

**Part F – Appendices**

**Section F5:- Finance and Contract Procedure Rules**

**F5B:- Financial Management**

**In Part F:-**

**Section F1** contains the Member Code of Conduct

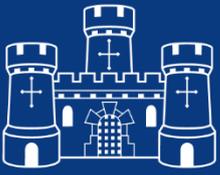
**Section F2** contains the Member Planning Protocol

**Section F3** contains the Officer Code of Conduct

**Section F4** contains the Officer/Member Relations Protocol

**This Section (F5)** contains the Finance and Contract Procedure Rules that govern how the council manages its financial affairs. The Rules are split into the following eight parts:-

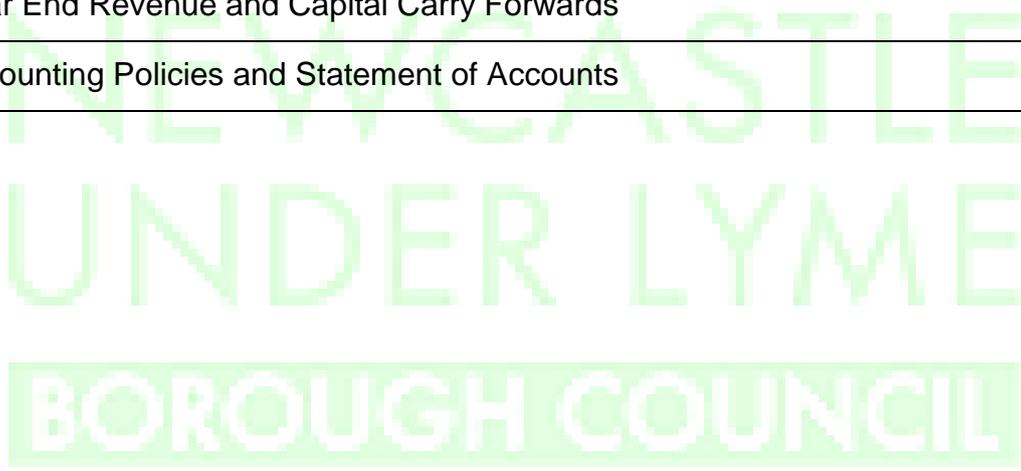
- **Section F5A** contains an introduction and overview to the principles of good financial management, the roles and responsibilities of Officers and Members and the various documents and processes that form the council's financial management framework.
- **This Section (F5B)** Financial Management
  - **Part F5C** Financial Planning
  - **Part F5D** Risk Management and Control of Resources
  - **Part F5E** Financial Systems and Procedures
  - **Part F5F** Contract Procedure Rules
  - **Part F5G** Collaborative Working and ASDVs
  - **Part F5H** Glossary

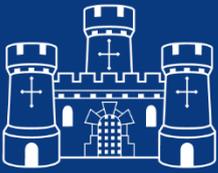


**Part F – Appendices**  
**Section F5:- Finance and Contract Procedure Rules**  
**F5B:- Financial Management**

**In this Section:-**

B1	Why is Financial Management Important?
B2	Overview
B3	What is covered in this Section?
B4	Overview of Roles and Responsibilities for Financial Management
B5	Budgeting Overview
B6	Budget Management Framework
B7	Budget changes – Virements and Supplementary Estimates
B8	Budget changes – Virement and Supplementary Estimate Approval Limits
B9	Administrative Virements
B10	Gateway Approval Process for new Capital Schemes
B11	Year End Revenue and Capital Carry Forwards
B12	Accounting Policies and Statement of Accounts





## **B1. Why is Financial Management Important?**

B1.1 Financial management is essential to ensure that public funds are kept secure and used properly to best effect. This section explains who is accountable for the proper financial management of the council.

## **B2. Overview**

B2.1 The Finance and Contract Procedure Rules (“the Rules”) form part of a set of rules and processes that must be followed to ensure effective financial management.

B2.2 In accordance with the “executive arrangements” form of local governance under the Local Government Act 2000, Council decides who will discharge the various functions that it is responsible for. This is set out in the Constitution that records the delegation of power to the Cabinet, committees and Officers.

B2.3 Council also approves and adopts these Rules that are contained within the Constitution. These Rules provide a framework for managing the council’s financial affairs, and the financial implications of decisions made under the delegation arrangements set out in the Constitution. These Rules apply to everyone who makes decisions for the Council or on its behalf.

B2.4 The Rules set out the financial limits that Members and Officers must operate within. Beneath these Rules, the Section 151 Officer also maintains a table of financial authorisation limits for Officers within each individual service (“Financial Scheme of Delegation”).

B2.5 There are also Codes of Practice in force from time to time that set out the steps of any detailed procedures or processes that need to be followed to ensure the Rules are properly applied in practice. These are issued by the Section 151 Officer.

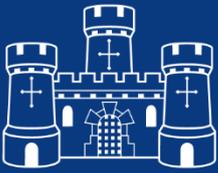
## **B3. What is covered in this Section?**

B3.1 This Section contains a short “high level” overview of the roles and responsibilities delegated by the Constitution, including Council, Cabinet, committees and Officers.

B3.2 This section also contains an overview of the process for approving changes to the council’s budget, including:

a) When Section 151 Officer and/or Member approval is required

b) what can be approved within services



c) accounting policies and statement of accounts

#### **B4. Overview of Roles and Responsibilities for Financial Management**

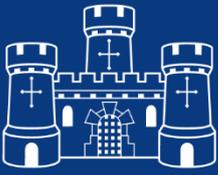
B4.1 The Constitution sets out in detail the arrangements Council has put in place for decisions to be taken by Members and Officers. These Rules apply to the financial implications of all decisions taken under those arrangements. It is important that all decision makers are familiar with the provisions in the Constitution and these Rules that, together, authorise them to make decisions.

B4.2 The following is a “high level” summary of the decision making arrangements contained in the Constitution:-

- a) Council. Council adopts the Budget and Policy Framework. It also is responsible for discharging a number of functions it has “reserved” for itself. Council has also constituted a number of committees that discharge delegated powers. Part B of the Constitution contains information about the roles and responsibilities of Council and its committees.
- b) The Cabinet. The Cabinet is responsible for proposing the Budget and Policy Framework to Council. Once approved, the Cabinet is responsible for taking all the necessary steps to implement it. The Cabinet operates collectively and, in cases of urgency, through individual Cabinet Members. Part C of the Constitution contains information about the roles and responsibilities of the Cabinet and individual Cabinet Members.
- c) Officers. Officers are responsible for the vast majority of day-to-day operational decisions under powers delegated to them by both Council and the Cabinet. In addition, there are certain specified Officers (“Statutory” and “Proper Officers”) who are responsible for discharging certain specified functions. Part E of the Constitution contains more information about the roles and responsibilities of Officers.

#### **B5. Budgeting Overview**

B5.1 In February each year, Council sets a budget for the following financial year. Inevitably, in a large and complex organisation, changes will need to be made to this approved budget during the year. To ensure that there is appropriate approval and control over these changes, the council operates two main approaches. These are:-



- a) Changes that have a material financial or policy impact will generally require the approval of the Section 151 Officer and/or Members. The type and level of approval required will depend on the nature of the proposed changes and the source of funding. Specific guidance on the approval process is set out below.
- b) Changes that are of an administrative nature can be approved by Service Directors. Financial approval limits generally for individual Officers are set out in the table maintained by the Section 151 Officer. This table is reviewed on at least an annual basis and published on the intranet.

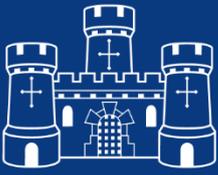
## **B6. Budget Management Framework**

B6.1 The Section 151 Officer is responsible for establishing an appropriate framework of budget management and controls which ensures that:-

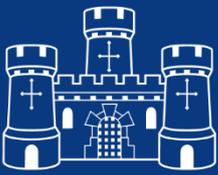
- a) budget management is exercised within the annual budget, unless Council agrees otherwise
- b) each Service Director has timely information available on receipts and payments on each budget which is sufficiently detailed to enable managers to fulfil their budgetary responsibilities
- c) expenditure is committed only against an approved budget
- d) all Officers responsible for committing expenditure comply with relevant guidance, including the Finance and Contract Procedure Rules
- e) Each cost centre has a single named budget manager, determined by the relevant Service Director and notified to the Section 151 Officer
- f) significant variances from approved budgets are investigated and reported by budget managers regularly.

B6.2 Service Directors are responsible for maintaining budgetary control within their departments, in adherence to the principles set out in this document and, in particular:-

- a) to ensure that all income and expenditure is properly recorded and accounted for



- b) to ensure that an accountable budget manager is identified for each item of income and expenditure under the control of the Service Director (grouped together in a series of cost centres). As a general principle, budget responsibility should be aligned as closely as possible to the decision-making that commits expenditure
- c) to ensure that spending remains within the service's overall approved budget, and that individual budget heads are not overspent, by monitoring the budget and taking appropriate corrective action where significant variations from the approved budget are forecast
- d) to ensure that a monitoring process is in place to review performance and service levels in conjunction with the budget
- e) to prepare and submit reports to the Cabinet on the service's projected expenditure compared with its budget, in consultation with the Section 151 Officer
- f) to ensure prior approval at the appropriate level for new proposals that create financial commitments in future years, change existing policies, initiate new policies or materially extend or reduce the council's services
- g) to ensure compliance with the scheme of virement set out in B7 to B9 below
- h) to agree with the relevant Service Director where it appears that a budget proposal, including a virement proposal, may impact materially on another service area or Service Director's level of service activity
- i) to ensure best value is obtained in service delivery
- j) to ensure that resources are used only for the purposes for which they were intended
- k) to prepare regular reports in the approved format on overall financial and non-financial performance and progress against planned service outcomes (as part of the Council Plan/Priority Delivery Plans), and for submitting these to the Cabinet and the relevant Scrutiny Committee after consulting the Section 151 Officer, in accordance with agreed procedures. Service Directors will report periodically to their capital oversight/review group on the progress and forecast of all capital expenditure and income against the approved programme.



B6.3 The key reporting stages are:

- a) approval of service outcome plans, including budget statements and performance targets
- b) approval of projects through the relevant capital oversight/review group to be included in the Capital Programme
- c) quarterly reviews of revenue and capital expenditure. Final outturn reports for both revenue and capital expenditure, including full post-implementation review, on all capital schemes completed during the year.

B6.4 In addition, the reports will be specifically required to give details in respect of the following:-

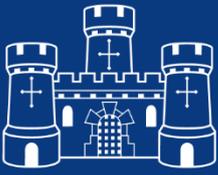
- a) potential overspends and proposed remedial action, including any impact on future year's budgets which may need consideration in the on-going Medium Term Financial Strategy for policy and financial planning
- b) amendments to approved budgets such as supplementary revenue and capital estimates where Member approval is required
- c) write off of bad debts or assets where Member approval is required.

## **B7. Budget Changes – Virements and Supplementary Estimates**

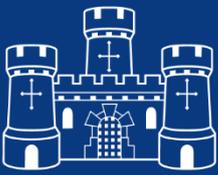
### *Introduction and Explanation*

B7.1 Council sets the budget in advance of each financial year. It does so by determining how much the council will spend (and receive) through service delivery, in total, in each financial year. Council then allocates these amounts to different budget areas or "lines" for different services, and then for different purposes or functions within individual services.

B7.2 As part of setting the budget, Council also approves the capital programme each year. The capital programme comprises a series of rolling annual allocations for one off projects like ICT infrastructure renewal, vehicle fleet replacement, property acquisitions or upgrades and regeneration projects. Each of these specific projects is represented by a separate line in the capital programme. There can be, within each capital programme allocation, a number of individual schemes.



- B7.3 During the course of the year, services may wish to undertake an activity not originally identified in the approved budget. There might also be circumstances in which delivering a planned activity will cost more than anticipated or generate less income than anticipated.
- B7.4 There might also be, during any financial year, a need to alter the capital programme to add, prioritise or accelerate a particular scheme, or to deal with cost increases as a scheme progresses.
- B7.5 In order to accommodate these changes with no overall impact on the approved service budgets, funds will either have to be transferred between different lines of the budget Council has approved, or new funding will have to be brought into the budget lines that Council has approved. New funding typically comes from external sources such as unanticipated income or grant funding. In some cases, it might come from reserves or borrowing.
- B7.6 The transfer of funds between the budget lines that Council has approved is known as a virement. Where it relates to service provision or recurring spend, it is known as a revenue virement. Bringing new funding into the budget lines that Council has approved is known as a supplementary estimate. This will be either a capital supplementary estimate or a revenue supplementary estimate depending on whether the additional funding is needed for service provision/recurring spend or “one-off” spend on a project in the capital programme.
- B7.7 Virements and supplementary estimates can often mean that activities or outcomes Council approved and is expecting to be delivered when setting the budget and policy framework are going to change. For this reason, different levels of authorisation for virements and supplementary estimates are needed depending on the potential impacts. The various authorisation requirements are set out below.
- B7.8 Where a proposed virement or supplementary estimate would involve transferring funds from the general fund reserve it must be approved by Council regardless of value. Even where a proposed virement or supplementary estimate does not draw on reserves, Council approval will nevertheless be required if the proposal will have significant implications (as determined by the Section 151 Officer) for future years’ budgets. Examples of this include borrowing, or utilising capital receipts, beyond any limitations set by council in the budget.



B7.9 This is because there are certain requirements around maintaining adequate levels of reserves and preserving the security of future year's budgets that can only be determined by Council on the advice of the Section 151 Officer. It is important that these controls are not circumvented by the virement/supplementary estimates scheme.

B7.10 The finance team must be consulted where there is any uncertainty as to the need for a virement or supplementary estimate, or in applying of the approval limits below to arrive at the correct authorisation process.

### **B8. Budget Changes – Virement and Supplementary Estimate Approval Limits**

B8.1 Where the proposal does not involve transferring funds from general reserves, the approval levels are as follows:

#### *Revenue Virements/Supplementary Estimates*

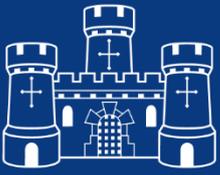
<b>Approver</b>	<b>Approval Limit</b>
Service Directors	Up to £50k
Section 151 Officer in consultation with relevant Cabinet Member(s)	£50k< to £100k
Cabinet	£100k< to £1m
Council	£1m<

#### *Capital Virements/Supplementary Estimates*

<b>Approver</b>	<b>Approval Limit</b>
Service Director	Up to £50k
Section 151 Officer in consultation with relevant Cabinet Member(s)	£50k< to £250k
Cabinet	£250k< to £2m
Council	£2m<

B8.2 It is important to remember that if a proposed virement or supplementary estimate would involve transferring funds from the general fund reserve, or if (in the opinion of the Section 151 Officer) it will have significant implications on future years' budgets, it must be approved by council.

B8.3 Where a report taken to Cabinet/Council or an Officer Decision Notice ("ODN") results in the approval of a recommendation which necessitates a virement or supplementary estimate, there is no further/separate requirement to seek authorisation for the virement or supplementary estimate in question so long as:-



- a) The approving body is authorised to approve the virement or supplementary estimate in question by reference to the approval limits above; and,
- b) The financial implications section of the report or ODN in question deals with the issue of virement/supplementary estimates

### **B9. Administrative Virements**

B9.1 Some virements are essentially of an administrative nature, as they do not involve a change from existing approved policies. Administrative virements would include the following examples:-

- a) implementation of restructuring and reorganisation proposals that have already received the appropriate level of Officer and Member approval
- b) routine changes to the structure of the chart of accounts
- c) changes to notional accounting budgets which are required for reporting purposes but which do not affect the council's cash expenditure. Examples include changes to the depreciation and deferred grants budget

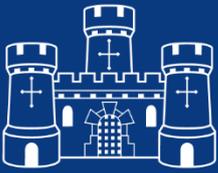
B9.2 Where the virement is (as determined by the Section 151 Officer) solely of an administrative nature, approval is only required from the Section 151 Officer or Deputy Section 151 Officer.

### **B10. Gateway Approval Process for new Capital Schemes**

B10.1 Where services wish to undertake a new capital scheme which is not already included in the council's approved capital programme, they must (regardless of value) follow the relevant "Gateway" approval process from time to time in force. The purpose of Gateway approval processes is to stress test or scrutinise proposals prior to seeking formal Member/Officer authorisation to proceed.

B10.2 The Gateway approval process will vary depending on the nature and cost of a scheme but will typically require the preparation of a business case in a prescribed form, the business case will go through a process of consideration at Member/Officer level that may include a scheme or project specific Member/Officer/stakeholder oversight board or group.

B10.3 The Section 151 Officer will devise and publish Gateway approval processes on the intranet (from time to time) along with any prescribed forms of documents that relate.



Advice should be sought from the finance team on a case-by-case basis to confirm the appropriate approval process.

B10.4 Once the relevant “Gateway” approval process has been completed, all other formal governance approvals must be completed before incurring unbudgeted expenditure on the scheme. For example, if supplementary estimates or virements are required, the approval processes set out above must be completed. Formal, reasoned decisions should be taken at Council, Cabinet or Officer level (as the case may be) and documented, informed by the outcome of the Gateway approval process. All contract and procurement procedure rules must then be followed.

### **B11. Year End Revenue and Capital Carry Forwards**

#### *Carry Forward of Underspend*

B11.1 During the course of the financial year, services can request permission to provisionally carry forward an underspend at year-end. In-year, these carry forwards will be approved in principle as subject to outturn. The approval limits for these in-year individual carry forwards are:

#### *Revenue*

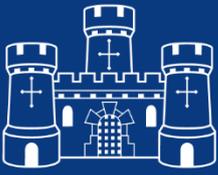
<b>Approver</b>	<b>Approval Limit</b>
Section 151 Officer	Up to £100k
Cabinet	£100k<

#### *Capital*

<b>Approver</b>	<b>Approval Limit</b>
Section 151	Up to £250k
Cabinet	£250k<

B11.2 All carry forward proposals must be supported by the appropriate justification demonstrating that the resources carried forward will be earmarked for a specific purpose or issue. Service Directors should include provisional indications of likely carry forward requests in their quarterly reviews of performance.

B11.3 Before approval is sought for a carry forward, Service Directors should ensure that there are no unfunded overspends within their department. It is extremely unlikely that proposed carry forwards for a service will be approved if there are unfunded overspends elsewhere within the department.



B11.4 For capital budgets, underspends against rolling annual allocations funded from council resources or non-ring-fenced grant funding will only be approved on an exception basis, with any commitments expected to be the first call on the following year's capital allocation. For committed one-off schemes, re-profiling into future years will be automatically approved provided the scheme remains a priority for the council at that time.

**B12. Accounting Policies and Statement of Accounts**

B12.1 The Section 151 Officer is responsible for the preparation of the Council's Statement of Accounts, in accordance with proper practices as set out in the format required by the Code of Practice on Local Council Accounting in the United Kingdom for each financial year ending 31 March.

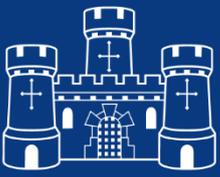
B12.2 The key controls for accounting policies are:-

- a) Systems of internal control that ensure financial transactions are lawful
- b) Suitable accounting policies are selected and applied consistently
- c) Accurate and complete accounting records are maintained
- d) Financial statements are prepared which present a true and fair view of the financial position of the Council.

B12.3 The Section 151 Officer is responsible for:-

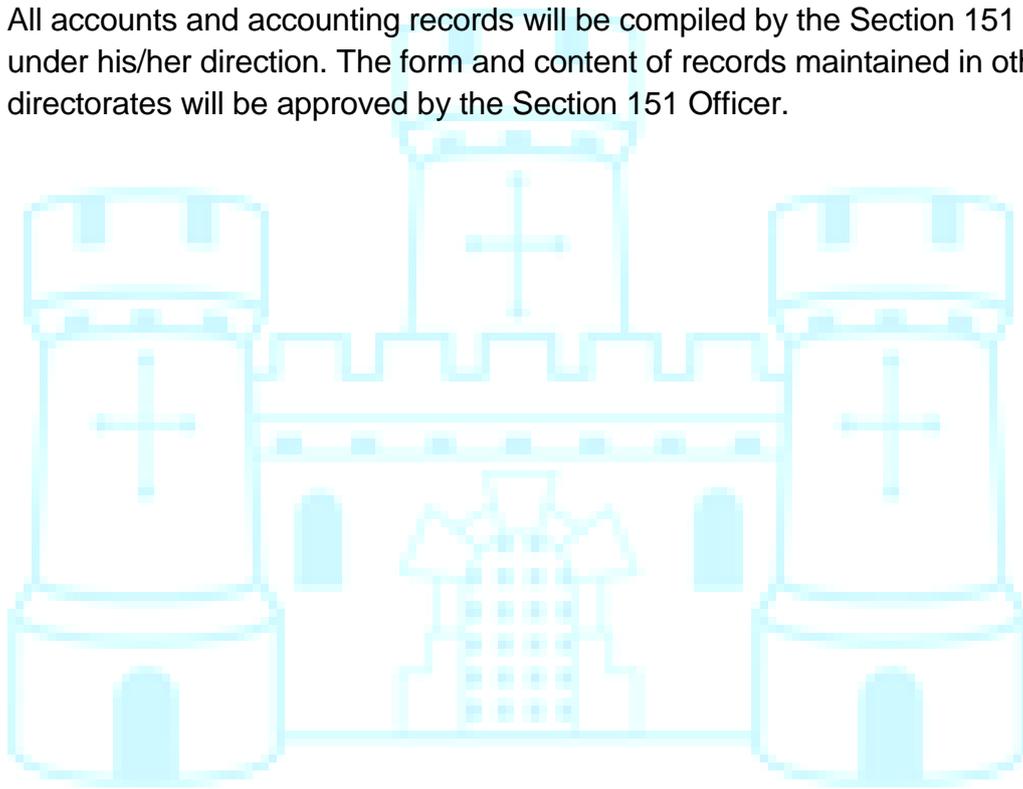
- a) selecting suitable accounting policies and ensuring that they are applied consistently
- b) exercising supervision over financial and accounting records and systems
- c) preparing and publishing reports containing the statements on the overall finances of the council including the council's Annual Report and Accounts.

B12.4 The Section 151 Officer is responsible for determining the accounting procedures and records for the council. All accounting procedures will be approved by the Section 151 Officer.



B12.5 Service Directors are responsible for ensuring that staff in their departments are aware of, and adhere to, the accounting policies, procedures and guidelines set by the Section 151 Officer.

B12.6 All accounts and accounting records will be compiled by the Section 151 Officer or under his/her direction. The form and content of records maintained in other directorates will be approved by the Section 151 Officer.



NEWCASTLE  
UNDER LYME  
BOROUGH COUNCIL