

# Update

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## **BUDGET TIME IS COMING**

The preparation of an annual budget is one of the key statutory tasks to be undertaken by a local council, irrespective of its size. The budget has three main purposes:



- It results in the council setting the precept for the year;
- Subject to the council's Financial Regulations, it gives the clerk and other officers overall authority to make spending commitments in accordance with the plans approved by members; and
- It provides a basis for monitoring progress during the year by comparing actual spending against planned spending.

The importance of the budget should not be underestimated. It is essential that council members understand how it is put together and how it should be used in the running of the council. At its simplest the budget compares what a council would like to spend in the forthcoming year on local services with the amount of income it expects to generate, with the excess of planned spending over income being made up by the precept. But as the year progresses, things will not always go to plan and the prospect of a shortfall of available cash during a financial year can present a significant risk. Reviewing the budget against actual expenditure regularly gives members early warning about the likelihood of a shortfall (or surplus) and helps them to decide what responsive action to take.

The following table sets out the process for preparing and making use of the annual budget.

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| Deciding the form of the budget             | The first decision that a council must take is the level of detail at which to prepare the budget. This involves scheduling out all the headings under which the council expects to make payments or is likely to receive cash (e.g. clerk's remuneration, village hall booking fees). An estimate will then be prepared for each of these headings of the value of transactions that will take place in the next year.   |
| Review the current year budget and spending | In making estimates, most councils will start by looking at current year figures, with three main purposes: <ul style="list-style-type: none"><li>▪ to identify activities that are being carried out this year that will also be carried out next year and need to be budgeted for again (e.g. payment of the clerk, running costs of the village hall);</li><li>▪ to identify things that are happening in the current year that will not happen next year and do not need to be budgeted for again (e.g. a one-off grant to the local sporting association for renovating their premises, running costs of a sports centre that is to be closed); and</li><li>▪ to identify items that are not in the current year budget, and</li></ul> |

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|  | <p>need to be added for next year's budget (e.g. major drainage works in the cemetery, employment of a caretaker for the village hall).</p> <p>This is called 'incremental budgeting', as it builds on the decisions that the council has taken in the past. An alternative approach that councils sometimes take is to start with a clean piece of paper and build a fresh budget that is not constrained by what has happened in previous years. This is sometimes described as 'zero-based' budgeting.</p>   |
| Determine the cost of spending plans     | <p>Having determined what the council wants to spend its money on, the next stage is to work out the costs of its plans. For existing activities, this will require an assessment of likely changes in the level of the activity and the possible impact of wage and price inflation. The prices of new activities will have to be estimated using the best information currently available.</p>  |
| Assess levels of income                  | <p>Careful consideration should be given to budgeted levels of income for the forthcoming year. Many councils may have no other income but the precept, but for others the budget setting process will usually be the time when decisions are taken about what level of fees and charges should be set for the next 12 months.</p>  |
| Bring together spending and income plans | <p>For many activities, spending and income decisions will be linked directly – e.g. if the council decides to extend the opening hours of the community hall, then it will spend more on heat and light but also generate more income from charges. However, it is an important stage of the budget process when spending plans are brought together with assessments of income to see how affordable the plans are. When doing this it is usual practice to be more optimistic about spending plans (i.e. to expect that the council will be able to carry out all its plans and spend as intended) and more pessimistic about income levels (i.e. to assume that the council might not be able to generate all the income it hopes to). Affordability will usually be judged by the impact the overall plans will have on the precept. If there is an increase in the council's budgeted net spending for next year over the</p> |

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|   | <p>current year, would this result in an increase in the precept that would be acceptable to the local population as an addition to their council tax?</p>  |
| <p>Provide for contingencies and consider the need for balances</p> | <p>Some councils may have absolute certainty in their spending plans for the forthcoming year. However, most councils will have some uncertainty in their plans, perhaps because of general factors such as inflation or changes in interest rates on cash deposits or specific things such as not knowing exactly how much firms will tender for the planned works. Before committing itself to its spending plans, the council should review the need for amounts to cover contingencies, in case works are more costly than was first thought. The amounts added to the budget should not be excessive. Councils might work to the principle that it is better to raise cash from a higher precept and not use it than to set the precept too low, and so run out of cash and run the risk of incurring an unlawful overdraft. A well-managed council will also look forward beyond the end of the year for which the budget is being set and think about whether there are any substantial commitments that it would be prudent to set aside funds for. For example, the village hall may need re-roofing in three years' time, but the council could not afford the cost from that year's budget. Instead, a balance could be built up by raising the precept for a proportion of the cost in each of the next three years. Most councils will therefore budget to carry forward a balance, to cover contingencies or specific spending plans. This means that in setting the budget the council will have to estimate what balance will be brought into the new year, decide what balance it wants to carry forward and charge the difference against the new year's precept.</p> |
| <p>Approve the budget</p>   | <p>Having determined the planned levels of spending, anticipated income and the balances needed to be carried forward for contingencies and future spending plans, the budget needs to be approved. Much of the work preceding this stage may be delegated to the responsible financial officer, but the council must approve the finalised budget.</p>   |

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|   | <p>Sufficient information needs to be provided with the budget papers so that members can make a reasonable and informed assessment about the desirability and affordability of the plans for the coming year.</p> <p>At the same time that the budget is set, members will also approve any delegation of responsibility for spending amounts set out in the budget. For example, the budget might include amounts for paying a grant to the local youth club: Authorisation might then be given to the responsible financial officer to pay the grant without having to make further reference to the council. Once approved the budget should be published on the council's web site.</p>  |
| <p>Confirm the precept</p>                | <p>The important statutory stage of the budget process is confirming the precept that is to be raised on the district council or unitary authority for the area. The law requires that precepts be issued a month before the new financial year starts, i.e. by 1 March. The district council/unitary authority may ask for precepts to be issued by an earlier date (normally in January) to assist their setting and administration of the council tax. All other parts of the budget process should be timed so that the date for setting the precept can be achieved safely.</p>  |
| <p>Review progress against the budget</p> | <p>Once the budget has been approved, it should be an active tool for managing the council's finances. The well-run council will have the following arrangements in place.</p> <ul style="list-style-type: none"> <li>▪ Progress reports prepared periodically through the year, showing spending and income to date against budgeted amounts. Care should be taken to profile the budget across the year and not necessarily assume, say, that half the budget would have been spent after six months. For instance, a significant element of spending may be grants to local organisations paid at the start of each financial year. There would then be a peak of spending in April that would not be characteristic of the other months of the year. An effective report would therefore contain projections for</li> </ul> |

the full year based on the spend to date and future plans.

- The report is presented at each council meeting. This would provide members either with comfort that the spending plans were proceeding as hoped or with information about areas where spending was higher or lower than anticipated. In the latter case, members will be able to consider the need to amend their expenditure plans (perhaps by switching amounts from one budget heading to another that is overspent – known as ‘virement’), to take steps to increase income, or to make decisions about using the funds that have been saved for contingencies.
- It is good practice to change a budget that is shown by experience to be ineffective. However, changes should only be made with the authorisation of those who approved the original budget.

Preparing a robust and detailed budget underpins the council’s activity for the year and ensures that the council is operating efficiently and effectively by thinking about service delivery in advance.

If your council requires further information or guidance on budgeting and precepting please contact Northants CALC.

*The article above is based on information contained in Governance and Accountability for Local Councils - A Practitioners’ Guide (England) (2010). The 2016 edition of the guide omits detailed practical advice on the budget process.*