SECTION 14

14. PROCEDURES REQUIRED TO CONTROL EXPENDITURE

Introduction

14.1 The council controls expenditure in a number of different ways. Principal amongst them are:

(a) The Constitution including Standing Orders and Financial Regulations which set out delegated expenditure limits, control procedures for external contracts, and the financial and reporting responsibilities of Service Area and Service Unit Directors;

(b) Additional guidance and directions issued on a regular basis by the Director of Finance and Corporate Resources;

(c) This budget report and the budget process which allocates resources between services and sets a framework through which spending can be monitored during the year.

14.2 The purpose of this section is to remind Members and Service Area or Corporate Directors of the expenditure control framework and how it will operate in 2010/11.

Roles and Responsibilities

14.3 Under the executive arrangements Full Council is responsible for approving the budget and policy framework and the Executive are then responsible for implementing the policies and spending the budget (except in respect of those functions such as planning which are not executive functions) in accordance with the budget and policy framework and the council's constitution.

14.4 Members and officers at all levels within the organisation have a role to play and responsibilities to carry out in order to manage the council's finances. Everybody needs to be clear about what their roles are, to ensure proper accountability across the council, to avoid either duplication or areas where no one is accountable. There also have to be clear links between service and financial planning. Service priorities can only be agreed in the light of what is affordable.

14.5 Key roles include:

- Full Council set policy about service levels and priorities and take decisions to prioritise resources between service needs and council tax levels. They ensure that officers are monitoring spending, and agree action plans to recover from potential overspends.
- The Budget Panel scrutinises the budget process particularly concentrating on the linkage between resource allocation and the

corporate strategy and the robustness of the budget proposals for both the current financial year and the medium term.

- The Corporate Management Team's role is to ensure corporate ownership of financial discipline and, through the Strategic Finance Group, provide Members with advice and enact their decisions.
- The Director of Finance and Corporate Resources should put in place financial standards across the council to deliver a framework for financial control and provide accurate, timely and consistent monitoring information, and sound advice on financial decisions to be made by officers and members. He should also ensure that an effective and independent internal audit function operates.
- Service Area or Corporate Directors ensure that their service area enacts the necessary financial control framework and keeps spending within budget, indicating, where necessary, conflicts between current service policy and plans and resource allocation.
- Service Unit Managers should keep accurate financial records, comply with the financial control framework and take timely action to keep spending within budget.

Monitoring the Budget

14.6 Once the budget has been set for the year and spending has started, it is critical to have an up to date and accurate picture of how spending is going.

14.7 The key monthly events in the cycle will be:

- Service units supply information to service area accountants on spending to date and year end forecasts.
- Service areas supply similar information on total spending within their responsibility (including units) to Finance and Corporate Resources.
- The Strategic Finance Group will review the monitoring information and provide summary information and exception reports to the Corporate Management Team.
- The SFG through CMT will examine proposed recovery plans, and take any other necessary action (including making recommendations to the Executive) to deliver spending within overall resources.

14.8 In addition to this monthly cycle, the Director of Finance and Corporate Resources will report at least quarterly to the Executive on spending and forecasts. The report will also go to Performance and Finance Select Committee. This report may go to Full Council if it requires decisions outside the budget and policy framework. The Director of Finance and Corporate Resources will report immediately to the relevant Member body any significant financial problem that requires Members' decision to correct.

Virements, Transfers and In-Year Changes to Policy

14.9 The Council's Standing Order 17 sets out requirements in respect of the above.

14.10 Full Council agreed an update Scheme of Transfers and Virements under Standing Order 17(a), attached at Appendix P, in November 2005. This refers to a Schedule of Earmarked Reserves and Provisions approved by Full Council at the budget setting meeting held before the start of the financial year. This schedule for the 2010/11 financial year is Appendix P at Schedule 1. Members are asked to approve this.

Controlling the Budget

Overspending

14.11 Overspends are not acceptable. There is no cause of an overspend that cannot be dealt with by action of some kind, even if this means changing policy, service levels and staffing levels, or virements from elsewhere in the service's budget.

14.12 If the monthly monitoring reports indicate that an overspend is likely, and subsequent investigation confirms this view, then Service Area or Corporate Directors will be required to detail the action they propose to take to correct the overspend. This will normally be expected to take the form of changes to the service necessary to correct the imbalance. Specific and costed proposals will be expected. Exceptionally, Service Directors may need to seek the Executive's approval to propose a change in policy to meet the overspend, which would then be submitted for Full Council's approval.

14.13 There may be occasions where, although changes are proposed that will reverse the overspend, they will not operate quickly enough to recover the position in the current financial year. Service Area or Corporate Directors must examine all further possible savings within their service to deal with any shortfall. If they have done so and an overspend is unavoidable then they can apply to the Executive for a one-off supplementary budget allocation subject to the agreement of the Director of Finance and Corporate Resources. Again according to the limits defined this may need Full Council's approval.

14.14 Any overspend of controllable expenditure has the effect at outturn of reducing the council's balances. Normally all such use of balances will be required to be replaced by the service causing them to happen.

Rejected Growth Bids

14.15 Services will have, during the budget setting process, submitted bids not approved and not included in the budget. Services need to consider their rejected growth bids and either fund the growth from compensating savings (see below) or not proceed with them. Service Area or Corporate Directors may need to produce a report to the next cycle detailing the action if any that is recommended in each case.

Compensating Savings

14.16 The phrase *"compensating savings"* can be used loosely in respect of committee reports. For the avoidance of doubt this phrase and the alternative of "met from within existing budget" are taken to have the following meanings:

(a) *"Compensating savings"* - efficiency savings or service cuts are required to fund the spending proposal. If this phrase is used then the Service Area or Corporate Director **must** identify how the compensating savings are to be found and explain fully in the report what the service implications are. If none are offered it will be assumed that none are available and the financial implications supporting the application are invalid.

(b) *"Met from existing budget"* - can be used to refer to a specific expenditure proposal that has been included in a budget, or falls within a normal budgeted category and where the item can be funded without an overspend, or where there are unallocated funds in a budget that can be used to fund the current year and the subsequent year costs of the item.

14.17 The significance of these definitions is that they ensure that new expenditure proposals are always funded and do not cause overspends. If *"compensating savings"* is used as the funding justification and are not specified then the financial implications are invalid and therefore no authority can be given for the spending. If "met within budget" is used, then by definition there can be no overspend arising from the expenditure decision itself.

Balances

14.18 The council has working balances to meet unforeseen financial contingencies. There is a danger that they will be seen as a resource available to solve any and every financial problem that arises. Therefore there is a need to establish policies to regulate the use of balances.

14.19 The key policy is that any application of balances must be accompanied by a proposal to restore them in the future. The possible reasons for allocating balances and the way that balances can be recovered include:

(a) A reference from a service for funds to avoid a policy change to eliminate an overspend. The service needs to identify additional efficiencies and savings the following year to restore balances while the continuing costs of the existing policy are added to its total saving requirement.

(b) A reference from a service for a temporary allocation of balances to give the service time to recover an overspend. The service needs to agree to restore the balances used over a period of time.

(c) To fund implementation costs of future savings. The first call on the future efficiencies and saving will be the restoration of balances.

(d) To provide initial funding for new initiatives or proposals. The restoration of balances and the future year costs are met by increasing the council's overall saving target in future years.

(e) To meet the cost of a policy change not budgeted for at the start of the financial year. The restoration of balances and the future year costs are met by increasing the council's overall saving target in future years.

(f) To meet some financial contingency not foreseen at the beginning of the financial year. The restoration of balances and the future year costs are met by increasing the council's overall saving target in future years.

14.20 In every case balances can only be allocated on the recommendation of the Council's Chief Finance Officer (S151 of Local Government Act 1972) and by the Executive or, depending on the defined limits, Full Council.

14.21 Balances will not be available to meet overspends or other inappropriate purposes. The Executive should use any control it has over balances as a means of ensuring that services are putting in place adequate recovery plans.

Financial Implications

14.22 There is a requirement to provide financial implications on every report requiring a Member decision, and for these to be cleared with the Chief Financial Officer in advance of publication. The Chief Financial Officer has a right to issue a report concurrently on matters requiring the Members' attention. There is a need to be clear about the content of financial implications so that they can play their intended role in controlling expenditure.

14.23 The financial implications of any proposal should set out:

- Its cost in the current and future financial years, and the basis on which the cost has been calculated;
- The proposed funding source, indicating either that it can be met from existing service area resources or what compensating savings will also have to be agreed; and
- If additional resources are required, a clear reference indicating what part of the cost is additional, and the policy and service implications of both not proceeding and funding the proposal from within existing resources, and the time period over which any use of balances could be repaid.

14.24 The Chief Financial Officer must be consulted on all financial implications that may result in a reference for additional funding, and should be consulted on major financial issues where spending is being contained within budget. For practical purposes, services should indicate to Finance and Corporate Resources, as soon as they can, any issues that are likely to result in a report requiring such clearance, to enable the consultation to proceed as smoothly as possible. **In all cases failure to provide financial implications in the prescribed manner means that expenditure approval has not been given, and any expenditure that takes place is unauthorised**.

14.25 Where the Chief Financial Officer believes the financial implications of a report to be invalid he may:

- Require the report to be withdrawn from the relevant meeting;
- Supply alternative financial implications under his own name to be circulated to the meeting; or
- Indicate to the meeting the reasons why he believes the financial implications are invalid and the consequences of proceeding on that basis (i.e. that the expenditure would be unauthorised despite a resolution of the meeting to agree it).

14.26 The above is designed to protect Members from agreeing to proposals without having adequate financial advice before them. Where that is the case, irrespective of these rules, administrative law may well mean that any decision is invalid. The rules also have the effect of protecting the council from unfunded spending proposals.