

Sway Parish Council Budget Setting Process

1 Deciding the form of the budget

The first decision for the council is to determine 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 (for example, clerk's remuneration, play park, Pavilion hire etc.). An estimate will then be prepared for each of these headings of the value of transactions that will take place in the next year.

2 Review the current year's budget and spending

We start by looking at current year figures, with 3 main purposes:

1. We identify activities that are being carried out this year that will also be carried out next year and need to be budgeted for again (for example payment of the clerk, running costs of Jubilee Field);
2. We identify things that are happening in the current year that will not happen next year and therefore do not need to be budgeted for again.
3. Finally we identify items that are not in the current year's budget but that need to be added for next year's budget. 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.

3 Determine the cost of spending plans

Having determined what the council wants to spend its money on, the next stage is to work out the costs. 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 cost of new activities will have to be estimated using the best information currently available.

4 Assess levels of income

Careful consideration should be given to budgeted levels of income for the forthcoming year. The budget setting process will usually happen at the same time as the council decides about the level of fees and charges that should be set for the next twelve months.

5 Bring together spending and income plans

For many activities, spending and income decisions will be directly linked – for example if the council decides to extend the opening hours of the Jubilee Field Pavilion, then it is likely to spend more on heat and light but it may also generate more income from charges. It's a critical stage of the budget process when spending plans are brought together with assessments of income to see how affordable the plans are. 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 has estimated). Affordability will usually be judged by the impact the overall plans will have on the precept. If there's an increase in the council's budgeted net spending for next year over the 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?

6 Provide for contingencies and consider the need for balances

Most councils will have some uncertainty in their plans. This could be 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 example the rewiring work planned for a facility. Before committing itself to its spending plans, the council should review the need for the amounts it has set aside to cover contingencies such as inflation being higher than expected or 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, rather 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 Jubilee Pavilion may need reroofing in 3 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 3 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 next financial year and decide what balance it wants to carry forward and charge the difference against the forthcoming year's precept.

It is possible that the council's spending plans, particularly capital expenditure, may require a level of external borrowing. Borrowing by local councils is subject to government controls and with certain limited exceptions the Secretary of State's approval is required. He or she may impose conditions in accordance with which the borrowing shall be carried out. Councils must always take advice before commencing any contractual borrowing arrangements. NALC (National Association of Local Councils) or SLCC (Society of Local Council Clerks) can provide useful guidance to assist councils in making borrowing decisions and obtaining the necessary approvals and funds. Decisions to pay outright, hire or lease should be taken prudentially and bearing the rules on borrowing in mind. Councils should also be aware of, and have internal controls in place to avoid the possibility of 'accidental' borrowing which can occur, for example, if regular payments are made at a low point in the council's cash flow cycle, i.e. at year-end, and just before the precept payment is received.

7 Approve the budget

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 (RFO), a role often fulfilled by a suitably qualified Clerk, but the council must approve the finalised budget. 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. 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 RFO to pay the grant without having to make further reference to the council. There is no statutory requirement to publish the budget, but many councils will put a copy on the notice board and on their website once it has been approved. It must be made available on request under the Freedom of Information Act 2000.

8 Confirm the precept

The important statutory stage of the budget process is confirming the precept that is to be raised on the district council. The law requires that precepts be issued a month before the new financial year starts, i.e. by 1 March. The district council may ask for precepts to be issued by an earlier date to assist their setting and administration of the council tax and will normally provide assistance to local councils to ensure that everything goes smoothly. All other parts of the budget process will be timed so that the date for setting the precept can be achieved safely.

9 Review progress against the budget

Once the budget has been approved, it should be an active tool for managing the council's finances. Sway Parish Council should have the following arrangements in place.

- 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 the full year based on 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.