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Financial Regulations and Scheme of Delegation for Financial Management Overview of main changes incorporated into 2013 update

1. Background

The Financial Regulations set out the financial policies and the framework for managing the Council's financial affairs, and the Scheme of Delegation for Financial Management explains how the Council's Financial Regulations are implemented and operated in practice. Together, they aim to ensure that the Council conducts its financial affairs in a way that complies with specific statutory provisions and best practice and to ensure that an effective internal controls framework is maintained.

The current Financial Regulations and Scheme of Delegation for Financial Management were approved by the Council on **7th February 2012** but they now require substantial update to reflect changes to the organisational structure and its new operating model. The changes that have been incorporated into the updated documents are explained in paragraphs 2 and 3 below.

2. Financial Regulations

2.1 Overview of the Financial Regulations

The Financial Regulations are set out in **Part 1** of the attached document and they explain the financial policies and the framework for managing the Council's financial affairs.

The Financial Regulations are organised into eleven sections, as follows:

- (i) **Introduction** (Section 1) - sets the context for the Financial Regulations, including the requirement to comply with them, and with any supporting guidance issued by the Executive Director for Corporate Services.
- (ii) **Financial roles and responsibilities** (Section 2) - provides an overview of the respective financial responsibilities of Members and Officers within the Council. This section includes an explanation of the statutory responsibilities of the Executive Director for Corporate Services.
- (iii) **Financial planning** (Section 3) - sets the framework for compilation of the annual budget (including the revenue budget, capital financial planning and the establishment of trading activities' financial plans).
- (iv) **Financial management** (Section 4) - provides the standards for financial management, including the framework for budgetary control, the scheme of virement, supplementary estimates, the treatment of year end balances and the monitoring of capital expenditure.

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- (v) **Accounting records and financial systems** (Section 5) - explains the responsibilities of the Executive Director for Corporate Services for determining the accounting procedures and records of the Council, and for the compilation of all accounts and accounting records.
- (vi) **Risk management and control** (Section 6) - sets out the responsibilities for risk management, business continuity, insurance and internal control. It also provides the framework for the prevention of fraud and corruption and requirements with regard to external and internal audit.
- (vii) **Control of resources** (Section 7) - deals with the requirements for controlling the Council's assets, inventories, stock, cash and staffing.
- (viii) **Income and expenditure** (Section 8) - covers procedures, systems and documentation for the recovery of income and the ordering and paying for goods and services, payments to staff and taxation matters.
- (ix) **External arrangements** (Section 9) - provides the framework for external arrangements; including partnerships, external funding and work for third parties.
- (x) **Financial limits** (Section 10) – the Financial Regulations contain various financial limits. These limits have been brought together within section ten for ease of reference.
- (xi) **Other key policies and documents** (Section 11) – the Financial Regulations reinforce the requirement to comply with other policy documents and guidance, as detailed throughout the Regulations. These policy and guidance documents are listed in Section 11 of the Regulations for ease of reference.

2.2 Overview of main changes

The following paragraphs summarise the updates of substance that it is proposed are made to the Financial Regulations:

(i) **Section two - Financial roles and responsibilities**

Paragraph 2.2 sets out the financial responsibilities of the Council, including its responsibility for approving the annual budget. This paragraph has been updated to include the Council's responsibilities for approving an annual income and charging policy and the annual pay policy statement.

(ii) **Section 3 - Financial Planning**

The Policy Framework (as outlined in paragraph 3.1) has been updated to acknowledge that the treasury management, prudential and 'minimum revenue provision' (MRP) policies, the income and charging policy and the pay policy statement form key parts of the Council's policy framework and budget.

Paragraph 3.3.3 on budget preparation has been simplified, to remove reference to the matters that Executive Directors should have regard to, and

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to replace these with a more generic requirement to follow guidance issued by the Executive Director for Corporate Services.

Paragraph **3.4.1** on Capital Expenditure has been updated to bring the definition of capital expenditure in line with statutory regulations and accounting codes. The capitalisation de-minimis limits have also been updated to remove reference to a separate de-minimis limit for trading activities. Neither of these amendments has any practical implications.

Paragraph **3.6** has been updated to provide greater clarity regarding the financial planning requirements for trading activities.

Paragraphs have also been added to provide explanation of the treasury management, prudential and MRP policy (paragraph **3.7**), the Income and Charging policy (paragraph **3.9**) and Pay Policy Statement (paragraph **3.10**), which all form part of the corporate planning process, and which are approved by Council in alignment with the budget setting timetable.

(iii) **Section four - Financial Management**

Paragraph **4.3.2** explains the framework for budgetary control. One of the requirements placed upon Executive Directors is to ensure that an appropriate budget holder structure is in place to ensure that responsibility is assigned for each item of income and expenditure under their control. The accompanying narrative has been updated to explain that Budget Holders will be accountable for the effective management of the budgets allocated to them, even where they put delegations in place that enable officers to commit expenditure on their behalf.

Paragraph **4.3.2** also introduces a requirement for officers to undertake approved finance training prior to their commencement as an operational budget holder and/or as an authorised signatory, and to refresh their learning at 24 monthly intervals.

Paragraph **4.3.3** proposes some changes to the financial limits set out within the 'Scheme of Virement'. These are explained in paragraph (viii) below.

Paragraph **4.4** has been expanded to clarify the extent to which the principles and framework for managing the revenue budget apply in respect of monitoring and management of the capital programme. Specifically, the updated Regulations stipulate that:

- In the event of an over spend against one 'scheme' or 'block' approval, the relevant service will need to identify savings against another scheme / block to compensate for the over spend.
- Where it is anticipated that a scheme will be progressed ahead of, or behind, schedule (i.e. such that expenditure is expected to vary from the approved payment guideline for the year), Cabinet approval must be sought to re-profile the payment guidelines from one year to the next.

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- The approval of Cabinet (or, in certain circumstances, the Cabinet Member for Finance) is required to add schemes to, or remove them from, the capital programme outside of the annual budget setting process.

(iv) **Section Six - Risk management and internal control**

Separate paragraphs have now been added on declarations of interest (paragraph **6.5.2**) and on gifts and hospitality (paragraph **6.5.3**) to make explicit the requirement to ensure compliance with the respective policies on both matters.

Paragraph **6.5.6**, related to money laundering, has been updated to make it explicit that cash payments in excess of **£10,000** will not be accepted, other than with the prior approval of the Executive Director for Corporate Services.

(v) **Section Seven - Control of resources**

Paragraph **7.1.1** on security of assets has been updated to reflect the 'corporate landlord' role that the Director for Property, Facilities Management and Business Support has, and to explain the respective responsibilities of Executive Directors.

Paragraph **7.1.4** previously focussed upon the thresholds for declaring land and buildings surplus to the Council's requirements, and hence for disposing of these assets. This paragraph has now been updated to incorporate all types of property transaction, and there are also some proposed changes to the financial thresholds, as set out in paragraph (viii) below.

The previous requirement to maintain inventories of all furniture, fittings, equipment, plant and machinery has been removed.

Paragraph **7.2** proposes some changes to the thresholds for the 'write-off' of stocks and stores. The changes to the financial thresholds are set out in paragraph (viii) below.

Paragraph **7.3.3** sets out the circumstances in which loans may be given to third parties, and the approval required for each type of loan. In particular, the updated Regulations explain the implications of giving loans to third parties for the purpose of financing expenditure which, if incurred by the Council, would constitute capital expenditure, and for giving loans at a concessionary rate of interest.

Paragraph **7.4** on staffing has been updated to incorporate the requirements of the Council's establishment control policy.

(vi) **Section Eight - Income and Expenditure**

Paragraph **8.1.2** on charging policies introduces a requirement to make an annual statement on fees and charges in alignment with the budget setting timetable (i.e. unless agreed otherwise by the Executive Director for Corporate Services).

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Paragraph **8.1.6** proposes some changes to the thresholds for the 'write-off' of debts. The changes to the financial thresholds are set out in paragraph (viii) below.

Paragraphs **8.2.2** and **8.2.3** have been updated to provide greater clarity on the use of purchase cards.

Paragraph **8.2.4**, on payment of suppliers, has been updated to make reference to the amendment to the Late Payment of Commercial Debts (Interest) Act 1998, which was introduced by the Late Payment of Commercial Debts Regulations 2013.

Paragraph **8.2.4** has also been updated such that the Council's standard settlement terms for payments will not be altered, other than with the prior agreement of the Executive Director for Corporate Services.

Paragraph **8.3.2**, on monitoring of performance, now makes explicit the need for best value principles to underpin the Council's approach to procurement, and to demonstrate value for money in all procurement activities.

Paragraph **8.4.1**, on salaries, has been updated to incorporate the requirements of the Council's establishment control policy.

Paragraph **8.4.3** clarifies that ex-gratia payments include any one-off payments made to an employee or former employee as a gesture of goodwill, and not because there is a legal or contractual obligation to do so. This paragraph also confirms that ex-gratia payments include compromise and other payments made for loss of office. The financial thresholds for approval of ex-gratia payments have also been revised, as outlined in paragraph (viii) below.

Paragraph **8.5** confirms that the Executive Director for Corporate Services is responsible for ensuring compliance with all relevant taxation regulations and guidance that affects the Council either directly, as a consequence of its own activities, or indirectly, as a consequence of service delivery through external partners. As a consequence, the Executive Director for Corporate Services must be consulted on all activities that may affect the Council's tax liability, including proposals to implement alternative service delivery models.

Paragraph **8.6** proposes changes to the financial thresholds for making emergency payments, as outlined in paragraph (viii) below. Where an emergency payment is authorised other than by the Executive Director for Corporate Services, the relevant Executive Director must advise the Executive Director for Corporate Services of the payment as soon as it is practicably possible after the event.

(vii) **Section Nine - External arrangements**

This section has been re-written but the requirements have not changed fundamentally, other than to:

- Introduce an explicit requirement to adhere to the Council's business case governance framework (including use of the business case template);

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- Enforce the requirement to comply with the Company Compliance Protocol;
- Require any proposed new alternative delivery vehicles to use the Council's own support service functions, and deliver to services on behalf of the Council using the Council's premises, unless and until otherwise agreed by the Executive Director for Corporate Services and the Executive Director for Strategy, Transformation and Commissioning (i.e. as applicable);
- Require the prior approval of the Executive Director for Corporate Services where it is proposed that the Council undertakes the role of 'accountable body' for a partnership.
- Propose changes to the financial thresholds for delegating budget to a partnership, as outlined in paragraph (viii) below.
- Require Executive Directors to ensure that the Council is not exposed to the risk of bad debts as a consequence of entering into contracts for the provision of services to third parties (previously the Regulations required payment to be recovered in advance of service delivery).

(viii) Section Ten - Financial limits

This section provides a summary of the financial limits and thresholds referred to throughout the Financial Regulations. These limits and thresholds define the minimum level of approval required at each stage; in the event that an officer at the specified level is unable to take a decision for any reason, the decision may be taken at a higher level in the organisation.

As referred to in the previous paragraphs, various changes are proposed to the financial thresholds. These changes are summarised as follows:

– Revenue virements

A simplification of the revenue virement rules is proposed, such that Member approval is only required where the proposed virement is effecting a change in policies or priorities (*irrespective of whether the proposed virement is within the same portfolio or between portfolios*). Such virements will require Member approval where they amount to **£1m** or more, although it is expected that Executive Directors will consult with the relevant Service Cabinet Member(s) where the effect of a change in policies or priorities is less than **£1m**. Previously, Member approval was required for all virements of **£250,000** or more, regardless of the reason for the virement.

– Property transactions

It is now proposed that the Director for Property, Facilities Management and Business Support can approve property transactions (including declaring land or buildings surplus to the Council's requirements) where the total value of transaction reasonably foreseeable at the date of the approval does not exceed **£250,000**. It is further proposed that the

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Executive Director for Corporate Services can approve such transactions where the value does not exceed **£500,000**. Beyond that, Member approval will be required. Currently, officers are only able to approve property transactions where the value is less than **£50,000**.

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– **Writing off inventory (stock) balances**

The changes proposed to the thresholds for approving the writing off of inventory (stock) balances are summarised as follows:

Authoriser	Current threshold	Proposed threshold
Executive Directors	Up to £10,000	Up to £50,000
Executive Director for Corporate Services	Up to £20,000	Up to £100,000
Service Cabinet Member	In excess of £20,000	Up to £250,000
Cabinet Member for Finance		In excess of £250,000

– **Writing off of bad debts**

The changes proposed to the thresholds for approving the writing off of bad debts are summarised as follows:

Authoriser	Current threshold	Proposed threshold
Head of Service	Up to £10,000	Nil
Executive Directors	Up to £50,000	Up to £50,000
Executive Director for Corporate Services	Up to £50,000	Up to £100,000
Service Cabinet Member	In excess of £50,000	Up to £250,000
Cabinet Member for Finance		In excess of £250,000

– **Ex-gratia payments**

The changes proposed to the thresholds for approving ex-gratia payments are summarised as follows:

Authoriser	Current threshold	Proposed threshold
Head of Service	Up to £1,000	Up to £5,000
Directors		Up to £10,000
Executive Directors	Up to £6,000	Up to £50,000
Executive Director for Corporate Services	Up to £6,000	In excess of £50,000
Service Cabinet Member	Up to £10,000	
Cabinet Member for Finance	In excess of £10,000	

– **Emergency payments**

The changes proposed to the thresholds for approving emergency payments are summarised as follows:

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Authoriser	Current threshold	Proposed threshold
Service Director	Up to £50,000	
Executive Director		Up to £250,000
Any <u>two</u> of the following:	Up to £1m	
• Executive Director		
• Chief Executive		
• Executive Director for Corporate Services		
Any <u>one</u> of the following:		Up to £1m
• Chief Executive		
• Executive Director for Corporate Services		
• Deputy Chief Executive		
Cabinet Member for Finance	In excess of £1m	In excess of £1m

– **Delegation of budget to a partnership**

Authoriser	Current threshold	Proposed threshold
Head of Service	Up to £50,000	Up to £100,000
Executive Directors	Up to £200,000	Up to £250,000
Executive Director for Corporate Services		Up to £500,000
Service Cabinet Member	Up to £2m	Up to £5m
Cabinet Member for Finance	In excess of £2m	
Cabinet		In excess of £5m

In addition to these specific amendments, terminology has also been updated throughout the Financial Regulations, to reflect the current organisational structure of the Council, and various presentational changes have also been incorporated.

3. Scheme of Delegation for Financial Management

3.1 Introduction

The Scheme of Delegation for Financial Management is set out in **Part 2** of the attached document and it provides a summary of the financial delegated authority levels, guidance on financial management roles and responsibilities and guidance on the generic roles of budget holders.

The Scheme of Delegation for Financial Management is organised around the themes of financial management, as set out within the Council's Financial Regulations. The Scheme of Delegation for Financial Management therefore details every matter requiring action or a decision against each of these themes, and indicates how authority is delegated. References are included against each matter

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to the relevant section of the Council's Financial Regulations. A summary of financial delegated authority levels is also included.

3.2 Overview of the main changes

The Scheme of Delegation for Financial Management has largely been updated to reflect the changes proposed to the Financial Regulations. However, the following additional changes have also been incorporated:

(i) Authorised signatory process

In order to facilitate compliance with the Financial Regulations and Scheme of Delegation for Financial Management, the Council has an authorised signatory process. This is aligned to the management hierarchy as follows:

- **L1 = Chief Executive**
- **L2 = Executive Directors**
- **L3 = Directors**
- **L4 = Heads of Service** (*when designated as an operational budget holder*)
- **L5 = Officers with delegated authority to act on operational budget holders' behalf**
- **L6 = All other officers**

Financial delegations are assigned to each of these levels within the Scheme of Delegation for Financial Management.

The Scheme of Delegation for Financial Management explains that the 'operational budget holder' may be the Director, the Head of Service or a direct report of the Head of Service – the guiding principle is that budget holder responsibility will only be delegated below the Director (and in turn, below the Head of Service) where the resulting budget is **£1m**, or more. However, there will usually be a series of delegations operating in support of the operational budget holder, whereby those with delegated authority are able to commit funds on the budget holder's behalf (i.e. within the parameters agreed by the operational budget holder).

(ii) Delegated authority levels

The delegated authority levels within the Scheme of Delegation for Financial Management have been updated to reflect the proposed changes within the Financial Regulations. However, one financial limit not explicitly included within the Financial Regulations is that related to the authorisation of orders and invoices. The following changes are proposed to the limits for the authorisation of orders and invoices:

Authoriser	Current threshold	Proposed threshold
L1 - Chief Executive	Over £1m	Over £2.5m

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L2 - Executive Director for Corporate Services	Over £1m	Over 2.5m
L2 - Other Executive Directors	Up to £1m	Up to £2.5m
L3 - Directors	Up to £500,000	Up to £1m
L4 - Heads of Service (when acting as the Operational Budget Holder)	Up to £150,000	Up to £500,000
L5 - Officers with delegated authority to act on Budget Holder's behalf	Up to £20,000	Up to £150,000

4. Conclusions

The attached Financial Regulations and Scheme of Delegation for Financial Management have been updated to reflect the current management structure and policy framework, legislative changes and latest best practice guidance.