

FINANCIAL PROCEDURE 1

Financial Planning and Management

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This procedure forms part of the Financial Regulations and Procedures in the Constitution of Lincolnshire County Council

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1. Purpose of Procedure

Effective financial planning and management are fundamental to good corporate governance. They ensure that public funds are properly controlled within budgets approved by the Council and that available resources are used efficiently and effectively to deliver services in line with the Council's policies and priorities.

The purpose of this procedure is to inform officers of mandatory requirements, including those embodied in the Council's Constitution, and to provide guidance on principles of best practice.

The statutory duties of the **Section 151 Officer** include the preparation of budgets as part of the proper administration of the Council's financial affairs. These duties are central to ensuring sound financial management and stewardship.

The preparation of budgets is a critical element of effective management. Budgets represent estimates of the costs associated with delivering the Council's policies and priorities and provide:

- The means of establishing whether the Council's plan is affordable or requires revision
- A framework for allocating resources to support the Council's vision and policy objectives
- A basis for ongoing financial management, control, and performance monitoring, enabling progress against policy objectives to be reported and evaluated.

In a context of increasing service demand and constrained financial resources, it is not possible to meet all service aspirations. As a result, priorities must be clearly identified and agreed. Service planning and budget preparation provide the framework for making these decisions and therefore form a central part of the Council's decision-making process

It is essential that budgets are prepared on a robust, consistent, and transparent basis, in accordance with the principles set out in this Financial Procedure.

The council tax legislation (the Local Government Act 2003) requires a local authority to calculate its 'budget requirement' for the following financial year. The budget requirement represents the amount of revenue spending which the authority intends to meet from council tax, business rates retention, government grants and efficiencies.

A County Council must notify district councils before 1 March of the amounts which it requires them to collect from council taxpayers in the following financial year. There is therefore a statutory requirement for the County Council to calculate its total revenue spending for the following financial year. In addition, there are statutory requirements for a variety of more detailed information on estimated expenditure and income in the following year to be supplied to government departments or to be published.

The **Section 151 Officer** has statutory duties for the financial administration and stewardship of the Council which cannot be overridden. These include establishing and monitoring compliance with corporate financial standards and advising on the key financial controls necessary to secure effective financial planning and management.

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Other elements of this procedure represent best practice and provide guidance. Any departure should be supported by a clear and well-reasoned justification.

2. Key Controls

The Constitution states that the budget will include the allocation of financial resources to the Council's different services and projects. It will propose contingency funds and levels of reserves, set the Council Tax and determine the Council's borrowing requirement. The key controls are:

- Approval processes laid out in the Constitution are adhered to.
- Compliance with relevant accounting standards, adapted in accordance with the current Code of Practice on Local Authority Accounting in United Kingdom (The Code) and Local Audit and Account Regulations.
- Clear procedures and timetables for the annual budget setting and budget management are issued and compliance is monitored.
- Clarity of budget ownership, responsibility and accountability. This is operated through the normal line management structure.
- Budgets are set to reflect service development policies and priorities and at a realistic level based on sound supporting financial and non-financial information.
- Budget Managers are provided with relevant information and kept up to date, including tax issues.
- Budget Managers are instructed on the required record keeping as part of their general service management.
- The financial system is updated to reflect the approved budget and monitoring information for reporting.
- Returns are made to the appropriate authorities within the stipulated timescales.

3. Principles of Financial Management.

Good financial management depends on the effective alignment of financial and managerial responsibilities. Those who make decisions must be accountable for the financial consequences of those decisions. Without this alignment, financial decisions may be taken without regard to service impact, and services may be managed without sufficient consideration of financial constraints. Budget management responsibility must therefore reflect the reality of managerial control.

Effective financial management arrangements should demonstrate the following key principles.

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Promote budget ownership

- Each budget must have a single, clearly identified Budget Manager.
- Any expenditure over which the Budget Manager has no direct influence must be clearly identified, with responsibility for its management explicitly agreed.
- **Budget Managers** work in partnership with their **Finance Business Partnering Team** in the preparation of the budget for which they are accountable.

Establish clear responsibility and accountability

- Only one Budget Manager is accountable for each budget.
- While Budget Managers may delegate specific tasks to spend managers or other staff, they remain fully accountable for the budget and cannot delegate their overall responsibility.
- Budget Managers must have a clear understanding of their financial responsibilities and accountabilities.

Recognise budget management as part of general service management

- Financial decisions and service decisions must be considered together and not treated in isolation.
- Financial accountability should follow managerial responsibilities.
- The Budget Manager is the Head of Service responsible for delivering the service to which the budget relates.

Operate within the normal line management structure

- Senior managers supervise the management of those reporting to them.
- There is a clear hierarchy of reporting, accountability, and responsibility.
- These arrangements will be supported by a documented scheme of authorisation, clearly defining individual roles, responsibilities and delegated authorities.

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4. Financial Planning Responsibilities and Approval

4.1 Revenue Budget

The budget can be defined as 'a representation in financial terms of an organisation's plans for a given period of time at a given price base'. The revenue budget represents the Council's plans expressed in financial terms for a defined period, based on an agreed price base and forecast activity volume. It is therefore essential that the budget is prepared in a way which reflect the policies, priorities and strategies approved by the Council.

The budget requirement is derived by the following process:

- The existing base budget for the current financial year.
- Budget adjustments, i.e. transfers of budget provision between Directorates, for example to reflect transfer of responsibilities.
- Cost Pressures, including the effect of pay awards, price changes and forecast demand changes
- Changes in the costs of maintaining existing services in the face of policy / legislative / national changes for example inflation, White Papers.

Other additions to the budget to deliver agreed levels of service. The implications of base budget reviews i.e. major reviews of service policies, processes or structures which have a significant impact on the existing base budget. Service Efficiencies –reducing costs, whilst at least maintaining quality of service, through reducing the number of steps in and/or automating the process

- Cost Base Reduction - Planned reduction in service and associated costs.

The Councils initial budget requirement is compiled through to November. During December, the provisional Local Government Finance Settlement is published. The Provisional Local Government Finance Settlement is the government's initial announcement of the funding that local authorities are expected to receive for the forthcoming financial year. It sets out the proposed levels of government grant and funding allocations, including elements such as Revenue Support Grant, business rates funding, and specific grants.

The settlement provides the council with an indication of the overall funding position. This enables a comparison to the detailed budget requirement worked throughout the summer and other key assessments including the impact on council tax levels. It is described as provisional because it is subject to consultation, during which local authorities and other stakeholders can make representations to the government.

Following the consultation period, the government issues the Final Local Government Finance Settlement, which confirms funding allocations and provides the statutory basis on which the council must set the budgets and council tax for the year ahead.

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When preparing the detailed budgets **Chief Officers** must ensure that budgets

- Are prepared in accordance with the Council's Plan
- Are realistic, robust, and based on sound assumptions, including known commitments and foreseeable risks
- Reflect all approved service plans, savings proposals, growth items, and efficiency targets
- Include full year effects of decisions, inflationary pressures, and changes in demand
- Are supported by sufficient analysis and evidence to demonstrate affordability and sustainability
- Align financial resources with service objectives and statutory responsibilities
- Are prepared in consultation with the Finance Business Partnering Team
- Comply with all relevant financial regulations, procedures, and accounting requirements

The Constitution of the Council lays down the process for developing and approving the budget, which, in brief, is as follows:

- After appropriate consultation, the **Executive** will publish initial proposals for the Budget
- The **Executive's** initial proposals are referred to the relevant Scrutiny Committees and Overview and Scrutiny Management Board for further advice and consideration and they will respond to the Executive on these proposals. This usually takes place in January.
- The **Executive's** initial proposals are consulted upon, e.g. Businesses, Local Authorities, Other Public Sector Organisations, Trade Unions and Charities. This usually takes place in January.
- The **Executive** considers its final budget to propose to full Council at its February meeting, and, if appropriate, amends its proposals.
- The Budget will be submitted to full Council for approval; the full Council may amend the budget or ask the Executive to reconsider it before approval. This will take place at the Council's February meeting.

4.2 Capital Budget

The **Section 151 Officer** is responsible for ensuring that the capital programme is updated annually for consideration by the Executive before submission to the full Council for approval.

The Capital budget will be based on the Council's longer term financial plan and will comply with the Council's Capital Strategy. The Capital Programme will be updated annually to reflect agreed changes

The update of the capital programme will be considered alongside the approval of the Revenue Budget and will follow the same process outlined above.

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One of the key differences between the Revenue Budget and Capital Programme is that Capital schemes will more likely operate over a number of years and can experience a number of delays, changes or enhancements over the life of the scheme. It is important that the Capital Programme is flexible to accommodate these factors.

It is the responsibility of the **Section 151 Officer** to consider the funding of the Capital Programme and the impact this will have on the Council's Revenue Budget.

4.3 Capital Business Cases

The existence of a scheme in the approved Capital Programme does not give authority to commence the scheme. In accordance with the Council's decision making process, an approved business case is required to commence the scheme.

Where a business case is required, it should be submitted into the Council's decision-making process in the agreed Council Business Case format, as agreed by the Section 151 Officer.

As a minimum the business case should contain the following information:

- Scheme Objectives
- Alignment to the Council's Plan and objectives.
- Alternative options considered
- Risk
- Whole life costs and funding
- Exit Strategy

Prior to the scheme business case approval, design fees etc., are classed as feasibility and charged to the service revenue budget.

The **Executive Councillor for Finance** may refer significant schemes to the appropriate service Scrutiny Committee or Overview Scrutiny Management Scrutiny Board.

5. Budget Monitoring

5.1 Roles

Financial management requires income and expenditure to be monitored and compared with the approved budget throughout the financial year. Critically, it requires that any need for corrective action be identified and corrective action taken.

For revenue and capital budgets income and expenditure, **Chief Officers** must:

- Monitor financial performance, taking account of financial information provided by the Section 151 Officer.

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- Control expenditure and income within their area against budget allocations, taking any action necessary to avoid exceeding their budget allocation.
- Report to the Executive on the overall position every three months providing a detailed description of any significant variances.
- Report to the Corporate Leadership Team, on a monthly basis, material variances specifically those which adversely impact on the Council's financial position; and
- Alert the Section 151 Officer, or their deputy, to any potential or anticipated problems.

The **Section 151 Officer** will provide appropriate financial information to enable budgets to be monitored effectively.

Directorate Leadership Teams (DLTs) must receive appropriate reports from the Council's Financial System for their revenue and capital expenditure and income on a monthly basis. The role of **Budget Managers** is shown in Section 6.

5.2 Corrective Action

Steps taken by the Executive or any officer discharging Executive functions to implement Council policy shall not exceed the allocated budget for the service in question. Decisions can only be taken which are in line with the Council's Budget and Policy Framework, Council Plan and Directorate Plans. Decisions which would be contrary to the policy framework, or contrary to, or not wholly in accordance with, the budget approved by full Council, can only be taken by the full Council.

If an officer wishes to make a decision which may be contrary to the policy framework or not in accordance with the approved budget, they shall take advice from the Monitoring Officer and/or the Section 151 Officer. The advice of the Strategic Finance Lead for the service should be sought initially.

Chief Officers must consult with the Section 151 Officer and seek approval on any matter liable to affect the authority's finances materially before any commitments are incurred. The advice of the relevant Strategic Finance Lead should be sought initially.

Budget monitoring may potentially reveal significant over or under spending. **Budget Managers** will need to confirm whether this is indeed the position, to consider corrective action and to report the details to their Line Manager.

Corrective action may involve taking action to reduce expenditure where there is a projected overspending or to increase expenditure where there is a projected underspending and service performance targets are not being met. This type of corrective action must be considered in the context of Directorate plans and performance targets, and the Council's overall budget position.

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5.3 Approval of Budget Changes

Where any budgetary change is necessary to ensure compliance with the law, ministerial direction or mandatory government guidance or urgency, then the Section 151 Officer and Executive Councillor for Finance will be informed, otherwise the following levels of governance will apply.

Changes to the Budget which increase the Council's total expenditure and require either the use of the Council's general reserves or increased borrowing must be referred by the **Section 151 Officer** to the Executive for consideration before being referred to the full Council for approval.

A virement is a reallocation of budget, where the purpose for which a budget was originally allocated has changed. Subject to B12 virements of both revenue and capital budgets are permitted subject to the following authorisations in advance.

Virement Value	Authorisation Required
Virements up to £250,000	Relevant Chief Officer in consultation with S151 Officer
Virements between £250,001 and £500,000	Relevant Executive Councillor/s in consultation with S151 Officer
Virements more than £500,001	Executive and S151 Officer
Any virement that involves a revenue to capital movement	Must follow the virement authorisations above and also gain approval in writing from the S151 Officer
Budget representation change – (where there is no change to the purpose for which the budget was originally intended).	The virement authorisations shall not apply to representational changes. The S151 officer will determine whether a budget virement is a representational change before any change is implemented.

5.4 Carry Forward

The Review of Financial Performance report presented to the Overview Scrutiny Management Board, Executive and full Council each year will detail the use of carry forward for noting and approval. The Council's policy on the carry forward of directorate under / overspends is set out below.

- All under- and over-spending on service revenue budgets of up to 1% will be carried forward without exception; however, the use of this carry forward will be reported to the Executive and full Council for noting. It is expected that the appropriate Executive Councillor will be consulted on the use of the carry forward prior to the report to the Executive.
- The use of all under-spending on service budgets in excess of 1% will be considered by the **Executive** and decided by full **Council**.

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- The means of funding all over-spending on service budgets in excess of 1% will be considered by the **Executive** and decided by the full **Council**.

All 1% calculations will be made at **Chief Officer** Level.

All under and overspendings on the following budgets will be carried forward without exception

- Capital budgets.
- The Dedicated Schools Budget.
- Specific grants and
- Revenue budgets related to formally constituted shared services.

Individual directorate Schemes of Authorisation may also contain provisions in relation to carry forward.

The approval and notification procedures for budget changes described above (5.3) will be applied to the use of carry forward where over or underspend is not carried forward on the same budget headings, capital scheme or block.

5.5 Carrying Forward of Capital Schemes

Corrective action in relation to capital expenditure may require carrying forward schemes to future years of the capital programme where there is slippage of schemes.

The transfer of approved schemes between years of the capital programme will not be considered as a budget change if there is no overall long-term impact on the County Council's capital programme funding. There is, therefore, no requirement for prior approval by the Executive or the Council.

These transfers can be made by Directors following consultation with the Section 151 Officer.

In many cases the amounts involved will be substantial and changes will be reported subsequently to the Executive and to the Overview & Scrutiny Management Board as part of the Budget Monitoring process explained above.

6. Role of Budget Managers

Budget Managers are accountable for their service budgets as they are best placed to influence how the income and expenditure behaves and are therefore the focal point of budget management.

In order to achieve this, **Budget Managers** should:

- Access timely, up to date and accurate budget monitoring information.

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- Take reasonable steps to ensure that expenditure charged to their budgets is correctly allocated and represents value for money.
- Regularly monitor actual expenditure and income against approved budgets.
- . Review monthly payroll reports relating to employees for whom they are responsible, ensuring accuracy and appropriateness of charges.
- Forecast year-end outturns throughout the financial year, in accordance with the budget monitoring timetable issued by Financial Services to support monthly reporting to the Corporate Leadership Team and quarterly reporting to the Executive.
- Identify and confirm any potentially significant over and under-spending at the earliest opportunity.
- Consider and implement appropriate corrective action necessary to ensure expenditure remains within the approved budget.
- Escalate significant actual or forecast financial issues to their Line Manager and financial services business partner promptly, together with proposed options for resolution
- Ensure that all significant financial decisions and actions are appropriately documented and auditable.
- Prepare, or formally agree, business cases for capital schemes in accordance with the requirements as set out in paragraph 4.2 and 4.3 above.
- Prepare, or formally agree, reports relating to capital scheme over-spending where required.

7. Reserves

It is the responsibility of the **Section 151 Officer** to advise the Executive and the Full Council on prudent levels of reserves for the Council.

This includes general reserves and reserves earmarked for specified purposes.

7.1 General reserves

The **Section 151 Officer** has a statutory responsibility to report to the Council, at the time the budget is considered and the council tax set, on the robustness of the estimates and the adequacy of the proposed financial reserves. The **Council** must consider this advice and approve the level of general reserves.

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7.2 Earmarked reserves

The **Council** may also establish earmarked reserves.

- **Chief Officers** may request the establishment of earmarked reserves describing the purposes for which they will be used.
- The **Section 151 Officer** may recommend the establishment of earmarked reserves to the Executive.
- The establishment of earmarked reserves must be approved by the **Council**.

Earmarked reserves can be used as follows:

- Reserves may only be used on the purposes for which they were established.
- Use of reserves must be approved by the **Section 151 Officer** prior to the commitment of any expenditure.

The continuing relevance and adequacy of earmarked reserves will be considered by the **Section 151 Officer** at the end of each financial year.

8. Related Documents

- The Council's Constitution
- Financial Regulations
- Scheme of Authorisation Documents
- Local Government Act 2003
- LCC Capital Strategy

9. Contacts for Advice or Assistance

Advice on this financial procedure can be sought from Financial Services.

Contact details for advice can be found within Financial Information Section on the Council's intranet.