

## Commentary on Scheme of Transfers and Virements

### Introduction

This commentary is not part of the scheme of virements and transfers. It is intended as a helpful guide to the formal scheme which appears after the commentary. The formal scheme is contained in Part 6 of the Constitution and the Constitution will be revised to incorporate the updated scheme contained in this report. The commentary and the scheme are best read in conjunction. If there are any questions about the interpretation of the scheme they will initially be resolved by the Director of Finance after consultation where necessary with the Borough Solicitor.

### Definitions

The idea is that the “Report” contains the “Budget”, but that the “Budget” is set in reference to other documents – principally the Service Development Plans. However, the “Report” can amend the SDPs, and later in the year the Council can amend the “Budget”. To square the circle, the “Report” is defined as the original report plus any subsequent amendments made by Full Council.

Accounts are the major sub-divisions within the Budget. As each account has to balance individually, movements of funds between them have been defined as Transfers and are subject to different considerations.

Reserves and provisions are resources held on the balance sheet and not included in revenue or capital budgets. They have been established to help manage the Council’s finances and so the Transfer rules have been written to control their use.

Virements by definition exclude increases in net spending. Therefore New Spending has been defined and is subject to separate rules.

### General Provision

Paragraph 1 prevents repetition within the scheme. Effectively, no virement or transfer may be made if it would be in breach of the Policy Framework. However, there is one occasion when a Transfer which does conflict with the Policy Framework may take place without authority of Full Council. This is in Paragraph 2, where I believe proper accounting practices must take precedence.

### Transfers

Paragraph 2 specifies where net overspends are to be charged as partly discussed above.

Paragraph 3 deals with the element of choice in respect of overspends. For example, if the Capital programme is overspending and increased borrowing is not possible, then there must be a charge to a revenue account for the excess. If however the capital programme includes projects for both General Fund and HRA assets, there is a choice as to which revenue account the overspend should be

charged. Similarly, if the General Fund is overspending, an alternative to reducing revenue balances is to reduce General Fund provision for capital spend. If that then results in an overspend on the Capital account, it may be possible to charge the excess to the HRA.

There are clearly policy and political elements to these choices, therefore Paragraph 3 makes it clear that these are decisions that need to be made by Full Council rather than the Executive.

Transfers from Part A provisions and reserves will be restricted to matters such as bad debt provision, PFI reserves, the insurance fund, debtors and creditors, and other similar items which were set up in the expectation that sums could be charged to them in the normal operation of the Council's affairs. These are all subject to separate controls within Financial Regulations, contractual terms or codes of accounting practice and need not be of concern to either Full Council or the Executive. Paragraph 4 restricts the use of these funds to the purpose they were established.

Paragraph 5 deals with other provisions and reserves, and Part B will list them. These will be areas where there is more discretion as to the use of the funds and will probably include S106 funds, provisions for building dilapidations, and other reserves and provisions established for specific purposes over which there is more discretion about their use. These can only be used with the approval of the Executive.

Paragraph 6 will implicitly include General Balances and anything we have inadvertently overlooked and is in the main reserved to Full Council.

Paragraph 7 is there to enable the Director of Finance to move funds between reserves and provisions and the Accounts to enable him to better manage the Council's finances. It explicitly excludes New Spending and is subject to approval of the Executive.

Similarly Paragraph 8 enables "spare" money to be swept up by the Executive to help keep balances at a sensible level.

Paragraph 9 gives the Executive power to increase the overall budget by up to a total of £500k in any year (the amount of course can be varied from year to year) provided that it meets the aims of the Policy Framework or Corporate Strategy and doesn't overly weaken the Council's finances.

### **Virements – General Fund**

Virements, by definition, can only occur within one account, so there are separate sections for the three Accounts.

Paragraphs 10 to 13 deal with Officer virements. Paragraph 10 basically says that officers can vire without limit within a defined sub-part of a service area.

Paragraph 11 is designed to help officers control their budgets or handle service re-organisations (for which they already have delegated authority) without going back to

Full Council for approval to move the budget (e.g. the transfer of Committee Services to Legal Services). Paragraph 12 places various policy constraints and financial tests to the power to make these changes. The Director of Finance has to be told so he can keep track of the overall budget for control and planning purposes.

Paragraph 13 allows similar virements between service areas (e.g. the break-up of Community Development).

Paragraphs 14 and 15 specify areas where the Executive can make virements. Again they allow the Executive to take action to control the overall budget or to use underspends to fund new initiatives provided that the Council's finances are not unduly weakened.

Paragraphs 16 and 17 allow officers to spend new money (e.g. additional in-year grant allocations) provided that there is no overall consequence for the Council's finances and where there is no discretion over how to spend it, and allow the Executive to spend new money in similar circumstances where there is a discretion as to how the money is spent. For example, suppose we get an additional grant for road humps – then Officers can spend it as it is for a specified purpose. If the additional grant was, say, extra RSG then the Executive would have to make any decisions about its use (provided that inter alia we had adequate balances).

### **Virements – Capital Programme**

The scheme for the Capital Programme is very similar except that it is acknowledged that virements are more likely to be necessary to control spend and manage projects that will span more than one year. There is an obligation placed on officers to make virements to ensure that spend does not exceed resources. The Executive has a similar obligation, but this extends to stopping projects if necessary.

Paragraph 20A has been added to deal with the consequences of the Prudential Code. Essentially the scheme assumes that the ability to borrow is fixed and virements take place in that context. Decisions to increase or reduce borrowing are reserved to Full Council.

There is much more likelihood of new resources in the Capital area, either from new grants, earmarked borrowing approvals or additional capital receipts. The scheme makes the reserve list the first call on new resources if this exists, but gives the Executive the power to choose priorities within that list (Paragraph 24).

Paragraphs 25 and 26 gives the Executive power to spend new resources where no match funding is required subject to funding the Reserved list first and the objectives of the Policy Framework or the Corporate Strategy. (Of course everything is still restricted by the Policy Framework – Paragraph 1).

Paragraph 27 deals with new spend where match funding is required. The caveats will ensure that spare capital resources cannot be used to match fund specific projects at the expense of the reserved list without a reference to Full Council.

## **Virements – HRA**

Paragraph 28 basically codifies the existing position whereby the Director of Housing manages the HRA provided he is not pre-empting resources and Finance is aware of what is going on.

## **Reporting**

Paragraphs 29 and 30 ensure that all but the least important or purely operational virements and transfers are reported to Full Council even if Full Council does not have to approve them. They will form part of the regular monitoring reports. This will enable Finance to keep track of what the actual agreed budget is at any point in time.

## Scheme of Transfers and Virements under Standing Order 17(a)

### Definitions

Unless specified to the contrary within the specific paragraphs, each of the following words within this Scheme of Transfers and Virements has the precise meaning assigned to it in this scheme.

**Accounts** – For the purposes of this scheme, the Council shall be considered to be operating three “accounts” – the General Fund, the Housing Revenue Account, and the Capital Programme.

**Budget** – The Council’s budget agreed by Full Council for a financial year is set at a special Council meeting at the time Council Tax levels are set for the financial year and is amended from time to time in accordance with this scheme or other relevant powers.

The budget includes planned expenditure and income for the Accounts, as well as transfers into and out of Reserves and Provisions.

The General Fund budget for each financial year contains the policy proposals included in the Service Development Plans, as amended by Appendix D of the Report and summarised in Appendix B of the Report. The matrices in Appendix C of the Report show budget heads within each service area.

The Housing Revenue Account budget for each financial year is set out in Appendix G of the Report.

The Capital Programme is set out in Appendix H(ii) of the Report. This is set in the context of the Prudential limits set out in Chapter 11 of the Report.

Full Council may amend the Budget at any time during the financial year, and the amended budget will replace the budget set at the special Council meeting before the start of the financial year for the purposes of interpreting this scheme.

**Reserves and Provisions** – The Council sets aside amounts from its Accounts from time to time to meet potential future specific or general liabilities or risks. Collectively the cumulative values of these amounts are called the Council’s Reserves and Provisions.

The values of Reserves and Provisions which are subject to the Transfer provisions of this scheme are those that appeared in the Council’s accounts as at 31<sup>st</sup> March of the previous financial year in respect of the financial year before that as amended by appropriations contained in the other elements of the budget.

**The Report** -References to the “Report” are references to the “Budget and Council Tax” report as agreed by Full Council at the special meeting to set the budget before the start of the current financial year...

**Virements** – A virement is an increase in any budget or budgets or part of a budget or budgets that is matched by an equal and opposite decrease in any other budget or budgets or part of budgets within the same Account, such that when the total changes are aggregated the net change across all budgets within that Account is zero.

**Transfers** – For the purposes of this scheme, a Transfer is a movement of funds from any reserve, provision or Account to any other reserve, provision or Account.

**New Spending** – Any increase in gross expenditure or reduction in gross income above the aggregates included in each Account is considered to be “*new spending*” for the purposes of this scheme.

**Earmarked Supported Borrowing** – A permission to borrow issued by a Department of State limited to a specific purpose and coming with a commitment to include the financing charges within the calculation of Revenue Support Grant or Housing Subsidy.

## GENERAL PROVISION

1. Except where explicitly stated to the contrary, no virement, transfer, or new spending is authorised by this scheme if it is in conflict with the Policy Framework or if it conflicts with anything specifically agreed by Full Council as part of the budget setting process other than by a decision of Full Council.

## TRANSFERS

### General

2. Spending on any Account above that allowed for in the Budget, or a shortfall in income below that estimated in the Budget will result in a charge to Reserves unless compensating changes are made. This follows from the Accounting Code of Practice, which has Statutory force. It is acknowledged that such transfers may result in a conflict with the Policy Framework. Statute provides procedures for dealing with such transfers, especially where the resultant transfers exhaust Reserves and Provisions. This scheme does not deal with these transfers, although limits are placed on the Executive’s action to minimise the chance that such circumstances arise.
3. In certain circumstances where such overspends on Accounts arise, there is a choice as to which Reserve the charge should be made. There may also be circumstances in which Provisions can be used to prevent Reserves being exhausted. These are matters that are reserved to Full Council.

## Earmarked Reserves and Provisions for Specified Purposes

4. Certain reserves and provisions have been established to aid the smooth running of the Council's finances, and it will be normal to charge costs to those reserves and provisions subject to financial regulations and local procedures and policies. These are listed in Part A of Schedule 1 to this scheme, and officers may make transfers from these reserves and provisions up to the amounts in them for the specified purposes.
5. Part B of Schedule 1 lists those other reserves and provisions from which transfers may only be made on the authority of the Executive, up to the limits of the amounts in them and for the purposes for which they were established.
6. Transfers from Reserves and Provisions not included in Schedule 1 or transfers from Reserves and Provisions for purposes other than those for which they were established require the approval of Full Council, unless otherwise allowed by this scheme.

## Executive Powers

7. The Executive shall have the power to approve any Transfer that does not result in New Spending across Accounts, on the recommendation of the Director of Finance, for the purposes of the efficient management of the Council's affairs.
8. For the purposes of maintaining Reserves at a prudent level (as determined by the Executive on advice from the Director of Finance), the Executive may make any Transfer from any Account to the appropriate Reserve if there is a reported saving in that Account.
9. The Executive may make one or more Transfers up to a total of £500,000 in the financial year from any Reserve to any appropriate Account for the purposes of New Spending provided that:
  - (a) Reserves are maintained at a prudent level after considering the effect of the Transfer and any risks that fall upon Reserves;
  - (b) The Account to which the Transfer is to be made is not immediately prior to making the transfer forecast to overspend; and
  - (c) The New Spending is for an objective contained within the Policy Framework, the Corporate Strategy, a legislative requirement or a contractual obligation.

## VIREMENTS – GENERAL FUND

### Officers

10. Officers may make any virement within a budget line in a service area (i.e. within any one line in Appendix C of the Report).

11. Subject to paragraph 12, officers may agree any virement within their area of responsibility which:
  - (a) Is designed to keep function and finance together (as determined by the Director of Finance); or
  - (b) Increases the budget of a unit that is overspending by reducing that of a unit that is underspending.
12. Virements in paragraph 11 may only be agreed by officers provided that:
  - (a) They do not result in a commitment which would itself lead to an increased overspend in the current financial year or give rise to unfunded expenditure in future years
  - (b) They are consistent with the Service Development Plan;
  - (c) They do not conflict with any prior decision made or policy or plan or strategy adopted by the Executive; and
  - (d) They are reported to the Director of Finance.
13. The Director of Finance may agree any virement between areas of responsibility of different Officers whose effect falls within the criteria set out in paragraph 11 subject to the constraints in paragraph 12(a) to 12(c).

### **Executive**

14. Subject to paragraph 15, the Executive may agree any virement either within or between any Service Area which:
  - (a) Falls within the purposes of paragraph 11;
  - (b) Helps to maintain prudent levels of Reserves; or
  - (c) Helps to keep expenditure within the overall budget totals; or
  - (d) Finances new initiatives supporting the Policy Framework or the Corporate Strategy but not explicitly included in the Service Development Plan and Budget.
15. The Executive may only agree virements under paragraph 14 if it has received advice from the Director of Finance that after the virement:
  - (a) Reserves remain at prudent levels; and
  - (b) No unfunded expenditure commitments arise in future years.

### **New Spending**

16. Where additional resources arise during the year and these are limited for a specific use (e.g. because of grant conditions), then officers may commit the New Spending provided that:
  - (a) There is no unfunded spending commitment for future years;



- (b) Any match funding for the current year is met from identified underspends; and
  - (c) The Director of Finance certifies that the criteria in paragraph 15 apply.
17. Where additional resources arising from additional income, grant not limited for a specific use, or underspends of budgets are identified, then the Executive may agree New Spending, subject to the criteria in paragraphs 14 and 15.

## VIREMENTS - CAPITAL PROGRAMME

### General

18. The Capital Programme consists of individual projects and sums allocated for work of a particular type. Financial Regulations dictate that the latter type of expenditure can generally only be spent after approval by Executive of project schemes within that type.
19. Capital projects often span more than one year, and include provisions for contingencies, provisional sums and the like. This generates a degree of flexibility available for managing the overall programme and this scheme takes advantage of that flexibility.
20. Many funding streams for Capital projects are limited to particular types of projects. Nothing in this scheme allows virement between projects if the funding stream cannot be vired because of some other condition or limitation restricting or precluding a virement.
- 20A. The Capital Programme is funded by a combination of capital receipts, grants and other direct external contributions and borrowing. The total amount of permitted borrowing can be varied during the financial year under the terms of Local Government Act 2003 and relevant regulations. Apart from any contingencies agreed in the Budget, this scheme does not permit any increase in the level of permitted borrowing beyond that agreed in the Budget. Such increases require approval by Full Council in the context of advice from the Director of Finance and subject to CIPFA's *"The Prudential Code for Capital Finance in Local Authorities."*

### Officers

21. Officers should make such virements as are necessary to ensure that the overall capital spend is kept within the sums allocated for that purpose within their area of responsibility provided that:
- (a) They do not stop or significantly change projects approved by Full Council or the Executive except where as part of project approval the Full Council or Executive has delegated authority to officers to revise or reschedule such projects;
  - (b) They do not commit expenditure beyond resources available in future years; and

- (c) They report changes to the Director of Finance.

### Executive

- 22. The Executive may make such virements within the Capital Programme as are necessary to ensure that overall spending is within the resources available, and it can delay or stop projects as necessary to achieve this.
- 23. The Executive may vire funding from one set of capital projects to another without limit provided that:
  - (a) Reductions are not made to funding of projects below the level that is contractually committed;
  - (b) Spending commitments in future years are not made beyond the resources available to fund them.

### New Spending

- 24. Where new Capital resources, not limited to specific purposes, are identified during the year, the Executive may commit new expenditure from the reserve list, where such a list exists, in its own priority order providing that:
  - (a) The Capital Programme is not projected to overspend its resources;
  - (b) Spending commitments in future years are not made beyond the resources available to fund them.
- 25. Where new Capital resources, not limited to specific purposes, are identified during the year, and the reserve list has been fully funded, the Executive may commit new expenditure on other capital schemes provided that:
  - (a) The Capital Programme is not projected to overspend its resources;
  - (b) Spending commitments in future years are not made beyond the resources available to fund them;
  - (c) The new spending meets objectives set out in the Policy Framework or the Corporate Strategy.
- 26. Where new Capital resources, limited for use for a specific purpose, are identified during the year that do not require matched funding, the Executive may commit new expenditure provided that:
  - (a) Spending commitments in future years are not made beyond the resources available to fund them;
  - (b) If the new funding is by Earmarked Supported Borrowing, a report is received from the Director of Finance indicating that the cost of the new borrowing is affordable;
  - (c) The new spending meets objectives set out in the Policy Framework or the Corporate Strategy.

27. Where new Capital resources, limited for use for a specific purpose, are identified during the year that do require matched funding, the Executive may commit new expenditure on that match funding provided that:
- (a) The Reserved List, where such a list exists, has been fully committed and there are sufficient capital resources available to meet the match funding requirements directly or by virement, OR additional revenue resources have been identified to meet the match funding requirements;
  - (b) Spending commitments in future years are not made beyond the resources available to fund them.

### **VIREMENTS – HOUSING REVENUE ACCOUNT**

28. The Director of Housing may make any virements necessary for the efficient running of the Housing Revenue Account within the Account, including the use of revenue resources for capital purposes, provided that:
- (a) Spending commitments in future years are not made beyond the resources available to fund them; and
  - (b) The changes are reported to the Director of Finance.

### **REPORTING ARRANGEMENTS**

29. Subject to paragraph 30, all Transfers, Virements and New Spending are to be reported to Full Council whether or not they require Full Council's approval. Normally this will be done by means of the regular expenditure monitoring reports made by the Director of Finance. The reports will classify changes by whether Officer, Executive or Full Council approval was required.
30. Virements within one line of Appendix C of the Report, Transfers falling within Part A of Schedule 1, and Virements within the HRA will not normally be reported to Full Council but will be reported if the Director of Finance or the monitoring officers consider that a report should be submitted.
31. Any failure to report to or notify the Director of Finance on any matter as required under this scheme will not invalidate the decision by virtue of that failure to report or notify alone.

### Earmarked Reserves and Provisions

PART A Officers have the authority to make transfers from these reserves and provisions up to the amounts in them for the specified purpose.

Bad Debt	New Opportunities Fund
Insurance Fund	Access Fund
Standards Fund	Microsoft Licences
Single Regeneration Budget	Middlesex House and Lancelot Road
Service Unit Transfers	Systems Development
Learning and Skills Council	Jewish Free School
Further Education Funding Council	Capital Support for Disabilities
NNDR Revaluation Refunds	Quality Improvement for Adult Education
Nursery School Children	Supporting People
	Chalkhill Development
	Viewstar Replacement

PART B Transfers may only be made on the authority of the Executive.

Section 106 and Commuted Car Parking  
 Dollis Hill House  
 Care for the Elderly Bequests  
 Capital Funding  
 Willesden High School Deficit  
 Edward Harvist Trust