Ground rules for financial control

1 Background

• Spending pressures in services – directorate overspends during 2018/19. Efficiency savings must be delivered and future savings requirements need to be considered by directorates when planning future service delivery or other structural changes.

• There are still savings to be delivered in service financial plans.

• The capacity to manage overspending is reducing as significant reserves are planned to be released to support ongoing savings requirements.

• Increased activity around growth and capital increases revenue spending risks.

• In an ideal world, we would build our budgets up from estimates of activity and priorities. However, in this era of grant reductions, council tax restraint and capping, this is not going to be an option. Therefore, the budget allocations that services receive must be viewed as a cash budget that they must contain expenditure within.

This document aims to set out simple ground rules to compliment the constitutional arrangements for financial management and to increase the understanding of managers in what is expected of them, so that our strategic financial objectives can be met. The Constitution takes precedence over the operation of these ground rules.
2 **Revenue Budgetary Control**

- Tier 1 (management board members) are responsible for ensuring that their directorates manage their net spending within the resources allocated.
- Where there are Directors or heads of service below the Tier 1 managers these Tier 2 managers must ensure their net spending is within the resources allocated.
- Directorates must ensure that there is a nominated cost centre manager for each operational area.
- Cost centre managers must manage the cost of their operations within the allocated budget.
- Cost centre managers must identify any problem budgets and take steps to resolve them.
- Where problem budgets are anticipated to be on-going a permanent solution must be put in place.
- Failure to deliver planned savings must be treated as a problem budget.
- If a cost centre manager believes they cannot control net expenditure within the resources allocated, their service manager (or themselves if they manage a number of cost centres) must identify a compensating saving from the other cost centres they are responsible for. Where the problem is anticipated to be on-going a permanent solution must be found.
- If a service area or cost centre cannot contain overspending, then the Directorate must identify a saving to manage the problem and report this through budget monitoring.
- Any virement proposals must (other than in exceptional cases) be made in advance of a decision to spend unless it is action taken to resolve a problem budget that has already arisen. However, it is the responsibility of cost centre managers to forecast outturn and manage their budgets in advance of activity.
- Where expenditure budgets are funded through external sources such as fees, charges and grant finance the service will need to take the necessary action to manage costs if the income should cease.

3 **The use of reserves and contingency**

- Where a service intends to use reserves to either manage a spending pressure or fund a programme of expenditure they must identify this in advance and have the agreement of the relevant Tier 1 Director.
- The use of the reserve must be consistent with the purpose of the reserve.
- The Finance team supporting the service must be informed of the intended use and reported through budget monitoring.
- Expenditure will not be charged directly to the reserve.
- The planned use of the reserve will be a contribution to the relevant cost centre or capital programme, which will be where costs are charged.
- Any overspending against the allocation must be managed as though it is a Revenue Budgetary Control Issue.
4 Capital Expenditure

- The budgets for capital schemes will be allocated through the Capital Strategy process.
- Each capital scheme must be treated as a cost centre and have a cost centre manager assigned to it.
- The cost centre manager will be responsible for ensuring that costs are managed within the resources allocated including any allocations of salary costs by Property Services.
- If a cost overrun is forecast it must initially be managed as a revenue budget issue and contained by the project manager.
- Any revenue implications of a scheme, including operating costs, must be identified and managed by the relevant service, and these must be included in the business plans and bids related to the scheme. This will include any consequences of schemes that ultimately do not proceed.
- Services need to report regularly on the progress of their capital programme through the Capital Programming and Asset Management Group, which as part of the Capital Strategy and Programme process should include submitting and presenting bids.

5 Financial Monitoring

- The Director of Financial Services will maintain systems of financial control; ensure there is regular reporting to Cabinet and Management Board; and provide assurance that there is adequate budgetary and financial control.
- The Director of Financial Services will ensure that each Directorate, Service area and Cost Centre Manager has assigned to them a Finance Relationship Manager (which will be an officer from the Financial Management and Accountancy Team).
- The Finance Relationship Manager will be responsible for ensuring that statutory accounting standards are met; that there is adequate financial control being exercised by the relevant services in line with the constitution and these Ground Rules; and that spending decisions are supported by adequate financial implications.
- The Director of Financial Services through the Finance Relationship Managers must receive regular budget monitoring and financial forecasts from the Directorates.
- Budget forecasts provided to the Finance Relationship Managers must be signed off by the relevant Tier 1 Director (and any intermediate level of management). In cases where the Finance Relationship Manager has produced the forecast for the Cost Centre Manager the service must still take ownership of the forecast.
- The Director of Financial Services will arrange for the preparation of financial monitors, which will summarise the Council’s financial position and forecast the overall impact of service financial management on the Council’s Finance Strategy, including making relevant recommendations to Cabinet to address the issues that may arise through financial monitoring. Clearly these are informed
by the monitors signed off by the services but the Director of Financial Services will have the responsibility of recommending the use of alternative figures if deemed prudent to do so for the strategic financial monitor.

- Directorates and service areas must raise with the Director of Financial Services any risks that are emerging in good time so that these are considered for incorporation in future financial plans.

6 Developing Savings Proposals
- The cost of implementing savings proposals must be identified. This can include specialist advice, project management, accommodation, ICT and support service input required. A forecast of the potential impact of redundancies should also be included.
- The phasing of the saving must be profiled so that the on-going full year impact is seen as well as the net impact after the implementation costs (but identifying these costs and how it is proposed they will be funded).
- The costings for the proposals must be discussed with the Financial Relationship Manager at an early stage in the formulation of the proposals.
- If agreed savings proposals are not delivered, alternative proposals must be developed and delivered within the agreed period. However, there must be a valid rational for the original proposal not to be delivered and this should be agreed by the Financial Relationship Manager. Such changes will be reported through the Financial Monitoring Report to Management Board and Cabinet as a minimum and if necessary may need to be approved by Cabinet.

7 Redundancies and early retirements
- There is a central provision for redundancy costs arising from savings programmes and ill health early retirement. The central provision should only be used for these purposes.
- The paperwork for any redundancies to be funded from the central provision must include the reference to the specific savings programme.
- The SRO for the savings programme must monitor the redundancy costs and alert the Finance Department if they are anticipated to exceed the levels identified when the savings case was developed.
- Any early retirements proposed by services that are not directly part of a savings programme or ill health will be funded from the service. There should be a supporting business case.
- It should be assumed that there will not be any protection to benefits (other than what the employee gets as part of the statutory scheme benefits) for flexible retirement.
- Redundancy costs arising out of grant exit strategies in the first instance should be assumed to be met by the service out of the proposed strategy.
- The Education Budget should meet the cost of any redundancy costs falling to the General Fund as a result of school management decisions and dealt with through the financial forecasting process.
• Any redundancy and early retirement costs relating to HRA staff will be met within the HRA.

8 Decision making reports (Cabinet Reports)
• All proposals in decision making reports must identify where they are to be funded from and clearly set out any risks that relate to them.
• Service departments must discuss proposals with the Financial Relationship Manager at an early stage, prior to clearance of reports for inclusion on an agenda (including Portfolio Lead Member sign off).
• Where activities are transferred from one service area to another a budget transfer from the transferring service must fund the cost of operating the service in the new area. If this results in a budget problem for the transferring service that service must manage this as a problem budget in line with the revenue budgetary control described above.

9 Reports to Management Board and other officer boards/groups
• All proposals in reports must identify where spending proposals are to be funded from and clearly set out any risks that relate to them.
• Service departments must discuss proposals with the Financial Relationship Manager at an early stage, prior to clearance of reports for inclusion on an agenda.

10 Corporate Programmes
• Increasingly the Council is taking a strategic approach to delivering programmes and projects. The principles of sound financial management must still apply and these programmes should follow the approaches described above.
• Each programme should have a nominated Senior Responsible Officer who must act as the cost centre manager to ensure costs are controlled and any financial objectives of the programme/project are achieved.
• SROs should not authorise spending until funding has been identified
• Where a programme has an impact on a specific service the SRO must secure that service’s agreement to the management of any budgetary or funding implications.

11 Pay prices and inflation
• The development of the Medium Term Financial Strategy will include assumptions about pay, price and income inflation. Generally, these will be built into the service budgets and will form part of the routine budgetary control that cost centre managers will carry out in line with the above,
• Pay inflation will be built into service budgets and any significant variance (e.g. from a pay award) may be managed corporately and if this is the case the Director of Financial Services will communicate with directorates. Increment
rises in pay will be managed within existing service budgets (including temporary additions).

- Generally, price inflation budgetary allocations will only be made when evidence is provided by service areas.
- The MTFS makes an assumption about the percentage that fees and charges will increase. Services must plan their detailed charging proposals to ensure they achieve the increased income required. Any forecast shortfall will need to be managed as a problem budget in line with the revenue budget ground rules above.
- The Director of Financial Services will issue the assumptions about income increases in the summer/early autumn of the year preceding to which they apply and determine the approach to getting fees and charges approved.

12 ICT Systems

- The preferred solution for processes that involve financial transactions or link to financial processes such as payroll, payments and income, should be to use existing corporate systems, which will normally be through SAP.
- Certain key systems will not be digitally transacted though SAP, for example Housing Management, Social Care, Revenues, Benefits etc. Where these systems are used to carry out financial transactions the relevant module must have an interface with SAP that maintains the general ledger, the integrity of the accounts, facilitates budget management using SAP and if necessary allows the transactional functionality of SAP to operate effectively (e.g. paying people or organisations and maintaining income accounts). These interfaces must have appropriate reconciliations and must be approved by the Finance Department (the Chief Accountant) before they go live and the relevant requirements must be incorporated in the development programme.