

FINANCIAL PROCEDURE 1

Financial Planning and Management

Financial Procedure 1 Financial Planning and Management

This procedure forms part of the Financial Regulations and Procedures in the Constitution of Lincolnshire County Council

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1. Purpose of the Procedure

Sound financial planning and management is one of the cornerstones of good corporate governance. It helps to ensure that public money is properly controlled within the budgets approved by the Council and it helps the Council to ensure that available resources are used most effectively to deliver services in accordance with policies and priorities.

The purpose of this procedure is to inform officers of mandatory requirements, including those embodied in the Council's Constitution, and to provide guidance on principles of best practice.

The council tax legislation (the Local Government Act 2003) requires a local authority to calculate its 'budget requirement' for the following financial year. The budget requirement represents the amount of revenue spending which the authority intends to meet from formula grant and council taxpayers. A County Council must notify district councils before 1 March of the amounts which it requires them to collect from council taxpayers in the following financial year. There is therefore a statutory requirement for the County Council to calculate its total revenue spending for the following financial year.

In addition, there are statutory requirements for a variety of more detailed information on estimated expenditure and income in the following year to be supplied to government departments or to be published.

The statutory duties of the **Section 151 Officer** also require the preparation of budgets as part of the proper administration of the Council's financial affairs.

More fundamentally, the preparation of budgets is an essential part of the management of the Council. Budgets are estimates of the costs of implementing the Council's policies. The preparation of budgets provides:

- The means of establishing whether the Council's Corporate plan is affordable or needs to be modified
- The means of allocating resources to reflect the Council's policies
- A basis for subsequent management control providing a means of monitoring and reporting achievement of the Council's policies.

A background of increasing service demands and limited financial resources means that all service aspirations cannot be met and that priorities have to be determined. Business planning budget preparation provides a framework and acts as a focus for this decision making. Budget preparation therefore forms a key part of the Council's decision making process.

It is essential that budgets are prepared on a sound and consistent basis, reflecting the principles set out in this Financial Procedure.

The **Section 151 Officer** has statutory duties in relation to the financial administration and stewardship of the Council which cannot be overridden. These statutory duties include setting

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and monitoring compliance with corporate standards, and advising on the key financial controls necessary to secure sound financial planning and management.

Other parts of this procedure represent best practice and provide guidance. There should be a convincing justification for any departure from this.

2. Key Controls

The **Constitution** states that the budget will include the allocation of financial resources to the Council's different services and projects. It will propose contingency funds and levels of reserves, set the Council Tax and determine the Council's borrowing requirement. The key controls are:

- Approval processes laid out in the Constitution are adhered to.
- Compliance with relevant accounting standards, adapted in accordance with the current Code of Practice on Local Authority Accounting in United Kingdom (The Code) and Local Audit and Account Regulations.
- Clear procedures and timetables for the annual budget setting and budget management are issued and compliance is monitored.
- Clarity of budget ownership, responsibility and accountability. This is operated through the normal line management structure.
- Budgets are set to reflect service development policies and priorities and at a realistic level based on sound supporting financial and non-financial information.
- **Budget Holders** are provided with relevant information and kept up to date, including tax issues.
- **Budget Holders** are instructed on the required record keeping as part of their general service management.
- The financial system is updated to reflect the approved budget and monitoring information for reporting.
- Returns are made to the appropriate authorities within the stipulated timescales.

3. Principles of Financial Management.

In promoting good financial management practice, a proper alignment of financial and management responsibilities ensures that those making the decisions are made responsible for their financial consequences. Otherwise, financial decisions may be made regardless of the effect on services and services may be managed without regard to finance. Budget management responsibility should match the reality of managerial control.

Good financial management arrangements have the following key features: They should:

- **Promote budget ownership:**
 - Every single budget has a single budget holder.
 - Expenditure which the budget holder cannot influence is managed elsewhere.

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- The budget holder is involved closely in the preparation of the budget which he/she is required to manage.
- **Establish clear responsibility and accountability:**
 - One - and only one budget holder is responsible for each budget.
 - The budget holder may delegate some of the work involved to appropriate members of their staff but budget holders cannot delegate their responsibilities.
 - Budget holders have a clear understanding of their responsibilities.
- **Recognise budget management as part of general service management:**
 - Budget management decisions are not divorced from service decisions, or vice versa.
 - Financial responsibilities follow management responsibilities.
 - The budget holder is part of the service or scheme to which the budget relates.
- **Operate within the normal line management structure:**
 - Senior managers supervise the management of those reporting to them.
 - There is a clear hierarchy of reporting and responsibility.
 - This will be supported by a documented scheme of authorisation which makes clear the responsibilities of individuals.

4. Financial Planning Responsibilities and Approval

4.1 Revenue Budget

The budget can be defined as 'a representation in financial terms of an organisation's plans for a given period of time at a given price base'. It is therefore essential that the budget is constructed to reflect policies and strategies agreed by the Council in the Policy Framework.

Draft Budget targets are issued by the **Section 151 Officer** following discussions in Corporate Leadership Team meetings and in the Informal Executive. These targets provide the total, to which the Directorates' detailed budgets must agree.

The calculation of budget targets normally takes into account the following:

- The existing base budget for the current financial year (often referred to as the original budget).
- Budget target adjustments, i.e. transfers of budget provision between Directorates, for example to reflect transfer of responsibilities.
- Cost Pressures, including the effect of pay awards and price changes.
- Changes in the costs of maintaining existing service policies such as changes to national insurance.
- Other additions to the budget to allow levels of service provided in the current year to be maintained in future years.
- The implications of base budget reviews i.e. major reviews of service policies, processes or structures which have a significant impact on the existing base budget.

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- Developments – these are additions to the budget to allow performance to be improved to the target levels set in the Council’s Corporate and Directorate Plans.
- Efficiency savings – planned reductions in service costs.

The provisional Local Government Finance Settlement has a critical influence on the Council’s overall budget position. The provisional settlement is normally announced in late-November/early December when budget preparation is already underway.

When preparing the detailed budgets **Chief Officers** must ensure that budgets:

- Represent and are consistent with the Council’s Policy Framework, Corporate Plan and Directorate Plans;
- Total to the budget target;
- Are realistic, reflecting likely cost of Policies based on sound budget preparation methods; and
- Comply with guidance issued annually by the **Executive Director of Resources**.

Chief Officers are responsible for submitting budgets to the **Executive** which reflect agreed service plans and guidance issued by the **Executive**. Staff within the Council’s Finance Team (**Financial Strategy**) are responsible for providing guidance and advice to assist in meeting these requirements.

The Constitution of the Council lays down the process for developing and approving the budget, which, in brief, is as follows:

- After appropriate consultation, the **Executive** will publish initial proposals for the Budget in December.
- The **Executive’s** initial proposals are referred to the relevant **Scrutiny Committees** and **Overview and Scrutiny Management Board** for further advice and consideration and they will respond to the **Executive** on these proposals. This usually takes place in January.
- The **Executive’s** initial proposals are consulted upon, e.g. County News, Businesses, Local Authorities, Other Public Sector Organisations, Trade Unions and Charities. This usually takes place in January.
- The **Executive** considers its final budget to propose to **full Council** at its February meeting, and, if appropriate, amends its proposals.
- The Budget will be submitted to **full Council** for approval, the **full Council** may amend the budget or ask the **Executive** to reconsider it before approval. This will take place at the **Council’s** February meeting.

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4.2 Capital Budget

The **Section 151 Officer** is responsible for ensuring that the capital programme is updated annually for consideration by the **Executive** before submission to the **full Council** for approval. The update of the capital programme will be considered alongside the approval of the Revenue Budget and will follow the same process outlined above.

The Capital budget will be based on the Council's longer term financial plan and will comply with the Council's Capital Strategy. The Capital Programme will be updated annually to reflect agreed changes; however, a fundamental review of the Programme will take place a minimum of once every five years.

One of the key differences between the Revenue Budget and Capital Programme is that Capital schemes will more likely operate over a number of years and can experience a number of delays, changes or enhancements over the life of the scheme. It is important that the Capital Programme is flexible to accommodate these factors.

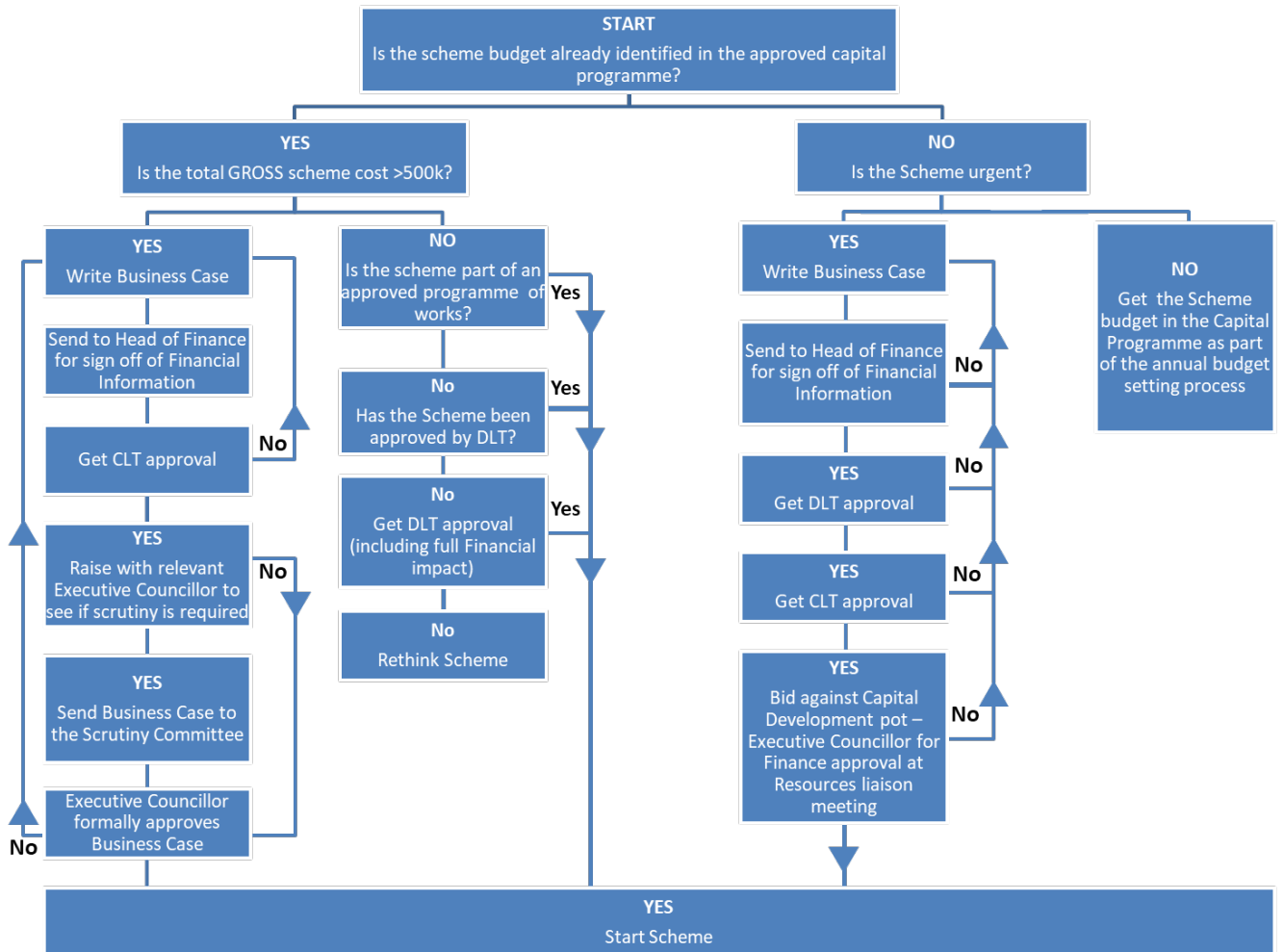
It is the responsibility of the **Section 151 Officer** to consider the funding of the Capital Programme and the impact this will have on the Council's Revenue Budget.

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4.3 Capital Business Cases

The existence of a scheme in the approved Capital Programme does not give authority to commence the scheme. In some instances an approved business case is required to commence the scheme. To determine when a business case is required the following flowchart must be followed:



Where a business case is required, it should be submitted to the **Section 151 Officer** in the agreed **Council Business Case** format, as agreed by the **Section 151 Officer** and **Executive Director – Commercial**. As a minimum the business case should contain the following information:

- Scheme Objectives
- Contribution to achieving the Council's objectives.
- Alternative options considered
- Risk
- Whole life costs and funding
- Exit Strategy

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On approval of the business case by the **Section 151 Officer** the business case will be presented to the **Executive Councillor for Finance** for final approval.

Prior to the scheme, business case approval design fees etc., are classed as feasibility and charged to the service revenue budget.

The **Executive Councillor for Finance** may refer significant schemes to the appropriate service Scrutiny Committee or **Overview Scrutiny Management Scrutiny Board**.

For this purpose, contributions from funds delegated or devolved to school governing bodies will not be regarded as Council contributions.

For schemes approved by the **Executive Councillor for Finance** where the actual cost of the scheme exceeds 5% of the approved business case cost, a report will be taken to the **Executive Councillor for Finance** explaining the reasons why.

5. Budget Monitoring

5.1 Roles

Financial management requires income and expenditure to be monitored and compared with the approved budget throughout the financial year. Critically, it requires that any need for corrective action be identified and corrective action taken.

For revenue and capital budgets income and expenditure, Chief Officers must:

- Monitor financial performance, taking account of financial information provided by the **Section 151 Officer**.
- Control expenditure and income within their area against budget allocations, taking any action necessary to avoid exceeding their budget allocation.
- Report to the **Executive** on the overall position every three months providing a detailed description of any significant variances.
- Report to the Corporate Leadership Team on a monthly basis variances of more than £50,000 (from the previous forecast); and
- Alert the **Section 151 Officer** to any potential or anticipated problems.

The **Section 151 Officer** will provide appropriate financial information to enable budgets to be monitored effectively.

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Directorate Leadership Teams (DLTs) must receive appropriate reports from the Council's Financial System for their revenue and capital expenditure and income on a regular basis. The role of **Budget Holders** is shown in Section 6.

5.2 Corrective Action

Steps taken by the **Executive or any officer discharging Executive functions** to implement Council policy shall not exceed the allocated budget for the service in question. Decisions can only be taken which are in line with the Council's Budget and Policy Framework, Corporate Plan and Directorate Plans. Decisions which would be contrary to the policy framework, or contrary to, or not wholly in accordance with, the budget approved by **full Council**, can only be taken by the **full Council**.

If an officer wishes to make a decision which may be contrary to the policy framework or not in accordance with the approved budget, they shall take advice from the **Monitoring Officer** and/or the **Section 151 Officer**. The advice of the **Head of Finance** for the service should be sought initially.

Chief Officers must consult with the **Section 151 Officer** and seek approval on any matter liable to affect the authority's finances materially before any commitments are incurred. The advice of the relevant **Head of Finance** should be sought initially.

Budget monitoring may potentially reveal significant over or under spending. **Budget holders** will need to confirm whether this is indeed the position, to consider corrective action and to report the details to their **line manager**.

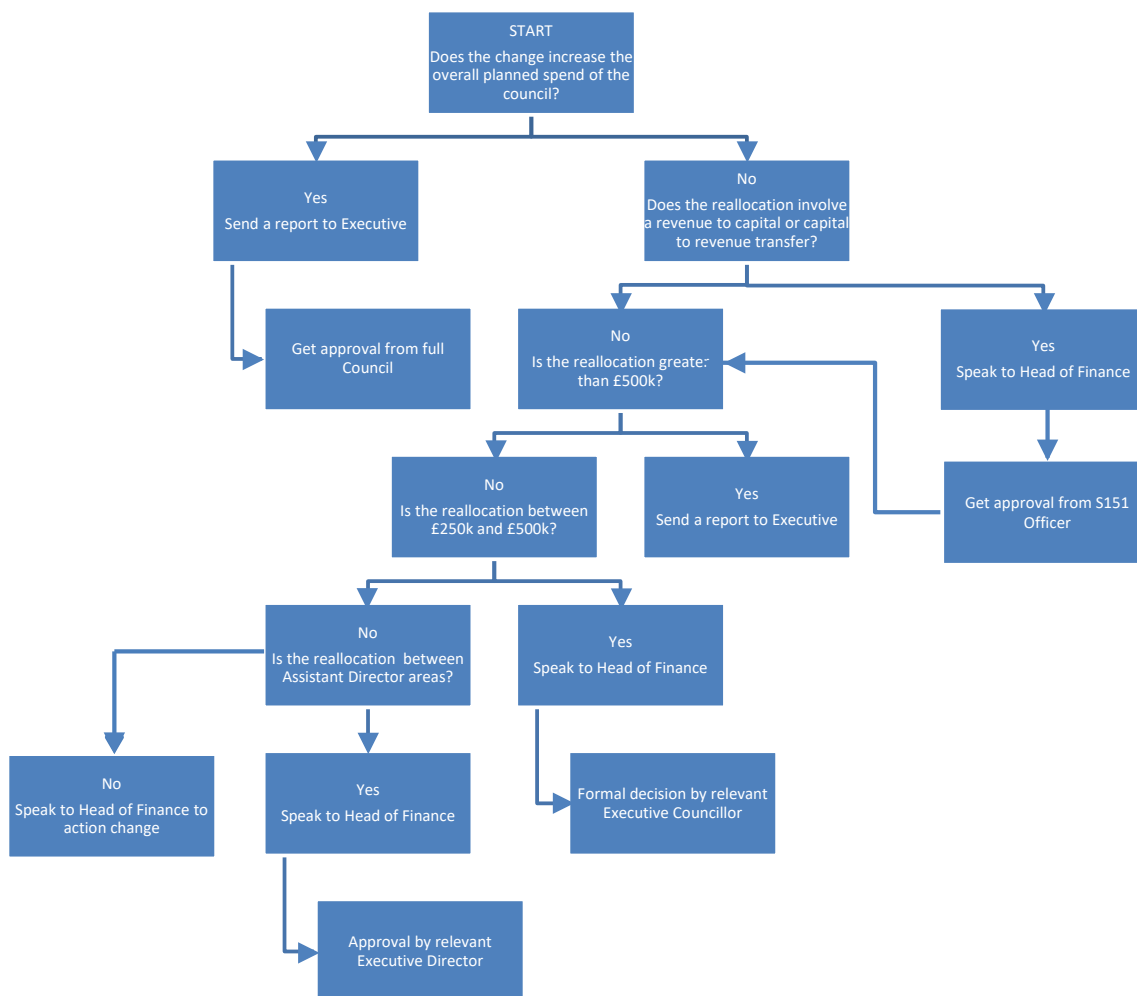
Corrective action may involve taking action to reduce expenditure where there is a projected overspending or to increase expenditure where there is a projected underspending and service performance targets are not being met. This type of corrective action must be considered in the context of Directorate plans and performance targets, and the Council's overall budget position.

5.3 Approval of Budget Changes

Budget can be reallocated between service headings, (a service heading is defined as all services under an individual Assistant Director). Budget will only be reallocated if the purpose for which the budget was originally allocated has changed and in accordance with the following flowchart:

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Where any budgetary change is necessary to ensure compliance with the law, ministerial direction or mandatory government guidance or urgency, then the Section 151 Officer and Executive Councillor for Finance will be informed, otherwise the following levels of governance will apply:

- Changes to the Budget which increase the Council’s total expenditure and require either the use of the Council’s general reserves or increased borrowing must be referred by the **Section 151 Officer** to the Executive for consideration before being referred to the **full Council** for approval.
- Reallocations of up to £250,000 and involving revenue to revenue movements only shall be approved by the relevant Chief Officer/s, and should be notified to the **Section 151 Officer**. All reallocations will be recorded and held by the **Section 151 Officer** and reported to the Executive on a quarterly basis.
- Reallocations of between £250,001 - £500,000 and involving revenue to revenue movements only shall be approved by decision by the relevant **Executive Councillors**. The approval report will be prepared by the **Section 151 Officer** in consultation with other

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relevant Chief Officers. All reallocations will be recorded and held by the **Section 151 Officer** and reported to the **Executive** on a quarterly basis.

- Reallocations over £500,000 and involving revenue to revenue movements only shall be approved by the **Executive**. The approval report will be written by the **Section 151 Officer** in consultation with other relevant Chief Officers. . All reallocations will be recorded and held by the **Section 151 Officer** and reported to the **Executive** on a quarterly basis.
- Any reallocation that involves revenue to capital movement must also comply with the approval criteria contained in this paragraph (5.3), however, in addition, must also gain approval in writing from the **Section 151 Officer**.

5.4 Carry Forward

The Review of Financial Performance report presented to the **Overview Scrutiny Management Board, Executive** and **full Council** each year will detail the use of carry forward for noting and approval. The Council's policy on the carry forward of directorate under / overspends is set out below;

- All under- and over-spending on service revenue budgets of up to 1% will be carried forward without exception; however, the use of this carry forward will be reported to the **Executive** and **full Council** for noting. It is expected that the appropriate **Executive Councillor** will be consulted on the use of the carry forward prior to the report to the **Executive**.
- The use of all under-spending on service budgets in excess of 1% will be considered by the **Executive** and decided by full **Council**.
- The means of funding all over-spending on service budgets in excess of 1% will be considered by the **Executive** and decided by the full **Council**.

All 1% calculations will be made at **Chief Officer** Level.

All under and overspendings on the following budgets will be carried forward without exception

- Capital budgets;
- The Dedicated Schools Budget;
- Specific grants; and
- Revenue budgets related to formally constituted shared services.

Individual directorate Schemes of Authorisation may also contain provisions in relation to carry forward.

The approval and notification procedures for budget changes described above (5.3) will be applied to the use of carry forward where over or underspendings are not carried forward on the same budget headings, capital scheme or block.

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5.5 Bringing Forward of Capital Schemes

Corrective action in relation to capital expenditure may require bringing forward schemes from future years of the of the capital programme where there is slippage of schemes.

The transfer of approved schemes between years of the capital programme will not be considered as a budget change provided that there is no overall long term impact on the County Council's capital programme funding. There is, therefore, no requirement for prior approval by the **Executive** or the **Council**. These transfers can be made by Directors following consultation with the **Section 151 Officer**. In many cases the amounts involved will be substantial and changes will be reported subsequently to the **Executive** and to the **Overview & Scrutiny Management Board** as part of the Budget Monitoring process explained above.

6. Role of Budget Holders

Budget Holders are the focal point of budget management since they have the critical role in containing expenditure within approved budgets. In order to achieve this, **Budget Holders** should:

- Receive or have access to timely, up to date and accurate budget monitoring reports.
- Take reasonable steps to ensure that expenditure charged to their budgets is charged to the appropriate budget, is lawful and represents good value.
- Monitor actual expenditure compared with approved budgets.
- Review reports on monthly pay details for their employees.
- Forecast outturns during the year, in accordance with the budget monitoring timetable issued by their respective Head of Finance, and to enable monthly reporting to the **Corporate Leadership Team** and three monthly reporting to the **Executive**.
- Identify and confirm potentially significant over and under-spending.
- Consider the corrective action necessary to contain expenditure within the approved budget.
- Alert their **line manager** of significant potential problems at an early stage and to suggest means of resolution.
- Document decisions and actions adequately.
- Prepare or agree business cases for capital schemes as set out in paragraph 4.2 above.
- Prepare or agree scheme over-spending reports.

7. Reserves

It is the responsibility of the **Section 151 Officer** to advise the **Executive** and the **full Council** on prudent levels of reserves for the Council.

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This includes general reserves and reserves earmarked for specified purposes.

7.1 General reserves

The **Section 151 Officer** has a statutory responsibility to report to the **Council**, at the time the budget is considered and the council tax set, on the robustness of the estimates and the adequacy of the proposed financial reserves. The **Council** must consider this advice and approve the level of general reserves.

7.2 Earmarked reserves

The **Council** may also establish earmarked reserves.

- **Chief Officers** may request the establishment of earmarked reserves describing the purposes for which they will be used.
- The **Section 151 Officer** may recommend the establishment of earmarked reserves to the **Executive**.
- The establishment of earmarked reserves must be approved by the **Council**.

Earmarked reserves can be used as follows:

- Reserves may only be used on the purposes for which they were established.
- Use of reserves must be approved by the **Section 151 Officer** prior to the commitment of any expenditure.

The continuing relevance and adequacy of earmarked reserves will be considered by the **Section 151 Officer** at the end of each financial year.

8. Related Documents

The Council's Constitution
Financial Regulations
Scheme of Authorisation Documents
Local Government Act 2003
LCC Capital Strategy

9. Contacts for Advice or Assistance

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Advice on this financial procedure can be sought from Financial Strategy. Contact details for advice can be found within Financial Information Section on the Council's intranet.