

## **Financial Regulations** (April 2015)

### **Who is governed by these regulations?**

The regulations apply to all staff including and not limited to temporary staff, those with temporary contracts, sessional staff and contractors, however it is the responsibility of Senior Managers to make sure the regulations are implemented in their service area as appropriate. A failure to comply with the regulations could result in the Council incurring a financial loss and could impact upon the financial standing of the Council. This could be damaging to the reputation of the Council and the individual. It could also result in disciplinary action under the officers Code of Conduct.

### **Executive Summary**

The financial regulations are for managing the Council's financial affairs and to safeguard its financial position. They are designed to protect the Council's assets.

The regulations are part of the Council's Constitution and are approved by Full Council. The regulations provide clarity for every Member and officer of the Authority. Senior Managers and Budget Managers are responsible for ensuring the regulations operate in their service area and that all staff in their area are aware of their own responsibility to implement the regulations.

## **1. Introduction: Reasons for Financial Regulations**

- (a) To conduct its business efficiently, a local authority needs to ensure that it has sound financial management policies in place and that they are strictly adhered to. Part of this process is the establishment of financial regulations that set out the financial policies of the Authority.
- (b) The financial regulations provide clarity about the financial accountabilities of individuals – cabinet members, the Chief Executive, the Monitoring Officer, the Chief Finance Officer, and Senior Managers. Each of the financial regulations sets out the overarching financial responsibilities. Senior Managers refers to Level 1 and 2 officers (Directors and heads of service) in London Borough of Newham (LBN) and to Senior Leadership Team (SLT) members. And Second Tier Managers in London Borough of Havering (LBH). A ‘Senior Manager’ for the purposes of these Regulations means the Head of Paid Service, Corporate Directors, Service Heads and Budget Managers unless otherwise specified in these regulations.
- (c) The Financial Regulations also link to other internal regulatory documents forming part of the Council’s Constitution. For example, Contract Standing Orders, Schemes of Delegation, the role of Overview and Scrutiny Committees and codes of conduct. There are also links to more detailed financial procedures, guidance and instructions.

## **2. Status of Financial Regulations**

- (a) The Financial Regulations provide the framework for managing the Authority’s financial affairs and are part of the Council’s Constitution. They apply to every member and officer of the Authority and anyone acting on its behalf.
- (b) The Regulations identify the financial responsibilities of the Full Council, Executive and the Overview and Scrutiny Committee, the Chief Executive, the Monitoring Officer, the Chief Finance Officer and Senior Managers. Executive members and Senior Managers should maintain a written record where decision making has been delegated to members of their staff, including seconded staff. Where decisions have been delegated or devolved to other responsible officers, such as school governors, references to Senior Managers in the regulations should be read as referring to them.
- (c) All members and staff have a general responsibility for taking reasonable action to provide for the security of the assets under their control, and for ensuring that the use of these resources is legal, is properly authorised and achieves value for money.

- (d) The Chief Finance Officer is responsible for maintaining a continuous review of the Financial Regulations and submitting any additions or changes necessary to the Full Council for approval. The Chief Finance Officer is also responsible for reporting breaches of the Financial Regulations to the Council and/or to the Executive.
- (e) The Council's **Financial Procedures**, (how the regulations will be implemented) are contained on the Council's intranet pages and appended to these Financial Regulations.
- (f) Senior Managers are responsible for ensuring that all staff in their service area are aware of the existence and content of the Council's Financial Regulations and other internal regulatory documents and that they comply with them.
- (g) The Chief Finance Officer is responsible for issuing advice and guidance to underpin the Financial Regulations that members, officers and others acting on behalf of the Council are required to follow.

## **A: Financial Management**

### **Introduction**

- A1 Financial management covers all financial accountabilities in relation to the running of the Authority, including the policy and budget framework.

### **The Full Council**

- A2 The Full Council is responsible for adopting the Authority's Constitution and Members' Code of Conduct and for approving the budget and the policy framework within which the Executive operates. It is also responsible for approving and monitoring compliance with the Council's overall framework of accountability and control. The Full Council is also responsible for monitoring compliance with the agreed policy and related executive decisions.
- A3 The Full Council is responsible for approving procedures for recording and reporting decisions taken by the Council and its committees. These delegations and details of who has responsibility for which decisions are set out in the Constitution.

### **The Executive**

- A4 Details of the roles and responsibilities of the executive are located within the constitution

## **Overview and Scrutiny Board / Committee**

- A5 The Overview and Scrutiny Board / Committee is responsible for scrutinising executive decisions before or after they have been taken and for holding the Executive to account. Overview and Scrutiny Board /Committee is also able to analyse and comment on future policy options, general policy and the discharge of executive and non-executive functions of the Council.

## **Audit Board / Committee**

- A6 The Audit Board/Committee is the body charged with scrutinising the financial governance and system of internal controls of the authority. It has right of access to all the information it considers necessary and can consult directly with internal and external Auditors. The Audit Board/Committee is responsible for reviewing the external auditor's reports and the annual audit letter and internal audit's annual report. In LBH, it is responsible for approving the final Statement of Accounts of the authority for submission to the external auditor and scrutinising the treasury management report; in LBN, approval to the accounts rests with the Investment and Accounts Committee.

## **The Statutory Officers**

### **Chief Executive**

- A7 The Chief Executive is responsible for the corporate and overall strategic management of the Authority as a whole. He/she must report to and provide information for the Executive, the Full Council, the Overview and Scrutiny Board / Committee and other committees. He/she is responsible for establishing a framework for management direction, style and standards and for monitoring the performance of the organisation. The Chief Executive is also responsible for the system of record keeping in relation to all of the Full Council's decisions and is the Head of Paid Service with overall responsibility for ensuring the necessary staffing resources, to carry out the Council's functions, are kept under review.

### **Monitoring Officer**

- A8 The Monitoring Officer is responsible for promoting and maintaining high standards of conduct. The Monitoring Officer is also responsible for reporting any actual or potential breaches of the law or maladministration to the Full Council and for ensuring that the Constitution is kept up to date and adhered to.
- A9 The Monitoring Officer must ensure that executive decisions and the reasons for them are made public. He/she must also ensure that Council members are aware of decisions made by the Executive and of those made by officers who have delegated executive responsibility.

- A10 The Monitoring Officer is responsible for advising all councillors about the legal implications of any decision and who has authority to take a particular decision.
- A11 The Monitoring Officer (together with the Chief Finance Officer) is responsible for advising the Executive or Full Council about whether a decision is likely to be considered contrary or not wholly in accordance with the Budget and Policy Framework. Actions that may be 'contrary to the Budget' include:
- (a) Initiating a new policy
  - (b) Committing expenditure in future years above the approved budget
  - (c) Incurring inter-service virements above authorised limits as per the scheme of virement
  - (d) Causing the total expenditure financed from Council Tax, grants and corporately held reserves to increase, or to increase by more than a specified amount.

### **Chief Finance Officer**

- A12 The Chief Finance Officer has statutory duties in relation to the financial administration and stewardship of the Authority. This statutory responsibility cannot be overridden. The statutory duties arise from:
- (a) Section 151 of the Local Government Act 1972
  - (b) The Local Government Finance Act 1988
  - (c) The Local Government and Housing Act 1989
  - (d) The Accounts and Audit Regulations 1996
  - (e) The Accounts and Audit Regulations 2003
  - (f) The Local Government Act 2003
  - (g) The Accounts and Audit Regulations 2011
- A13 The Chief Finance Officer is responsible for:
- (a) The proper administration of the Council's financial affairs, including keeping proper accounting records.
  - (b) Setting and monitoring compliance with financial management standards.
  - (c) Advising on the corporate financial position and on the key financial controls necessary to secure sound financial management.
  - (d) Providing financial information in conjunction with Senior Managers.

- (e) Ensuring that the annual statement of accounts is prepared in accordance with International Financial Reporting Standards, the Code of Practice on Local Authority Accounting and the Service Reporting Code of Practice within the statutory deadlines.
- (f) Preparing the revenue budget and capital programme relating to the General Fund and the Housing Revenue Account.
- (g) Ensuring that reports requesting decisions of Members include appropriate statements as to the financial and use of resources and risks implications of the matter under consideration.
- (h) Treasury Management.
- (i) Reporting to full Council. Executive and external auditor (under S114 of the Local Government Finance Act 1988) if the authority or one of its officers has made/about to make a decision which involves incurring unlawful expenditure, has taken or about to take an unlawful action which has resulted or would result in a loss or deficiency to the Council or about to make an unlawful entry in the authority's accounts.
- (j) S114 of the 1988 Act requires the Chief Finance Officer to nominate a properly qualified member of staff to deputise should he/she be unable to perform the duties under S114 personally.
- (k) Selecting accounting policies and ensuring that they are applied consistently.
- (l) Determining the accounting procedures and records for the authority.
- (m) Issuing advice and guidance to underpin the Financial Regulations.
- (n) Maintaining a continuous review of the Financial Regulations and submitting any additions or changes necessary to the full Council for approval.
- (o) In conjunction with Senior Managers, reporting breaches of the Financial Regulations to the Audit Committee.
- (p) Preparing reports to Senior Leadership Team/Corporate Leadership Team and the Executive to set the Cabinet Thresholds for reporting specific financial issues to the Executive.

A14 Section 114 of the Local Government Finance Act 1988 requires the Chief Finance Officer to report to the Full Council, the Executive and the External Auditor if the Authority or one of its officers:

- (a) Has made, or is about to make, a decision which involves incurring unlawful expenditure.

(b) Has taken, or is about to take, an unlawful action which has resulted or would result in a loss or deficiency to the Authority.

(c) Is about to make an unlawful entry in the Authority's accounts.

A15 The Chief Finance Officer will nominate properly qualified members of staff to deputise for him/her in their absence on all other issues.

### **Senior Managers**

A16 The financial responsibilities of Senior Managers are:

(a) Ensuring that the Executive are advised of the financial implications of all proposals and that the financial implications have been agreed by the Chief Finance Officer.

(b) Exercise of budgetary control.

(c) Consulting with the Chief Finance Officer and seeking approval on any matter liable to affect the Council's finances materially, before any commitments are incurred.

(d) Ensuring that matters requiring a decision by Members are drawn to the attention of the Chief Finance Officer before any such decision is taken.

### **Other financial accountabilities**

#### **Virements**

A17 Budget virement is a process of transferring a revenue/capital budget from one budget heading to another. The authorisation limits of budget virements (provided within the budget framework) for both Councils vary and are specified in the financial procedures. If outside the budget framework, approval would be sought from Full Council for both councils.

A18 Senior Managers are responsible for agreeing in-year virements within delegated limits, in accordance with the Budget and Policy Framework and any guidance issued by the Chief Finance Officer.

#### **Treatment of Year-end Balances**

A19 The Chief Finance Officer is responsible for agreeing procedures for carrying forward under and overspendings on budget headings.

#### **Accounting Policies**

A20. The Chief Finance Officer is responsible for selecting accounting policies and ensuring that it is applied consistently.

## **Accounting Records and Returns**

A21 The Chief Finance Officer is responsible for determining the accounting procedures and records for the Authority.

## **The Annual Statement of Accounts**

A22 The Chief Finance Officer is responsible for ensuring that the Annual Statement of Accounts is prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom: a Statement of Recommended Practice* (CIPFA/LASAAC) and International Financial Reporting Standards (IFRS) where relevant. .

## **B: Financial Planning**

### **Introduction**

B1 The Full Council is responsible for agreeing the Council's budget and policy framework, which will be proposed by the Executive. In terms of financial planning, the key elements are:

- (a) The Corporate Plan or its equivalent.
- (b) The Medium Term Budget Strategy.
- (c) The Treasury Management Strategy.
- (d) The Investment Strategy.

### **Policy Framework**

B2 The Full Council is responsible for approving the Budget and Policy Framework. The Policy Framework is made up of specific plans and strategies, these along with the rules governing the Budget and Policy Framework are set out in the constitution

B3 The Full Council is also responsible for approving procedures for agreeing variations to approved budgets, plans and strategies forming the Policy Framework and for determining the circumstances in which a decision will be deemed to be contrary to the Budget or Policy Framework. Decisions should be referred to the Full Council by the Monitoring Officer and the Chief Finance Officer.

B4 The Full Council is responsible for setting the level at which the Executive may reallocate budget funds from one service to another in the Virement Scheme. The Executive is responsible for taking key in-year decisions on resources and priorities in order to deliver the Budget and Policy Framework within the financial limits set by the Council.

### **Budgets**

B5 The process for compilation of the budget will be approved by the Executive on the advice of the Chief Finance Officer.

- B6 The draft revenue and capital budget should include projected net expenditure on services and projects, proposed taxation and rent levels as well as any contingency funds.
- B7 The Chief Finance Officer is responsible for ensuring that an annual revenue budget, an annual capital programme, and a Medium Term Budget Strategy are prepared on a robust basis for consideration by the Executive, before submission to the full Council. The Full Council may amend the Budget or ask the Executive to reconsider it before approving it.
- B8 Senior Managers will ensure the proper administration of the Revenue Budgets and the Capital Programme allocated to them. They will also ensure compliance with guidance and instructions issued by the Chief Finance Officer.

### **Budget Monitoring and Control**

- B9 The Chief Finance Officer is responsible for providing appropriate financial information to enable budgets to be monitored effectively. He/she must monitor and control expenditure against budget allocations and report to the Executive on the overall position on a regular basis.
- B10 It is the responsibility of Senior Managers to control income and expenditure within their area and to monitor performance, taking account of financial information provided by the Chief Finance Officer; spending must be contained within approved budgets; He/she should report on variances within their own areas. He/she should also take any action necessary to avoid exceeding their budget allocation and alert the Chief Finance Officer to any problems.

### **Guidelines**

- B11 Guidelines on budget preparation are issued to Senior Managers by the Chief Finance Officer.
- B12 It is the responsibility of the Chief Finance Officer to advise the Executive and/or the Full Council on prudent levels of reserves for the Authority.

## **C: Risk Management and Control of Resources**

### **Introduction**

- C1 It is essential that robust, integrated systems are developed and maintained for identifying and evaluating all significant operational risks to the Authority. This should include the proactive participation of all those associated with planning and delivering services.

## **Risk Management**

- C2 The Chief Finance Officer is responsible for the Risk Management Strategy and responsible for ensuring the effectiveness of risk management. The Strategy is reviewed and updated annually by the Audit Board/Committee. The Audit Board/Committee receives regular reports on current and planned risk management activity to enable it to execute its assurance role.
- C3 The Chief Finance Officer is responsible for preparing the Council's Risk Management Strategy and in conjunction with the Member Risk Management Champion/Lead Member is responsible for promoting it throughout the Authority.

## **Internal Control**

- C4 Internal control refers to the systems of control devised by management to help ensure that the Council's objectives are achieved in a manner that promotes economical, efficient and effective use of resources and that the Authority's assets and interests are safeguarded.
- C5 The Chief Finance Officer is responsible for advising on effective systems of internal control. These arrangements need to ensure compliance with all applicable statutes and regulations, and other relevant statements of best practice. He/she should ensure that public funds are properly safeguarded and used economically, efficiently, and in accordance with the statutory and other authorities that govern their use.
- C6 It is the responsibility of Senior Managers to establish sound arrangements for internal control.

## **Audit Requirements**

- C7 The Accounts and Audit Regulations 2011 require every local authority to maintain an adequate and effective internal audit function.
- C8 The basic duties of the external auditor are to ensure:
- (a) the accounts comply with the requirements of the enactments that apply to them
  - (b) that proper practices have been observed in the preparation of the Statement of Accounts, and that the statement presents a true and fair view and
  - (c) that the authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- C9 The Authority may, from time to time, be subject to audit, inspection or investigation by external bodies such as HM Revenue & Customs who have statutory rights of access.

## **Preventing Fraud and Corruption**

C10 The Chief Finance Officer is responsible for the development and maintenance of an anti-fraud and anti-corruption policy. Senior Managers are responsible for reporting all cases of fraud or suspicions (including money laundering) of fraud, to the Chief Finance Officer or the representative appointed by the Chief Finance Officer. Money laundering is reported directly to the Chief Finance Officer and suspicions of fraud are reported to the Head of Internal Audit.

## **Assets**

C11 Senior Managers should ensure that records and assets are properly maintained and securely held. They should also ensure that contingency plans for the security of assets and continuity of service in the event of disaster or system failure are in place.

## **Treasury Management**

C12 The Council has adopted CIPFA's *Treasury Management in the Public Services – Code of Practice for Chief Financial Officers*.

C13 The Full Council is responsible for approving the Treasury Management Policy Statement setting out the matters detailed in section 6 para 15 of the *Code of Practice*. The Policy Statement is proposed to the Full Council by the Executive. The Chief Finance Officer is responsible for implementing and monitoring the statement.

C14 All money in the hands of the Authority is controlled by the Officer designated for the purposes of section 151 of the Local Government Act 1972, i.e. the Chief Finance Officer.

C15 The Chief Finance Officer is responsible for reporting to the Executive a proposed Treasury Management Strategy in advance of the year a mid-year review and annual report by 30<sup>th</sup> September after its close. The Executive will then propose these to the full Council.

C16 All Executive decisions on borrowing, investment or financing shall be delegated to the Chief Finance Officer, who is required to act in accordance with CIPFA's *Code of Practice for Treasury Management in Local Authorities*.

## **D: Systems and Procedures**

### **Introduction**

D1 Sound systems and procedures are essential to an effective framework of accountability and control.

### **General**

- D2 The Chief Finance Officer is responsible for the operation of the Council's accounting systems, the form of accounts and the supporting financial records. Any changes made by Senior Managers to the existing financial systems or the establishment of new systems must be approved by the Chief Finance Officer to ensure that any data that impacts upon accounting systems is accurate. Senior Managers are responsible for the proper operation of financial processes in their own services including reconciliation to the council's general ledger.
- D3 Any changes to agreed procedures by Senior Managers to meet their own specific service needs should be agreed with the Chief Finance Officer.
- D4 Senior Managers should ensure that their staff are suitably competent to undertake their roles within the context of any guidance issued by the Chief Finance Officer on finance competencies. They should ensure that staff undergo relevant financial training that has been approved by the Chief Finance Officer.
- D5 Senior Managers must ensure that, where appropriate, computer and other systems are registered in accordance with data protection legislation. Senior Managers must ensure that staff are aware of their responsibilities under freedom of information legislation.

### **Income and Expenditure**

- D6 It is the responsibility of Senior Managers to ensure that a proper scheme of delegation has been established within their area and is operating effectively. This scheme should identify staff authorised to act on the Senior Managers' behalf, or on behalf of the Executive, in respect of payments, income collection and placing orders, together with the limits of their authority. The Executive is responsible for approving procedures for writing off debts as part of the overall control framework of accountability and control.

### **Payments to Employees and Members**

- D7 The Chief Finance Officer is responsible for all payments to staff and for payment of allowances to members.

### **Taxation (Including Value Added Tax)**

- D8 The Chief Finance Officer is responsible for advising Senior Managers, in the light of guidance issued by appropriate bodies and relevant legislation as it applies, on all taxation issues that affect the Authority.
- D9 The Chief Finance Officer is responsible for maintaining the Authority's tax records, making all tax payments, receiving tax credits and submitting tax returns by their due date as appropriate to HM Revenue and Customs.

## **Alternative Ways of Service Provision**

D10 It is the responsibility of the Chief Finance Officer to advise on the financial issues in respect of the establishment and operation of alternative ways of service provision, such as trusts, mutuals and joint ventures.

## **Loans to External Organisations**

D11 While the Council does have powers to give loans to external third parties under the general power of competence pursuant to Section 1 of the Localism Act 2011, before considering loans to such bodies the statutory powers intended to be used to make such loans should be established to the satisfaction of the Director of Finance and Monitoring Officer.

## **E: Joint Arrangements**

### **Introduction**

E1 The Council provides a distinctive leadership role for the Community and brings together the contributions of its various stakeholders. It also seeks to achieve its Vision, via the promotion or improvement of the economic, social and environmental well-being of its area.

### **Partnerships**

E2 The Executive is responsible for approving delegations, including frameworks for partnerships. The Executive is the focus for forming partnerships with other local public, private, voluntary and community sector organisations to address local needs.

E3 The Executive can delegate functions, including those relating to partnerships, to officers.

E4 The Chief Executive represents the Authority on partnership and external bodies, in accordance with the Scheme of Delegation.

E5 The Monitoring Officer is responsible for promoting and maintaining the same high standards of conduct and governance arrangements with regard to financial administration in partnerships that apply throughout the Authority.

E6 The Chief Finance Officer must ensure that the accounting arrangements to be adopted relating to partnerships and joint ventures are satisfactory. He/she must also consider the overall corporate governance arrangements and legal issues when arranging contracts with external bodies. He/she must ensure that the risks have been fully appraised before agreements are entered into with external bodies. He/she must also consider how these arrangements can demonstrate Value for Money and continuous improvement.

E7 Senior Managers are responsible for monitoring the partnership arrangements on an on-going basis. Senior Managers are responsible for ensuring that appropriate approvals are obtained before any negotiations are concluded in relation to work with external bodies.

### **External Funding**

E8 The Chief Finance Officer is responsible for ensuring that all funding notified by external bodies is received and properly recorded in the Authority's accounts.

### **Work for Third Parties**

E9 The Executive is responsible for approving the contractual arrangements for any work for third parties or external bodies.