

Update to Financial Procedure Rules

SUMMARY

- 1.1 The Council's Financial Procedure Rules – FPRs – were previously updated in November 2009. Given the significant changes to the Council's systems, processes and personnel since then, a full review of the FPRs has now been carried out and a number of key changes are proposed.
- 1.2 The key changes proposed in the revised FPRs include clarification and revisions to:
 - Virement approval limits for cross-directorate and cross-portfolio transfers – Appendix 2
 - Use of Earmarked Reserves and Corporate Contingency Budgets – section C2 and Appendix 1
 - Capital Programme Development and Monitoring – section C3 and Appendix 1
 - Treasury Management, including banking arrangements and the use of credit/purchase cards – section D7
 - Asset acquisitions and disposals, including leases and inventories – section D8
 - Working with Third Parties, Partnerships and Accountable Body Arrangements – sections F1 and F2
 - External Funding Arrangements – section F4

RECOMMENDATION

- 2.1 To request comments and changes from members of the Audit and Accounts Committee on the revised Financial Procedure Rules.
- 2.2 To recommend to Full Council the approval of the revised Financial Procedure Rules, after any agreed changes by the Committee.

REASONS FOR RECOMMENDATION

- 3.1 The Local Government Act 2000 requires every council to have a written constitution that acts as its rule book. The constitution includes details of financial procedures.
- 3.2 The Council's FPRs were last updated in November 2009. The Council has experienced significant changes in systems, processes and personnel since this date, and the FPRs need to be updated to reflect current best practice.

SUPPORTING INFORMATION

- 4.1 The Financial Procedure Rules form part of the Constitution of the Council and provide the framework for managing the Council's financial affairs. They apply to every Member and employee of the Council and anyone acting on behalf of the Council.
- 4.2 The objective of the FPRs is to specify a number of rules and key control measures which ensure that public accountability and high standards of financial integrity are exercised in the use of public funds. The Rules also identify the responsibilities of the Strategic Director of Resources and of Chief Officers.

Key Changes

- 4.3 Changes to Virement Limits
A review of delegated regarding revenue virement limits for Chief Officers has been carried out. The rules for general virements are still considered to be suitable, but it is proposed that the threshold for cross-departmental and cross-portfolio transfers requiring Cabinet approval is increased to £250,000, in with the Council's key decision thresholds. The suggested changes are reflected in Appendix 2 of the FPRs.
- 4.4 Use of Earmarked Reserves and Corporate Contingency Budgets
Appendix 1 to the FPRs sets out a number of financial limits, other than for virements. Detailed approval limits have been introduced for the use of earmarked reserves up to £100,000 and the use of corporate contingency budgets. These give Chief Officer's the ability to approve the use of earmarked reserves and contingency budgets in line with their original intended use, as approved by Cabinet. Section C2 of the FPRs has also been updated to clarify the rules for the use of earmarked reserves and corporate contingency budgets.
- 4.5 Capital Programme Development and Monitoring
The financial procedure rules governing the capital programme development process and subsequent monitoring set out in Section C3 have been revised to reflect the role and responsibilities of the Strategic Asset Management Board. The procedures have also been updated to remove the requirement for capital scheme commencement reports, as all schemes included on the programme have already received Cabinet approval. Amendments have also been made to Appendix 1 (Financial Limits) to require Cabinet approval to vary the cost and phasing of capital schemes up to £5m where the scheme has varied by either £250,000 or by 10% or £50,000, whichever is the greater, unless the variance can be contained within the capital programme area. An approval threshold for variances over 5% for schemes over £5m has also been introduced.
- 4.6 Treasury Management
Section D7 on Treasury Management has been updated to include new guidance on the Council's banking arrangements, with responsibility for banking control delegated to the Strategic Director of Resources. Rules over the use of Credit / Purchase cards are also included for the first time. The rules included for these sections reflect current Council practice and best practice examples from other Authorities.

4.7 Asset acquisitions and disposals, including leases and inventories

The rules over asset acquisitions and disposals have been clarified in Section D8 to make it clear that any such activity requires the agreement of the Strategic Director of Resources and the Chief Executive, with Cabinet approval required for items over £250,000. Additional guidance regarding leases has also been added to this section, as leases have become increasingly important for the Council's Statement of Accounts following conversion to International Financial Reporting Standards in 2010/11. Responsibilities of Chief Officers in relation to inventories have also been included for the first time. These new rules require inventory records to be maintained and security controls to be in place.

4.8 Working with Third Parties, Partnerships and Accountable Body Arrangements

Section F1 details the financial procedure rules regarding work for third parties and Section F2 relates to Partnerships and Accountable Body Arrangements. These rules have been reviewed and updated to ensure appropriate risk management strategies are adopted, including appropriate exit arrangements. Approvals for sold services and accountable body arrangements have now been delegated to Chief Officers. The following limits are associated with these delegations:

- Approval of the Strategic Director of Resources and the relevant Strategic Director for agreements up to £100,000.
- Approval of the Strategic Director of Resources, the relevant Strategic Director and the relevant Cabinet Member for agreements up to £250,000
- Approval of Cabinet for agreements over £250,000

These limits are also detailed in Appendix 1 to the FPRs.

4.9 Aligned Budgets and Joint Arrangements

Under the previous version of the FPRs, Cabinet approval was required for any aligned budgets and joint arrangements with a commitment over £100,000. It is proposed that this delegated limit is increased to £250,000, in line with the Council's key decision thresholds. This change is reflected in Section F3 and Appendix 1 to the revised FPRs.

4.10 External Funding Arrangements

A new section has been added to the FPRs (Section F4) detailing rules over external funding arrangements. These rules aim to ensure that funds are accepted only if they meet the Council's priorities and appropriate controls are in place.

4.11 Other Key Changes

Other key changes which aim to improve clarity and detail over roles and responsibilities include:

- a full revision of Section B on Financial Management, including the requirements for the Council's annual Statement of Accounts,
- clarification of the rules for carry forward requests in Section C2
- expanded rules over the control of Council income in Section E2, such as appropriate segregation of duties and debt recovery procedures
- general changes throughout the document to clarify minor points and ensure appropriate financial controls are in place.

The amendments made to these areas are consistent with the relevant rules in the previous version of the FPRs. General changes to reflect new job titles and undated referencing have also been carried out.

OTHER OPTIONS CONSIDERED

- 5.1 The proposed changes to the FPRs are not implemented. This option is not recommended as the current FPRs are out of date and do not reflect current best practice.

This report has been approved by the following officers:

Legal officer Financial officer Human Resources officer Service Director(s) Other(s)	Martyn Marples, Director of Finance and Procurement
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For more information contact: Background papers: List of appendices:	Chloe Kenny tel: 01332 643369 e-mail: chloe.kenny@derby.gov.uk None Appendix 1 – Implications Appendix 2 – Revised Financial Procedure Rules
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IMPLICATIONS

Financial and Value for Money

1.1 As outlined in the report

Legal

2.1 None directly arising

Personnel

3.1 None directly arising

Equalities Impact

4.1 None directly arising

Health and Safety

5.1 None directly arising

Environmental Sustainability

6.1 None directly arising

Asset Management

7.1 None directly arising

Risk Management

8.1 None directly arising

Corporate objectives and priorities for change

9.1 None directly arising