

**NORTH LANARKSHIRE COUNCIL
REPORT**

To: POLICY & RESOURCES (FINANCE & CUSTOMER SERVICES) SUB-COMMITTEE	Subject: ANNUAL REVIEW OF FINANCIAL REGULATIONS
From: HEAD OF FINANCIAL SERVICES	
Date: 29 October 2015	Ref: PH/KH/KS

1. Purpose of Report

1.1 The purpose of this report is to seek Sub-Committee approval for proposed amendments to the Council's Financial Regulations.

2. Background

2.1 Section 95 of the Local Government (Scotland) Act 1973 states that every local authority shall make arrangements for the proper administration of its financial affairs. The Financial Regulations detail responsibilities, controls and reporting requirements and therefore provide assurances over the financial affairs of the Council.

2.2 Clause 21.5 of the existing Financial Regulations requires the Executive Director of Finance and Customer Services, or his authorised officer, to present proposals regarding required revisions to the Regulations to committee annually for agreement and approval thereon.

2.3 During 2014/15 the routine Regulations review was postponed pending finalisation of the "integration of finance" review. Given the Council decision not to proceed with the "finance review", the Regulations currently under review are those approved by Sub-Committee on 11th September 2013.

3. Corporate Considerations

3.1 This annual review of existing Regulations confirms they continue to remain appropriate for ensuring the effective stewardship of the Council's financial resources. Consultation with senior finance officers across the Council has resulted in some amendments being proposed. These are summarised below and further highlighted within the attached appendix. The full set of Regulations containing the proposed amendments is available within the Members' library.

4. Proposed Amendments

4.1 Recognising the prominence of Arms Length External Organisation (ALEOs) oversight and monitoring arrangements in recent committee cycles against control mechanisms available in respect of internal service delivery, a new paragraph 1.3 is proposed within the Regulations. This paragraph illustrates the Council's Financial Regulations do not apply to Arms-length bodies and reflects the requirement for Service's to comply with the Arms-length bodies Corporate Guidance approved by Policy & Resources in June 2015.

4.2 With a view to improving consistency of application across the Council, previous wording within clauses 2.8, 4.8, 6.2, 6.3 and 6.4 has been refined to remove any ambiguity in application. A new paragraph 2.11 also aims to ensure consistency of application between the Financial Regulations and the General Contract Standing Orders.

- 4.3 Clause 19 has been revised to more clearly illustrate the Council's relationship with its External Auditor.
- 4.4 Various other minor adjustments are proposed throughout the Regulations to reflect up to date practices and terminology.
5. **Recommendation**
- 5.1 The Policy & Resources (Finance & Customer Services) Sub-Committee is requested to approve the proposed amendments to the Financial Regulations.

A handwritten signature in black ink, appearing to be the initials 'MH' with a stylized flourish extending upwards and to the right.

Head of Financial Services

Proposed Amendments to Financial Regulations (October 2015)

Para	Current Wording	Proposed Wording	Rationale for Change
1.1	'...these regulations will ensure that the Council's financial transactions are undertaken in a manner which demonstrates openness, transparency and integrity'	'...these regulations will ensure that public money is safeguarded and properly accounted for, and all Council financial transactions undertaken in a manner which demonstrates openness, transparency and integrity'	To emphasise the duty of protecting the public pound.
1.3	None – a new paragraph proposed.	The Council uses Arms Length External Organisations (ALEOs) as an alternative way of delivering vital council services. This delivery involves the use of public funds therefore the Council has a statutory duty to demonstrate openness, transparency and accountability regarding the monies spent through these Arms-length bodies. These financial regulations are <u>not</u> applicable to arms-length bodies, which are separate legal entities with responsibility for their own stewardship and governance arrangements. However, to enable the Council to satisfy its public accountability duties, services must adhere to the Corporate Guidance on Arms-length bodies as approved by Policy & Resources, June 2015, and must ensure all Council relationships with such bodies properly comply with the principles contained within the Code of Guidance on Following the Public Pound	Paragraph inserted to; <ul style="list-style-type: none"> distinguish between internal service delivery and other delivery vehicles (ALEOs) where the regulations are not applicable incorporate the requirement for Services to comply with the Corporate Guidance on Arms-length bodies as approved by Policy & Resources.
2.2	'As authorized by the Standing Orders relating to Contracts or...'	'Any grant of delegated powers by the Council to such persons as may be specified from time to time.'	Replace reference to Standing orders, which continues to remain an independent control document, with appropriate references to delegated powers.
2.8	'Expenditure on works or assets whose future value to the Council exceeds one year, an which satisfies the definition of capital expenditure detailed within the latest CIPFA/ LASAAC Code of Practice on Local Authority Accounting. No individual item of less than £6,000 will be regarded as Capital.'	'Expenditure on the acquisition, creation or enhancement of fixed assets, provided it yields benefit to the Council for more than one year (reference CIPFA/LASAAC Code of Practice on Local Authority Accounting). The Council has set a de-minimis whereby no individual item of less than £6,000 will be regarded as Capital.'	To provide a clear definition of capital expenditure for the users of the regulations.
2.11	None – a new paragraph proposed	As defined within the General Contract Standing Orders (approved Policy & Resources (Finance & Customer Services) Sub-Committee, February 2014)	To ensure contracts are considered per the General Contract Standing Orders definitions.
3.3	'To manage, monitor and control Service budgets in line with recognized accounting practice and agreed timescales, ensuring compliance with contract Standing Orders and Financial Regulations regarding their service activities.'	Directors are fully accountable for the financial performance of their service area, and must manage, monitor and control Service budgets in line with the Code of Practice on Local Authority Accounting	To specify; directors responsibility for financial performance and the accounting practice applicable.

APPENDIX 1

Proposed Amendments to Financial Regulations (October 2015)

Para	Current Wording	Proposed Wording	Rationale for Change
3.5	'The Council has financial relationships with a variety of organizations and Executive Directors must ensure...'	'Executive Directors must ensure.....'	Narrative pertaining to external relationships removed from this clause as more fully specified within the heading; 'Funding to Arms Length External Organisations'
4.5	'Projects contained within years 2-4 of the Plan, or totally new projects, may be introduced into current year only on the recommendation of the Spending Committee, and with the approval of the Policy and Resources Committee and Council thereafter, and if they can be contained within the total resources available.'	'Projects contained within years 2-5 of the Plan, or totally new projects, may be introduced into the current year if they can be contained within the total resources available , and only on the recommendation of, the mid-year-review report or the Spending Committee, and the approval of the Policy and Resources Committee and Council thereafter'.	To reflect most up to date practice for both acceleration/ additional projects.
4.8	'Each Executive Director (Budget Holder) must draw to the attention of the Spending Committee, in consultation with the Executive Director - Finance and Customer Services, any circumstance that may lead to a significant deviation from the approved Capital Estimates, either in expenditure or in income. In this context significant means £25,000 or 5%, whichever is the higher. The Committee should authorise action designed to rectify the matter, and if they are unable to do so the Executive Director - Finance and Customer Services must report the facts to the Policy & Resources (Finance & Customer Services) Sub-Committee for consideration.'	'Each Executive Director (Budget Holder) must draw to the attention of the Spending Committee, in consultation with the Executive Director - Finance and Customer Services, any circumstance that may lead to a significant deviation from the approved Capital Estimates, either in expenditure or in income. In this context significant means £25,000 or 5%, whichever is the higher, of the Policy & Resources approved programme expenditure . The Committee should authorise action designed to rectify the matter, and if they are unable to do so the Executive Director - Finance and Customer Services must report the facts to the Policy & Resources (Finance & Customer Services) Sub-Committee for consideration.'	To define the applicable capital estimate for which deviations should be reported i.e. the programme expenditure approved as part of the capital plan.
5.3	'... Executive Director - Finance and Customer Services, regarding the requirements of their services.'	'...Executive Director - Finance and Customer Services, regarding the requirements of their services. Where relevant, such information will be supported by equality impact assessments .'	To reflect the requirement to ensure budget estimates are supported by equality impact assessments, where relevant.
5.4	'The Estimates will be submitted by the Spending Committees to the Policy and Resources Committee and thereafter to the Council for approval, together with recommendations as to the levels of Council Tax for the coming year.'	'The Revenue Budget Estimates will be submitted to the Policy and Resources Committee and thereafter to the Council for approval, together with recommendations as to the levels of Council Tax for the coming year.'	To define which estimates and reflect current practice regarding committee approvals.

Proposed Amendments to Financial Regulations (October 2015)

Para	Current Wording	Proposed Wording	Rationale for Change
6.2	'Each Executive Director must ensure that sums provided in the budget are not exceeded, and that all expenditure conforms to requirements of the Standing Orders and of these Regulations.'	'Each Executive Director must ensure that sums provided in the budget, whether revenue or capital , are not exceeded, and that all expenditure conforms to requirements of the Standing Orders and of these Regulations. No Executive Director or official may incur expenditure unless: (a) It is a capital expense approved in line with paragraphs 4.4 and 4.5 of these regulations; (b) It is a revenue expense approved as part of the revenue budget under 5.4 of these Regulations; (c) The expense has been authorised as supplementary per paragraph 5.7 of these Regulations. Any Executive Director proposing to incur revenue or capital spending which is not included within approved budgets must seek approval to incur a supplementary estimate/budget before incurring such expenditure.'	To confirm that both capital and revenue budgets are applicable and to specify that no expenditure should be incurred unless it has been previously approved revenue, capital or supplementary cost.
6.3	'....any circumstance that may lead to a significant deviation from the approved annual budget, either in expenditure or in income. In this context significant means £25,000 or 5%, whichever is the higher....'	'....any circumstance that may lead to a significant deviation from the approved annual budget, either in expenditure or in income. In this context significant means £25,000 or 5%, whichever is the higher, at divisional summary subjective account code level e.g. Environment & Estates division property costs (summary account level 02),'	To clarify the budget for which deviations must be reported, removing existing ambiguity.
6.4	'An Executive Director may transfer money between budget headings and also earmarked reserves, but must ensure that the natures of such transfers are clearly outlined in monitoring and committee reports. Virement rules apply equally to both Revenue and Capital as follows: i) 'Up to £25,000 at discretion, in consultation with the Convenor of the appropriate Committee....' ii) '£25,001-£50,000 following consultation with the appropriate Convenor and thereafter with the agreement of the Executive Director - Finance and Customer Services.'	'An Executive Director may transfer money between approved Capital & Revenue expenditure budgets , but must ensure the nature of such transfers is clearly outlined in <i>monitoring and committee reports</i> , where applicable . The rules for virement of Revenue budgets apply to transfers at divisional summary subjective account code level e.g. Environment & Estates division property costs (summary account level 02) . The rules are as follows: i) 'Up to £25,000 at discretion, in consultation & agreement with the Convenor of the appropriate Committee...' ii) £25,001-£50,000 following consultation & agreement with the appropriate Convenor and thereafter with the agreement of the Executive Director - Finance and Customer Services	To clarify the budget virements rules applicable, removing existing ambiguity. To define the need for not just consultation but agreement to be reached.
8.3	'The Executive Director – Finance and Customer Services...'	'Each Executive Director shall....'	To reflect that the responsibility for Debtors control lies with all Executive Directors and not solely with Executive Director – Finance and Customer Services.

Proposed Amendments to Financial Regulations (October 2015)

Para	Current Wording	Proposed Wording	Rationale for Change
9.1	'...key clauses within Section 5 of CIPFA's "Treasury Management in the Public Services" Code of Practice (the Code) fully revised second edition 2009 and any subsequent revisions to the Code.'	'...key clauses within Section 5 of CIPFA's "Treasury Management in the Public Services" Code of Practice (the Code) fully revised second edition 2011 and any subsequent revisions to the Code. '	To reflect updated code of practice of 2011.
10.5	'Any requests for a business credit card must be approved by Executive Directors or Heads of Service following review of the business reasons for card requirement, and following discussion with the Executive Director – Finance and Customer Services.'	'Any requests for a corporate credit card must be made in accordance with the Councils Corporate Credit Card Policy with all aspects of the policy properly adhered to.'	To reflect the existence of the policy and the need to comply with it.
11.4	'...Where this is not possible, payment will be made by cheque.'	'...Where this is not possible, payment will be made by cheque or under special circumstances by prior agreement with the Treasury Management team using online banking payment services e.g. faster payment, CHAPS. '	To reflect other existing alternative payment methods.
12.8	'...Where this is not possible, payment will be made by cheque following written confirmation with Creditors Section.'	'...or under special circumstances by prior agreement with the Treasury Management team using online banking payment services e.g. faster payment, CHAPS.'	To reflect other existing alternative payment methods.
19.6	Internal Audit will consult regularly with External Audit, and will make all files available to them.	External Audit staff must be given access by Services to all relevant records required to enable them to conduct the external audit of the Council in accordance with the Code of Practice issued by Audit Scotland. Where staff are unsure about providing access, advice should be sought from the Executive Director of Finance and Customer Services.	To acknowledge that all Council staff, rather than only Internal Audit staff, may be called upon to assist the Council in satisfying its External Audit requirements.