

Governance and accountability for local councils in Wales – A Practitioners' Guide (2011)

Amended December 2014

Amendments December 2014

- Chapter 8: Internal Audit
- Chapter 13: Budget setting and monitoring

Un Llais Cymru



One Voice Wales

SLCC

Society of Local Council Clerks

Professional Supportive Innovative

Introduction to amendments

The current edition of the Practitioners' Guide was published by One Voice Wales and the Society of Local Council Clerks in 2011.

Chapters 8 (Internal Audit) and 13 (Budget setting and monitoring) have been updated to assist councils to ensure they have appropriate arrangements in place ready for the start of the 2015-16 financial year. The new chapters replace those found in the 2011 edition of the Practitioners Guide with immediate effect. The updated guidance highlights the specific statutory requirements that councils must comply with and will help councils to prepare for the audit of the 2015-16 accounting statements. These updates should be read in conjunction with the remaining extant chapters of the 2011 Practitioners' Guide.

Further revisions to the Practitioners' Guide will be made during 2015 to address the changes to be made to the Accounts and Audit (Wales) Regulations.

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Chapter 8: Internal audit

This chapter explains why local councils need internal audit and describes good practice for the internal audit arrangements. It is relevant to all local councils.

Why does the council need an internal audit?

Accounts and Audit (Wales) Regulations 2014

7.—(1) A relevant body must maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control.

152. Internal audit must look at the accounting records and the system of internal control. It must also comply with proper internal audit practices. This guidance provides non-statutory proper practices in relation to local councils.

What is the purpose of internal audit?

153. The purpose of internal audit is to review whether the systems of financial and other control are effective. It is essential that the internal audit function is sufficiently independent of the financial controls and procedures of the council that are the subject of review. The person or persons carrying out the internal audit must also be competent to carry out the role in a way that will meet the business needs of each local council.
154. Internal audit is an ongoing function but must report at least annually. There is no requirement to only carry out an internal audit once each financial year. Nor does the audit have to be carried out only at the completion of each financial year-end. It is undertaken as appropriate during the financial year to test the existence and adequacy of internal controls.
155. Internal audit does not involve the detailed inspection of all records and transactions of the council in order to detect error or fraud. It is the periodic independent review of the council's internal controls. The internal audit report should help to improve the council's operating procedures. Managing the council's internal controls should be a day-to-day function of the staff and management.
156. It is important for councils to consider whether the internal audit is proportionate to the needs, the size and the circumstances of the council.
157. Each council sets out its control objectives usually in the form of standing orders and/or financial regulations. The smaller the council, the less onerous these need to be. Similarly, the scope of internal audit at smaller councils will be correspondingly less than at larger ones. The more complex the council is or becomes in terms of its organisation and range of services, number of employees etc. the wider ranging the scope of internal audit should be.
158. The council must determine the necessary scope and extent of its internal audit. It must also make sure that it is fit for the purpose for which it is required at that particular council. The following section sets out how local councils secure internal audit. One Voice

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Wales and SLCC officers may also have up to date information about locally available sources of internal audit.

Who can be appointed as an internal auditor?

159. Local councils secure internal audit in various ways. The following table sets out a range of options. As stated above, it is for each local council to determine how best to meet the legal requirement for an internal audit having regard to its business needs and circumstances.

Local councils secure an internal audit in various ways including:

- appointing a local individual or a member of a panel of individuals. An individual will need to demonstrate adequate independence and competence to meet the needs of the local council;
- employing a competent internal auditor with sufficient organisational independence and status to undertake the role;
- purchasing an internal audit service from the principal authority where it is usual for a small team of employees to be established as internal audit;
- purchasing an internal audit service from a local firm or specialist internal audit practice. The firm needs to have an understanding of the local government framework and a number of professional firms offer a service to public bodies, authorities and commercial companies. For the largest of local councils a specialist contractor appointment may be appropriate;

For practical examples of how local councils have secured internal audit see paragraph 166 below.

160. There are two key principles which all local councils must ensure are met by their internal audit function, regardless of how procured. These principles are independence and competence.
161. Independence means that the internal auditor must not be involved in the council's management or administrative roles. Members would find it difficult to demonstrate that they are sufficiently independent of the financial decision-making and procedures of the council. In order to maintain their independence such a member would need to exclude themselves from the council's key financial decisions.
162. In the same way, it would be inappropriate for someone engaged by the council to assist with bookkeeping or preparing the statement of accounts to be the internal auditor.
163. Councils should be aware of possible conflicts of interest when appointing an internal auditor. For example, providers of accounts software may offer internal audit services through an associate company, firm or individual.
164. Councils should not ask those charged with carrying out internal audit to offer consultancy or advice on the council's financial controls and procedures. For them to do so would prejudice their ability to give an objective and independent view on whether these meet the needs of the council.
165. There is no requirement for a person providing the internal audit role to be professionally qualified. However, the essential competencies needed for any internal audit service are an:
- understanding of basic accounting processes;

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- understanding of the role of internal audit in reviewing systems rather than undertaking detailed checks that are more appropriately the responsibility of management;
 - awareness of risk management issues; and
 - understanding of accounting requirements of the legal framework and powers of local councils.
166. There are a number of practical examples of how local councils have sourced their internal audit service which are shown in the exhibit below:

A number of innovative and creative solutions have been developed by SLCC branches and local councils themselves for sourcing internal auditors at reasonable cost:

- local panels of members who are no longer able to carry out the internal audit function at their individual councils;
- local panels of officers (usually clerks) providing internal audit services to each other and sometimes wider afield¹;
- local residents who are retired accountants;
- local residents who are former members or clerks of the local council;
- local bank managers (some high street banks have community development policies which encourage their officers to take part in community activities – they are not allowed to charge);
- local business owners and managers – a number of larger corporations have policies similar to the banks with regard to community action;
- independent examiners for local charities;
- specialist internal audit service providers operating on a fixed fee or on an hourly rate;
- consortia organised by the local SLCC branch (or sometimes in partnership) providing affordable internal audit services;
- individuals identified by SLCC acting under their quality controls to provide internal audit services to local councils.

¹Subject to the guidance that one to one reciprocal arrangements between councils are unlikely to be seen as being sufficiently independent to satisfy this requirement

What does the internal audit involve?

167. The duties of internal audit relate to reporting to the council on the adequacy of systems of control. Section 4 of the annual return includes an internal audit annual report. The guidance given within the annual return is necessarily brief.
168. The work of internal audit should be subject to an engagement letter on first appointment by the Council. This letter sets out the terms of the appointment. Terms may include:
- roles and responsibilities;
 - audit planning
 - reporting requirements;
 - assurances around independence and competence;
 - access to information, members and officers;
 - period of engagement;
 - remuneration; and

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- any other matters required for the management of the engagement by the council.
169. Appendix 3 sets out detailed guidance on internal audit. Councils and internal auditors may find this helpful.
170. It is not possible to draw up a standard internal audit programme for local councils. This is because the audit programme must address the particular needs of each council. Councils must also recognise that internal audit's function is to test and report to them on whether the council's system of internal control is adequate and working satisfactorily. It is not for internal audit, nor the external auditor, actively to seek evidence of fraud, corruption, error or mistakes. Internal audit's role is to assist the council to fulfil its responsibility to have and maintain proper arrangements for the prevention and detection of fraud, error or mistakes.
171. It is proper for internal audit to carry out other tests on the systems of the council. The external auditor or the council's own risk management process may suggest such tests. The council should receive reports on all such work. Any internal audit report addressed to the council, may suggest actions required by the council. The council should treat these documents as documents open to view by local taxpayers.
172. A possible approach to testing by internal auditors is contained in Appendix 4 to this guidance. This is not a checklist requiring completion, but a suggested method of approach.

Annual review of internal audit

173. Regulation 4 requires councils to carry out an annual review of the effectiveness of their system of internal control. This review is a vital part of improving governance and accountability. Internal audit is an integral part of the system of internal control.
174. As best practice and as part of the review of internal control, local councils should at least once a year, carry out a review of internal audit. The results should be included in the annual governance statement.
175. The review must reflect the council's internal audit needs and usage. It should provide sufficient assurance for the council that internal audit's work meets required standards and is effective. Councils must judge the extent and scope of the review by reference to their own individual circumstances.

What should the review cover?

176. The starting point for the review should be an assessment against the internal audit standards set out below. This will include as a minimum making an assessment of each of the following:

Standard	Considers
Scope of internal audit	The terms of reference and the extent of the work undertaken by internal audit
Independence	The extent to which the internal auditor is able to carry out the audit without undue influence or conflict of interest
Competence	The ability and experience of the internal auditor to undertake the work

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Relationships	The clarity of relationships between the council, the clerk and the internal auditor
Audit planning and reporting	The effectiveness of the audit plan and reporting procedures

177. The review should focus on the internal audit standards identified above. These will include principally a consideration of the extent to which internal audit adds value and how well it is helping the delivery of the council's objectives.
178. Councils should not judge internal audit's effectiveness solely by the extent of compliance with expected standards. The review is mainly about how effective internal audit is, not the process it followed. In essence, the review should focus on the quality of delivery of the internal audit service i.e. reliable assurance about the council's internal controls and its management of risk.
179. Appendix 5 provides a checklist to assist councils in carrying out the review. It covers the two principal aspects of the review i.e. compliance with standards and overall effectiveness.

Who should carry out the review?

180. A key point to note is that it is the council's responsibility to carry out the annual review. This is not a review that the external auditor can carry out as part of the annual audit. Nor can it be delegated to the clerk/RFO or to internal audit.
181. Although the internal audit provider must not influence the direction or extent of the review, it is good practice to seek their input into the process.
182. There are no hard and fast rules as to who actually performs the review or how it is carried out. Councils may wish to set up a small working party for this purpose or ask an appropriate committee. However the council completes the review, because of the link to the council's Annual Governance Statement, a full meeting of the council should receive and consider the results.
183. No single approach will suit all local councils. Much will depend upon the size of the council and arrangements in place to conduct the wider review of the system of internal control and risk management.

What evidence supports the review?

184. Wherever possible, reviewers should gather evidence to support the review throughout the year. There are many possible sources of evidence and some examples are set out below:
- Previous year's review and action plan;
 - Annual report by internal audit;
 - Periodic reports from internal audit, if any, which could include one or more of the following:
 - an internal audit plan;
 - cyclical internal audit monitoring reports;
 - the results of any investigations; and
 - review of performance indicators, if used;
 - Any reports by the external auditor covering internal audit work or on key financial systems; and

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- Results of any other external reviews of internal controls or aspects of them.

What is the outcome of the review?

185. The review of the effectiveness of internal audit cannot be considered in isolation as it feeds into the council's review of the wider system of internal control. The report on the review must include an opinion as to whether or not the internal audit system is effective.
186. Aside from the need to report publicly the outcome of the review, if there are any areas identified for development or change in internal audit, an action plan should be produced so that the council can manage the remedial process. The action plan should set out the areas of improvement required, any proposed remedial actions, the people responsible for delivering improvement, and the deadlines for completion of the actions. The council should regularly monitor progress in implementing any recommendations identified.

What is the timescale?

187. Just as the Annual Governance Statement needs to be considered throughout the year, the review of internal audit should not be left until the year-end. The review feeds into the Annual Governance Statement and so it needs to be completed first. Therefore, councils must allow time for the review in drawing up their timetable for the completion of the annual return.
188. The council should monitor the action plan from the previous year's review throughout the year, linked to the way that it monitors the Annual Governance Statement action plan.

Is training available?

189. Those carrying out the review of internal audit will need to understand the purpose of the review, what it includes and how to carry it out. Training on this may be delivered by One Voice Wales and SLCC or from the local unitary authority.

Chapter 13: Budget setting and monitoring

This chapter explains the importance of the budget and describes how local councils should set and monitor their budgets.

Why does the council need a budget?

Local Government Finance Act 1992

41.— Issue of precepts by local precepting authorities.

(1) For each financial year a local precepting authority may issue a precept in accordance with this section.

(2) A precept issued to a billing authority under this section must state, as the amount payable by that authority for the year, the amount which has been calculated (or last calculated) —

(b) in the case of a precepting authority in Wales, by that authority under section 50 below as its budget requirement for the year.

50.— Calculation of budget requirement [by authorities in Wales]

(1) In relation to each financial year a local precepting authority [in Wales] 2 shall make the calculations required by this section.

(2) The authority must calculate the aggregate of—

(a) the expenditure the authority estimates it will incur in the year in performing its functions and will charge to a revenue account for the year;

(b) such allowance as the authority estimates will be appropriate for contingencies in relation to expenditure to be charged to a revenue account for the year;

(c) the financial reserves which the authority estimates it will be appropriate to raise in the year for meeting its estimated future expenditure; and

(d) such financial reserves as are sufficient to meet so much of the amount estimated by the authority to be a revenue account deficit for any earlier financial year as has not already been provided for.

(3) The authority must calculate the aggregate of—

(a) the sums which it estimates will be payable to it for the year and in respect of which amounts will be credited to a revenue account for the year, other than sums which it estimates will be so payable in respect of any precept issued by it; and

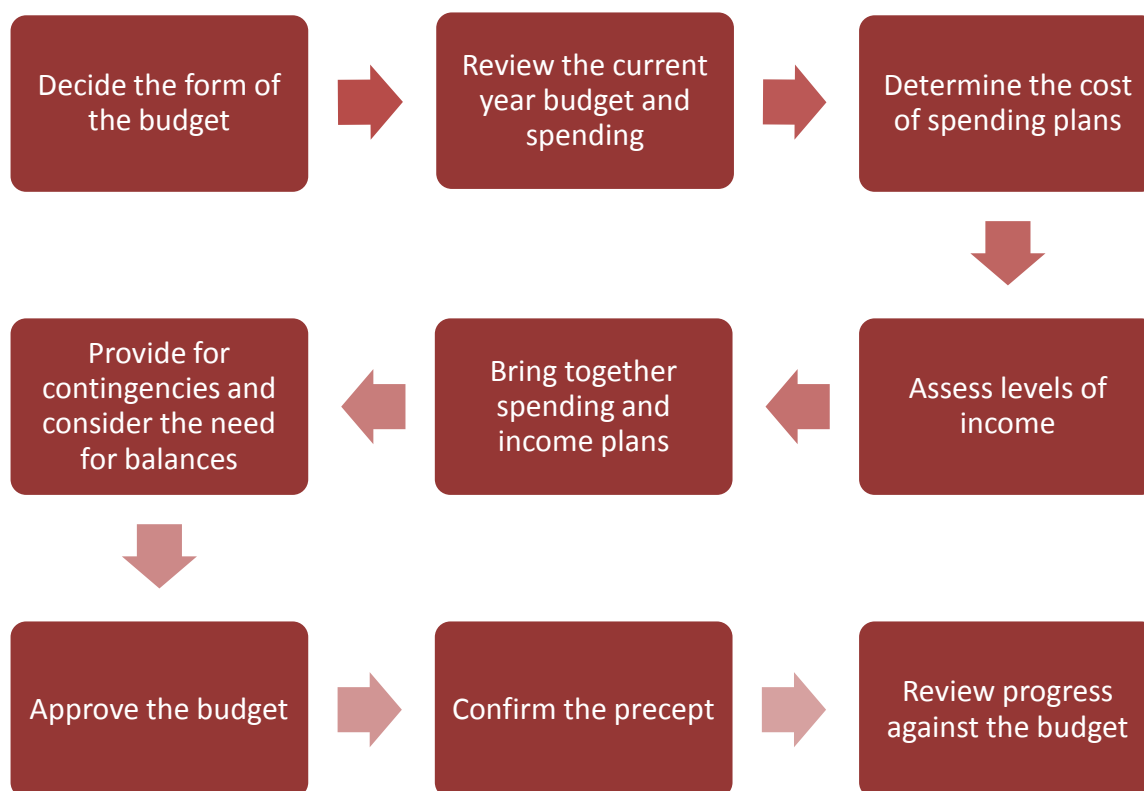
(b) the amount of the financial reserves which the authority estimates that it will use in order to provide for the items mentioned in paragraphs (a) and (b) of subsection (2) above.

(4) If the aggregate calculated under subsection (2) above exceeds that calculated under subsection (3) above, the authority must calculate the amount equal to the difference; and the amount so calculated shall be its budget requirement for the year.

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The budgeting process

266. One of the key statutory tasks a local council undertakes, irrespective of its size, is to set its budget for the forthcoming financial year. The budget is important because:
- 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 spend money, 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.
267. Members should not underestimate the importance of the budget. It is essential that they 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. The excess of planned spending over income is made up by the precept or by drawing on reserves held by the council. As the year progresses, things will not always go to plan. Reviewing the budget against actual expenditure will give warning when this happens and will help to decide what action to take.
268. The following chart sets out the process for preparing and making use of the annual budget:



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Deciding the form of the budget

269. 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.

The amount of detail required in a council's budget will depend upon the size of the council and the complexity of its services. In many cases a simple spreadsheet will suffice, showing estimates of individual items of income and expenditure. An example of a budget is shown below:

Expenditure	
Employees Clerk Other staff	Include salary, Employer National Insurance and pension costs
Premises Costs Rent, Rates etc Utilities Insurance Repairs and Maintenance	Include all costs associated with the Council's premises analysed by property if required
Office Services Telephone, internet, website Printing and postage Office materials Equipment costs	Include all costs associated with running the Council's office including costs of printing, communications and items of equipment
Member Costs Expenses Training Chair's Allowance	Include Chair's allowance, member's expenses and allowances estimated costs of providing training for members and any incidental expenses e.g. travel
Services and subscriptions Audit fees Legal fees One Voice Wales subscription Other	Include costs of all professional services including internal and external audit.
Grants and Donations Grants	Include an allowance for the award of grants including expenditure under s137 of Local Government Act 1972 and the Power of Well-Being.

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Expenditure (cont)		
Community Services and Maintenance	Include costs of organising and maintaining community services and facilities	
Toilets		
Plants, planters & Baskets		
Christmas parade		
Street furniture		
Capital Expenditure	Include costs for the Council's capital programme. Note that these costs can be funded from capital receipts reserves	
Toilets upgrade		
Playground equipment		
Hall roof		
VAT on expenditure	VAT included in both income and expenditure	
Total expenditure		A
Income		
Income from fees and charges	Include fees raised from the use of community facilities	
Village Hall fees		
Sports pavilion hire fees		
Other income	Include estimates of grant income to be received during the year and other sources of income including receipts from disposal of assets and VAT to be reclaimed	
Grants		
Capital receipts		
Bank Interest		
VAT reclaimed		
Total Income		B
Use of Reserves and balances		
Earmarked funds added this year	Include planned use of brought forward reserve	(+)
Earmarked funds used this year	balances and use of capital funds to finance this year's capital programme.	(-)
Capital receipts received in year		(+)
Capital receipts used in year		(-)
Total movement on reserves and balances		C
Budget requirement (Precept) for the year		A-B+C

NB. This example is not prescriptive and each council should prepare its budget in a format suitable for its needs.

Review the current year budget and spending

270. To make estimates most councils will start by looking at current year figures to identify:

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- 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)
- 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)
- items that are not in the current year budget, and 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).

271. 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.

Determine the cost of spending plans

272. 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.

Assess levels of income

273. Careful consideration should be given to budgeted levels of income for the forthcoming year. Many councils may have no other income but the precept. For others the budget setting process will usually be the time when the council makes decisions about at what level fees and charges should be set for the next twelve months.

Bring together spending and income plans

274. In many cases, spending and income decisions are linked directly. For example, if the council decides to extend the opening hours of the community hall, 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 councils are usually 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
- pessimistic about income levels (i.e. to assume that the council might not be able to generate all the income it hopes to).

275. Councils usually judge affordability by the impact the overall plans have on the precept. If there is 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? In fact, many councils will work the other way around. They first decide what a reasonable increase would be for the precept and then work out what the extra funds generated can be spent on.

Provide for contingencies and consider the need for balances

276. Some councils may have absolute certainty in their spending plans for the forthcoming year. For instance, if the only major outgoing is the clerk's pay and the council agrees this

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before the start of the year, the council will know exactly how much it will spend. 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 re-wiring work planned for the village hall.

277. Before committing itself to its spending plans, the council should review the need for amounts to cover contingencies, for example, in case inflation is 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 than to set the precept too low, and so run out of cash and run the risk of incurring an unlawful overdraft.
278. A well-managed council will also look forward beyond the end of the year for which the budget is being set. It will think about whether there are any substantial commitments for which it would be prudent to set aside funds. 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.
279. Councils have no legal powers to hold revenue reserves other than those for reasonable working capital needs or for specifically earmarked purposes. Earmarked reserves, which are set aside for specific purposes and for savings for future projects, should be realistic and approved by the Council. It is generally accepted that general (un-earmarked) revenue reserves usually lie within a range of three to twelve months of gross expenditure. However, the amount of general reserve should be risk assessed and approved by the Council.
280. The council's spending plans may require a level of external borrowing e.g. for capital projects. Borrowing by local councils is subject to government controls and with certain limited exceptions, the Welsh Government's approval is required. The Welsh Government may also impose conditions in accordance with which the borrowing shall be carried out.
281. The Welsh Government publishes guidance on applying for borrowing approvals. The guidance may be found at:
<http://wales.gov.uk/dsjlg/publications/localgov/borrow1213/lgborrow1213?skip=1&lang=en>.
282. Councils must always take advice before commencing any contractual borrowing arrangements. One Voice Wales or SLCC 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 with 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. For example, if a council makes regular payments at a low point in the council's cash flow cycle, e.g. at year-end, and just before it receives the precept payment.

Approve the budget

283. Having determined the planned levels of spending, anticipated income and the balances needed for contingencies and future spending plans, the budget needs to be approved.

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284. Much of the work preceding this stage may be delegated to the RFO. However, the council must approve the finalised budget. Members should receive sufficient information with the budget papers so that they can make a reasonable and informed decision 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. The RFO may then be authorised to pay the grant without having to make further reference to the council. In the case of member training, the Council might usefully approve an annual training budget with the Clerk/RFO having the authority to make training bookings without further recourse to the Council subject to the budget sum not being exceeded.
285. There is no statutory requirement to publish the budget but many councils will put a copy on the notice board once it has been approved. It must be made available on request under the Freedom of Information Act 2000.

Confirm the precept

286. The important statutory stage of the budget process is confirming the precept that the local council will raise on the 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 unitary authority may ask to receive precepts by an earlier date to assist their setting and administration of the council tax. Assistance will normally be provided 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.

Monitor the budget

287. Once the council approves the budget, it should be an active tool used to manage the council's finances. At regular intervals, the well-run council will prepare progress reports showing spending and income to date against budgeted amounts. The council should take care to profile the budget across the year and not necessarily assume, say, that it will spend half the budget after six months. For instance, a significant element of spending may be grants to local organisations paid at the start of each financial year. The peak of spending in April will not be characteristic of the other months of the year. An effective report would therefore contain projections for the full year based on the spend to date and future plans.
288. The council should receive these progress reports at each council meeting. This provides 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.
289. It is good practice to change a budget where it is clearly necessary. However, changes should only be made with the authorisation of those who approved the original budget.
290. It is also good practice for local councils to incorporate an analytical review into their regular budget monitoring procedures. The review probes the underlying reasons for variations in expected income or expenditure. This helps to ensure that members of the council understand fully the pattern of income and expenditure flows during the year and informs decision making.
291. Analytical review can be carried out in a number of ways. It leads to an understanding of:

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- variations in income or expenditure (or receipts and payments) from year to year;
 - variations between actual figures and budgeted income and expenditure (or receipts and payments); and
 - the relationships between various figures or line items in the same set of accounts.
292. For example, an unexplained increase in precept of say 20%, which is not matched by a corresponding increase in expenditure, requires an explanation. Conversely, a 50% rise in annual precept with a corresponding increase in balances that is explained as being, say, the first of a number of budgeted annual contributions to an earmarked reserve for the planned rebuilding of a village hall, may well be accepted by the auditor as being reasonable and requiring no further action.
293. Similarly, an increase in borrowing without an equivalent increase in capital spending and in the value of fixed assets would raise a question. The answer may well be that the timing of the borrowing and the expenditure fell in different financial years, but an explanation is required nonetheless.
294. The question ‘what is significant?’ is often asked. Any change (or even the absence of change when one might be expected – as in the above example of a precept increase not matched by expenditure) can be significant and the RFO should be prepared to explain any figure presented in the accounts. However, as a general ‘rule of thumb’, changes (either up or down) of 10% to 15% and greater will almost certainly require a formal explanation.
295. Balances that move to or from zero will also generally require an explanation. As most expenditure by local councils comes from the provision of statutory (rather than voluntary) services, the sudden absence or appearance of an expenditure category implies a change in service provision.
296. An example of a budget monitoring report is shown below:

Expenditure to XX-XXX-XXXX	Budget for year	Spend to date	Variance	Comments
Employees				
Clerk				
Other staff				
Premises Costs				
Rent, Rates etc				
Utilities				
Insurance				
Repairs and Maintenance				
Office Services				
Telephone, internet, website				
Printing and postage				
Office materials				
Equipment costs				
Member Costs				

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Expenses				
Training				
Chair's Allowance				
Services and subscriptions				
Audit fees				
Legal fees				
One Voice Wales subscription				
Other				
Grants and Donations				
Grants				
Expenditure (cont)				
Community Services and Maintenance				
Toilets				
Plants, planters & Baskets				
Christmas parade				
Street furniture				
Capital Expenditure				
Toilets upgrade				
Playground equipment				
Hall roof				
VAT on expenditure				
Total expenditure				
Income to XX-XXX-XXXX				
Income from fees and charges				
Village Hall fees				
Sports pavilion hire fees				
Other income				
Grants				
Capital receipts				
Bank Interest				
VAT reclaimed				
Total Income				
Use of Reserves and balances				
Contributions to/from reserves as per budget				
Surplus/deficit for year to date				
Cash and bank balances at XX-XXX-XXXX				

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NB. This example is not prescriptive and each council should prepare its budget monitoring report in a format suitable for its needs.

Capital budgeting

Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003

Regulation 18(2)

“a capital receipt, or the balance of a capital receipt... may only be used for one or more of the following purposes–

(a) to meet capital expenditure;

(b) to repay the principal of any amount borrowed; or

(d) to pay a premium charged in relation to any amount borrowed.

297. By law, councils can only use receipts from the sale of fixed assets (known as capital receipts) in excess of a set value for specified purposes. The main purposes are the repayment of external debt and the financing of capital payments. Capital payments relate to the acquisition, construction and enhancement of land, buildings, vehicles, plant and equipment. The provision of grant-aid for such expenditure by another body will, in many cases, also be within the definition of capital expenditure. This work generally involves high levels of payments that need to be planned properly over an appropriate timescale.
298. It is unlikely that the majority of smaller councils will embark on many major capital schemes. However, where they do, they should have a long-term capital budget or a rolling capital programme. Councils should seek advice from One Voice Wales or SLCC where a capital receipt is to be realised.
299. The capital budget should be reviewed annually and the impact of any capital schemes on the revenue budget assessed. This is particularly important in relation to the running costs that will be incurred when a new asset is brought into use. Where such schemes cannot be funded from capital balances the impact on borrowing and the level of the precept will have to be considered.