

Part G – Appendices

Section G4B:- Finance and Contract Procedure Rules

(Financial Planning)

In this Section:-

| | |
|-----|---|
| B1 | Why is Financial Planning important? |
| B2 | What's covered in this Section? |
| B3 | Policy Framework |
| B4 | Revenue Expenditure |
| B5 | Revenue Budget Preparation |
| B6 | Budget Monitoring and Control |
| B7 | Determination, Monitoring & Control of affordable borrowing |
| B8 | Responsibility for borrowing |
| B9 | Capital Expenditure |
| B10 | Capital Approvals and Strategic Projects |
| B11 | Capital Monitoring and Amendments to the Capital Programme |
| B12 | Capital Receipts |
| B13 | Leasing and Rental Agreements |
| B14 | Maintenance of Reserves |

B1 Why is Financial Planning Important?

B1.1 Section A1 of the Constitution explains how Council adopts the Budget and Policy Framework following proposals from the Cabinet, and that once adopted the Cabinet is responsible for its implementation. In terms of financial planning, the key elements of the Budget and Policy Framework are:-

- (a) The Council Plan – this sets out the Council’s long term aims and objectives. It is regularly revisited to ensure that the Council’s priorities remain relevant to its overall aims and to assess the progress being made in achieving these.
- (b) The Budget - The Council is a complex organisation responsible for delivering a wide variety of services. It needs to plan effectively and to develop systems to enable scarce resources to be allocated in accordance with carefully weighed priorities. The budget is the financial expression of the Council’s plans and policies.
- (c) The Capital Strategy - Capital expenditure involves acquiring or enhancing fixed assets with a long-term value to the Council, such as land, buildings, and major items of plant, equipment or vehicles. Capital assets shape the way services are delivered in the long term and create financial commitments for the future in the form of financing costs and revenue running costs. The Capital Strategy sets the framework for the planning, prioritisation, management and funding of capital expenditure.
- (d) Specific Service Plans and Strategies which have financial implications.
- (e) Outcome Plans – Outcome Plans set out the way in which the Council will deliver its long term aims and objectives as outlined in the Council Plan. They are regularly revisited to ensure that they remain relevant in the context of the overall Council Plan and to assess the progress being made in achieving these.

B2 What's covered in this Section?

B2.1 This section contains information on:-

- (a) Policy Framework;
- (b) Budgeting;
- (c) Format of the Budget;
- (d) Revenue Budget Preparation, Monitoring and Control;
- (e) Determination, Monitoring and Control of Affordable Borrowing;
- (f) Resource Allocation;
- (g) Capital Programmes;
- (h) Leasing and Rental Agreements;
- (i) Maintenance of Reserves;
- (j) Reporting.

B3 Policy Framework

B3.1 Council is responsible for approving the Budget and Policy Framework. The policy framework will comprise the statutory plans and strategies which the Council is required to produce.

B3.2 Council is also responsible for approving procedures for agreeing variations to approved budgets, plans and strategies forming the policy framework and for determining the circumstances in which a decision will be deemed to be contrary to the budget or policy framework.

B3.3 Council is responsible for approving the process to enable changes to be made to the budget during the financial year. The Cabinet is responsible for taking in-year decisions on resources and priorities in order to deliver the budget policy framework within the financial limits set by the Council.

B3.4 Each year the Council produces:-

- (a) The Council Plan detailing its objectives and targets over a 3 to 4 year planning horizon;
- (b) A Medium Term Financial Strategy, including a Capital Strategy, detailing the financial and service scenario over a 3 to 4 year planning horizon and the policy and expenditure options required to respond to this scenario.

B3.5 The Director of Corporate Services will advise the Council on the financial environment, financial policies (including the appropriate levels of reserves and contingencies, the amount of borrowing outstanding and an appropriate treasury management strategy) and the policy and expenditure options to assist in the determination of its Budget. Individual Directors will support this process by assessing and advising on the service scenario and policy and expenditure options for Revenue and Capital, in their area of responsibility, in a form determined by the Director of Corporate Services.

B3.6 The Cabinet, advised by the Director of Corporate Services, will develop a budget package including financing options, policy and expenditure options and capital programme. This will be subject to review by the relevant Scrutiny Committee and Cabinet before consideration by Council. The final Budget and Council Tax precept will be determined by Council.

Revenue Budget Preparation, Monitoring and Control

B4 Revenue Expenditure

B4.1 Revenue expenditure is broadly defined as any expenditure incurred on the day to day running of the Council. Examples of revenue expenditure include salaries, energy costs, and consumable supplies and materials.

B5 Revenue Budget Preparation

B5.1 The Director of Corporate Services is responsible for ensuring that a revenue budget is prepared on an annual basis for consideration by the Cabinet, before submission to Council. Council may amend the budget or ask the

Cabinet to reconsider it before approving it in accordance with the Constitution.

- B5.2 It is the responsibility of Directors to ensure that budget estimates reflecting agreed Outcome plans are submitted to the Cabinet and that these estimates are prepared in line with guidance issued by the Cabinet.
- B5.3 The Director of Corporate Services is responsible for approving the Council's tax base for the forthcoming year and reflecting this within the budget.
- B5.4 The Cabinet will then submit a 'final budget' to Council for approval.
- B5.5 The Director of Corporate Services is responsible for reporting to Council on the robustness of estimates contained within the budget proposed by the Cabinet and the adequacy of reserves allowed for in the budget proposals.
- B5.6 Council shall not approve additional net expenditure to either revenue or capital budgets without first having considered the advice of the Cabinet and the Director of Corporate Services on the financial implications arising.

B6 Budget Monitoring and Control

- B6.1 The Director of Corporate Services is responsible for providing appropriate financial information to enable budgets to be monitored effectively. He or she must monitor and control expenditure against budget allocations at a corporate level and report to the Cabinet on the overall position on a regular basis.
- B6.2 It is the responsibility of Chief Officers to control income and expenditure within their area and to monitor performance, taking account of financial information provided by the Director of Corporate Services. They should report on variances within their own areas. They should also take any action necessary to avoid exceeding their budget allocation and alert the Director of Corporate Services to any problems.
- B6.3 In addition, the Director of Corporate Services will:
- (a) administer the Council's scheme of virement (both administrative virements and those requiring Member approval);

- (b) prepare and submit reports on the Council's projected income and expenditure compared with the budget on a regular basis.

B7 Determination, Monitoring & Control of Affordable Borrowing

- B7.1 Under the Local Government Act 2003 the Council is required to have regard to the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code for Capital Finance in Local Authorities (Prudential Code).
- B7.2 The key objectives of the Prudential Code are to ensure that within a clear framework, the capital investment plans of local authorities are affordable, prudent and sustainable. A further objective is to ensure that treasury management activity supports prudence, affordability and sustainability.
- B7.3 The Prudential Code requires that prior to the commencement of the financial year the following prudential indicators for the forthcoming financial year and at least the two subsequent financial years must be approved by Council.
- B7.4 The minimum indicators required for the following three year period are:-
- (a) estimates of the ratio of financing costs to net revenue stream;
 - (b) estimates of capital expenditure and how it will be financed;
 - (c) estimates of the increases in Council Tax and Weekly Rents that would result from the totality of the estimated capital expenditure;
 - (d) estimates of capital financing requirement (underlying need to borrow for a capital purpose) and estimated level of gross external borrowing (total debt);
 - (e) The limit on HRA indebtedness;
 - (f) the authorised limit for external debt;
 - (g) the operational boundary for external debt;
 - (h) a limit on the amount of fixed rate investments and fixed rate borrowing the Council may have during the year;

- (i) a limit on the amount of variable rate investments and variable rate borrowing the Council may have during the year;
- (j) the maximum proportion of fixed rate loans maturing in specified periods;
- (k) the maximum amount to be invested for longer than 1 year.

B7.5 After the year end actual values are to be calculated for:-

- (a) ratio of financing costs to net revenue stream;
- (b) capital expenditure;
- (c) capital financing requirement;
- (d) external debt.

B7.6 In addition the Council will set for itself the following local Financial Health Indicators (FHIs) for the current year, the following year and the two successive years:

- (a) interest and debt repayment costs as a % of net budget;
- (b) The total borrowing requirement as a % of the Council's net budget.

B8 Responsibility for Borrowing

B8.1 The Director of Corporate Services is responsible for:-

- (a) establishing procedures to both monitor performance against all forward looking prudential indicators and for ensuring that gross external borrowing does not exceed the Council's authorised limit;
- (b) reporting to Council any significant deviations from expectations;
- (c) ensuring that regular monitoring is undertaken in year against the prudential indicators of affordability and sustainability, by reviewing estimates of financing costs to revenue, the capital financing requirement and the local FHIs;

- (d) reporting to Council, setting out management action, where there is significant variation in the estimates used to calculate these prudential indicators, for example caused by major overruns of expenditure on projects or not achieving in-year capital receipts.

Capital Programmes

B9 Capital Expenditure

B9.1 Capital expenditure is broadly defined as expenditure, on the acquisition of an asset, or expenditure which adds to (rather than merely maintains), the value of an existing asset and/or extends the useful life of an asset and increasing usability, provided that the asset yields benefits to the Council and the services it provides is for a period of more than one year.

B10 Capital Approvals and Strategic Projects

B10.1 The Council has developed a Gateway process which sets out the process and documentation that must be used for all proposals to be included in the Council's approved capital programme and for strategic projects. The purpose of this process is to ensure that all proposals are both affordable and fit with corporate priorities. Details of the processes (and relevant documentation) that must be followed are set out on the intranet.

B10.2 The Senior Manager for Financial Management will review this process as required and it is the responsibility of each project manager to ensure that they keep up to date with the process and documentation.

B11 Capital Monitoring and Amendments to the Capital Programme

B11.1 As part of the annual policy and planning process, schemes in the capital programme which have not reached an advanced stage will be reconsidered.

B11.2 All capital schemes and allocations should be approved through the annual capital programme setting process, within the timetable set out by the Director of Corporate Services and approved at the annual budget setting Council.

B11.3 In exceptional cases there will be a need for a new capital project to be approved in-year. The approval process for these in-year schemes is set out in Section G4A (A12, A13 and A14).

B11.4 Project Managers must ensure that the project specification remains consistent with the approved business case and continues to represent value for money for the Council. Where project outcomes or costs alter significantly from those originally approved a revised Business Case must be completed for approval by the Capital Programme Strategic Board.

B11.5 Wherever possible, expenditure in respect of Highways improvements funded by developers and Rechargeable works should be included in the Capital Programme. Where this is not possible Directors may approve capital expenditure in respect of:

- (a) Highway improvements fully funded by developers under Section 278 of the Highways Act 1980, provided that a formal agreement has been completed with the developer;
- (b) Other rechargeable reinstatement work costing in excess of £10,000;
- (c) Urgent work to repair, replace or reinstate vehicles, buildings or equipment, where the work is to be fully funded from insurance monies following consultation with the Director of Corporate Services.

B11.6 In addition, Directors may authorise essential design work subject to available budget required in advance of the start of the financial year on capital schemes which are in the programme approved by Council in February.

B12 Capital Receipts

B12.1 The Senior Manager for Financial Management must be informed of all proposed sales of land and buildings so that the effect on financial and property management can be assessed. Rules for land and property disposals are set out in G4C (C9).

B12.2 The Council will determine the amount of receipts to be set aside for the repayment of debt and how the balance of such receipts is to be used.

B13 Leasing and Rental Agreements

B13.1 Leasing or renting agreements must not be entered into unless the service has established that they do not constitute a charge against the Council's prudential borrowing limits. Advice can be obtained from the Senior Manager, Financial Management on general leasing arrangements and on whether the lease is a finance or operating lease. Senior Manager, Financial Management approval must be obtained for all agreements which may involve a leasing charge, excluding leases relating to land or property.

B13.2 For leases relating to land or property refer to chapter G4C (section 9.6) of the Finance and Contract Procedure Rules.

B14 Maintenance of Reserves

B14.1 The Director of Corporate Services is responsible for advising the Cabinet and/or Council on prudent levels of reserves for the Council, taking into account of the advice of the external auditor.

B14.2 The key controls are:

- (a) to maintain reserves in accordance with the Code of Practice on Local Council Accounting in the United Kingdom and agreed accounting policies;
- (b) for each reserve established, the purpose, usage and basis of transactions should be clearly identified;
- (c) authorisation of expenditure from reserves is in accordance with the limits set out in Sections G4A A9 (for General Reserves) and G4A A10 (for Earmarked Reserves), with the exception of the following where the Director of Corporate Services may authorise any amount:
 - any appropriation to and from reserves of unused grant and contribution income;

- any appropriation where there is a legislative requirement (or equivalent), and the Council has no discretion in undertaking the transfer;
- any appropriation within the budget agreed by Council.