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The report has been prepared in response to a request by the Committee to provide advice on the authority to alter budgets.

#### **STRUCTURE OF REPORT**

In researching this report it has become obvious that the existing policy on this subject requires review because it does not adequately deal with current practice. This report is therefore structured under the following headings:

- Current Approved Policy
- Issues which need addressing
- Recommended Policy Amendments

#### **CURRENT APPROVED POLICY**

The current policy was approved by the Council on 14 December 1993 and reads as follows:

“That where any expenditure trends indicate that expenditure on any output class is estimated to be under-expended in total for the year, and the programme of work listed in the Annual Plan will be completed, approval of the Council be obtained before additional projects are added to budget in that output class.

That all reallocations affecting stated outputs in the Annual Plan or Corporate Plan require the approval of the Council on recommendation from the appropriate committee.

That where there is a reallocation on items which are not specified in the Annual Plan, managers be authorised to reallocate funding of up to \$30,000 subject to:

- (a) The gross and net expenditure on the unit’s budget being unchanged.
- (b) Approval of the Group Manager concerned.
- (c) A list being submitted for information to the Policy and Resources Committee of any reallocations in excess of \$10,000.”

## ISSUES WHICH NEED ADDRESSING

Since the original policy was developed there has been change in the management structure, the level of delegations and practical experience in operating under the policy. It is now appropriate that the policy be reviewed to take account of the following issues:

1. Clarity is needed on where authority lies for the expenditure of discretionary and any reallocation of project funds by Community Boards. Common practice is that all discretionary and project fund allocations must have Community Board approval before they can be actioned and it is not necessary to refer such expenditure back to Council committees.
2. Since policy units have to implement Community Board projects it is important that there be appropriate liaison between boards and units to ensure that units are able to carry out the work required in the time available. This can be a problem if the funds are allocated late in the financial period.
3. Managers need discretion to be able to move budget provision around within unit budgets to facilitate over and under-expenditure on existing budget items provided this does not prejudice the delivery of specified outputs and the units live within existing budgets. The current policy requires that re-allocations in excess of \$10,000 be reported back to the Committee but this has not happened in practice through oversight and impracticality. Many of the changes around this threshold relate to allocation of staff time and this happens as a routine matter of course with Unit Managers monitoring the swings and roundabouts on an ongoing basis. It is not very practical to report all such changes to the Strategy and Resources Committee with such a low threshold for outputs which are of an ongoing maintenance nature.
4. Most budget reallocations relate to variation in tender prices where individual projects within an output or output class vary in cost both up and down as tender prices are received. Provided the aggregate of such price variations enables all projects/outputs to be fully achieved this is best left to Managers to monitor and report at the six-monthly review.
5. Under the current management structure Unit Managers no longer report to individual Group Managers. Unit Managers report to the Corporate Office Team on a topical basis (eg, Human Resources, Finance, Policy, Operations and Information). The Director of Finance now has responsibility for financial monitoring.

6. Committee and manager delegations have been significantly increased since 1993 and there is confusion as to whether the \$30,000 limit in the 1993 policy was increased when delegation levels for Unit managers were increased from \$30,000 to \$100,000 and delegations to committees were increased from \$150,000 to \$300,000.
7. The introduction of full accrual accounting with a clear separation between operating and capital expenditure requires controls to ensure that transfers of capital funding from loan or reserves is not utilised for operational purposes.
8. There is no specific authority for committing the contingency fund. Generally this is only committed by the Strategy and Resources Committee or the Council but there are occasions where it is necessary for the Director of Finance to approve small commitments from this fund.
9. The policy needs to be structured in a way which facilitates practical management and allocation of scarce resources but still ensuring that funds which are surplus in unit budgets are made available for general corporate purposes and do not facilitate new and unbudgeted projects without Council approval after consideration of all priorities.

#### **RECOMMENDED POLICY AMENDMENT**

In order to provide an appropriate update of the existing policy which takes account of the issues listed above it is recommended that the policy be amended to the following:

##### **Reallocation of Funds to New Projects**

- The reallocation of budgeted expenditure from the delivery of a service or asset which has been identified in the Annual Plan to something new or to a totally different expenditure activity requires Strategy and Resources Committee approval on the recommendation of the appropriate Standing Committee.
- The utilisation of surplus funds on any new project not provided for in the annual plan requires the approval of the Strategy and Resources Committee on the recommendation of the appropriate standing committee.

##### **Reallocation of Funds to Similar or Associated Projects**

- The reallocation of budgeted expenditure up to \$100,000 within output classes can be approved by Unit Managers subject to:
  - (i) Unit budgets being kept within overall budget limits.
  - (ii) No output identified in the Annual Plan being non-deliverable due to the reallocation

- The reallocation of funding up to \$100,000 from operations to an associated capital output may be approved by a Unit Manager.
- The reallocation of funding between \$100,000 and \$300,000 within an output class or from operations to an associated capital output requires the joint approval of the Unit manager and the Director of Finance.
- All transfers from Capital to Operating up to \$300,000 require the approval of the Director of Finance
- Transfers in excess of \$300,000 require the approval of the Strategy and Resources Committee.
- All reallocations under this section in excess of 50% of the maximum to be reported to the Strategy and Resources Committee.

#### **Utilisation of the Contingency Fund**

- Any transfer requests from the Contingency Fund up to \$30,000 must have the authority of the Director of Finance.
- All allocations from the Contingency Fund in excess of \$30,000 must have the approval of the Strategy and Resources Committee.

#### **Community Board Funds**

- All Community Board discretionary and project fund allocations require Community Board approval.
- Unit Managers shall advise Community Boards at the earliest opportunity of any projects sponsored by the Community Boards which cannot be completed in the period.
- The reallocation of project funds at the request of Community Boards is permitted only after consultation with the business unit responsible for the activity.

#### **Corporate Reallocation and Six Monthly Review**

- As a general principle surplus funds in any unit shall be advised to the Director of Finance and added to the Corporate Contingency Fund.
- Committees are required to review the six monthly results of activities and report on anticipated surpluses and additional requirements to the Strategy and Resources Committee which shall review Council wide priorities and recommend appropriate changes to the Council.”

The Committee supported the recommended amendments to the existing policy subject to all reallocations of funds in excess of 50% of the delegation being reported to the Strategy and Resources Committee. This change has been incorporated into the draft policy set out in the above report.

**Recommendation:** That the new policy recommended in this report replace the Council Policy which was approved on 14 December 1993.