

Report for: Standards Committee 14 October 2019

Title: Financial Regulations Update

Report authorised by: Jon Warlow, Director of Finance (S151 Officer)

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Ward(s) affected: N/A

**Report for Key/
Non Key Decision:** Non Key decision

1. Describe the issue under consideration

- 1.1. To update the Council's Financial Regulations, and the Budget and Policy Framework Procedure Rules which form a part of the Council's constitution.

2. Cabinet Member Introduction

- 2.1. Not applicable.

3. Recommendations

- 3.1. That Standards Committee recommend Full Council: approve the changes to the Financial Regulations Part 4 Section I (Appendix 2) and associated amendment at Part 4, Section E, Budget and Policy Framework Procedure Rules at paragraph 7.1 (Appendix 3)"

4. Reason for Decision

- 4.1. The proposed changes to the Constitution are to ensure that:
 - the rules and processes by which decisions are made governing the management the Council's financial affairs are clearly set out;
 - effective financial controls are maintained;
 - procedures enable efficient open, accountable and decision making.

5. Other options considered

- 5.1. Leaving the Financial Regulations as they stand was considered, however there is a need to ensure that clear and effective financial procedures and controls are in place. As to the minor changes to the Financial Procedure Regulations no other alternatives were considered as the changes are required to either provide clarity or to reflect changes to legislation, the name of some Council Committees, the management structure, and Council documents.

6. Background information

- 6.1. It is good practice to regularly review and update the constitution generally, the financial regulations section of the constitution was last reviewed in 2014. In reviewing the financial regulations, it was noted that change would be required to the Budget and Policy Framework Procedure Rules in order for the two documents to remain consistent. Only one change is proposed to this document, which is detailed later in this report.
- 6.2. Senior officers from the council's finance, legal, audit and debt management teams have reviewed the Council's current financial regulations in order to update these. The current financial regulations and the changes proposed by this report are shown in Appendix 1 as a 'tracked changes' version in order for members to review what is proposed to change in the document. Appendix 2 presents a 'clean' version of the new proposed document, as this would be proposed to be published in the constitution with all the changes incorporated.
- 6.3. One change is proposed to the Budget and Policy Framework Procedure Rules, this is detailed in paragraph 6.4.2 below, and a proposed amended version of this document is appended at Appendix 3.
- 6.4. The review of the financial regulations has highlighted a number of minor amendments required, such as:
 - Changes to post titles where these have changed;
 - Changes to the titles of key documents;
 - Changes to the titles of Council committees;
 - Updates to include new legislation passed since 2014;
 - Using gender neutral pronouns for individuals named in the document, e.g. 'they' instead of 'he' or 'she';
 - Minor amendments to wording to improve the clarity of the document;
- 6.5. The review of the financial regulations also included some more substantive changes or enhancements to the document, and these are detailed individually below:

6.5.1. Paragraph 5.24 has been expanded upon with the below paragraph added to clarify and enhance the description of budget holder responsibilities:

'to take ownership for all aspects of the financial management of the service(s) which they are responsible for, including managing, controlling and recording all expenditure and income;'

6.5.2. The review of the financial regulations highlighted that the Council's definition of 'virement' required updating. 'Virement' is defined in the Council's Budget and Policy Framework Procedure Rules (Part 4 Section E). It was therefore necessary to also include this document within the scope of the review. The Council currently defines 'Virement' as per the below (Part 4 Section E, para 7.1):

“Virement” is the ability to meet increased expenditure or reduced income under one expenditure vote from savings in another expenditure vote or from increased income. The Council's rules on virement are set out in the Financial Regulations set out in the Constitution.'

6.5.3. In order to update the terminology used in this definition, and indeed to make this definition more specific, finance officers therefore recommend that this definition in the Budget and Policy Framework Procedure Rules is updated to read as follows:

“Virement” is a transfer of a budget for direct spend by the Council, which is required due to a policy change or re-prioritisation of resources between services. The Council's rules on virement are set out in the Financial Regulations set out in the Constitution.'

6.5.4. In reviewing the virements section of the Financial Regulations, officers recommend updating and expanding paragraph 5.28 to give further detail and to draw the distinction between a 'virement' (per the above definition), and a 'budget adjustment' which does not represent a change in policy or re-prioritisation and may be required for technical reasons. The proposed wording also includes a time frame in which reporting to cabinet should take place. The current and proposed reading of this paragraph are presented below.

Current reading:

'The Section 151 Officer may authorise virements between service areas for technical reasons, e.g. central support cost allocation, capital charges such as depreciation, FRS17 adjustments. Such adjustments will be reported in the budget monitoring reports to Cabinet.'

Proposed reading:

'The Section 151 Officer may authorise any budget adjustments between or within service areas or capital schemes, required for technical reasons and which do not fall into the below mentioned revenue or capital virement definitions. For example the Section 151 Officer may authorise central support cost allocation, capital charges such as depreciation, IAS19 pension adjustments, or to reflect the enactment of previous decision making. Such adjustments over £250k will be reported in the budget monitoring reports to Cabinet within 3 months of them taking place.'

6.5.5. Paragraphs 5.31 and 5.32 in the Financial Regulations specify particular limits for different types of virements. In reviewing the Financial Regulations, officers included consideration of the content of constitutions of other boroughs: it was noted that the virement limits in other constitutions were generally higher than those in Haringey's constitution, and some of these did not provide for executive (political) approval. Officers do not recommend that the current limits in Haringey's constitution are increased. Paragraphs 5.31 and 5.32 have been reworded to maintain consistency with the definition of virements mentioned above.

6.5.6. The sections in the Financial Regulations which details the role of internal audit has been expanded upon with a new paragraph added: 5.45:

'Internal audit is an independent and objective appraisal function established by the authority for reviewing the system of internal control. It examines, evaluates, and reports on the adequacy of internal control. It does this by objectively reviewing and advising management upon the effectiveness of their systems of internal control. It aims to provide assurance on the design and operation of internal controls and provide constructive and positive advice on control improvement and risk management.'

6.5.7. The section in the Financial Regulations which details Preventing Fraud and Corruption has been similarly expanded upon with new paragraphs 7.12 – 7.14 added:

7.12. *The Council will not tolerate fraud and corruption in the administration of its responsibilities, whether from inside or outside the Council.*

7.13. *The Council's expectation of propriety and accountability is that members and officers at all levels will lead by example in ensuring adherence to legal requirements, rules, procedures and good practices.*

7.14. *The Council also expects that individuals and organisations (e.g. suppliers, contractors, and service providers) with which it comes into contact will act towards the Council with integrity and without thought or actions involving fraud and corruption.*

6.5.8. In reviewing other constitutions, officers noted that the debt write off limits specified in paragraphs 8.14 and 8.15 of the Financial Regulations are also low when compared to other boroughs. The current content of these paragraphs is copied below for ease:

8.14. *Arrears of housing rents and other housing income administered by the ALMO (Homes for Haringey) may be written off in accordance with procedure notes issued by the **Section 151 Officer** with the below authorities:*

- a) *up to £100, the approval of **Chief Executive of the ALMO** and reported to the **Section 151 Officer**.*
- b) *£100 and up to £25,000, the approval of the **Section 151 Officer** upon the advice of the **Chief Executive of the ALMO**.*
- c) *£25,000 or above, the approval of the **Cabinet Member for Resources** upon the advice of the **Chief Executive of the ALMO** and the **Section 151 Officer**.*

The ALMO shall keep a record of all such sums written off.

8.15. *All other debts which remain unpaid may be written off in accordance with the below authorities:*

- a) *Up to £25,000 on the approval of the **Section 151 Officer** upon the advice of the relevant **Director**;*

b) £25,000 or above on the approval of the Cabinet Member for Resources upon the advice of the relevant Director and the Section 151 Officer.

Corporate Finance shall keep a record of all such sums written off.

8.16. All debts written off will be reported in summary to the **Cabinet** in the regular budget monitoring reports.

6.5.9. Of the other borough constitutions examined, it was noted that generally the limits specified within these were higher (for example a limit of £200k where Haringey has £25k currently), and also some boroughs did not require the involvement of the executive to write off debt, this was a delegation only to officers. In reviewing and considering this, officers recommend the below changes:

- That the first level of debt write-off for the ALMO be increased to £1,000
- That an additional lower level write-off provision be included for debts up to £1,000 for the Council
- That the £25,000 limit for write offs be increased to £50,000

6.5.10. The proposed revised reading of these two paragraphs is copied below:

8.14. *Arrears of housing rents and other housing income administered by the ALMO (Homes for Haringey) may be written off in accordance with procedure notes issued by the **Section 151 Officer** with the below authorities for individual debt accounts:*

- a) *up to and including £1,000, the approval of **Chief Executive of the ALMO** and reported to the **Section 151 Officer**.*
- b) *Over £1,000 and up to and including £50,000, on the approval of the **Section 151 Officer** upon the advice of the **Chief Executive of the ALMO**.*
- c) *Over £50,000, on the approval of the **Cabinet Member for Finance** upon the advice of the **Chief Executive of the ALMO** and the **Section 151 Officer**.*

The ALMO shall keep a record of all such sums written off.

8.15. *All other individual debt accounts which remain unpaid may be written off in accordance with the below authorities:*

- a) up to and including £1,000, the approval of relevant **Director** and reported to the **Section 151 Officer**.
- b) Over £1,000 and up to and including £50,000, on the approval of the **Section 151 Officer** upon the advice of the relevant **Director**;
- c) Over £50,000, on the approval of the **Cabinet Member for Finance** upon the advice of the relevant **Director** and the **Section 151 Officer**.

Corporate Finance shall keep a record of all such sums written off.

- 8.16. *All debts written off will be reported in summary to the **Cabinet** in the regular budget monitoring reports.*

7. Contribution to Strategic Outcomes

7.1. None.

8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

Finance and Procurement

8.1. The financial regulations are one of the Council's core governance documents, these must be kept under regular review to ensure they remain current, changes to these must be carefully scrutinised by Officers from a variety of Council disciplines, and members.

Legal

8.2. Section 9P Local Government Act 2000 requires the Council to prepare and keep up to date a Constitution. By virtue of section 5 of the Local Government and Housing Act 1989 the Monitoring Officer is responsible for the operation of the Council's Constitution. This includes monitoring and reviewing the operation of the Constitution to ensure that its aims and principles are given full effect, and matters of interpretation of the Constitution's Rules and Procedures as necessary.

8.3. The Assistant Director of Corporate Governance confirms that the changes are required to comply with the Council's statutory responsibility to keep the Constitution up-to-date and ensure that the rules and process by which decisions are made in relation to the management of the Council's financial affairs are clearly set out.

Equalities

8.4. There are no equalities issues arising from this report.

9. Use of Appendices

Appendix 1 – tracked changes proposed version of Financial Regulations

Appendix 2 – clean proposed version of Financial Regulations

Appendix 3 – proposed version of Budget and Policy Framework
Procedure Rules

10. Local Government (Access to Information) Act 1985

10.1. Not applicable.