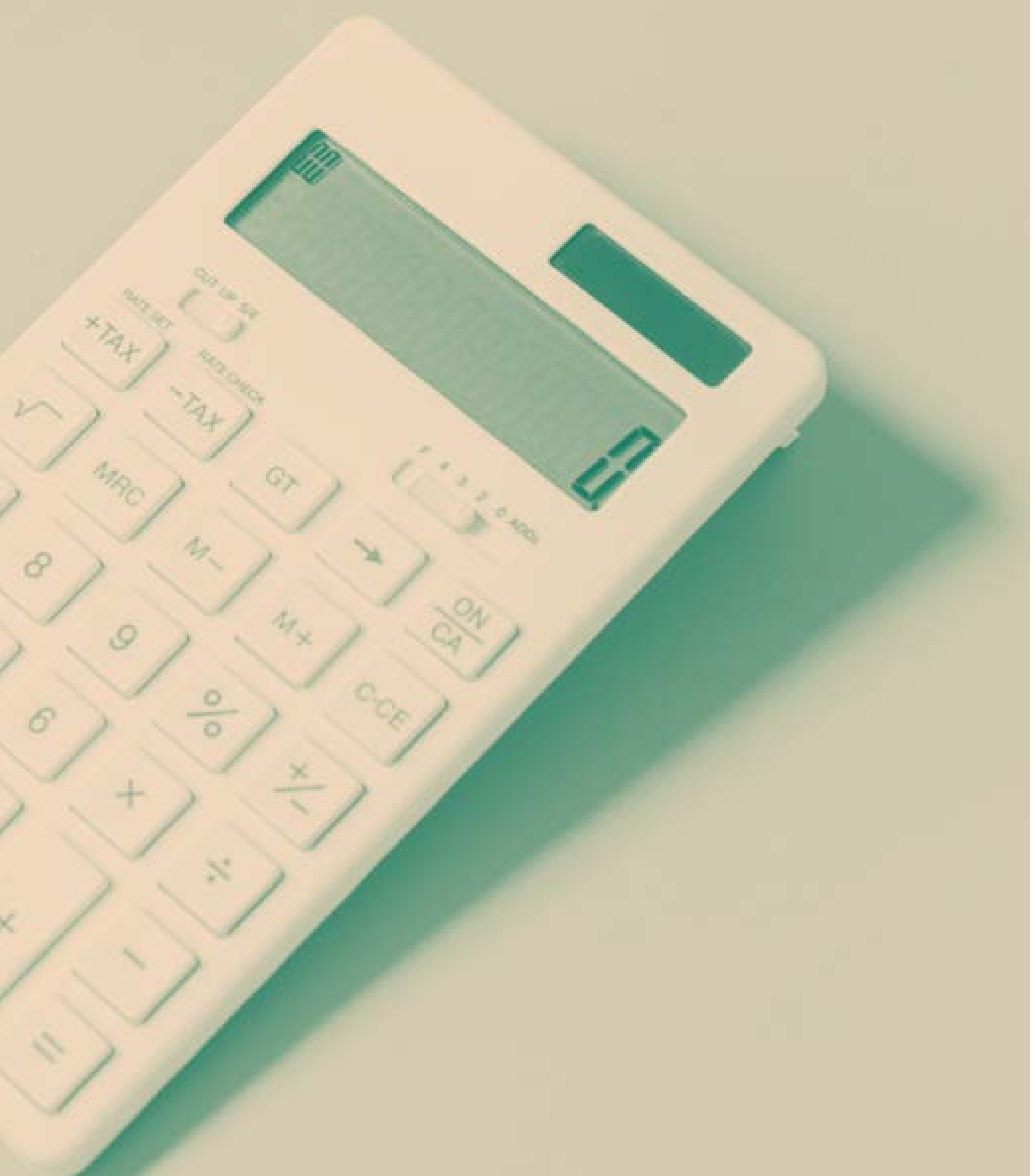
Depending on what you are looking for, it can be useful to read or skim through this narrative for an overview of the council's priorities, especially if you are not familiar with reading accounts and don't want to dive straight into the number-heavy accounts. However, remember that the narrative is written by the council and will reflect the council's position and plans, so it is not the place to try and spot any issues and will not usually give you clues about possible mismanagement of funds.

Council accounts, like all accounts, include financial statements. **Core financial statements** include statements on the following: movement in reserves, income and expenditure, balance sheet and cash flow. These are numerical representations of a council's financial position, which will be hard to understand without context. They are accompanied by notes - usually a lot longer than the actual statements themselves - which are worth reading to understand the detail.

There are also **other financial statements**, because in addition to the General Fund where most of a council's income and expenditure is, housing related spending and income is recorded in a separate Housing Revenue Account. The other financial statements also include the Collection Fund, which records Council Tax and Non-Domestic Rates (business rates) related statements.

When a local authority has material interests in subsidiaries, associates and/or joint ventures, it is required to produce **group accounts**.

In England, there are different types of local authorities that have different responsibilities and in some cases also different income streams. The next section of this guide gives an overview of the types of authorities and their responsibilities.



Overview of local government

Types of authorities

The way local government is structured differs in the different nations of the UK. In Scotland, there are 32 local authorities, in Wales 22 and in Northern Ireland 11.

In England, the structure of local government is more complex and there are a total of 317 authorities. In many areas, there are two tiers of local government:

- county councils (21 of them)
- district, borough or city councils (164 of them)

In some areas there is only one tier providing all services:

- unitary authorities (62)
- London boroughs (32 + City of London)
- Isles of Scilly (1)
- metropolitan boroughs (36)

The latest type of authority to be established in England is a combined authority. It is a body that enables two or more councils to collaborate across council boundaries. Combined authorities are established by the Parliament and have powers and resources that have been granted to them as a result of devolution. They are made up of existing councillors, but most have directly elected mayors. There are currently ten combined authorities.

In addition to the above, there are also approximately 9,000 town or parish councils in England. These do not have statutory functions and operate at a level below district councils and unitary authorities. They are responsible for local services such as allotments, parks and community centres and may provide services for the county or district council. These operate at a level below district and borough councils and in some cases, unitary authorities.

Responsibilities of local authorities

County councils are responsible for county-wide services, such as:

- education
- transport
- planning
- fire and public safety
- social care
- libraries
- waste management
- trading standards

District, borough and city councils are usually responsible for services such as:

- rubbish collection
- recycling
- Council Tax collections
- housing
- planning applications

In parts of the UK where there is only one tier of authority, they are responsible for all the above.

In London and other English metropolitan areas some services, like fire, police and public transport, are provided through 'joint authorities' such as the Greater London Authority.

Overview of local government finance

Local authorities receive funding from different sources. The central government used to be the most significant funder both in the form of a general Revenue Support Grant and specific grants, however the Revenue Support Grant has been significantly reduced during the 2010s. Local government funding is being moved to a model where councils collect most of their income locally from Council Tax and Non-Domestic Rates, also known as business rates, as well as fees, sales and charges. Councils also receive specific grants from the government, for example for education or certain benefits. They also have investments, from which they receive investment income.

This means that local authorities have the power to decide how to use some of their income, whereas other income streams are ring-fenced and passed directly to the recipient via local authorities.

It is useful to understand council finance through two categories: revenue and capital. These can usually not be mixed.

Revenue spending is what most of us would think of as council spending: social care, housing, education, transport and other services the council provides, which means that what this covers depends on the type and responsibilities of the council. The biggest areas of revenue spending are education and social care. Revenue spending is financed through grants and taxes, fees and sales the council collects. Grants can be either general (Revenue Support Grant) or ring-fenced (especially grants towards education).

Capital spending is anything that benefits the council for more than a year, in other words, anything that creates a new asset. For example, transport infrastructure and buildings are in this category. It is financed from different sources which include government grants, capital receipts, Right to Buy receipts, and borrowing. Local authorities are only allowed to borrow for capital, not revenue spending. Borrowing is driven by Prudential Code issued by CIPFA, introduced through the Local Government Act 2003. Borrowing, lending and cash flow are guided by a treasury management strategy. Decisions about what assets to hold and their construction, operation, maintenance, modification, replacement and disposal are called asset management.

Councils also build up **reserves**. Some of these can be used to finance spending, others are held against risks such as revaluation of assets

Understanding accounts

Accounts are simply a way to record what money is received and spent. The **double-entry** bookkeeping system that is used in accounting is hundreds of years old. All transactions in the accounts are recorded in terms of **debits** and **credits**. Since a debit in one account offsets a credit in another, the sum of all debits equals the sum of all credits.

This might sound simple, and it is a common misconception that financial matters are very exact. Yet accounting is not an exact science. A lot of the things you find in the accounts are actually simply the accountant's best guess or estimate of the value of their assets, which could change, or for example how much council tax or business rates they will collect, which will depend on residents and businesses' ability to pay.

In the brilliant resource *The Investigative Journalist's Guide to Company Accounts*, Raj Bairoliya compares this to the legal profession: lawyers on opposing sides take a case to court because they both believe they can win.

Many of the concepts that are introduced in the next section are familiar to those readers who know accounting basics. However, council accounts also differ from company accounts because there are different legal and statutory requirements for them. Where this is the case, we have explained it. One example is that council accounts contain statements separately for the **General Fund**, the **Housing Revenue Account** (as housing spending is ring-fenced) and the **Collection Fund**. All these are explained in the below parts about financial statements.

Some things to look out for

Council accounts usually present the financial year in question and the previous year side-by-side. It is important to remember that things change over time and you should not draw too many conclusions about anything out of context. If something catches your eye as unusual or requiring investigation, a good first step is to compare the item in question to previous years' accounts. There can be good reasons for large changes in income or expenditure year-on-year, and where this has happened, the council should have explained that in the notes. It is good practice that those reasons are stated in the notes understandable to the reader. If the council accounts don't provide a clear explanation, it might be worth asking questions.

There are some things that are worthy of closer attention. Any uncertainties are interesting, because there might be risk involved. For example, **contingent** assets or liabilities depend on future events - for example, there might be a legal claim the council is involved in.

Sometimes accounts contain **estimates**. If there is a chance that there will be a **material** (as in, large enough to influence decision-making) change in the estimate in the following year's accounts, this should be clearly declared. It can be worth searching for the words "estimate" and "contingent" to find these.

Council accounts will have details about **employee remuneration**. This usually takes the form of a simple table where the number of employees in each pay grade of £50,000 and above is listed.

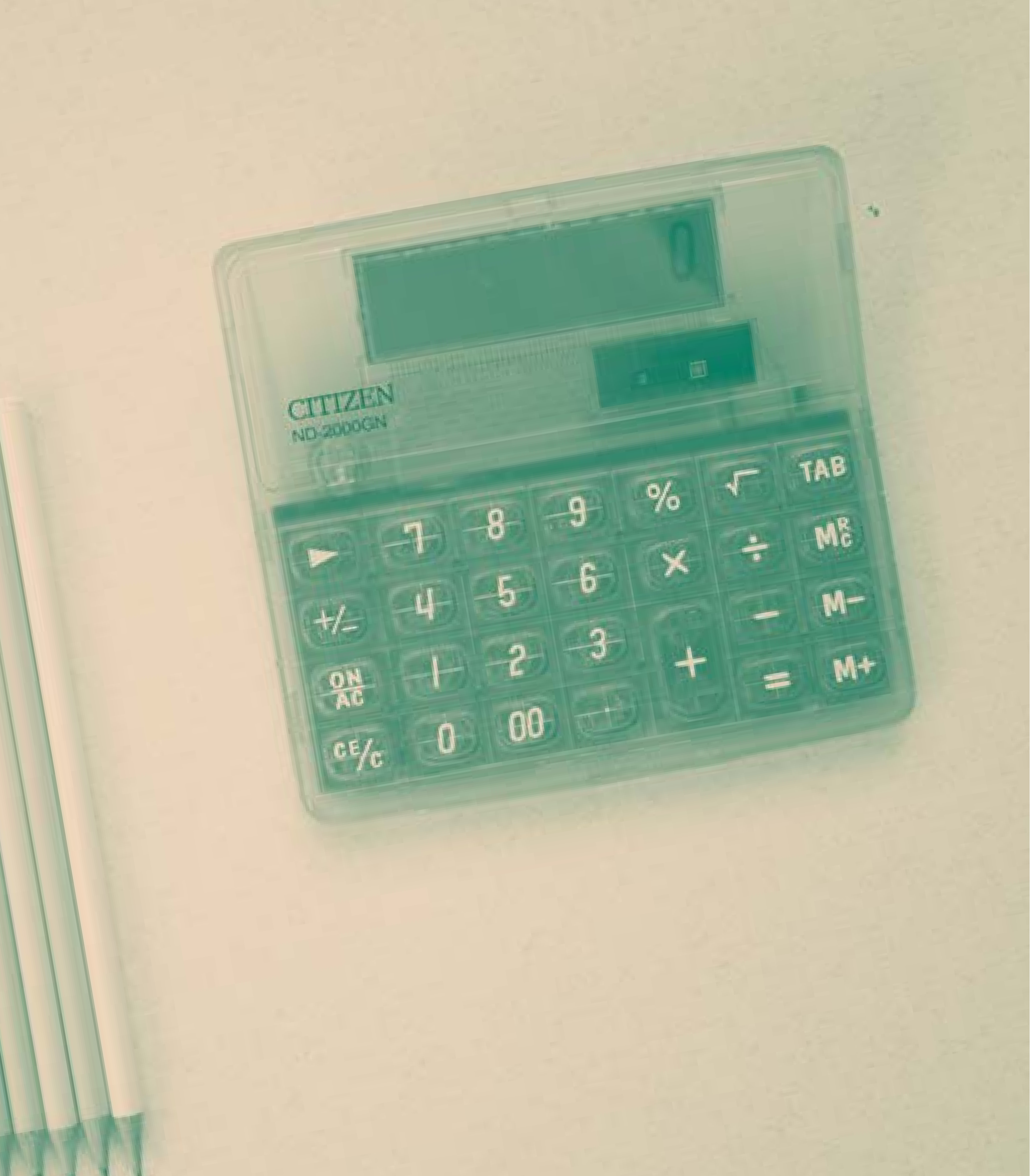
A key heading to look out for in accounts is **events after the balance sheet date**. It is a separate heading, usually towards the end. As this details what has happened since the closing of the financial year (end of March) and the publication of the accounts, it can reveal key uncertainties and surprises.

In recent years, following the need to find income streams to replace cuts in central government funding and reflecting the current high property prices, many councils have invested in commercial property. Local authorities are also allowed to borrow more freely since a 2003 legislative change. All this means that council finance is becoming more complex, and it is worth looking closely at **investments**, **investment property** and **long-term borrowing** to understand the trend.

Partnerships or related parties are also often listed in council accounts. Public-private-partnerships under the **Private Finance Initiative (PFI)** are often explained in more detail, including what accounting standards are used.

Council accounts are required to specify what **accounting practices** are used, although they do not get to choose what to use. Accounting practices are standardised and called International Financial Reporting Standards (IFRS) - understanding the differences in these will likely require a lot of research.

And remember - you do not need to read or understand everything. Word searches are extremely useful when navigating such large documents.



Core financial statements

The core financial statements consist of the following:

Movement in Reserves Statement

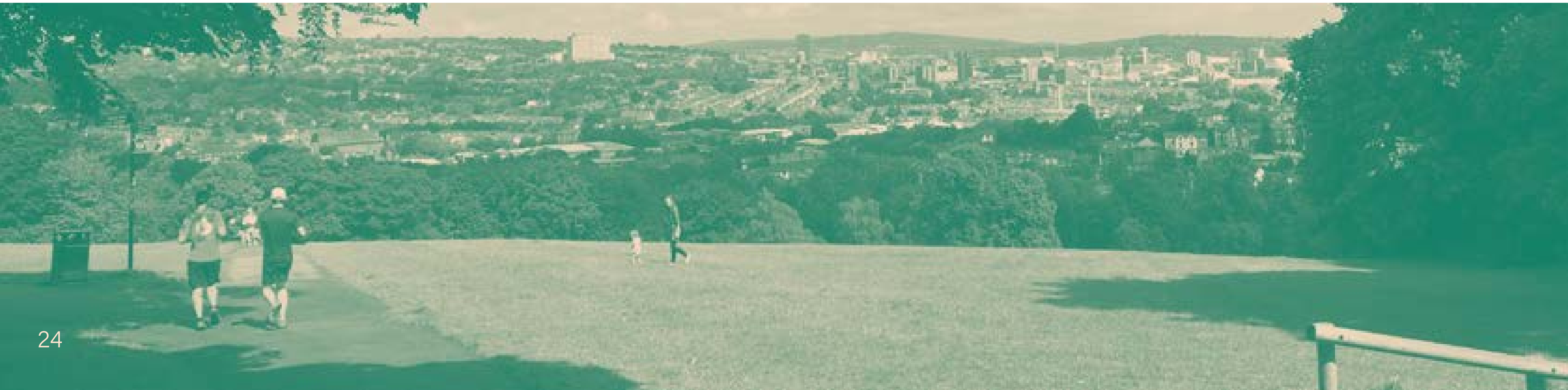
The **Movement in Reserves Statement** summarises the changes in the different reserves that the council holds, and should also show what has caused these changes.

Some transfers will be statutory, some voluntary. Its opening balance should be the same as the previous year's closing balance, and it shows the total income or expenditure for the year which should correspond to figures in the **Comprehensive Income and Expenditure Statement (CIES)**. The closing balances in turn should correspond to those on the **Balance Sheet**. The statement should also show any transfers between the different reserves, such as release of capital grants to income and expenditure or movements between usable and unusable reserves.

Reserves are divided into **Usable Reserves**, which can be applied to fund expenditure or reduce local taxation, and **Unusable Reserves**, which are not available for those things but are required by statute or regulation to adjust between proper accounting practice and the funding basis.

Usable Reserves usually consist of the following:

- General Fund Balance, which is a statutory fund to hold the balance that is not earmarked for other spend
- Earmarked General Fund Reserves for specific future spend, often detailed in the notes
- Housing Revenue Account Balance, which holds balances from the HRA for future expenditure relating to council properties
- Earmarked HRA Balances
- Major Repairs Reserve for funding capital expenditure on the council's housing stock
- Capital Grants Unapplied Reserve, which holds capital grants with no outstanding grant conditions but are yet to be used on capital expenditure
- Capital Receipts Reserve for funds the Council has received from the sale of assets, as these can by statute can only be used to fund capital expenditure.



Unusable Reserves consist of balances that are held to protect the council's financial situation against the revaluation of assets or financial instruments, losses of council tax or business rate income and the like. They also hold employee and pension related balances. Unusable Reserves usually consist of:

- Capital Adjustment Account, which contains entries relating to the financing of capital expenditure
- Revaluation Reserve, which reflects movements in the value of assets
- Financial Instruments Adjustment Account or Financial Instruments Revaluation Reserve, which is held for re-measurement of the council's financial instruments
- Pensions Reserve is usually large; it complies with statutory accounting requirements to absorb the timing differences arising from accounting and funding for pensions
- Accounts that have been created for staff costs such as Employee Statutory Adjustment Account or Employee Accumulated Absences Account
- Collection Fund Adjustment Account, which manages the differences arising from the recognition of council tax income in the CIES as it falls due from council taxpayers, compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund

The reserves are an often overlooked part of council accounts. However, as councils are legally required to balance their books and cannot run a deficit, changes in reserves can indicate important things about their finances. Look especially at the line **Surplus or (Deficit) on the Provision of Services**.

Comprehensive Income and Expenditure Statement

The **Comprehensive Income and Expenditure Statement (CIES)** shows income and expenditure incurred in the year. The lines on the CIES will differ from those on the council's budget, as those are based on the council's internal decisions rather than what they are required to show to the world.

The comprehensive income and expenditure statement shows income received within the year from grants, taxation and investments and expenditure such as payments made to finance services, pay employees and interest payments. It also shows **accrued income** for something that has been enjoyed (a technical term for having or using) by the recipient but that has not yet been invoiced, and **accrued expenditure**, which is the value of something the council has received but that is not yet billed for. If the income has been already invoiced, it is included in income, even if it is not yet paid for.

The statement shows:

- The cost of services, which should be laid out clearly to understand service specific income and expenditure
- Other operating income and expenditure such as surplus or deficit from the sale of assets (property, plant and equipment)
- Financing and investment income and expenditure, such as interest payable and receivable - if this changes a lot year-on-year, it might be worth a closer look
- Income from taxation such as council tax and grants
- Other income and expenditure that do not appear elsewhere in the statement

The accounting practices used in the CIES are usually detailed in the accounts for those who want to delve into the technicalities of accounting.

Balance Sheet

The **Balance Sheet** represents the value of the council's assets and liabilities as at 31 March (end of the financial year). So unlike the Comprehensive Income and Expenditure Statement which shows what has happened through the year, the Balance Sheet is a snapshot in time. This is why you get the most out of comparing balance sheets over time.

An **asset** is anything the council owns or is owed, and a **liability** is anything a council owes. Assets less liabilities gives you the **net assets** of the council. These have to be matched by the reserves; there has to be a balance, which is why it is called the balance sheet. This is one of the very basic truths of accounting, and if you read about accounting, you will come across the accounting equation (councils hold reserves where companies hold equity):

Assets = Liabilities + Equity

There are different types of assets and liabilities:

- **Non-current assets**. These are things that the council cannot turn into cash within a year and will therefore own in more than a year's time. Non-current assets include fixed assets, which are physical things the council uses such as property, plant and equipment - usually the biggest balance. These assets depreciate, which means that their value reduces over time, so the cost is spread over a period of time and the depreciation is recorded on the balance sheet. There are also other types of non-current assets: investment property, accounted for at market price value, and heritage assets, which might not in all cases be valued if that is not possible or practicable, as well as intangible assets.
- **Current assets**. These are things the council owns that are expected to be or can be turned into cash within a year from the date on the date on the balance sheet. They include cash, financial and investment assets that are held for sale within the financial year (so not all investment assets or even all of them that are for sale), and debts owed to the council, recorded as debtors.
- **Current liabilities**. These are amounts the council owes that are expected to be paid within a year. They include debts the council owes, recorded as creditors. These are for example trade creditors but also short-term borrowing and the amount of any long-term borrowing that will fall due within the year, as well as money owed to other government bodies or income that has been received in advance for services the council will provide in the future.
- **Non-current liabilities**. These are long-term obligations, such as borrowing, leases, PFI deals and pension obligations.

The balance sheet also includes usable and unusable reserves.

Cash Flow Statement

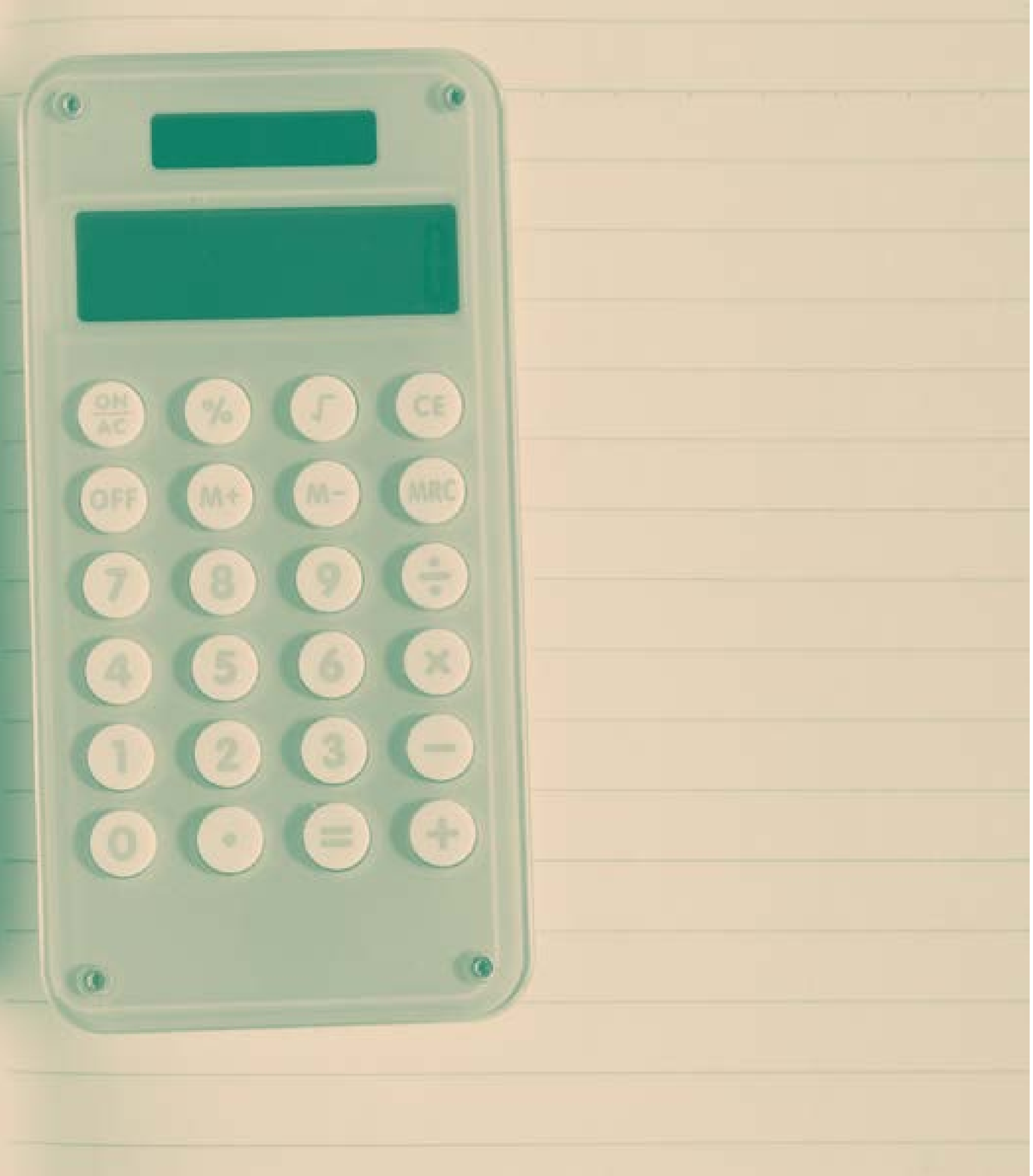
The **Cash Flow Statement** details the changes in cash and cash equivalents (which means things that can be converted into cash quickly) during the year. It shows how the council generates and uses cash and cash equivalents by classifying cash flow as operating, investing and financial activities. Cash flows are not the same as income and expenditure, because these are recognised when transactions occur rather than when cash changes hands. There are some differences in the cash flow statement and CIES, for example:

- Amounts earned or goods/services received but not yet invoiced are known as **accruals**
- Changes in trade creditors and debtors
- Changes in stock or inventory levels
- Non-cash related expenses, such as depreciation, amortisation, losses on investment assets and increases in pension liabilities
- Non-cash related income, such as gains on investment assets
- The difference in timing between capital grants received and them appearing in the CEIS

The amount of net cash flows from **operating activities** shows to what extent the operations of the council are funded by way of taxation and grant income, or from the recipients of services provided by the council.

Investing activities indicate to what extent cash outflows have been made as an investment to contribute to delivering services in the future; what is the net difference between the sale of property, plant and equipment and its purchases; plus the cash realised by the sale of investment assets or spent on buying investment assets. As mentioned above, this can be interesting to look at, with councils increasingly engaging in investing activities.

Financing activities can predict claims on future cash flows by those that the council has received capital from, as well as what is the net movement between borrowing and repaying or reducing leases or PFI liabilities.



Other statements

Other financial statements

After core financial statements, council accounts usually present at least the following other financial statements:

- **Collection Fund**, a separate account that shows the transactions in respect of Council Tax and Non-Domestic Rates, also known as business rates, during the year. Both are collected by the council, however some of the Non-Domestic Rates Income is pooled centrally and then redistributed to local authorities.

- **Housing Revenue Account (HRA)** that shows the transactions in respect of council housing during the year. The council is required to document housing costs and income in a separate account, which is ring-fenced, meaning it cannot subsidise other activities or be subsidised from other income. HRA shows the main elements of expenditure - maintenance, management and capital financing - as well as details of income from rents and other charges. The HRA Statement of Accounts has two parts: an Income and Expenditure Statement and a Movement of Housing Revenue Account.
- **Group Accounts**, which consolidate the council's annual accounts with those of its subsidiaries, associates and joint ventures. Authorities are required to produce group accounts where they have material interests in the abovementioned. The group financial statements consist of the same statements as council accounts: the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet and Cash Flow Statement.
- **Pension Fund Accounts**, which show the transactions as well as net assets or liabilities of the pension fund as a whole.

Other statements

Accounts always state what **accounting policies** have been used to prepare the accounts. This is probably of interest mainly to those who are already somewhat familiar with accounting.

Draft accounts are published before they are audited and do not contain a **statement from the auditor**. However, when councils publish the audited accounts, this will contain a statement where the council's external auditor states that they believe the authority is going concern and will keep operating. Auditors do not raise concerns lightly, so anything other than a positive story is a red flag. They can make recommendations, which is just another word for concern and should send alarm bells ringing. It can be worth looking at the auditor's statement from the previous year to see if there have been recommendations, and then making sure these have been addressed in the latest accounts.

Sources and further reading

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Research for ACTION

Research for Action is a worker co-operative producing research to support social, economic and environmental justice. Through in-depth investigations into vested interests and corporate power as well as researching alternative economic models, Research for Action produces informative, reliable and accessible material for the general public, the media, civil society and grassroots organisations to help strengthen their activities in bringing about long lasting change.

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