NORTH EAST AND NORTH CUMBRIA ICB

BUDGETARY CONTROL AND FINANCIAL ACCOUNTABILITY FRAMEWORK

This Budgetary Control and Financial Accountability Framework (the Framework) sets out the principles, responsibilities and procedures for the effective management and control of budgets within the North East and North Cumbria Integrated Care Board (NENC ICB). It is informed by established good practice and is aligned with NENC ICB Standing Financial Instructions (SFIs) and Scheme of Reservation and Delegation (SoRD).

1. PURPOSE AND OBJECTIVES

The ICB is keen to devolve accountability (and with that responsibility) within the organisation in order to ensure the best decision making. This accountability is deemed to be earned and is dependent on robust arrangements to make decisions that support improvements in the quality of health care services as well as the needs of the ICB to meet financial duties. Being accountable for a budget requires all reasonable actions to be taken to live within the agreed financial envelope and as such maintain autonomy within the delegation limits set by Board. It also requires being prepared to support the wider organisation not just the area of responsibility that is devolved. Failure to being accountable may lead to restrictions being placed on sub-committees or budget holders as directed by the Chief Finance Officer (CFO) and the Chief Executive (CEO), the Leadership Group, the Board or the Audit Committee.

In the current economic climate and with the recurrent financial pressures facing the ICB, it is even more important than ever to ensure that there are robust budgetary and spending controls in place to make best use of available resources. This will ensure the ICB can continue to sustainably invest in safe and high-quality services for our population and support strategic priorities.

Budget holders are required to review procedures for financial management to ensure that they meet the standards laid down and must comply with the directions and guidance in this document. Financial performance is a key objective for senior managers within the ICB and, as such, failure to comply with budgetary control procedures may be treated as a breach of conduct.

This framework is a key element of the ICBs internal control environment. It is designed to assist budget holders and managers in the discharge of their responsibilities. It describes the ground-rules within which budgets are to be operated in the financial year, it clarifies roles and responsibilities in respect of budgetary and spending control, and it ensures that the budgetary processes of the ICB form part of the overall assurance framework.

The aims of the framework are:

- To provide the "rules of the game" associated with budget delegation and accountability of managers and sub-committees.
- To develop management understanding and capacity in relation to financial matters. This should enable managers to get the best possible value from the budgets at their disposal.
- To provide the ICB with the necessary controls to ensure that expenditure is incurred in accordance with the ICBs approved budget.

Several underlying key themes will be maintained in the framework:

- Budgets will be set and legally must be managed within the ICBs expected resource.
- Budgets will be set so they are achievable and realistic, with all budget setting methodologies and assumptions being made clear.
- Expenditure will not be permitted to exceed budgets without the prior approval of the ICB CFO / Board.
- There will be no automatic right for a budget to be set at the same level as previous years. The decision of budget allocation sits ultimately with the Board.
- Budget holders will need to demonstrate how resources within their control are being spent and identify the resultant value for money benefits derived therefrom. Budgets will also reflect the ICBs efficiency plan targets.
- Budget reports will be made available on a regular basis for appropriate review and action.
- Clear ownership / accountability of budgets by budget holder / managers will be required and evidenced through agreement of budgets.
- Any proposal requiring additional funds must have appropriate finance input and sign-off, including identification of source of funding, prior to submission to the ICB Board or delegated sub-committee / leadership committee for approval.
- Indicative budgets for future years will include assumptions around and take account of expected ICB growth, required CIP, unavoidable pressures / forecast out-turns.
- Actual budgets for future years may differ to indicative ones – for decisions or directions by NHSE or unavoidable pressures in another area of responsibility may affect actual budgets in the following year set by the Board.

2. PRINCIPLES

The following overarching principles will be applied as part of this framework:

- We will seek to maximise health outcomes from available resources
- As far as possible budgets and accountability will be devolved to budget managers and relevant sub-committees
- All reasonable actions should be taken to manage within agreed budgets
- Decisions must consider the short and longer term impact on financial sustainability
- We are still one ICB with one budget that must be managed overall
- We will work to a 'no surprises' approach. Where significant pressures emerge that can't be managed, or there are potential underspends, this should be highlighted as soon as possible
- Where additional savings are made or there are budgetary underspends, where possible this will be available for investment against strategic priorities, but this will be subject to delivery of the ICB's overall financial position.

3. ROLES AND RESPONSIBILITIES

Overall responsibility for financial control rests with the Board.

The CFO is responsible for establishing and maintaining effective budgetary control systems.

Budget holders are responsible for managing their budgets within approved limits and working closely with Finance Business Partners.

Board

Approves overall budgets and delegates responsibility in line with SoRD

Leadership Committee

Manages overall financial position of the ICB and delivery of key financial duties, supported by relevant sub-committees

Sub-committees

Responsible for managing financial performance of relevant budget areas within scope of the sub-committee. Supported by individual budget managers

Budget Holder

Budgets will be held by the individuals responsible for commissioning relevant services or delivering specific objectives. Individual budget holders are responsible for appropriately managing budgets, only committing spend in accordance with ICB policies and SFIs and seeking to maintain expenditure within agreed budget levels.

Finance Team

Each budget holder will be supported by a lead finance officer who will help to provide accurate, timely and relevant information to support budget holders manage budgets appropriately, including relevant training and advice.

Detailed roles and responsibilities are as follows:

The **ICB Board** will be responsible for:

- Approval of the ICBs overall programme and running cost budgets to meet the ICB's financial duties.
- Approval of the ICBs governance arrangements, including SoRD and delegated financial limits.

The **ICB Leadership Committee** will be responsible for:

- Management of the overall ICB financial plan and key financial targets, including delivery of the ICB efficiency programme.
- Approval of any relevant investments and commissioning decisions under delegated authority from the Board in accordance with the SoRD and SFIs.

The **ICB Sub-Committees** will be responsible for:

- Managing the financial performance and position on relevant budgets within scope of each sub-committee, ensuring spend is contained within agreed budgets overall and escalating concerns to Leadership Committee where required.
- Approval of any relevant investments within approved budgets, including any discretionary spend.
- Ensuring planning processes are in place to deliver CIP in the required year – this will often entail identifying savings in year and giving notice ahead of the start of the next financial year.

The **Chief Finance Officer** will be responsible for:

- Overall financial leadership and financial performance of the ICB, ensuring there is an effective financial control framework in place along with suitable financial systems to support the effective financial management of ICB funding and delivery of financial duties.
- Ensuring ICB Board, relevant committees and budget managers are supported and equipped to appropriately manage ICB budgets, achieving value for money.
- Recommending to the Board a balanced budget for the year and any corrective actions required in year.
- Ensuring CIP delivery assurance processes are in place.

The **Budget Holder** will be responsible for:

- Working with the ICB finance teams to agree a comprehensive, deliverable and affordable annual budget which represents value for money.
- Confirming that the year-to-date position from periodic reporting is as expected and correct, including identifying accruals where expenditure has been committed and not yet invoiced, and explaining variances to the profiled

budget.

- Informing the forecast expenditure position for the year-end.
- Identifying and delivering action plans in relation to forecast overspends against the approved budget.
- Ensuring that all invoices are checked, coded, queried and paid on a timely basis and all sales order requests are raised on a timely basis.
- Authorising purchase orders (ensuring compliance with any relevant procurement considerations).
- Communicating changes that will affect the budget or forecast position so those changes can be incorporated into the overall forecast position for the ICB.
- Keeping within the constraints of their budget set for the financial year.
- Only committing expenditure in line with ICB policies, procedures and scheme of delegation, and where an approved budget exists.
- Ensuring that the approved budget is not used in whole or in part for any purpose other than specifically authorised.
- Observing and complying with the ICB's SFIs and SoRD.

The **ICB Finance Team** will be responsible for:

- Assisting the budget holder with budget setting and costing.
- Ensuring that regular budget reports are available to the budget holder showing current and forecast budget performance.
- Providing training and support to budget holders in understanding and interpreting budget reports as required.
- Ensuring that ICB financial rules, regulations and procedures are communicated throughout the organisation and specifically to budget holders.

4. BUDGET SETTING

The financial plans and resultant annual budgets are based on the ICBs anticipated resources, risks, efficiency targets and developments known at the time of setting the budget in order to meet the objectives of the Board. Budgets will originate from discussions between budget holders and finance managers, informed by ongoing discussion throughout the year.

For planning purposes recurrent budgets will be ‘rolled over’ to form the baseline for the following year as a starting point. Growth / inflation assumptions and efficiency targets will be applied in line with financial planning assumptions approved by the Board.

Although there will be no automatic right to receive this rolled forward budget in full and budget holders will need to be able to demonstrate how resources are being effectively spent to deliver value for money, it is generally expected that recurrent budgets will continue to roll over.

In line with the medium term financial plan, relevant growth and efficiency planning assumptions will be applied to provide indicative budgets for future years. These will always be subject to potential change but provide a basis for multi-year financial planning.

The commissioning cycle will ensure that all identified developments and cost pressures are assessed, prioritised and approved by the ICB with reference to local and national targets. Throughout the year, it will also serve as a tool for evaluating and potentially disinvesting in services which are already in place.

Recurrent (ongoing) and non-recurrent (current year only / time limited) budgets will be separately identified and agreed with budget holders and managers. Under no circumstances should recurrent expenditure be committed against non-recurrent funding unless by prior written agreement of the ICB Chief Finance Officer.

Budgets are subject to Cost Improvement or Efficiency targets set both nationally and locally by the ICB. See below for further details.

All budgets must be agreed and "signed-off" by the appropriate budget holder. Ultimate decision making for the annual financial plan each year continues to rest with the Board and budgets must be approved by the Board prior to the start of the financial year and in advance of any new financial commitments being made.

4.1 Efficiency

Efficiency targets will be set as part of agreed financial plan and budgets each year. These will be allocated to relevant budget holders who will be required to develop realistic and achievable schemes in order to meet these targets.

Budget holders will be expected to deliver sufficient efficiency savings to fund any relevant budgetary pressures (after taking account of any growth funding) and other investment priorities against their budgets. In order to manage the overall ICB position, further efficiency savings may be required in order to offset pressures in other budgets. Where necessary this will be agreed in a transparent manner through Leadership Committee.

Delivery of efficiency targets will be the responsibility of relevant budget holders and will form a key element of overall budget management. Undelivered or unidentified efficiency savings will be held against relevant budgets but clearly defined.

Given the scale of required efficiency savings and level of potential risk, it is essential that robust arrangements are in place to assure the Board (and NHSE) that efficiency plans are developed and actively managed in a safe way with effective oversight.

The Financial Sustainability Group (FSG) will continue to oversee the development and delivery of the ICB efficiency programme, supporting the Leadership Committee and Board to discharge its duties. FSG will report to Leadership Committee and provide assurance to Audit Committee and Board.

The group should provide adequate challenge, scrutiny, escalation routes, audit trail and support, assessing the adequacy of schemes, their impact on quality and operational feasibility of delivery. Where actual performance against efficiency schemes is below that planned, remedial action plans must be promptly agreed and will be overseen by FSG.

4.2 Reserves and in-year funding allocations

The ICB Chief Finance Officer, on behalf of the Accountable Officer, will endeavour to create such reserves as are deemed necessary to secure the ability of the ICB to meet its financial duties. Reserves may include sums to cover future pay awards, price inflation, unforeseen contingencies, non-recurrent spending or other specific items as not yet allocated to individual budgets. Central Reserves will be kept to the minimum in line with devolved accountability.

The ICB Chief Finance Officer may exercise discretion to partly or wholly allocate reserves directly to departments for subsequent allocation to specific budgets i.e. inflationary pressures. Allocations will be transacted in line with the Scheme of Delegation and reported and/or approved at Leadership Committee and/or Board.

Central reserves will be reviewed on a monthly basis by the CFO with the CEO to determine both their adequacy and necessity.

All changes to revenue resource allocations notified by NHS England will be reflected initially in reserves. Budget holders do not have an automatic right to receive an allocation direct into their budgets.

Any in-year funding allocations received may be subject to application of a standard overhead contribution of 5% and standard indirect cost contribution of 5%, where relevant in line with the approach agreed by the ICB previously.

Funds will only be released from reserves when the ICB Chief Finance Officer, on behalf of the CEO, is satisfied that:

- The appropriate approval process and procedures have been complied with.
- There is a sound financial strategy in place for spending the resource.
- The purpose is in line with the ICB's strategic objectives and demonstrates value for money.
- The proposed use of resource is not or cannot be funded from within existing

budgets, and

- The commitment will not jeopardise the ICB's ability to meet its statutory duties and financial targets.

4.3 Carry forwards from previous year

Automatic carry-forwards of unused budget funds for individual budgets from the prior financial year will not be available due to NHSE financial rules.

Where the ICB has received ‘ring fenced’ income, which would otherwise be lost to the organisation, non-recurrent budget carry forwards may be considered subject to written approval by the Chief Finance Officer.

5. INVESTMENTS & DISCRETIONARY SPEND

Budgets will be consistent with the financial plan. If a budget holder requires increased investment, the business case process must be followed in line with the ICB SFIs and business case process.

Any changes to commissioned activity/spend and cost pressures impacting on budgetary spend must be approved in the same way as new developments. Baseline budgets will not be automatically reset to accommodate cost pressures.

Approval of any investments within agreed budgets should be undertaken in accordance with the SFIs and delegated financial limits, subject to relevant discretionary spend controls. Refer to investment business case template / process.

Any discretionary spend should only be approved after consideration of the overall financial position of the ICB.

Any uncommitted budgets or budgetary under-spends which may have been used to fund discretionary spend proposals, should first be considered to offset any unavoidable budgetary pressures / overspends on other budgets as required.

6. BUDGET MANAGEMENT

Each budget holder is responsible for managing their overall budget position within the resources available. This will be overseen the relevant sub-committee / Leadership Committee. Variances, where income or expenditure differs from the budget, during the year need to be fully understood by the budget holder in order that the underlying financial position can be determined, and appropriate management action taken to bring expenditure back in line with the budget.

To support this, each budget holder will be provided with access to regular budget reports on a timely basis and supported by a lead finance officer who can help to resolve any queries and provide appropriate training and support.

Budget holders will be instrumental in underwriting the accuracy of financial forecasts provided in conjunction with the finance officer as they should have a more in-depth understanding of their budget area and be aware of any commitments (e.g. purchase orders raised / contracts agreed and performance to date).

A regular review will take place, involving both the Finance Officer and budget holder to ensure that the budget reports reflect a true record of the expenditure position to date and to agree the forecast position for the year end.

6.1 Budget under/overspends

Budgetary underspends:

- Budget holders are encouraged to generate savings and underspends, without reducing the quality of services.
- Budget holders should note that underspends in any year are not normally carried forward for use in a subsequent year.
- Where possible, budget holders should be allowed to retain planned underspends for alternative use (to be agreed in line with investment / business case process), providing this does not jeopardise the ICBs overall financial position.
- The overall financial position of the ICB must be managed however and budget underspends may be required to offset overspends elsewhere. The ICB Chief Finance Officer retains the right to request the use of any budgetary underspends to alleviate financial pressures elsewhere within the ICB.
- Although ICB sub-committees are only directly responsible for the performance of relevant budgets within their remit, it is expected that sub-committees will take account of the wider ICB financial position and potential budgetary pressures prior to the approval of any discretionary spend from budgetary underspends / uncommitted budgets.

Budgetary overspends:

- A budget holder does not have the authority to overspend their budget(s).
- Where budget holders become aware that possible significant overspends could arise, immediate action must be taken to rectify the situation. The budget holder must inform the ICB Chief Finance Officer or a senior member of the finance team at the earliest opportunity in writing.
- Overspends will not normally be carried forward from one year to another. Chief Officers and budget holders are expected to provide a financial strategy

to ensure that a balanced budget is achieved

Where potential budgetary overspends or pressures are identified, budget holders are expected to take all reasonable actions to mitigate and manage pressures within available budgets. This might include for example:

- Investigating and understanding the cause of financial pressures.
- Implementing actions to address pressures of deliver additional efficiencies.
- Reducing and/or delaying investment plans (where relevant).
- Use of any contingencies or underspends on other budgets where available.

This should be supported and overseen by the relevant sub-committee.

Where relevant, the appropriate sub-committee may also need to consider potential offsets with underspends on other sub-committee budgets (e.g. pressure on neighbourhood budgets in one area may be offset by underspends on neighbourhood budgets in another area), or agreement of further actions at sub-committee level to support management of financial pressures.

The Leadership Committee will oversee delivery of the overall ICB financial position and request assurances from sub-committees on actions being taken to manage any potential pressures.

If budgetary pressures remain after all reasonable actions have been taken by individual budget managers and relevant sub-committees, these will be reviewed by Leadership Committee to consider for example:

- Any further ICB wide actions that can be agreed to mitigate pressures.
- Use of any contingency or reserves funding to offset pressures.
- Delivery of offsetting underspends across other ICB budgets (e.g. a pressure on neighbourhood budgets may be offset by an underspend on secondary care budgets, or vice versa).

As far as possible financial pressures should be managed by individual budget holders and within sub-committees before consideration of offsetting underspends or use of contingency funding elsewhere.

Failure to manage the budget appropriately may lead the CFO to recommend to the Leadership Committee or the Board that delegated freedoms be suspended from any budget manager or sub-committee with that responsibility being allocated to either another manager or the Leadership Group until an agreed action plan is implemented.

6.2 Budget virements

As a general principle, budget holders must not incur expenditure which is normally chargeable to the budgets of other budget holders without prior written authority.

Virement (transfer) of funds between budgets/reserves may be necessary during the year for a number of reasons. Where budget holders wish to vire funds from within their own budgets (between budget lines) or with budgets held by others, this should be discussed with the relevant lead finance officer.

In those cases where transfers between budget holders are requested, agreement of both budget holders will be required before any budget is amended.

A record of all budget changes from initial base budgets will be maintained by the finance team.

Virements cannot be actioned for:

- Non-recurrent funds to meet recurrent commitments
- Transfers between capital and revenue (either way) without written approval of the ICB Chief Finance Officer.

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