REPORT FOR:	CABINET
Date of Meeting:	11 April 2013
Subject:	Financial Procedure Rules
Key Decision:	Yes
Responsible Officer:	Simon George, Director of Finance and Assurance
Portfolio Holder:	Councillor Sachin Shah, Portfolio Holder for Finance
Exempt:	No
Decision subject to Call-in:	Yes
Enclosures:	Appendix 1 – Revised Financial Procedure Rules Appendix 2 – Existing Financial Regulations *[**Note:** Due to the size of the appendices, hard copies have been circulated to key Members and Officers only. Hard copies have been placed in the Group Offices and the Members' Library.]*

Section 1 – Summary and Recommendations

This report sets out the proposed updated Financial Procedure Rules for the Council.

Recommendations:

Cabinet is requested to:
Recommend to Council the revised set of Financial Procedure Rules in place of the existing Financial Regulations

Reason:

It is a duty of the Chief Financial Officer (CFO) to maintain an up to date set of Financial Procedure Rules. The current Financial Regulations were agreed by cabinet on 3rd November 2011 and require updating to ensure that the Council has effective governance arrangements in place.

Section 2 – Report

Introductory paragraph

2.1 The review of the Financial Regulations is part of the Transforming Financial Management Project, an ambitious project to transform the way the Council manages its finances. The Council invited the Chartered Institute of Public Finance and Accountancy (CIPFA) to evaluate our financial management arrangements using their Financial Model. CIPFA reported the results of this review in May 2012 and recommended eight improvement areas.

1) Improving the integrated planning process;
2) Changing the culture of the organisation to make managers more accountable for financial management;
3) Developing and implementing a formal financial management competency framework for finance and non-finance staff;
4) Improving our use of the SAP financial management information system;
5) Introducing service standards for Corporate Finance;
6) Repositioning, restructuring and upskilling of Corporate Finance;
7) Improving accounting processes;
8) Strengthening Internal Audit.

2.2 The "Transforming Financial Management Project" was initiated to address these issues and has influenced the new regulations. The regulations are also designed to be consistent with:
- The Health and Social Care Act, 2012;
- Accounts and Audit (England) Regulations, 2011;
- Code of Recommended Practice for Local Authorities on Data Transparency, 2011;
- Localism Act, 2011;
- The Role of the Chief Financial Officer in Local Government, CIPFA, (2010).

Options considered

2.3 The proposed new Financial Procedure Rules, which have been scrutinised by the Constitutional Review Working Group, are shown in Appendix 'A' to this report. The current set, for comparison purposes, is shown in Appendix 'B'.

2.4 The key changes to the regulations that have been made are explained below.

Format

2.5 The format follows more closely CIPFA guidelines. The paragraphs have been numbered and a Glossary has been added to aid understanding. In accordance with best practice, the regulations have been kept at as high a level as possible, with responsibilities being allocated to the various statutory officers or Directors, wherever possible. Further delegations will be made via the local scheme of delegations and more detailed guidance can be found in the separate procedure notes.

2.6 The references to current guidance and legislation Audit and Finance Regulations 2011, Prudential Code, Service Reporting Code of Practice have been amended.

2.7 Wherever possible financial limits have been put into one section (section F) to enable them to be more easily amended.

2.8 A Managers' guide will be produced to highlight and explain those areas of most interest to them within the regulations and will form part of a wider launch of the new look Finance and Assurance division in the New Year. An exercise is underway to identify and review the adequacy of these procedure notes and a programme of review will be implemented in 2013/14.

Performance Monitoring

2.9 The regulations now specifically require the authority to view financial and performance data together. (*Para B6) "*The Head of Paid Service will ensure there is an effective performance management framework in place that brings together financial and non-financial information in a meaningful way to assist financial planning and management."

Financial Planning

2.10 Roles and responsibilities for Financial Planning are made clear (B10-B31) and the detailed annual budget timetable has been removed.

Financial Systems

2.11 In compliance with statute, the CFO has been given a decisive role in the approval of the purchase, implementation and amendment of all financial systems, including the interfaces between local and corporate systems and the ledger. Directors are explicitly required to provide the CFO with full access to all systems that hold financial data.

"D1 Systems

The CFO has statutory duties for the proper administration of the authority's financial affairs. The CFO responsibilities are to:

(a) Issue advice, guidance and procedures for officers and others acting on the Authority's behalf;

(b) Determine the accounting systems, the form of accounts and supporting financial records;

(c) Establish arrangements for audit of the Authority's financial affairs;

(d) Approve any new financial systems and interfaces to be introduced;

(e) Approve any changes to be made to existing financial systems, including interfaces to the General ledger, Accounts Receivable and Accounts Payable;

(f) Establish arrangements for access control and general security of the Authority's corporate financial systems".

"

Scheme of Virement

2.12 Virements move resources between approved budgets. Although they leave the overall Authority revenue and capital budget unchanged, they can represent significant changes in service activity. For example, a virement between salaries and contract could imply an externalisation of a service, while a virement between income and expenditure could commit the Council to increased expenditure, predicated on additional income, which may not materialise. For this reason virements need to be monitored and controlled. The scheme of virement has been greatly simplified and the procedural distinction between in-year and on-going virements removed. There is now a presumption against virements during the year. Establishing an accurate base budget build will therefore become more important in aligning budgets and this work is included in the Transforming Financial management work streams. However, managers can vire with CFO approval, by submission of an electronic form to Finance, in an agreed format. (B48-49, Section F). Some exceptions are listed in B49.

"B49 The exceptions to the above framework that are not allowed are:

(a) provisions included within departmental budgets on the instructions of the CFO, e.g. insurance, capital and depreciation charges, leasing costs, transfer payments, central support service recharges and revenue expenditure funded from capital etc, can only be vired by the CFO;

(b) virement between capital and revenue;

(c) virements between an income budget line and an expenditure budget line require the approval of the CFO, as they change the revenue commitments of the Authority;

(d) Budget variances that apply to the current year only. These should generally be reported as a Variance in the monthly forecast.

(e) Between salaries and non salaries budget heads unless supported by a properly approved amendment to the establishment."

The CFO has been given an approval limit of £500k for Virements and all Virements need to be authorised by the CFO. Above £500k, Member approval is required.

Establishment

2.13 Salary costs are a significant proportion of Council expenditure but no specific controls are required in the current regulations. The responsibility for Establishment controls have been made more explicit under the Head of Paid Service and budgetary control given to the CFO, as well as the duties of Directors to monitor compliance. (C114-C117). Requirements on publishing senior officers pay have been added (C115). The regulations in relation to temporary workers have been made compliant with corporate guidance, (C118-126).

Chart of Accounts

2.14 The Chart of Accounts is the formal organisation and numbering of accounts held in the general ledger. The Chart of Accounts has a direct impact on all financial systems, the preparation of the published accounts and is subject to statutory guidance. For this reason, it has been put under the control of the CFO, (D3).

Capital Monitoring

2.15 The responsibility for budget holders to undertake capital monitoring has been made clear.

"B61 The CFO is responsible for the preparation, review and monitoring of the capital programme. The CFO must ensure that all capital proposals are supported by option appraisals; robust costed business cases including whole life costing in accordance with proper governance arrangements as set out in the financial procedures. The size and substance of a capital scheme will determine the degree to which the Council's mandatory project management approach will be applied."

B62 Changes to the approved programme must be reported to the Cabinet for approval in accordance with the scheme of delegation.

B63 Directors are responsible for supplying accurate capital forecasts in the manner and to the timetable determined by the CFO, which identify and explain variances and clearly identify slippage."

Capital De Minimis

2.16 It is usual for there to be a de minimis below which expenditure is not capitalised for a single item or group of similar items. This concept has now been included in the regulations.

"B40. Any expenditure on a single capital item, or a group of similar items within a financial year, that totals less that the capital de minimis outlined in Section F, is to be treated as revenue."

2.17 The intention is to establish the concept of a de minimis, but at such a level as to ensure that there will not be a significant shift between capital and revenue spend. Over time, the Council may wish to increase the amount. The initial level is £2,000.

Section 151 Duties

2.18 Several sections have been amended to reflect existing legislation and statutory guidance. These should not therefore represent a change but provide a useful reminder to the organisation of these requirements. Sections amended include Pensions (C3-4, C99-101), Provisions and Reserves (C19-25), Contingent Asset and Liabilities (C18-24) and Money Laundering (C66-71; F10).

Internal Audit

2.19 This section is amended to better reflect statutory role of s151 officer to provide adequate resources for and support the operation of the Audit function and the Audit Committee as well as the regulatory role of the audit function. Section (C45-55). The Audit function is specifically required to develop an Audit programme and to maintain and monitor a register of Audit recommendations. Reference has been made to the Auditing Practices Board, (C50).

Proceeds of Crime

2.20 The cost of action and statutory contributions are funded first but any balance is to be spent in accordance with the Medium Term Financial Strategy (MTFS), rather than being left to the service to decide. This gives Members more flexibility in deciding how any surplus that should arise may be applied, (C72-75),

Emergencies

2.21 An overarching emergency clause has been added to enable emergency expenditure to be incurred by the CFO (E23) and the requirement to keep proper records of such (E24-25). Urgent Payments are discouraged and require CFO approval, (D69).

Schools

2.22 Specific provision has been made for the application of the regulations to Maintained Schools, while recognising their separate regulatory regime. (A20-A21, F4).

Other Additional sections:

2.23 Several other more minor changes have been made:

- Security of Assets & Inventories – It is required to keep inventories of valuable, portable assets. (C80) and for there to be annual checks (C81) by budget holders;

- Intellectual Property - The need to consider the Council's rights to intellectual property are specifically included for the first time. (C83-85);

- Property: A requirement for a terrier and Asset Register is included. (C76-81);

- Disposal of Land and Buildings – has been aligned with statutory provisions in regard to consents and a clear requirement to consider the corporate asset management plan and service before disposal. Section C90-92;

- Partnerships – Partnerships are an increasingly important way to commission services. Therefore, some basic considerations in regard to formally establishing partnerships and the accountable body role are now included, (E7);

- Ex Gratia Payments – An ex gratia payment is a payment made by the Authority where no contractual or legal obligation has been established. They therefore should be strictly controlled to ensure the best use of public resources. Ex gratia payments were omitted from the current regulations but have now been included, (D77-78);

- Internal Recharges – failure to agree on internal recharges can delay the closure of the accounts and cause problems with the monthly forecast, especially where they involve transfers between the general fund, the HRA, Pension Fund and capital. The CFO is therefore given an arbitration role, (D84-88);

- Grants. Grants are an important source of income and they require specific accounting treatment. Moreover, grants are often subject to specific conditions and audit requirements. A requirement is therefore introduced for the CFO to maintain a grants register (D29). There are also requirements on Directors to limit commitments of grant related expenditure to the term of the grant and for break clauses to be included (D30). There are also some requirements for grants to outside bodies which have been added for the first time but are consistent with current practice within the corporate grants programme, (E12);

- Single Payments – An important financial control is the requirement that all payments to third parties for goods and services are made to a supplier that has been approved and set up in the financial system. This ensures that proper procurement process has been followed. Single payments can potentially be used to circumnavigate this control, as they are made to third parties that are not on set up on the financial system, because no repeat payments are expected. The existing "Blue form" manual system has recently been replaced by an online process for approving single payments using SRM7 to increase central control. The regulations have been amended appropriately and the CFO has been given responsibility for process, (D66-68);

- Income – the Financial Procedure Rules in relation to the setting, billing and collection of Income have been tightened up. This includes a requirement to use payments in advance (D17) or internet payments by preference and to issue a bill within 5 working days of the service (D15) being provided, unless previously agreed with the CFO. This is to allow for services such as Adult Services where billing can be delayed due to financial assessments.

- Various Accountancy additions including:
    - A requirement to report under Total Cost (B37) and provide a True and fair View (B68) as well as to accrue for income added. Section (D20);
    - Treasury: A requirement to record Treasury Activity and regulations restricting the making of loans (C98);
    - VAT – the requirement to maintain the Partial Exemption calculation added (D74);
    - Pension Fund: Reference is made to keeping the Pensions Fund Account, in addition to making pension investments (C99-101).

Legal Implications

2.24 The Council is required by the Local Government Act, 2000, to prepare and keep under review a written Constitution. The Government's model constitution includes financial and contract regulations.

2.25 The Government and the District Auditor recommend that Councils should keep their Constitutions under regular review to ensure the provisions reflect current law and practice.

Financial Implications

2.26 Revising the Financial Procedure Rules will have no direct financial cost implications for the authority. However, the Financial Procedure Rules are integral to ensuring the proper administration of the Council's financial affairs and to enabling the new Financial Management Model.

Performance Issues

2.27 There are no relevant performance measures but the Financial Procedure Rules are designed to further improve the Council's management of resources and underpin the financial performance of the Council through good financial management practices and policies.

Environmental Impact

2.28 There are is no direct environmental impact, although the procedure rules do recognise the requirement to dispose of assets safely (C86) and environmental issues are considered when disposing of items (C91) and when forming partnerships (E2).

Risk Management Implications

2.29 The Financial Procedure Rules contain clear guidance on risk management which is ultimately the responsibility of the Head of Paid Service (C32), though it must be integrated into service management (C33).

Equalities implications

2.30 No equalities impact assessment is required.

Corporate Priorities

2.31 The Financial Procedure Rules do not address any one particular corporate priority but support their delivery through the establishment of good financial management.

Section 3 - Statutory Officer Clearance

Name: Simon George Date: 28 March 2013	x	Chief Financial Officer
Name: Hugh Peart Date: 6 March 2013	x	Monitoring Officer

Section 4 – Performance Officer Clearance

Name: Alex Dewsnap Date: 12 March 2013	x	Divisional Director Strategic Commissioning

Section 5 – Environmental Impact Officer Clearance

Name: John Edwards Date: 21 March 2013	x	Divisional Director (Environmental Services)

Section 6 - Contact Details and Background Papers

Contact: Tim Sylvester, Project Officer
Tel: 020 8416 8166

Background Papers: None

Call-In Waived by the Chairman of Overview and Scrutiny Committee	NOT APPLICABLE *[Call-in applies]*