# BUDGET MANAGEMENT SCHEME

## (Proposed for approval at November 2015 Council)

**Overall**

**The purpose of the Budget Management Scheme rules are:**

a) **To ensure that income and expenditure is in line with the agreed Council budgets and service plans (consistency of purpose), and,**
b) **To maintain overall Financial control of Council income and expenditure**

**Section A: REVENUE BUDGETS**

**Budget Management**

**1)** Divisional Directors are responsible for budget management. For the purposes of the Budget Management Scheme, the term 'Divisional Director' shall include a Head of Service reporting directly to a Strategic Director.

**2)** The Chief Executive and Strategic Directors have overall responsibility for the delivery of the strategic objectives for their areas of responsibility, and thus have a responsibility for effective performance monitoring of Divisional Directors on matters of budget management.

**3)** Each Divisional Director will develop and maintain effective arrangements for financial management within his/her service area. Delegation is to be encouraged to service managers, although this will not remove ultimate responsibility for budget management and performance from the budget holder.

**4)** Services are to be managed within their budgets, using virement and carry forward, as appropriate. The scheme applies equally to all the Council's trading activities.

**5)** In exceptional circumstances, the Chief Financial Officer may, following consultation with the Senior Management Team and Cabinet, suspend the carry-forward and virement rules within the Scheme, pending a full report to the next meeting of full Council.

**Virement (see Annex 1 for definitions of Cabinet Portfolios and Services, and Annex 2 for clarification of virement rules application)**

**6)** Any virement which has the effect of changing a Council policy must be approved by the Cabinet or Council as appropriate.

**7)** Divisional Directors may independently approve virements between their Services and within Cabinet Portfolios:

> 7.1 following consultation with their Strategic Director where each individual virement does not exceed £25,000, or,
>
> 7.2 following consultation with their Strategic Director and the Chief Financial Officer, and the relevant Cabinet Member, where each individual virement exceeds £25,000 but does not exceed £50,000,

provided that the virement does not represent a change in policy or commit the Council to increased costs (both within the current financial year and on an on-going full year basis).

**8)** The Divisional Director shall notify the relevant Finance Manager of any virement, and shall seek approval from the relevant Cabinet Member of any virement exceeding £25,000.

**9)** Cabinet Members may approve virements within and between Portfolios. Where a virement is between Portfolios, all the relevant Cabinet Members must agree to the virement being made.

**10)** The relevant Divisional Directors may approve virements between services falling within the responsibilities of more than one Divisional Director and within Portfolio,

> 10.1 following consultation with relevant Strategic Directors and Cabinet Member where each individual virement does not exceed £25,000.
>
> 10.2 following consultation with the relevant Strategic Directors, the Chef Finance Officer and the relevant Cabinet Member where each individual virement exceeds £25,000 but does not exceed £50,000.

Any such virement must be agreed by all the relevant Divisional Directors

**11)** Virements shall not be used to create a commitment over and above existing cash limits beyond the end of the financial year in which it is exercised. All proposed virements should make clear the effects in the current financial year and future years, and whether or not it is proposed to change future year's base budgets.

**12)** Divisional Directors may only agree / recommend virements if they are satisfied that they understand the implications for the service/s from which funding is being taken, and the service objectives of the relevant Services will not be impaired.

**13)** All virements must be reported to the Cabinet on a quarterly / four times per year basis.

**Use of General Fund Balances**

**14)** Any proposed use of un-earmarked general balances in excess of £50,000 must be recommended by the Cabinet and/or approved by the Council. The Cabinet must consider the advice of the Chief Financial Officer in recommending such uses. The Cabinet may approve a use of balances below £50,000, subject to a maximum total allocation of £100,000 in any one financial year.

**15)** Additional approved use of general fund balances below £100,000 will be kept on a decision register for inspection by any members of the Council.

**16)** In cases of emergency, money may be drawn from balances by the Chief Executive in consultation with the Chief Financial Officer (or nominees of both when both/either is absent). Recovery of these sums will then take precedence over any future carry forwards of under spend or spending on "non-urgent" items. For cases where use of balances in any one financial year has exceeded £100,000, a plan setting out the recovery of balances to a minimum agreed level should be made to the full Council at the earliest opportunity after the balances have been depleted (unless the Council waives this on the advice of the Chief Executive, Chief Financial Officer & Cabinet Member for Finance & Efficiency, subject to reserves being adequate).

**Earmarked Reserves**

**17)** Any Council earmarked reserve set aside by Council for a specific purpose may not be spent on any other purpose without the permission of Council.

**18)** The specific arrangements for the governance and release of reserves are delegated to the Council’s Chief Financial Officer in consultation with the Cabinet Member for Finance & Efficiency and the Chief Executive.

**Carry Forward**

**19)** With effective budget planning and management, overspending should not occur. If, however, one occurs it must normally be recovered.

1) The Divisional Director is responsible for making proposals for the recovery of any overspend to their Strategic Director in the first instance. Further reporting requirements will then be determined, depending on the size and nature of the problem.

2) Overspends will normally be expected to be recovered within the following year. However, a period of up to 3 years may be allowed for the recovery of overspends, depending on the level of overspend and the subsequent impact of recovery on service delivery.

3) All formal recovery plans will be submitted by the relevant Strategic Director to the Cabinet for approval.

**20)** (1) Divisional Directors may, following consultation with their Strategic Director and the relevant Cabinet Member, put forward proposals for the utilisation of any underspends arising within their services, before the end of the financial year in which the underspend arises.

(2) The Cabinet may approve proposals reported to it provided, in each case, the underspend

a) is not a windfall,
b) does not relate to a matter funded as a service development that has not occurred, and
c) occurs in the financial year in which it is reported.

(3) No proposal to carry forward any underspend will be reported to Cabinet unless the Strategic Director has sought to manage the overspend within the services falling within their remit, and Senior Management Team have agreed to recommend the proposal.

(4) An underspend will be considered to be a windfall if it has not been identified and reported to the Cabinet by the end of January in the financial year in which it occurs, based on the April to December budget monitoring report.

(5) Senior Management Team and Cabinet, in consultation with the Chief Financial Officer, will consider the overall corporate outturn position and may consider writing off overspends.

**Reporting**

**21)** The Senior Management Team and Cabinet Members will receive a monthly financial report (including capital monitoring) from the Chief Financial Officer. This report will contain information on the progress on the implementation of budget items, including capital schemes.

**22)** Reports will focus on the key issues. Under or over spends are to be flagged up at an early stage, with Divisional Directors making proposals for the recovery of overspends or utilisation of under spends, regardless of the fact of any `netting off' effect.

**23)** The Cabinet is to consider the overall revenue & capital outturn budget position four times a year.

**24)** The Cabinet is required to approve the outturn position within 4 months of the end of a financial year. Any action that officers are required to take to manage a budget that affects a change in policy and/or a reduction or increase in service will be reported to Council at the earliest opportunity.

**25)** The Corporate Audit Committee will approve the Council's Statement of Accounts in line with statutory requirements and timescales.

Section B: **CAPITAL BUDGETS**

**Budget Management**

**1)** Divisional Directors are responsible for budget management of all capital schemes within their service area. Divisional Directors may delegate to other officers responsibility for all or some budget heads, but they will retain overall accountability.

**2)** Before any scheme is included in any programme, budget management responsibility must be assigned to a Divisional Director. Divisional Directors will be required to follow guidance issued by the Chief Financial Officer from time to time on budget approval process. The Cabinet will agree and keep under review a Project Board Governance structure covering the entire capital programme.

**3)** Capital budgets are to be managed by individual scheme, with flexibility to combine smaller (up to £500k), schemes into a block of similar schemes (e.g. Highways Maintenance capital block).

**4)** The capital programme is to be approved and managed on a rolling basis over at least a 5-year period.

**5)** The Capital Programme is agreed by Council. The Cabinet will, during the year, monitor the programme and resources and may approve additional schemes for inclusion in the Programme, subject to analysis of the financial implications and a prudent view of resource availability. Schemes attracting 100% grant or 3rd party contribution can be incorporated into the Programme by the Cabinet and do not require the specific approval of the Council, provided the financial (including risk) implications are fully identified. All other additional schemes, including those funded by borrowing, will require the approval of the Council.

**6)** No decision can be made by an officer, Councillor or the Cabinet that will incur future net total scheme capital costs to the Council over and above a previously agreed capital scheme (or group of schemes that constitute an agreed programme) within the financial plan totals without the approval of Council.

**Scheme Substitution**

**7)** Within block schemes, the substitution of one scheme for another that is unable to proceed will be allowed following consultation and approval with the Chief Financial Officer, and subject of any specific provisions agreed as part of the budget approval.

**8)** For other schemes, scheme substitution of up to £500,000 will be allowed following consultation and approval of the Chief Financial Officer, if the following conditions are met:

a) The new scheme closely resembles the original scheme

b) The scheme can make use of the same type of funding approved for the original scheme

c) The new scheme does not require significant additional design or "work-up" costs to be incurred before it can commence.

**9)** Approval of the Council will be required for the substitution of a capital scheme not meeting the criteria within paras 7-8.

**10)** If funding has been allocated for specific schemes by Government Departments or the European Commission, then approval must be obtained from the relevant body, as required under the terms and conditions of the funding.

### Carry Forward

**11)** With effective budget planning and management, overspending should not occur. If, however, one occurs it must be recovered. The Divisional Director is responsible for making proposals for the avoidance or recovery of any overspending to their Strategic Director in the first instance. Further reporting requirements will then be determined, depending on the size and nature of the problem. Significant overspendings must be reported to the Cabinet at the earliest possible stage.

**12)** Within block schemes overspendings on payments during the year will be carried forward and the following year's capital programme correspondingly reduced.

**13)** On other schemes a Service will normally be expected to absorb any overspending by virement from other budgets or by deferral of other planned schemes.

**14)** Divisional Directors are encouraged to utilise resources in the year in which they are provided, especially where projects are funded through the receipt of grant with conditions that require this.

**15)** Planned spending should be profiled realistically across the 5-year Programme to ensure that the Council overall is able to make best use of its capital resources. Where a scheme (or block of schemes) slips, the in-year under-spending will normally be carried forward in order to ensure completion of the scheme. If a scheme is expected to under spend against its planned total capital scheme cost, then this should be reported as part of the outturn for consideration by Cabinet.

### Reporting

**16)** Capital Strategy Group will receive regular (at least quarterly) reports of progress on capital schemes in order to focus on the key issues and to identify project spend in both the current financial year and over the lifetime of each project, and associated funding and revenue implications. Key issues arising from this will be reported to the Cabinet and Senior Management Team via the monthly monitoring process.

**Capital Contingency**

**17)** Council will approve a sum that is to be set aside to reflect the overall risk from capital projects it has approved. The contingency will be set by Council following a report from the Chief Financial Officer on the appropriate level of reserve to mitigate the potential threat of financial exposure after considering the known risks of each scheme on an individual basis. The contingency will then be managed by the Cabinet Member for Finance & Efficiency in consultation with other Cabinet members, who will be required to report back to Council if and when he considers that this is likely to be insufficient. The contingency will be reviewed by Council on an annual basis as part of the financial plan review, unless requested to do so more frequently by the Chief Financial Officer, or the Cabinet.

**18)** The Cabinet must manage the contingency taking into account the lifetime and profile of expected risk exposure of the programme to which the fund relates. The Cabinet must consider the advice of the Chief Financial Officer in recommending such uses.

**19**) In exceptional circumstances of extreme urgency, additional expenditure may be approved by the Chief Financial Officer in consultation with the Cabinet Member for Finance & Efficiency and Chief Executive. Recovery of this sum will then take precedence over any future capital programmes on "non-urgent" items.

**Approval to Spend Procedure**

Commitments can be made as follows

| **Scenario** | **Consultation / Reporting / Approvals Requirements** |
|---|---|
| Divisional Director wants to vary between subjective expenditure headings within the project total (excluding use of project contingency) | The Divisional Director can vary subjectively within the project total. |
| Divisional Director wants to draw down on project specific | Proposals for any such drawdown should be reported to the Capital Strategy Group and are subject to agreement with the relevant Cabinet Member. The rationale will need to consider the adequacy of the remaining |

| Scenario | Consultation / Reporting / Approvals Requirements |
|---|---|
| contingency. | contingency. |
| Outside the Project specific Contingency (i.e. drawdown of the overall capital programme contingency) | Divisional Director and relevant Cabinet Member must request draw down of general provision from the Cabinet Member for Finance & Efficiency, in consultation with the Chief Financial Officer and Chief Executive. |
| Outside the overall capital programme contingency General Provision | If there is likely to be a potential overspend on the general provision, an immediate report to Council is necessary |

***The above rules apply within a financial year as well as in relation to the total scheme cost (over the period of the project). These rules also apply to changes in funding (which may offset the spending variations or may be independent of them)***

**ACCOUNTABILITY**

**1)** Strategic Directors will be responsible for ensuring the principles of this scheme are understood and enforced within their service areas.
**2)** "**Chief Financial Officer**" for the purposes of this scheme means the Chief Financial Officer under s151 of the 1972 Act (and s114 of the 1988 Act) or their nominated deputy insofar as the legislation allows the deputy to act in the absence of the CFO.

**Annex 1**

**Revenue Service and Virement Cash Limits:**
A service cash limit (as referred to in the Budget Management Scheme above) is a budget heading line in the Revenue Cash Limits appendix to the Budget Report approved each year by February Council. These are also reported in the Budget Monitoring reports to Cabinet four times per year (including the Outturn report).

These Cash Limits are designed to assist with the determination of virements as set out in the section on Revenue Budgets (Section A) parts 6-13 above.

Each cash limit has a Divisional Director, Strategic Director and Cabinet Member assigned, and an individual cash limit may not have multiples of these assigned to it.

**Annex 2**

**Summary of Virement Limits and Required Approval**

Inter service/portfolio = between Services/Portfolios,

Intra service/portfolio = within a Service/Portfolio

| Amount | Intra service, Intra portfolio | Inter service, intra portfolio | Intra service, inter portfolio | Inter service, inter portfolio |
|---|---|---|---|---|
| Less than £25k | DD can approve, consult SD | DDs can approve, consult SDs | DD can approve, consult SD & Cabinet Members | DDs can approve, consult SDs & Cabinet Members |
| £25-50k | DD can approve, consults SD & CFO, consult portfolio holder. | DDs can approve, consult SD & CFO and portfolio holder. | DD can approve, consults SD & CFO, Single member decision by Cabinet Members (or included in quarterly Cabinet Budget Monitoring report) | DDs can approve, consult SD & CFO and Single member decision by Cabinet Members (or included in quarterly Cabinet Budget Monitoring report). |
| Over £50k | Included in quarterly Cabinet Budget Monitoring report) | | | |

a) Virement Definition

A Virement is defined by CIPFA (Chartered Institute Public Finance & Accountancy) as “a transfer of an under spending on one budget head to finance additional spending on another budget head in accordance with an authority’s finance regulations”. For the purposes of this scheme a budget head is considered to be an equivalent level to the Cash Limit (as defined in

Annex 1). This could also be allied to standard service subdivision as defined by CIPFA's Service Expenditure Analysis.

b) Transactions that are not classified as virements

- Where these is no net transfer between budget heads. This can arise from new grant funding changes & associated expenditure, but also from adjustments within budgets within the same Service. The key principle reflected is there is no policy change or future year additional commitment to the Council.

- Re-assignment of budget heads between Divisional Directors or Portfolios. These are generally termed Technical adjustments, and reflect the purpose and amount of expenditure remains unchanged but management responsibility has been re-assigned. Typically this happened from new management structures of services / departments have been made, or different treatment of overhead budgets are altered from being held centrally or recharged to services, or vice versa.

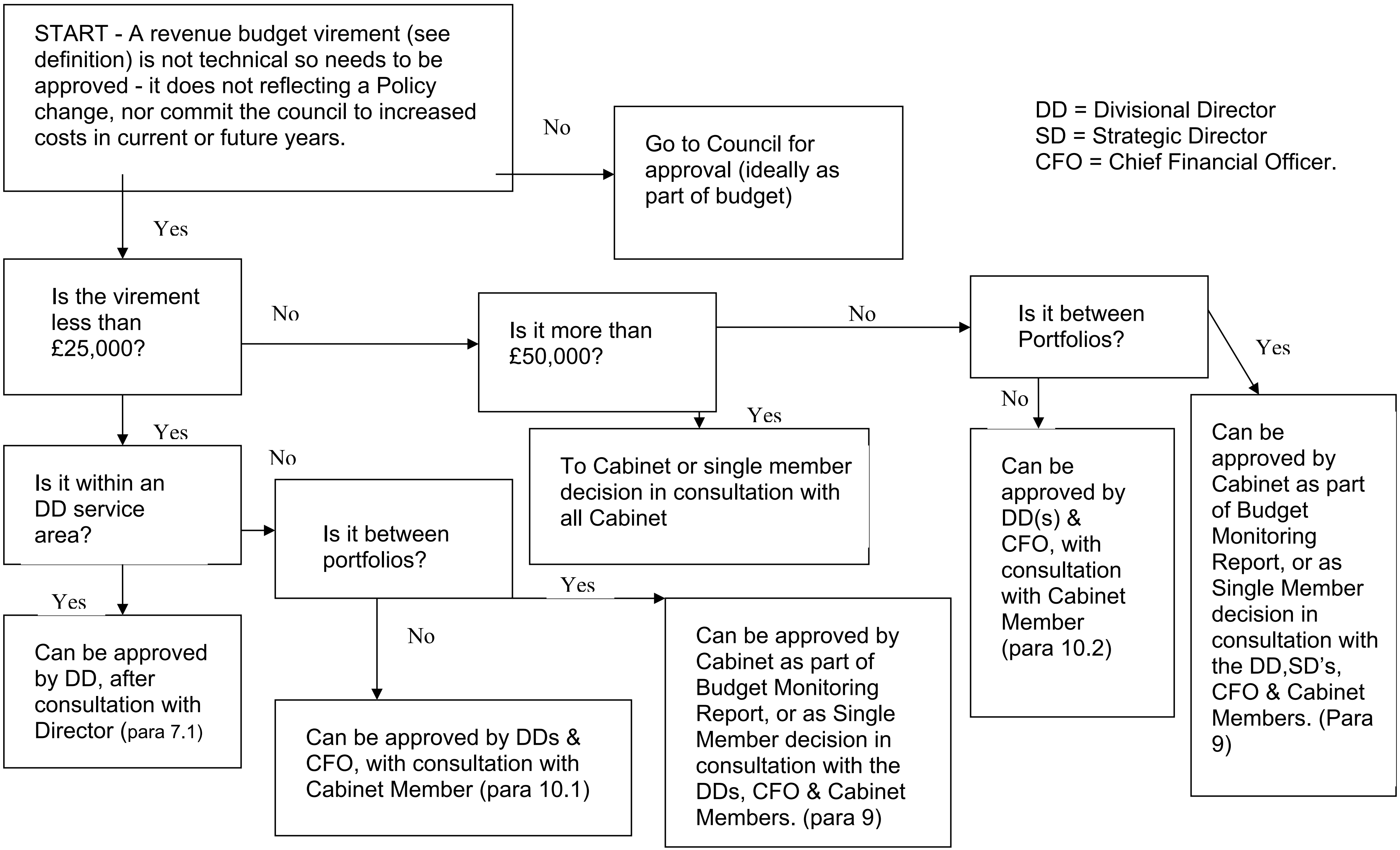
The technical adjustments described above will be reported to Cabinet retrospectively if they are cross Cash Limit, to ensure that Cash Limit control is maintained.

c) Policy Change

Policy is a plan of action adopted by the Council and implemented by the Cabinet. Hence outsourcing a service would define a policy change, as would using different delivery methods, or stopping a service or starting a new one, or extending an existing service.

d) Future years

There is no delegated authority for any officer to approve any virements which have a non-zero full year effect and/or create a future year commitment. Proposals can be made as part of the Corporate monitoring process to the Cabinet, so that they can be considered in the Council's future year budget planning.


START - A revenue budget virement (see definition) is not technical so needs to be approved - it does not reflecting a Policy change, nor commit the council to increased costs in current or future years.
No
Go to Council for approval (ideally as part of budget)
DD = Divisional Director
SD = Strategic Director
CFO = Chief Financial Officer.
Yes
Is the virement less than £25,000?
No
Is it more than £50,000?
No
Is it between Portfolios?
Yes
No
Yes
Yes
To Cabinet or single member decision in consultation with all Cabinet
Can be approved by DD(s) & CFO, with consultation with Cabinet Member (para 10.2)
Can be approved by Cabinet as part of Budget Monitoring Report, or as Single Member decision in consultation with the DD,SD's, CFO & Cabinet Members. (Para 9)
No
Is it within an DD service area?
Is it between portfolios?
Yes
Yes
Can be approved by DD, after consultation with Director (para 7.1)
No
Can be approved by DDs & CFO, with consultation with Cabinet Member (para 10.1)
Can be approved by Cabinet as part of Budget Monitoring Report, or as Single Member decision in consultation with the DDs, CFO & Cabinet Members. (para 9)