SLCC
Society of Local Council Clerks
Professional Supportive Innovative

ADVICE NOTE: How we deal with money

Advice on the content of Financial Regulations for Local Councils in England

1. Introduction

1.1. All organisations need procedures which control how they operate. This is particularly true for financial operations and particularly important for public authorities which are responsible for managing public money.

1.2. Local councils are subject to a range of statutory requirements and these include how they deal with money matters. The principal controls are included in "Accounts and Audit Regulations" which are issued by the Government from time to time. Although necessarily formal in style, they are reasonably clear and understandable and usually include useful explanatory notes. All Clerks and Finance Officers should make sure that they are familiar with the current version of these regulations, the Accounts and Audit Regulations 2015 (2015 SI No. 234), made in accordance with the Local Audit and Accountability Act 2014.

1.3. The regulations make it clear that the Council, as a whole, is responsible for ensuring that its financial management is adequate and effective and that it has a sound system of internal control. Subject to any instructions from the Council, it is the task of the responsible finance officer (which in smaller authorities is usually the clerk) to determine detailed accounting procedures. The principal way in which a council will discharge its financial responsibilities and give instructions to its finance officer is by means of its Financial Regulations.

1.4. The Accounts and Audit Regulations also stipulate in Part 4 that local councils must comply with *proper practices* in relation to their accounting procedure. These proper practices are set out in Sections 1 and 2 of "Governance and Accountability for Smaller Authorities in England" (the "Practitioners' Guide") issued by the Joint Practitioners' Advisory Board (JPAG) and published jointly by SLCC and NALC. The advice contained in Sections 1 and 2 has statutory force and must, therefore, be understood by clerks and finance officers and implemented by local councils.

1.5. For financial regulations to be effective, they should be clear, practical, easily understandable and relevant. There is a danger that, whilst being thorough and comprehensive, they can be too technical and complex and thus become remote from the day to day financial activities that they are in place to control. It should also be remembered that they represent the *Council's* instructions on how it wants to control its activities; detailed advice on accounting arrangements, which are the responsibility of the Finance Officer, are often better dealt with by written procedures and system notes.

1.6. In terms of providing model regulations, there is the particular difficulty presented by the wide range in size and functions of local councils in England. A set of regulations that suited a reasonably large town council would be too complicated for the majority of smaller authorities, so that they might become irrelevant and of little practical benefit.

1.7. To address this issue the advice provided here includes explanations of the principles which underlie the draft regulations, so that different wording can be used to suit different circumstances provided that the relevant principles continue to apply

2. General

*2.1. **Principles** This section is designed to ensure that members and staff know the purpose and status of Financial Regulations, the legislative background, how they should be reviewed and how they can be amended.*

2.2. Suggested Regulations

2.2.1. These regulations govern how the council conducts its financial affairs. They set out how all money matters are dealt with and should be complied with at all times. They are approved by full council and can only be amended by full council as an agenda item with proper notice.

2.2.2. They form part of the arrangements by which the council discharges its responsibility under the Accounts and Audit Regulations 2015 to ensure: a) that the financial management of the council is adequate and effective and that it has a sound system of internal control, and b) that its accounts comply with proper practices as set out in Sections 1 and 2 of "Governance and Accountability for Smaller Authorities in England".

2.2.3. Other arrangements are set out in the Council's Standing Orders in relation to Contracts and Tendering and any accounting instructions issued by the council's Responsible Finance Officer, which should be referred to in conjunction with these regulations where appropriate.

2.2.4. The regulations should be reviewed annually as part of the council's assessment of its internal control arrangements and amended where necessary to ensure that they remain effective and up to date.

3. The Budget Setting Process

*3.1. **Principles** The budget, which is approved annually, is the principal tool by which the council controls how its money is spent. It is also the council's primary planning tool, so that the budget setting process should be used to consider and agree what the council is seeking to achieve in the next 2 or 3 years, the major issues that it faces and how it is going to address them. Detailed procedures will vary according to the size of the authority, whether there are committees and so on.*

3.2. Suggested Regulations

3.2.1. Each year, before work begins on the budget, the Council will meet to consider the main issues that it wants to address and agree its objectives for the next year and for the medium term. It will review what has happened so far in the current year and identify any problem areas that need to be tackled and any changes that it wants to make during the planning period.

3.2.2. At the beginning of the budget process the council will consider any capital projects that are in progress or which are planned. No major projects should be undertaken without a detailed feasibility report which will include funding sources, cash flow forecasts and revenue implications for future years. Commitments to capital schemes should not be entered into unless and until the financial consequences have been incorporated in the council's approved budget.

3.2.3. By the end of November draft spending plans and income proposals for the forthcoming year should be submitted to council, together with forecasts for the next two years. These should be accompanied by a report from the RFO on the estimated level of resources and issues arising from the proposals.

3.2.4. The council will consider the detailed budget in January for approval. It shall review the resources available to it, including grants and reserves, and set the precept for the next year.

4. Budgetary Control

4.1. ***Principles.*** *The budget not only acts as the council's plan of action, but also form the main instrument for implementing that plan. By controlling and monitoring how money is spent, the council ensures, not only that the use of its resources is properly managed but also that its decisions are implemented according to the approved plan.*

4.2. **Suggested Regulations**

4.2.1. Expenditure on revenue items may be incurred up to the amounts approved in the budget. Payments on any capital project should be made in accordance with forecast cash flows included in the approved project plan.

4.2.2. Where essential spending would otherwise exceed the approved budget, amounts can be transferred ("vired") from other budget heads or from reserves with the approval of council.

All reports must include clear financial and procurement implications under their respective headings, identifying the cost implications, for the current year and following two years, including income, expenditure and VAT and also the financing of the net expenditure covering existing budgetary provision, virement from another budget or the requirement to use Reserves,

4.2.3. The RFO shall report regularly to Council on actual spending and income against budget, highlighting significant variances. Unspent balances at the year end will be transferred to the general reserve.

4.2.4. Urgent expenditure of up to £1,000 may be authorised by the Proper Officer, notwithstanding any budgetary provision. Such spending should be reported to Council as soon as possible and the budget should be amended accordingly.

5. Accounting and Audit

5.1. ***Principles*** *Accounting and auditing procedures are prescribed by the Accounts and Audit Regulations and "proper practices" set out in the "Practitioners' Guide" published by the Joint Practitioners' Advisory Group (JPAG).*

5.2. Suggested Regulations.

5.2.1. Accounting procedures and financial records shall be determined by the RFO, who shall issue such accounting instructions as are considered necessary.

5.2.2. The RFO shall be responsible for preparing the council's financial statements and completing the relevant section of the Annual Return required by proper practices, and submitting to the Council in accordance with the statutory time limits.

5.2.3. The Proper Officer shall ensure that all statutory requirements to publish accounting statements and facilitate public access and inspection are complied with and that the requirements of the External Auditor are met.

5.2.4. A suitably competent and independent person shall be appointed by the council as its internal auditor, to undertake regular reviews of the council's internal control systems and report thereon to the Council. The appointed person should complete the relevant section of the Annual Return.

5.2.5. All reports by the Internal or External Auditor shall be considered by council. Any recommendations should be implemented or reasons why they are not, recorded in the minutes.

5.2.6. The council should review the effectiveness of its internal audit arrangements on a regular basis.

5.2.7. Members and officers shall co-operate with auditors and provide such information and records as they or the RFO requires.

6. Safeguarding Money

6.1. ***Principles*** *Councils must have safe and efficient arrangements in place to safeguard public money. The term money includes cash and anything that can easily be converted into cash.*

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Wherever possible more than one person should be involved in any activity involving money. The Accounts and Audit Regulations require the council to have a sound system of internal control which facilitates the effective exercise of its functions and to ensure that the financial management of the council is adequate and effective.

~~6.1.~~6.2. **Suggested Regulations**

6.2.1.The council shall ensure that the Responsible Financial Officer has responsibility for the proper administration of its financial affairs. In the absence of the Proper Officer, a suitably qualified and experienced replacement will be duly appointed to undertaken the financial tasks of the Proper Officer during this absence. For the avoidance of doubt, this may include extended holiday cover and long term sickness. It does not mean normal annual leave or short term sickness. ~~ir absence,~~ The RFO should be familiar with the statutory duties for financial administration as they apply to the council. The duties of the RFO include advising the council on its corporate financial position, key financial controls and treasury (cash and investments) management.

6.2.2. The RFO is responsible is setting up banking arrangements but these and any changes to them, must be approved by the council. Any arrangements to automatically transfer money between accounts must also be approved by the council.

6.2.3.The use of any form of corporate credit card is not permitted.

6.2.4.Each bank mandate, list of authorised signatures, limits of authority and amendments to any of these, must be approved by the council. Authorised signatories should be rotated on a regular basis.

6.2.5.Monies received should be banked on a regular basis by the RFO. Cash should be banked, intact, at the earliest opportunity. Wherever possible arrangements for handling cash should involve at least to people. All people responsible for financial should receive appropriate training.

6.2.6.The council will review the arrangements for handling money and its associated risks at least annually. Up to date bank reconciliations should be presented to each ordinary meeting of the council, including copies of bank statements.

6.2.7.Invoices for payment should be checked by the Clerk and entered onto a schedule for approval by council. Payments made by electronic banking must be approved by council, and at least two people authorise any transaction, one of whom should be a member who is a bank signatory. Payments made by cheques shall require two bank signatories to sign and authorise the payment. Urgent payments may, exceptionally, be made by the clerk in consultation with the RFO and council Chairman or in his absence, the Vice Chair or Lead Member for Finance.
members. These should be reported to the next meeting, with appropriate explanations.

6.2.8.Once approved, signed cheques should be issued or other forms of payment initiated promptly by the RFO.

6.2.9.A petty cash float of £100 may be held by the RFO on an impress basis for minor disbursements. Reimbursement statements should be approved by council on a regular basis.

6.2.10. Direct debit or standing order payments may be permitted, with the approval of council, for regular items such as utility bills or payroll. Amounts so paid should be reported to council along with the normal payment schedule. The RFO must ensure that all salary and other relevant payments comply with PAYE and other rules issued by HMRC.

7. Loans and Investments

*7.1. **Principles.** Any borrowing by the council, other than for short term cash flow purposes, requires borrowing approval. Investments are subject to guidance issued by the Secretary of*

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State where significant sums are involved. Security should be the main factor in any investment of public money.

7.2. **Suggested Regulations**

7.2.1. Surplus revenue balances should be invested in a bank deposit account as arranged by the RFO and approved by Council. Longer term investments where advisable should be invested in line with current statutory guidelines and advice and be approved by council.

7.2.2. No long term borrowing should be undertaken without appropriate borrowing approval, the nature and terms of which shall be approved by council. Overdraft arrangements for short term cash flow purposes shall be on such terms as negotiated by the RFO and approved by council.

8. Income

*8.1. **Principles** Local councils have limited sources of income, but where they exist they should be taken advantage of to achieve value for tax payers and properly accounted for.*

8.2. **Suggested Regulations**

8.2.1. Income from fees, charges, grants etc., should be regularly reviewed to ensure that full advantage is taken of opportunities to raise additional resources. Charges set by council should be reviewed annually as part of the budget process.

8.2.2. The RFO should issue invoices promptly and institute efficient collection arrangements. Irrecoverable amounts should be written off by the council, following a report from the RFO.

8.2.3. VAT claims and returns should be completed promptly by the RFO in accordance with current HMRC rules.

9. Orders for Goods and Services

*9.1. **Principles** The aim of any purchasing process is to obtain the best value for the council. This will usually mean that more than quote should be sought, but it may not be cheapest that offers the best value. Where only a single quote is obtained, or one other than the cheapest is accepted, the reasons should be recorded. The ordering process is liable to fraudulent activity, so robust procedures need to be in place. At the same time over complicated arrangements can lead to delays and missed opportunities to achieve value for the authority. The cost limits for procurement procedures should be adjusted to suit the size and complexity of the council's financial activities.*

9.2. **Suggested Regulations**

9.2.1. Before placing an order or making a purchase steps should be taken to ensure that the council is paying a competitive price and achieving good value for money. Wherever possible quotes should be obtained from 3 sources. The table below provides the requirements when procuring services, materials etc.

Value of Contract (excluding VAT)	Council Requirement
Under £1,000	3 quotes which can be verbal or written estimate
Under £10,000	3 written quotes
Under £25,000	See Standing Orders
Over £25,000	See Standing Order 18 and must advertise in Contracts Finder
Over EU Thresholds	See Standing Order 18 - following Public Contract Regulations 2015

9.2.2. Longer term contracts for the supply of services such as gas, electricity, water and telephones should be regularly reviewed to ensure that the best terms are being obtained with regard to tariffs and supplier. Other ongoing arrangements such as with professional advisers, banks, insurance providers, maintenance contractors etc., should be reviewed at least every three years and a report prepared for council on how best to ensure continuing value for money. Everyone involved with the council should be aware of the need to achieve value and increase efficiency and should bring relevant issues to the attention of the clerk and the council.

9.2.3.Orders should be placed by the RFO only. Before committing the council the RFO should check that funds are available within the budget and that the council has the necessary power to incur the expenditure.

9.2.4. Orders should only be placed for goods and services that will be used by the council for its own purposes.

10. 9.2.5 Assets

10.1. ***Principles.*** *Stores and equipment represent valuable assets and need to be safeguarded in the same way that cash is. Larger assets need to be kept under review to ensure that they continue to meet the council's needs, are properly maintained and so on.*

10.2. Suggested Regulations

10.2.1. Items of equipment valued over £50 should be recorded on the Council's Asset Register , which should be
checked periodically by the RFO and updated accordingly.

10.2.2. Capital assets should be recorded in the Council's Asset Register at original cost. Where appropriate assets should be properly maintained and sufficient funds should be included in the revenue budget to enable this to happen. Assets, particularly land and buildings, should be reviewed to assess if the council is making the most effective economic use of them. Surplus assets should be disposed of, with the approval of council, for the best possible price.

11. Risk Management

11.1. ***Principles*** *The council needs to be aware of significant risks that it faces and decide rationally on how to manage them. This may involve insuring against them, minimising them, taking the risk or not pursuing the particular activity.*

11.2. Suggested Regulations

11.2.1. The council should conduct a risk assessment of its activities at least annually. This should involve identifying significant risks and agreeing how they should be managed, taking into account the potential consequences and the likelihood of the event happening. New ventures should be subject to a risk assessment before they are approved and the resultant management actions implemented.

11.2.2. Insurance arrangements should be set up by the RFO to cover potentially high cost risks and meet statutory obligations. Insurance terms and costs should be kept under regular review to ensure that best value is obtained.

12. Charities

12.1. ***Principles*** *If the council acts as a sole managing trustee of a charity, then whilst it is legally separate from the council, the same principles of financial management will apply subject to the requirement that the council as trustee must at all times manage the charity's finances in the best interests of the objects of the charity.*

12.2. Suggested Regulations

12.2.1. Where the council is sole managing trustee of a Charity, the Clerk shall ensure that all appropriate legal and administrative requirements are met, and the RFO shall ensure that separate accounts are kept of the Charity's transactions and that required returns are submitted. Subject to this, and to the overriding requirement that the council as trustee must at all times manage the charity's finances in the best interests of the object of the charity, these Financial Regulations will apply to the activities of the Charity.

Rod Latham

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