

Appendix 3

SUMMARY AND EXPLANATION OF CHANGES

The areas of the rules which it is proposed should be subject to substantive change are shown below. The nature of the changes is shown in normal type, an explanation where necessary is given in italics.

A General

Introduce reference to the parallel set of School Financial Regulations which define how financial responsibilities are to be exercised in schools.

The current rules only acknowledge that responsibilities of School Governors are to be substituted for Chief Officers. Separate legislation applying to schools means that the rules have to be adapted for devolved financial management in schools. The school rules will be updated in parallel with these changes.

Introduce Corporate Director - Resources and Housing (DoR) responsibilities

- to make recommendations to keep the rules up to date generally
- to agree with the Director of Childrens and Young Peoples Services changes to the Schools Financial Regulations subject to consultation with the Schools Forum and general consistency with these rules and statutory requirements
- to provide training and guidance to help Chief Officers (COs) ensure that the rules are understood

Introduce CO responsibilities

- to obtain written records of authorisation where DoR authority is needed to financial implications (other than where a report is provided)
- to consult the DoR on any material external funding bids

B Systems and Procedures

Clarifies responsibilities to both the DoR and COs to keep a scheme of delegation which generally includes how their responsibilities under Financial Procedure Rules are delegated to their other officers.

The current rules only refer to some specific issues to be covered by schemes of delegations of COs, the change makes the requirement more general.

Clarify responsibility of COs to ensure that DoR approval is obtained to the financial implications of any decision taken under the Council's urgent action procedure.

There is no reference to the DoR in the urgent action procedure – this could be seen as overriding the general requirement for DoR approval to financial implications under FPR A11.

C Revenue Budgets – Preparing Budgets

Include reference to planning extending into the medium term and addressing affordability.

This is consistent with the requirements of the prudential framework under the Local Government Act 2003.

D Revenue Budgets – Managing and Controlling Budgets and FPR Appendix 2 – Scheme of Virement - Revenue Budgets

Clarify that

- the principles of the budgetary management are extended to reserves and balances, to be used in accordance with approved budget plans, and that the DoR has a responsibility to report on use of reserves and balances. COs are given a specific responsibility to use reserves in accordance with approvals and to report on reserves.

This is important given the clarified definition of budget heads in net terms below. Reporting on key balances is a requirement within the CPA.

Extend the responsibility of COs to obtain Cabinet approval to cover:

- Potential (as well as actual) new net commitments where this is dependent on approval by a third party.
This would in particular include bids for external funding which still require an additional financial commitment by the Council if successful. Once the Council has sought funding for a project, it is not credible to turn down an offer of funding on the basis that bids had no formal approval.
- Net commitments which would recur in future financial years, without an ability to rely on recurrent funding.

Clarify that the need for Council approval to new commitments extends only to matters which constitute a material change to the Budget and Policy Framework. Otherwise the responsibility lies with the Council Cabinet. The responsibility for determining what is a material change would fall jointly to the Director of Resources and the Director of Corporate and Adult Social Services.

This reflects current practice in the absence of any clarity in the Constitution.

Clarify a requirement of COs to consult with other COs and DoR on any plans which will impact on another COs budget (as well as services), and to require Council Cabinet approval to any change or virement which is not mutually agreed.

The current requirement is only to consult other Chief Officers.

Clarify the definition of revenue budget heads:

- at a minimum the net controllable budget for each service activity reported to Council in March, but at a more detailed level if directed by a Chief Officer
In practice, budgets are generally controlled at the net level for each service activity rather than at any more detailed level within the service activity budget. Current definitions are silent on this point.
- Council Cabinet is however required to any use of income where this is an external grant that was not previously approved as part of the Council budget, or where total new income available to that department exceeds by more than £100,000 the estimates previously approved for that department as a whole
This is an exception to the principle of control based on net budgets, to ensure that Cabinet can take into account significant new unplanned income. The requirement to

report new grant sources was included in the 21 February 2006 revenue budget report to Council Cabinet.

- Capital budgets, reserves and school budgets are to be treated separately
For the avoidance of any doubt, as covered adequately elsewhere

The reference to 'temporary' virement in the Scheme of Virement is deleted.

'Temporary' virements are often in practice permanent ones and the wording is misleading. The key wording is the separate requirement to make permanent virements as part of the budget process or where urgent via Cabinet and Council – this wording is retained.

The detailed in-year allocation of reserves will not require further approval where consistent with already approved uses.

This clarifies treatment, consistent with lump sum budgets and contingencies.

Rules on the carry forward of year end underspending are amended:

- To clarify that approval is required of Council Cabinet
The current reference is to reporting to Cabinet.
- To require disclosure of the financial year in which the underspending is expected to be applied
- To require assurance that new commitments are not being entered into without demonstration of how other unavoidable future pressures are being addressed
The principle is that underspending should be considered across the old and new financial years not in the old year in isolation.
- To recognise that there are some exceptional circumstances where unavoidable and urgent commitments have to be made on the assumption of the availability of the approved use of underspending. In such circumstances COs should report the commitment to the Director of Finance who may agree a procedure for authorising such exceptional and urgent items and advise Cabinet members, but COs will still remain responsible for managing budgets within total approved levels.
This reflects the fact that formal approval to use of carried forward underspending is not normally given until 4 months after the end of the financial year.
- To clarify that where underspending can be anticipated in advance of the year end, proposals on the use of underspending can be contained within budget proposals for the following year.
This is occasionally done at present. The clarification points to a means of avoiding the routine use of the exceptional circumstances set out immediately above.

Reference to the treatment of year end under and overspending in schools is deleted.

This is dealt with in Schools Financial Regulations.

E Capital

The requirement to obtain tenders after obtaining scheme commencement approval from Cabinet is relaxed, so that tenders may be obtained prior to scheme commencement approval.

Current rules cause some difficulty in progressing capital schemes and mean that commencement approval is often sought concurrently with initial inclusion in the programme. Commencement approval will also be based on more accurate costings once tenders have been received and provides an opportunity to amend the capital programme concurrently with the approval. The change is a permissive one – tenders may still be obtained after scheme commencement approval.

Clarification is given of the need for Council to approve in year additions to the capital programme only where additional borrowing would be required or the scheme would be funded by previously unallocated reserves. Council Cabinet approval is still required to approve all other additions/variations and virement of funding to meet them.

One interpretation of FPR E1 is that it currently requires Council approval to the inclusion of all additions to the programme, however small the scheme is. This would be unworkable and the interpretation is not followed in practice. The more material issues are considered to be whether new borrowing or previously unallocated funds are required.

As approval to the capital programme is scheme specific, it is not appropriate for approval for virement of funding between schemes to be delegated below Cabinet level.

The minimum requirements for inclusion in a Scheme Commencement Report are defined.

Introduce specific DoR responsibilities for clarification:

- To ensure consistency between the capital programme and the revenue budget, the approved use of reserves and the capital strategy
- To ensure that reports presented on the capital programme meet the requirements of the Local Government Act 2003 in terms of prudential guidelines and affordability
- To monitor and report on capital income and financing
Replicating the requirement to report on capital expenditure, recognising the volatility of some sources of financing for the capital budget.

Introduce a specific CO responsibility for clarification, to gain prior Cabinet approval to bids for external funding for capital schemes which require net additional funding or additional borrowing. A bid is defined as an action that is intended to solicit an offer of funding which the Council would then be expected to act on.

Consistent with the treatment of revenue costs and clarifying the requirement in terms of additional borrowing, consistent with the prudential guidelines. This change is consistent with the treatment of bids for capital funding in the February 2006 Cabinet report on the capital programme. It has also been suggested that there is some ambiguity in the absence of a definition.

F Accounting

Update the DoR responsibility to ensure Council approval of the Statement of Accounts, changing the date to 30 June.

Reflects statutory changes to the date. Note that the Council has delegated approval to the Audit and Accounts Committee.

G Audit and Risk Management

Introduce DoR responsibilities to:

- Report to the Audit and Accounts Committee on the audit programme and progress in implementation, on results of audits and implementation of recommendations, and other audit and risk management matters within its remit
Reflects the formation of the Committee and its wide remit, replacing previous arrangements which pre-dated reporting to Cabinet
- Report to Council Cabinet on the risk management strategy and policy and to reflect issues raised by the Audit and Accounts Committee in so doing
There is currently no mention of risk management reporting in the FPR. This reflects current practice.
- Bring issues raised by External Audit to the attention of the Audit and Accounts Committee and if necessary the Cabinet and Chief Executive.
The FPRs are currently silent on the need to report on external audit findings. This reflects current practice.

Introduce CO responsibility to maintain risk registers, assess risks and put in place mitigating actions.

H Ordering And Paying For Work, Goods And Services

No change. To be amended concurrently with Contract Procedure Rules.

K Taxation

Introduce a DoR responsibility to report to Council Cabinet and Council on the general impact on taxation of any reports as part of the financial implications of reports.

Introduce CO responsibilities

- To keep records of benefits in kind
- To ensure the availability of tax and NI details for self employed persons before engaging them

L Assets And Security

Reference to the Risk Management Sub-Group in this section is removed.

M Treasury Management, Banking And Trust Funds

DoR responsibilities are reordered to consolidate responsibilities on borrowing and investments and banking within the section on Treasury Management.

N Work For Third Parties, Trading Activities And Activity By Former Direct Service Organisations

This amalgamates the previous sections N and O, as following the repeal of Compulsory Competitive Tendering legislation there is little distinction to be made between the scope of the sections. Apart from this reordering, the changes are as below.

Introduce CO responsibilities:

- To obtain Council approval for the formation of companies to be used to undertake trading activities.
Use of companies is generally required under the Local Government Act 2003 in the absence of other powers.
- Specific accounting responsibilities in relation to Direct Labour/Service Organisations are replaced by a general responsibility to follow guidance issued by the DoR in respect of accounting for trading, business units and former DSOs and trading with third parties.
Complements the responsibility of the DoR to issue directions on accounting matters generally under FPR F. Special accounting requirements for DLO/DSOs no longer exist.

FPR Appendix 1 - Financial Limits (Other Than as Set Out in the Scheme of Virement)

In addition to the details below, some reordering may take place of the main body of the FPR to transfer reference to other all specific limits into this Appendix.

Capital Schemes Control

Reference to the delegated scheme commencement limit of £100,000 is now made here (rather than in Section E)

The minimum limit for reporting capital scheme variations is increased from £5,000 to £10,000.

The updating reflects the absence of any previous revision and the requirement for the DoR to keep limits under review.

The reference to an upper £250,000 scheme limit for the 10% reporting requirement is removed.

The upper limit is has no operational meaning as there is no reference to what happens if it is exceeded – so if costs vary by more than £25,000 (10% of a £250,000 scheme) they are still reported through to Cabinet as with other variations.

Imprest Accounts

Limits on transactions are doubled to £50 generally and to £100 for schools

The updating reflects the absence of any previous revision and the requirement for the DoR to keep limits under review.

FPR Appendix 2 – Scheme of Virement - Revenue Budgets

See FPR D – Revenue Budgets