

REPORT FOR: **COUNCIL**

Date of Meeting: 13 November 2014

Subject: Approval of an updated set of Financial Regulations

Responsible Officer: Simon George, Director of Finance and Assurance

Exempt: No

Wards affected: All

Enclosures: Appendix 1 – Current Financial Procedure Rules (as approved by Council in May 2013)
Appendix 2 – Proposed updated Financial Regulations (As at October 2014)
Appendix 3 – Equalities Impact Assessment

Section 1 – Summary and Recommendations

This report sets out the proposed updated Financial Regulations for the Council.

Reason:

It is a duty of the Chief Financial Officer (CFO) to maintain an up to date set of Financial Regulations. The current Financial Procedure Rules were agreed by Council on 23 May 2013 and require updating to ensure that the Council has effective governance arrangements in place.

Recommendations:

- 1) Council is recommended to agree the revised Financial Regulations, as detailed at Appendix 2, in place of the existing Financial Procedure rules in the Constitution.
- 2) Council is recommended to amend the Constitution to allow for Cabinet to make additions to the Capital Programme as outlined in paragraph 4.8.

Section 2 – Report

1.0 Background

- 1.1 It is a duty of the Chief Financial Officer to maintain an up to date set of Financial Procedure Rules to ensure that the Council has effective financial governance arrangements. A full refresh of the Financial Regulations was undertaken in 2012/13 and approved by Council in May 2013.

2.0 Reasons for the 2014/15 Update

- 2.1 As a full re-refresh of the Financial Regulations was undertaken in 2012/13 the current update is intended to address a limited number of specific issues as detailed below:
- To correct drafting issues
 - To move away from referencing job titles to referring to statutory titles and pay grades to reduce the number of refreshes required as job titles change and re-structures take place
 - To update the Scheme of Delegation where appropriate and ensure consistency with the newly refreshed Contract Procedure Rules.

3.0 Process for the 2014/15 Update

- 3.1 A small working group of key stakeholders was established to review the Financial Regulations. The stakeholder group included Internal Audit, Corporate and Technical Finance, Procurement and Legal. The updated

Financial Regulations have been reviewed by the Portfolio Holder for Finance and Major Contacts, Corporate Strategic Board, the Council's Operations Board and individual management teams. The Financial Regulations were taken to the Constitution Review Working Group on 29 October.

4.0 Key Changes from April 2013

- 4.1 The current Financial Procedure Rules, agreed by Council in 2013, are attached in Appendix 1. Please refer to Appendix 2 for the proposed updated Financial Regulations. The key changes from the current version are detailed below:

Replacement of Job Titles

- 4.2 Throughout the document job titles have been replaced with statutory titles and/or pay grades to minimise the need for future amendments.

Carry Forward Arrangements

- 4.3 A year end balance is the amount by which actual income and expenditure varies from the final budget. Unspent balances are not carried forward, except with the permission of the Chief Financial Officer (CFO).

- 4.4 The arrangements for carry forwards have been tightened to improve financial monitoring and reporting. The current Financial Procedure Rules state a year end balance will only be considered for carry forward where:
- The Council's revenue/capital budget is not overspent in total
 - Reserves and balances are at an appropriate level
 - All other commitments will have to be accommodated within the new year budget.

(Appendix 1, paragraph B64)

- 4.5 The criteria in the proposed updated version are more specific and state that unspent balances will only be considered for carry forward where:
- There is an unspent ring fenced grant and grant must be repaid if it is not spent on its intended purpose.
 - Funding has been allocated to a specific project and the project is not yet complete, and both the directorate and the Council in total are not overspent.
 - External funding has been received for a specific project which is not yet complete

(Appendix 2, paragraph B66)

New Additions to the Capital Programme

- 4.6 Under the current Constitution there is no provision to add in year new funding to the Capital Programme without reverting back to full Council for approval.
- 4.7 This current arrangement is proving restrictive particularly where new or additional external funding has strict conditions that require the money to be spent within a defined period as occurred with the funding for the school expansion programme.

- 4.8 It is proposed that the Constitution be amended to allow for additions to the capital programme, which meet clearly defined criteria, to be approved by Cabinet up to and including a value of £500,000. To reflect this recommendation the following section has been added into the proposed updated Financial Regulations:

Additions in year to the Capital Programme

- Up to £500,000 additional capital spending can be approved by Cabinet on specific projects where
- The expenditure is wholly covered by additional external sources; and
- The expenditure is in accordance with at least one of the priorities listed in the capital programme
- There are no significant full year revenue budget effects.
- The additional capital spending agreed by Cabinet in one financial year cannot exceed £2.5million

(Appendix 2, paragraph B48)

Scheme of Approval and Delegation for Financial Transactions

- 4.9 Section F of the Financial Regulations covers the scheme of delegation which shows the levels of authority and delegations for financial transactions within the Council. The changes that have been made in the proposed updated Financial Regulations are detailed below:

- Approval of Orders (on SAP) – these have remained as agreed in May 2013 with the exception that the CFO will now also have to approve all payments over £1m in addition to the Head of Paid Service, Corporate Directors and Monitoring Officer
- Approval of unsupported payments on SAP – these have been increased across all grades to mirror those for SAP approvals as detailed above
- Award of Contract value – these limits are now consistent with the Contract Procedure Rules and have been increased from £100,000 limit for the Corporate Directors to £250,000 and from £100,000 limit for the CFO to £499,999. No officers can be given a limit that exceeds £499,999 due to the Council's key decision limit of £500,000
- Petty cash payment limits have been reduced and capped at £250 to reduce the use of petty cash around the organisation
- Virements – approval levels have been increased from Director level and above to within the key decision limit.
- Pension Fund– Lump Sum Payments and Fund Transfers. This has been included for completeness and reflects the current management arrangements.
- Authorisation of BACS payroll payments – This has been included for completeness and reflects the current management arrangements.
- Procurement of Social Care Spot Placements – this has been included for consistency with the revised contract procurement rules.
- Approval to commence projects in the approved capital programme – it is proposed that the limits are increased to reflect the typical size of projects in the programme.
- Severance and Ex Gratia payments – Severance has been added for completeness and to reflect current arrangements but with the

addition of approval by the portfolio holder for finance in respect of £50,000 to £100,000. The portfolio holder for finance has also been added for approvals of ex gratia payments between £50,000 and £100,000.

- HR Related Activities – this section has been added for completeness and reflects current arrangements.
(Appendix 2, Section F)

5.0 Constitution Review Working Group

- 5.1 The proposed updated Financial Regulations were taken to the Constitution Review Working Group (CRWG) on 29 October. The comments from CRWG and the resulting proposals to address the issues raised are detailed below:

Carried Forward Balances (ref. Appendix 2, B66)

Concerns were expressed that tightening the carry forward criteria may encourage budget holders to spend their budget at year end on non essential items for the sole purpose of using their budget. As these concerns are more related to organisational culture and behaviours, actions to address them will be considered as part of the roll out of the Financial Regulations which is planned for December to February.

Proposed Amendments to the process for in year additions to the Capital Programme (ref Appendix 2, B48)

The updated Financial Regulations propose to allow in year additions to the capital programme, that meet certain criteria, up to a value of £500,000 to be approved by Cabinet. The view from the CRWG was that this limit was on the low side and consideration should be given to increasing it. To enable appropriate legal consideration to a further increase, it is proposed that the level of £500,000 is implemented on a pilot basis and officers will report back to the CRWG with an informed briefing on the scope for further increase.

Approval required to commence schemes in the approved capital programme (Ref Appendix 2, Section F, table 5)

For approvals to commence capital works between the value of £1m to £5m, concerns were expressed that the delegation was to CFO, Leader of the Council and PH with responsibility for Finance. A Member suggestion was made to maintain the control but perhaps review the limits and change the delegation to Leader or Portfolio Holder but not both. This concern is recognised and can be further considered by the Overview and Sub Committee as part of their review of capital expenditure.

6.0 Legal Implications

- 6.1 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.

6.2 The Government and External Audit recommend that Council's should keep their Constitutions under regular review to ensure the provisions reflect current law and practice.

7.0 Financial Implications

7.1 Revising the Financial Regulations will have no direct financial cost implications for the authority. However, the Financial Regulations are integral to ensuring the proper administration of the Council's financial affairs.

8.0 Performance Issues

8.1 There are no relevant performance measures but the Financial Regulations 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.

9.0 Environmental Impact

9.1 There is no direct environmental impact, although the procedure rules do recognise the requirement to dispose of assets safely (C82 and C87) and environmental issues are considered when disposing of items.

10.0 Risk Management implications

Risk included on Directorate risk register?	No
Separate risk register in place?	No

10.1 The Financial Procedure Rules contain clear guidance on risk management which is ultimately the responsibility of the Head of Paid Service (C27), though it must be integrated into service management (C28).

11.0 Equalities implications

11.1 An initial Equalities Impact Assessment (EQIA) has been completed for the refresh of the Contract Procedures Rules and the Financial Regulations. No potential disproportionate impact has been identified on any of the protected characteristics. Please refer to Appendix 3 for the EQIA.

12.0 Council priorities

12.1 This report deals with the use of financial resources which is key to delivering the Council's priorities:

- Making a difference for the vulnerable
- Making a difference for communities
- Making a difference for local businesses
- Making a difference for families

Section 3 - Statutory Officer Clearance

Name: Simon George Chief Financial Officer

Date: 04 November 2014

Name: Linda Cohen on behalf of the
Monitoring Officer

Date: 04 November 2014

Ward Councillors notified: No

Section 4 - Contact Details

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Background Papers: Proposed updated Financial Regulations (as at October 2014) - TRACK CHANGED version