

The basis and parameters for the Council's budget for 2023-24

Finance and Grants Committee

Glossary

Budget

The Council's budget for the next financial year is set in January. It is the Council's prediction of its spending in the financial year in question. By law, the Council must forecast its spending in advance and include only that spending in its budget. It is not allowed to set aside a general sum of money and then decide how to spend it as it goes along.

Cap

A maximum level that must not be exceeded.

Expenditure

What this Council spends. The Council's annual budget is a forecast of what its spending will be. Expenditure is the sum it actually ends up spending.

Financial year

The financial year runs from 1 April in one calendar year to 31 March in the subsequent calendar year.

Precept

The total amount of money that Council Tax payers in the Abertillery and Llanhilleth Community Council area will pay to this Council during the financial year. The precept for a given financial year may be different from the budget. If the Council has underspent in one financial year, it may decide to 'give the money back' by reducing the precept for the following year. If the Council needs to build up its reserves, it may set a precept that is higher than its budget, thereby ensuring that it will generate 'spare cash' to put into its reserves.

Real terms

What a sum of money is worth once inflation is taken into account. Inflation is expected to run at 11 percent in 2022-23. Therefore, £100 held in April 2022 will be worth only £89 in real terms by the end of March 2023.

Reserves

A fund of money kept to ensure that the Council will be able to continue to function even if its income suddenly dries up or if it faces unexpected expenditure. Community councils are advised to hold reserves that equate to between 25 percent and 100 percent of their annual budgets. Community councils with very uncertain income (e.g., those that rely largely on unpredictable commercial income) carry high levels of reserves. Abertillery and Llanhilleth Community Council's income comes almost entirely from its precept, which is collected from Council Tax payers on our behalf by Blaenau Gwent Council. As long as Blaenau Gwent Council doesn't go bankrupt before it passes the money to us, this Council's income is highly secure. We would, therefore, be expected to hold reserves near the 25 percent level.

Standstill

Setting the same budget two years in succession. Inflation means that this is, in reality, a budget cut as the money will be worth less in real terms (see above) in the second year.

Underspend

The amount left over at the end of a financial year if the Council fails to carry out all the planned spending in its budget.

Summary

- This Council set too high a budget (£340,000) for 2022-23.
- Changes in this Council's precept have only a small impact on Council Tax bills, but the moral and political pressures of the current cost-of-living crisis suggest that the Council should plan for a significantly reduced budget in 2023-24.
- Some of the savings could be made by adopting a more rigorous, disciplined and pragmatic budgeting process.
- The Council would still face difficult choices in order to reduce its budget to a more rational level.
- The Council should consider setting parameters for future budgets so that it can make longer-term financial plans.
- The Council should consider appropriate levels for its current account balance and reserves.

Background

There is no such thing as an 'ordinary' community or town council in Wales: some are tiny and go-ahead; some are huge and moribund. Some are run like an efficient business; some are financial 'basket cases.' Some rely largely on earned income (e.g., from car park revenues, hall hire etc); some (like Abertillery and Llanhilleth Community Council) rely almost entirely on their precept.

Comparisons with our neighbouring community and town councils offer little help. Brynmawr Town Council has kept to the same budget and precept for at least the last eight consecutive years. Once they have paid their clerk and running costs, they are now left with less than £12,000 for the whole year. Technically, they may have set an unlawful budget for 2022-23 because they now don't even have enough in their budget to enable their councillors to claim the allowances to which they are entitled. Similarly, Tredegar Town Council has repeatedly set a 'standstill' budget. Once it has paid for its staff and for the upkeep of the town clock and a public toilet, it now has little money left to do anything at all.

However, when taken as a whole, Wales's community and town council sector can provide some context. For a start, Abertillery and Llanhilleth Community Council is not a 'big spender' by any stretch of the imagination. Abertillery and Llanhilleth Community Council's precept-per-household puts the council around 250th out of 740 town and community councils in Wales. Some community and town councils charge each household more than five times the level set by Abertillery and Llanhilleth Community Council.

Having said that, the budget and precept set by Abertillery and Llanhilleth Community Council for 2022-23 was completely out of kilter with what had gone before. Council set a considerably higher budget and precept than it has ever done before and the early signs are that it may be heading for a greater underspend than ever before.

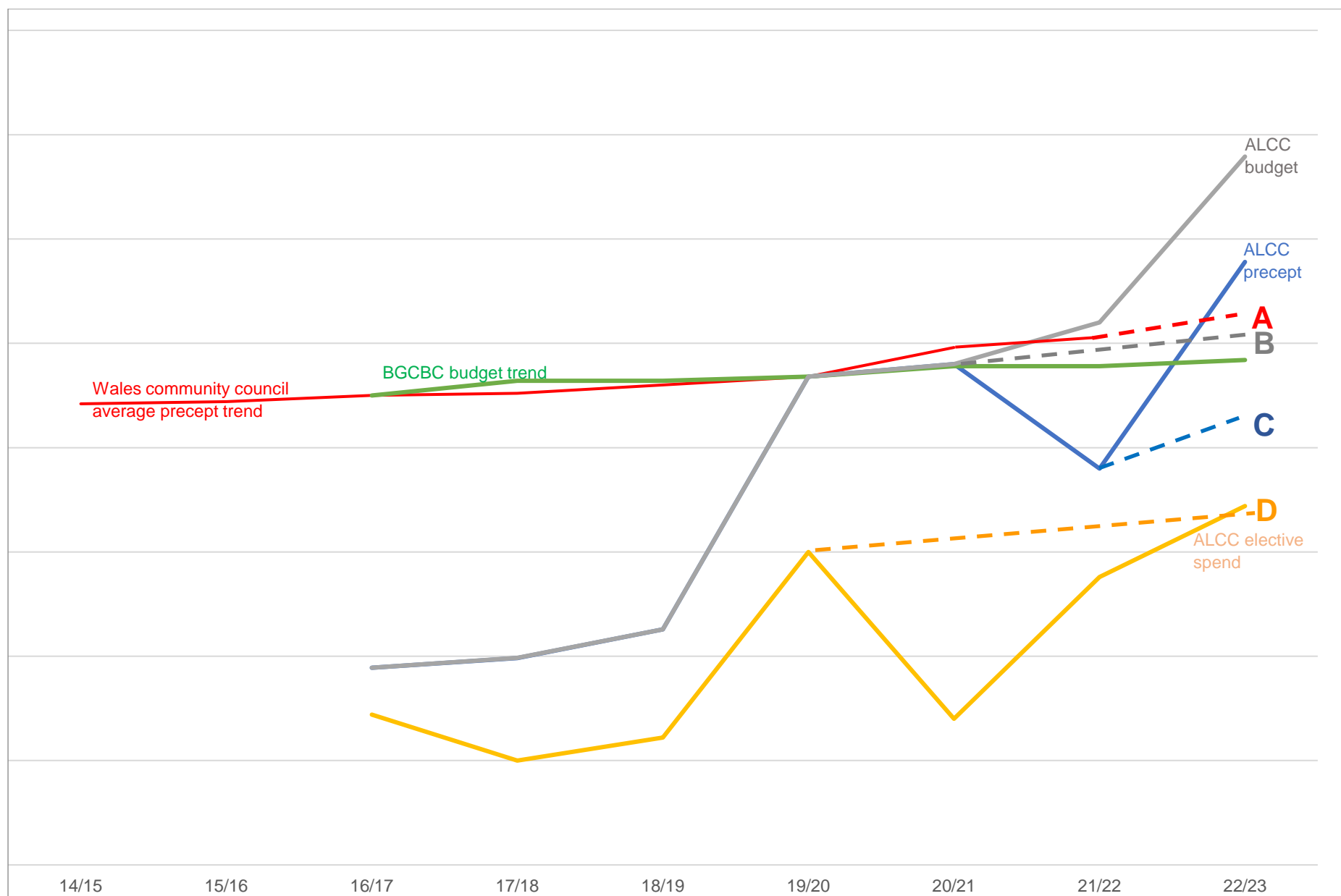
This paper suggests that the situation arose because the 2022-23 budget became a 'wish list.' The Council threw in everything it would *like* to do without full consideration of what it *ought* to do and what it has the *ability* to do. This paper proposes that the Council should set parameters for its budgets that would force the Council to consider these latter two points and, therefore, to make realistic choices about its priorities.

History

It is a little bit difficult to plot Abertillery and Llanhilleth Community Council's historical budget and spending. As this Council has become all too painfully aware following last year's Audit Wales report, for at least a decade (and probably longer), a previous clerk made unlawful payments to himself and payments to others that were not properly documented or explained. The Council then made substantial additional payments to the former clerk and a former secretary that were unlawful. The Council also went through some periods when it did not have a clerk at all and others when there was chaotic in-fighting. The Council was barely able to transact any meaningful business during some of these times.

When these factors are taken into account, this Council did seem to generally follow a pattern of budgets rising relatively steadily and gently, just a little ahead of the rate of inflation. This mirrored the trends seen across Wales's community and town council sector as a whole. This Council's budget increases have historically been a little higher than the trend of Blaenau Gwent County Borough Council's annual budget increases.

The diagram overleaf plots these trends on a graph. Taking 2019-20 as a baseline, it shows the Blaenau Gwent Council budget (**green** line) more-or-less tracking the rate of inflation with the average precept of Wales's community and town council sector (**red** line) increasing a little quicker but still in a relatively steady fashion.



Abertillery and Llanhilleth Community Council's budget (**grey** line) follows a very different path. It starts off with a steady increase (mirroring the trend of Wales's community and town council sector). This Council agreed to a step-change for 2019-20 when it nearly doubled its budget. The Council did this quite deliberately. A Council that had, until then, done little more than employ officers and hand out a few small grants made the decision to invest a substantial amount in two youth projects and to set aside tens of thousands of pounds to enable it to fund initiatives that had the potential to make a real difference for local communities. The Council also (wisely) increased its reserves. Having made that leap, this Council's budget then returned to a gentle and steady annual increase the following year.

Things began to deviate from the norm in 2021-22. This Council's budget took another step upwards. Members were somewhat protected from having to consider the ethics of increasing its overall budget by twice the rate of inflation because of a financial windfall: Covid-19. The effects of the pandemic had so reduced what the Council was able to do during the previous year that it had produced a huge underspend. This was used to reduce the precept for 2021-22 so that, even though the Council set an inflation-busting budget, the precept for 2021-22 fell by 21 percent.

For 2022-23, the Council set a budget that was more than 30 percent higher than even the inflated level of the year before. Nearly two-thirds of these proposed additions to the budget had gone through no scrutiny process whatsoever and most of them had not even been properly costed. Nearly a quarter of the proposed additional expenditure was added, with little warning, during the budget-setting meeting itself in January 2022.

I should stress that none of these new and additional proposals looked fanciful. All of the initiatives that the Council proposed to fund were of the sort that any community council could reasonably expect to benefit the lives of the people it serves.

But, the total budget for 2022-23 was completely dislocated from the budgets and expenditure patterns of previous years. If this Council had increased its budget in line with the trend for Wales's community and town council sector, it would have come up with a figure around the level shown by the letter **A** in the diagram. If it had followed the trend of its own historical increases, the 2022-23 budget would have been set at around the level shown by the letter **B** in the diagram. The actual budget is marked **ALCC budget** in the diagram.

If Abertillery and Llanhilleth Community Council had followed these trends, the precept would have been around the level shown by the letter **C** in the diagram. Instead, it was set at the level marked **ALCC precept** in the diagram.

Current situation

We are only a quarter of the way into the 2022-23 financial year. Projections of the Council's actual spending can have a fairly wide margin of error this far out from year-end, but the indications are that some substantial budget lines will not be fully spent during this financial year. Committees are already coming to the conclusion that they will not be able to carry through some planned spending at all. Some other initiatives require more planning and organisation than previously appreciated and probably won't get going in time to use up their full budget allocation.

My current guesstimate is that the Council will be underspent to the tune of somewhere between £40,000 and £80,000 this year which is, more-or-less, equal to the difference between what one would have expected Abertillery and Llanhilleth Community Council's budget to be this year (**A/B**) and the actual budget that was set (**ALCC budget**).

Another pattern has emerged.

This Council has made the decision to employ two part-time officers. Put together, they equate to 1.4 full-time equivalent staff. In line with virtually every other similar council in the UK, the officers' salaries are set by a national pay scale that is outwith the control of this Council. The Council has also decided to fund staff at two youth projects. The youth projects told us what the costs would be, we put the money in the budget and the expenditure has been authorised. In addition, this Council has to include some items in its budget every year (e.g., insurance, licences, funds for Member's allowances etc). These items have to be budgeted for whether the Council actually does anything or not – they would have to be included in the budget even if the Council held no meetings, made no decisions and did no work in 2022-23.

When these pre-planned and relatively fixed costs are taken out of the Council's expenditure, we are left with the amount of expenditure that is basically dependent on the available resources in terms of time and capability of the Council's Members and officers. This is marked on the diagram as **ALCC elective spend**.

This expenditure was under £150,000 in 2019-20. It dipped dramatically in 2020-21 when Covid-19 restricted the Council's activities. In 2021-22, the Council operated at about 85 percent of its planned staffing level and spent about 80 percent of the 2019-20 amount. Projections for 2022-23 suggest this **elective spend** will be around £170,000 or, put another way, roughly what one would expect 2019-20's £150,000 to be in 2022-23 if this Council had followed the average increased expenditure trend of Wales's community and town council sector.

The evidence suggests that this Council has reached 'peak elective spend.' We simply don't have the resources (especially in terms of officers' time) to do more. In fact, the figure of £170,000 may turn out to be an over-estimate. The Deputy Clerk and I have worked quite a lot of unpaid overtime since I became clerk and, so far, I have taken only one day of annual leave. This has had the effect of the Council having operated since October with about 1.9 full-time equivalent staff.

The conclusion has to be that this Council set far too high a budget for 2022-23. I repeat that this Council included nothing in that budget that was obviously unreasonable. However, the Council failed to prioritise and to make choices and, therefore, it almost certainly included too many initiatives in its budget for this financial year.

Responsibility for many of those initiatives (and budgets) has been delegated to committees. Therefore, the committees are now setting those priorities and making those choices. It is human nature that individual Members gravitate towards the initiatives to which they feel closest or with which they most enjoy being involved. Because the Council failed to make those difficult choices in January, by default, the whole Council's spending priorities are now becoming those of a small number of its most active and energetic committee members.

The way forward

Many, if not most, layers of government – from the Foreign Office to the borough council street cleaning department – set their budgets within parameters that are laid down for them. The Treasury carries out an annual spending review and sets Departmental Spending Limits. So, the Ministry of Defence knew that its budget would have to be 0.4 percent lower for 2022-23 than for the year before. The Department for Levelling Up was able to budget for a 9.4 percent increase. Blaenau Gwent Council set itself a four percent increase in its budget for this year. In England, Council Tax increases are, in effect, capped by the Government, which has had the knock-on effect of squeezing parish council precept increases. Parish councils know that an annual increase in their precept of more than about four percent will trigger a political storm.

In Wales, there is no such cap. This paper argues that it may be wise for this Council to consider imposing limits upon itself before its new budget scrutiny process begins in September. This should have the impact of forcing budget-holders (officers and committees alike) to make logical and reasoned decisions about their proposals for 2023-24, enabling the Council as a whole to make the difficult choices about its priorities.

There are various models that the Council could consider. As a baseline, I have taken 2019-20 – the year that this Council made the decision to make a step-change in its budget. The debate over that decision caused a split in the Council and it squeaked through the budget-setting meeting by a narrow majority. This suggests that, at the time, the Council as a whole considered the total 2019-20 budget (£234,000) to be, more-or-less, on the borderline between ‘acceptable’ and ‘too much’. Since then, the Council has taken the decision to increase its funding of youth engagement work by a further £25,000. In addition, new legislation now requires community councils to make provision for some extra items in their annual budgets. I have taken a look at what the budget would have been for 2022-23 – and what it would be for 2023-24 – if the Council had followed various models of setting parameters for its budget since 2019-20.

Following the historical trend

Historically (with the glaring exception of 2019-20), this Council has increased its budget by an average of 5.3 percent per year. If it had followed this trend, it would have set a budget for 2022-23 of £298,000.

If ALCC had followed its historical trend of increasing budget by 5.2% per annum						
	Forecast budget for 2022-23 (£000)	Increase in youth engagement (£000)	Additional budgetary requirements 2022-23 (£000)	Forecast final budget 2022-23 (£000)	Additional budgetary requirements 2023-24 (£000)	Forecast final budget 2023-24 (£000)
Budget	256	25	17	298	12	308
Elective spend	168			168		176

Shadowing Blaenau Gwent Council

Over recent years, Blaenau Gwent has increased its budget by an average of 2.07 percent per year, which is less than the rate of inflation. It is likely to come under political pressure to set a zero percent increase (or even cut spending) in 2023-24. If Abertillery and Llanhilleth Community Council had shadowed Blaenau Gwent Council’s budget-setting, it would have set a budget for 2022-23 of £282,000.

If ALCC had followed Blaenau Gwent Council budget increases						
	Forecast budget for 2022-23 (£000)	Increase in youth engagement (£000)	Additional budgetary requirements 2022-23 (£000)	Forecast final budget 2022-23 (£000)	Additional budgetary requirements 2023-24 (£000)	Forecast final budget 2023-24 (£000)
Budget	240	25	17	282	12	278
Elective spend	152			152		150

'Real terms' standstill

If this Council had shadowed the rate of inflation (i.e., kept its budget the same in real terms), it would have set a budget for 2022-23 of £290,000.

If ALCC had followed rate of inflation						
	Forecast budget for 2022-23 (£000)	Increase in youth engagement (£000)	Additional budgetary requirements 2022-23 (£000)	Forecast final budget 2022-23 (£000)	Additional budgetary requirements 2023-24 (£000)	Forecast final budget 2023-24 (£000)
Budget	248	25	17	290	12	317
Elective spend	160			160		178

Following UK Government parish council guidelines

The UK Government sets a threshold for Council Tax increases in England. In reality, this sets a cap on local authority Council Tax increases. The UK Government has no power to cap the precepts of parish councils, but it sets a guideline figure each year, which has usually been a little higher than the local authority cap.

If ALCC had followed UK Government guidelines for English parish councils						
	Forecast budget for 2022-23 (£000)	Increase in youth engagement (£000)	Additional budgetary requirements 2022-23 (£000)	Forecast final budget 2022-23 (£000)	Additional budgetary requirements 2023-24 (£000)	Forecast final budget 2023-24 (£000)
Budget	250	25	17	292	12	287
Elective spend	162			162		162

It is notable that, if Abertillery and Llanhilleth Community Council had included only fully-costed proposals in its budget for 2022-23, the final budget would have been £304,000 with an elective spend of £170,000.

The actual final budget for 2022-23 was £340,000 with a forecast elective spend of £170,000. This is forecast to produce an underspend of at least £40,000 (and possibly twice that).

Conclusion

This Council set too big a budget for 2022-23. All of the models above suggest that Abertillery and Llanhilleth Community Council should have set a budget of between £280,000 and £300,000 for 2022-23 with an elective spend of between £150,000 and £170,000.

This Council is probably heading for an underspend of several tens of thousands of pounds for 2022-23.

This creates more than a short-term issue for this Council. It has traditionally set 'incremental' budgets i.e., apart from 2019-20, it has taken the budget from the current financial year as its basis and then made adjustments to create its budget for the next financial year. If this Council uses 2022-23 as its basis for future budgets, they will continue to be unreasonably high.

The vast majority of households in the Abertillery and Llanhilleth Community Council area (93 percent) are rated as Band A or B for Council Tax purposes. A quarter of these households pay no Council Tax at all. Increases in this Council's precept have only a

marginal impact on Council Tax bills. If this Council doubled its precept, the average household would pay only around 89p a week more in Council Tax.

However, the UK is facing a cost-of-living crisis. In response, there is a strong likelihood that public sector finances for 2023-24 will be squeezed, that UK Government Departmental Spending Limits will show little increase on the current financial year and that the Barnett Formula (the way by which the UK Treasury determines the public expenditure allocated to Wales) will put pressure on the Local Government Financial Settlement in Wales. A number of local authorities are already planning spending cuts for 2023-24. It is, therefore, likely that Abertillery and Llanhilleth Community Council's budget for 2023-24 will be set at a time when public sector organisations will be under pressure to show strict budgetary restraint.

Recommendations

This Council should consider setting a cap for its budget for 2023-24

All of the models above suggest that a budget of £280,000-£300,000 is the sort of level that should have been set for 2022-23 and our (very early) forecast is that this is where this Council's expenditure for 2022-23 will end up. The Council's current budget is, therefore, too high and using this as the basis for an 'incremental budget' in 2023-24 is likely to perpetuate the cycle of over-budgeting followed by under-spending. It is considered unprincipled for a community council to raise more money from the public than it reasonably expects to spend.

The precept was set at £289,000 for 2022-23. If this Council was to set the figure of £289,000 as a budget cap, it would be taking the politically expedient step of guaranteeing that there will be no increase in its precept for 2023-24. If, as expected, this Council underspends in 2022-23, it will have the option to use part or all of the underspend to reduce the precept for 2023-24.

Inflation would make this a real terms cut in expenditure

The UK's Consumer Price Index (CPI) is expected to peak at 11 percent this year, which is 8 percent higher than the forecast at the time this Council set its budget for 2022-23. CPI is expected to fall to 6 percent in 2023-24. Therefore, £289,000 at January 2022 prices (when the 2022-23 budget was set) will be worth only £242,000 in 2023-24 at January 2022 prices.

This would equate to a 16 percent fall in spending in real terms. The UK Government is in a state of flux at the moment, so no one can make accurate forecasts about future public spending. However, many commentators are predicting an approximate 20% fall in public expenditure in real terms over the same period.

Be prepared to set priorities and to make difficult choices

This Council should avoid setting another 'wish list' budget. It has already become apparent that a number of budget lines for 2022-23 are unlikely to be spent in full (or, in some cases, at all). Budget-holders (and the Council as a whole) should be forced to consider the feasibility of projects – and to prioritise – before anything is included in future budget proposals.

Strong emphasis on properly-costed proposals

This Council's recent annual budgets have tended to contain far too many 'finger in the air' estimates. There is strong evidence that the annual budget for 2023-24 could be cut significantly simply by ensuring more accurate expenditure forecasts.

Consider holding back some of the underspend for use in subsequent years

As mentioned above, the early indications are that this Council is heading for a significant underspend in 2022-23. In recent years, the practice has been to return the full forecast

underspend in one year in the form of a reduced precept in the following year. The current cost-of-living crisis is forecast to continue well beyond 2023-24. The Council may want to give some consideration to retaining some of the underspend from 2022-23 with a view to using it to keep the precept as low as possible in 2024-25.

Consider the level of reserves and current account balance

This Council is on course to report a significant underspend for the seventh year in a row. These repeated underspends have left the Council with an inflated current account balance. The Council should give consideration to planning a reduction in the current account balance over time. The level of reserves held by the Council is dictated by the overall budget. If this Council reduces its budget for 2023-24, the current level of reserves should be reconsidered.

Think about parameters for future years

This Council should consider adopting a model to guide its expenditure plans over the longer term. As mentioned above, the Council will need to be realistic about both the sort of precept increases that will be politically acceptable over the next few years and the levels of elective spend that it will be capable of. By adopting a model (e.g., tracking the rate of inflation; or agreeing in advance that this Council will mirror the average rise in precept in Wales's community and town council sector; or following the trend of Blaenau Gwent Council's budget increases etc), this Council would enable Committees and individual Members to begin planning now for future years and to draw up coherent proposals for how longer-term initiatives would be funded.

David Cartwright
Clerk
July 2022