SECTION 4 – FINANCIAL REGULATIONS

1. INTRODUCTION

1.1 What are Financial Regulations?

1.1.1 The county council is responsible for providing a wide range of services for its citizens which involve receiving and spending large sums of money each year. Financial regulations aim to ensure that the county council makes the best use of the money it has available to spend.

1.1.2 The financial regulations are very much a strategic document and at the highest level sets out the financial responsibilities of members, and some of the most senior officers, strategic directors, assistant directors (including the chief fire officer), and the chief finance officer (also known as the Section 151 officer) of the county council.

1.1.3 The financial regulations form a part of the means by which the county council manages its business. They clarify roles and responsibilities and provide a framework for financial decision-making. Where there are specific statutory powers and duties the financial regulations seek to ensure these are duly complied with, as well as reflecting best professional practice and decision-making of the county council, cabinet and committees. In summary the financial regulations are the regulatory framework within which the financial affairs of the county council operate.

1.1.4 Supporting the financial regulations are detailed finance rules which deal with the day to day work of the county council. All members and all officers of the county council must abide by both the financial regulations and the financial procedure rules.

1.1.5 The finance rules are found on the WCC website. It is the responsibility of the chief finance officer to ensure that financial regulations and finance rules are kept under review and fit for purpose in accordance with the constitution.

1.2 Why are Financial Regulations important?

1.2.1 To conduct its business effectively, the county council needs to ensure that sound financial management arrangements are in place and they are strictly adhered to in practice. In particular financial regulations:

- Provide a framework for all members and officers for the proper and efficient administration of the council's financial affairs;
- Encourage all members and officers to abide by the highest standards of probity and integrity with clear standards which need to be continually maintained and there are controls to ensure that these standards are met;
- Ensure that there are clear roles, responsibilities and accountabilities for members and officers in order to protect the council's money and assets; and
- Ensure that the use of resources is legal, properly authorised and gives value for money.

1.2.2 In seeking to achieve value for money all members and officers shall give due consideration to:

- How each service fits within the corporate activities;
- Acquiring resources at an appropriate quality and minimum cost;
- Ensuring that the maximum benefit is obtained from the resources used;
- Ensuring that the benefit from providing a service is achieving the desired result or predefined target; and
- How performance can be assessed objectively and what evidence needs to be provided to allow this to be evaluated by the community we serve.

1.2.3 The financial regulations should be read in conjunction with other documents and sections of the constitution, in particular:

- The Budget and policy framework
- Contract standing orders
- The General scheme of delegation

1.3 Who do Financial Regulations apply to?

1.3.1 Financial regulations apply to all members and officers of the county council and anyone acting on its behalf. All members and officers have a responsibility for ensuring any resources or assets under their control are kept securely and used for council business only.

1.3.2 The county council is the administering authority for the Local Government Pensions Scheme in Warwickshire. These financial regulations apply to the administration of the Local Government Pension Scheme in Warwickshire.

1.3.3 The financial regulations will also apply to any joint commissioning or partnership arrangement where the county council is the accountable body, unless full council expressly agrees otherwise.

1.4 Who is responsible for ensuring Financial Regulations are adhered to?

1.4.1 The chief executive’s ultimately responsible for ensuring financial regulations are adhered to. Strategic directors and assistant directors are responsible for ensuring financial regulations are applied and observed by staff and contractors, providing services on behalf of the council, at all times. In addition, all members and officers have a responsibility for reporting any breaches of these financial regulations to the chief finance officer as soon as they come to light.

1.4.2 The chief finance officer in turn is responsible for reporting any breaches of these financial regulations to elected members and advising members on alternative causes of action which may be taken.

1.4.3 The chief finance officer is responsible for keeping the financial regulations under continued review ensuring any changes or additions are submitted to full council for approval.

1.4.4 The chief finance officer is also responsible for issuing the finance rules on specific issues that underpin the financial regulations.

1.4.5 All officers of the council must act in a way which they believe achieves value for money and is in the best interests of the council.

1.5 What may happen if you do not comply with Financial Regulations?

1.5.1 Failure to comply with financial regulations and financial procedure rules may have the following consequences:

- For officers, these regulations supplement the Employer and Employee Responsibilities code and therefore a breach may be considered a disciplinary matter and could lead to dismissal.

- For members, these regulations supplement the Members' Code of Conduct and therefore a breach may be reported to the Audit and Standards Committee for them to take appropriate action.

2. GENERAL ROLES AND RESPONSIBILITIES

2.1 Introduction

2.1.1 The county council is a single entity with certain devolved accountabilities but the overall responsibility for financial administration of the county council remains with the chief finance officer. Members and senior officers also have responsibilities and accountabilities for financial administration which are outlined in this section. All officers are responsible for ensuring that they abide by the constitution, including these financial regulations, contract standing orders and the finance rules.

2.2 Members

2.2.1 Members have a number of roles and responsibilities which are discharged collectively through the audit and standards committee, the cabinet or full council, in particular members must:

- Approve the financial regulations at full council.
- Set the authority's financial strategy, including budget setting and capital expenditure.
- Set the authority's budget and policy framework through full council.
- Ensure proper control is exercised over the authority's expenditure through scrutiny of periodic financial reports comparing expenditure and income with the level of budgetary provision through cabinet.
- Ensure a balanced budget is set by full council at its meeting in February each year.
- Scrutinise financial probity through the audit and standards committee, scrutiny committees and, if necessary, cabinet.
- Agree financial allocations to ensure the finance function is suitably resourced to support management in securing effective financial control through full council.

2.3 The Chief Finance Officer (Assistant Director - Finance & ICT)

2.3.1 The chief finance officer must discharge the statutory duties defined in the following legislation and codes:

- The Local Government Act 1972, section 151;
- The Local Government Finance Act 1988, sections 112-114;
- The Local Government and Housing Act 1989;
- The Local Government Act 2003;
- The Accounts and Audit (England) Regulations 2011;
- The Code of Practice on Local Authority Accounting in the United Kingdom (based on International Financial Reporting Standards);
- The Prudential Code for Capital Finance in Local Authorities; and
- Any CIPFA statements defining best practice.

2.3.2 One of the most significant pieces of legislation is Section 151 of The Local Government Act 1972 which states:

'……every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has the responsibility for the administration of those affairs.'

2.3.3 The county council has designated the chief finance officer as the officer responsible for the administration of its financial affairs and that is why the chief finance officer is sometimes referred to as the 'Section 151 officer'.

2.3.4 To fulfil the statutory responsibilities the chief finance officer must:

- Nominate a named officer as the deputy Section 151 officer to act in this role in the absence of the chief finance officer;
- Provide financial advice to members to support the strategic planning and policy making processes and service development to ensure efficient and effective use of resources;
- Provide advice and financial information to members, strategic directors and assistant directors on the optimum use and adequacy of available resources and management of both capital and revenue budgets;
- Establish the county council's accounting records and control systems including:

    - Approving any changes to be made to existing financial systems, or new systems introduced within the county council, ensuring that all the county council's financial systems help cost centre managers achieve value for money by providing accurate, relevant and timely information for decision-making;
    - Ensure the maintenance of proper accounting records;
    - Formulate measures to prevent and detect inaccuracies and potential fraud and corruption and the ability to reconstitute primary records in the event of them being lost;
    - Define the procedures used by members and strategic directors for the write-off of assets, including obsolete items;
    - Define the procedures used by members and strategic directors for the write-off of debts owed to the county council;
    - Publish an annual statement of accounts in the prescribed format.

2.4 The Monitoring Officer (currently the Assistant Director for Governance & Policy)

2.4.1 The monitoring officer is responsible for promoting and maintaining high standards of conduct and therefore provides support to the audit and standards committee. The monitoring officer is also responsible for reporting any actual or potential breaches of the law or maladministration to cabinet and/or full council and for ensuring that the procedures for recording and reporting key decisions are operated effectively.

2.4.2 The monitoring officer is responsible for:

- Ensuring that reports encompass the statutory obligations with regard to their legal and financial advice and content;
- Ensuring member decisions and the reasons for them are made public;
- Advising both members and officers about who has authority to take a particular decision;
- Advising members about whether a decision is likely to be considered contrary or not wholly in accordance with the county council's budget and policy framework;
- Maintaining an up to date constitution; and
- Maintaining a register of members' and officers' interests.

2.4.3 The monitoring officer together with the chief finance officer is responsible for advising members about whether a decision is likely to be considered contrary or not wholly in accordance with the approved budget or budget setting process and may include:

- Initiating a new policy outside the budget setting process;
- Incurring inter directorate/business unit budget transfers between business units above virement limits;
- Committing expenditure during the year which is above the approved revenue or capital budget; or
- Committing expenditure in future years which is above the approved revenue or capital budget.

2.5 Strategic Directors

2.5.1 Strategic directors have overall responsibility for ensuring the assistant directors within their directorate manage their resources within the revenue and capital budget limits set by full council each year and can take any action necessary to ensure resources are managed appropriately. Assistant directors are responsible for budget control and probity on a day to day basis and for ensuring that they act within their delegated powers and comply with all constitutional requirements when doing so.

2.5.2 Strategic directors must act within the budget and policy framework, promote probity and sound financial control. Assistant directors must do the same.

2.5.3 Strategic directors must report to the chief finance officer on any matter which may result in a failure of their directorate's financial control processes or any other matter which could adversely affect the financial standing of their directorate.

2.5.4 Specifically strategic directors must report to the chief finance officer if at any time during the financial year:

- There are any unplanned or previously unreported variances to capital and revenue income and/or expenditure;

- The directorate is not going to meet any savings or efficiency targets;
- There are proposed variations to policy which will have financial implications; or
- There are organisational changes which might impact on the demand for financial support services.

2.6 Assistant Directors

2.6.1 Assistant directors have responsibility for articulating their services plans into the annual budget cycle ensuring strategic directors are fully aware of any planned or future service delivery issues.

2.6.2 Assistant directors are responsible for managing expenditure and income against revenue and capital budgets and must provide information to strategic directors or the chief finance officer of any issue where corrective action needs to be taken to keep expenditure within budget.

2.6.3 Assistant directors are responsible for monitoring the budgetary position of their service and for keeping strategic directors informed of this position.

2.6.4 Assistant directors must ensure that their strategic director is kept regularly informed of the financial position of each service.

3. STRATEGIC FINANCIAL MANAGEMENT

3.1 The financial roles and responsibilities of the chief executive, strategic directors, chief finance officer and assistant directors can be grouped under a number of critical functions.

3.2 There are four key strategic financial management processes covered by financial regulations:

- Financial decision making
- Planning for the use of resources
- Controlling the use of resources
- Accounting for the use of resources

3.3 Each of these is taken in turn, explaining why they are important to ensure sound strategic financial management and detailing the additional responsibilities of the most senior officers.

3.4 FINANCIAL DECISION MAKING

Why is this important?

3.4.1 In making financial decisions, members take account of the information and advice given to them by officers and, in particular, the chief finance officer. The chief finance officer also has delegated financial responsibilities which require him to take financial decisions, usually in consultation with the monitoring officer. These decisions can have major financial and legal implications, and it is therefore important that they are soundly based on accurate and appropriate information.

The Chief Finance Officer must:

3.4.2 Provide advice and financial information to members, strategic directors and assistant directors on the optimum use and adequacy of available resources and management of both capital and revenue budgets. In particular, this should:

- take account of all relevant corporate and directorate considerations;
- take account of both long- and short-term costs and benefits;
- take account of professional advice, for example legal or financial advice;
- be compiled in accordance with best professional practices by suitable staff;
- be appropriate and provide a sound basis for financial decision making; and
- be presented at the most appropriate time to allow effective decisions to be made.

3.4.3 These requirements extend to the legal reasonableness and financial prudence of all decisions taken by both members and officers.

The Monitoring Officer must:

3.4.4 Ensure that all legal advice given to members or used by officers to make decisions with financial implications:

- takes account of all relevant directorate and corporate considerations;
- is compiled in accordance with best professional practice by suitable staff;
- is appropriate and provides a sound basis for decision-making; and
- is presented at the most appropriate time to allow effective decisions to be made.

3.4.5 These requirements extend to the legal reasonableness and financial prudence of all decisions taken by either members or officers.

Strategic Directors must:

3.4.6 Ensure that all financial information given to members or officers in order for them to make decisions with financial implications:

- takes account of all relevant directorate and corporate considerations;
- takes account of both long- and short-term costs and benefits;
- takes account of financial advice and any financial implications (the chief finance officer should be consulted when drafting committee or other reports which contain proposals which have financial implications);
- takes account of legal advice and any legal implications (the monitoring officer should be consulted when drafting committee or other reports which contain proposals which have legal implications);
- takes account of other professional advice, where appropriate;
- is compiled in accordance with best professional practices by suitable staff;
- is appropriate and provides a sound basis for financial decision-making; and
- is presented at the most appropriate time to allow effective decisions to be made.

3.4.7 Strategic directors are reminded that these requirements extend to the legal reasonableness and financial prudence of all decisions taken by either members or officers.

Assistant Directors must:

3.4.8 Ensure that all financial information given to strategic directors and cost centre managers or other officers within their directorates:

- takes account of all relevant directorate and corporate considerations;
- takes account of both long- and short-term costs and benefits;
- takes account of financial advice and any financial implication (the chief finance officer should be consulted when drafting committee or other reports which contain proposals which have financial implications);
- takes account of legal advice and any legal implications (the monitoring officer should be consulted when drafting committee or other reports which contain proposals which have legal implications);
- takes account of other professional advice, where appropriate;
- is compiled in accordance with best professional practices by suitable staff;
- is appropriate and provides a sound basis for financial decision-making; and
- is presented at the most appropriate time to allow effective decisions to be made.

3.5 PLANNING FOR THE USE OF RESOURCES

Why is this important?

3.5.1 The county council is a large complex organisation providing a multitude of different services, and like any organisation of this scale it needs to plan effectively and develop systems to ensure that scarce resources are allocated in accordance with carefully weighed priorities. All decisions on the revenue budget are taken by full council except those that relate to the current year's approved budget and the use of any earmarked reserves which have been delegated to the cabinet.

3.5.2 All items of income and expenditure of the county council are classified as either revenue or capital.

3.5.3 The revenue budget is the expression in financial terms of individual service's plans. It is concerned with the day to day spending required to provide a service, for example, employee pay, supplies and services, energy costs, etc.

3.5.4 The capital programme is the expression in financial terms of individual service's plans to purchase, construct or improve assets with a lasting value, for example, land, buildings and large items of equipment.

3.5.5 The process for preparing and setting the budget should ensure that it reflects each service's aims and objectives in financial terms for the period ahead. Budgets must be based on projections about pay and inflation and all cost savings should be identified, assessed for achievability and planned in advance. Known developments should be anticipated and full cost implications should be determined. Revenue and capital budgets should be integrated and presented as such to members.

3.5.6 It is important to ensure that the full revenue consequence of capital expenditure is reflected in the revenue budget and the options of either a revenue or capital approach to service delivery is considered.

The Chief Finance Officer must:

3.5.7 In consultation with corporate board prepare and submit reports to the cabinet outlining likely developments, including resource constraints set by the government and changing demands on services, which will have an influence upon the revenue and capital budgets of the county council.

3.5.8 Also in consultation with corporate board prepare and submit reports to the cabinet summarising the budget proposals and, where appropriate, identify the implications for the level of precept to be levied by the county council and the impact on local taxpayers.

3.5.9 Establish formal procedures and timetables for planning the budget by:

- providing assistant directors with a framework and timetable for reporting anticipated savings and spending pressures; and
- providing assistant directors with preliminary budget targets for the following year in time for them to prepare business/service plans, and a final budget by 31 March.

3.5.10 Produce an annual treasury management policy statement and strategy setting out the arrangements for the operation, management and performance assessment of the treasury management function and gain full member approval for the policy statement and strategy.

Strategic Directors must:

3.5.11 Ensure that each business unit within their directorate prepares a written statement of the service's aims and objectives which is used as the basis for constructing budget plans.

3.5.12 Prepare and submit, with the chief finance officer, joint reports to the cabinet outlining likely developments, including resource constraints set by the government and changing demands on services, which will have an influence upon the revenue and capital budgets of the county council.

3.5.13 Comply with guidance concerning capital expenditure, issued by the chief finance officer.

3.5.14 Ensure that their directorate maintains an asset register, as defined by the chief finance officer, for the purpose of calculating notional capital charges.

Assistant Directors must:

3.5.15 Comply with the formal procedures and timetable for planning their budget by:

- identifying, costing and reporting spending pressures and any anticipated savings, in accordance with the published budget framework and timetable; and
- preparing detailed revenue estimates of planned spending and income for the year ahead within the budget targets set by their strategic director.
- providing all information to the strategic directors as requested and in a timely fashion to enable the strategic directors to achieve their obligations under these financial regulations.

3.5.16 Notify their strategic director of the continuing potential financial impact in future years of decisions they are taking in the current financial year. These need to be done so as to be taken into account when producing next year's budget.

3.5.17 Fully comply with capital expenditure rules issued by the chief finance officer.

3.6 CONTROLLING THE USE OF RESOURCES

Why is this important?

3.6.1 Budgetary control is the process by which services monitor, review and adjust financial targets during the financial year. The identification and explanation of variances against budgetary targets provides a mechanism by which the county council can identify changes in trends and resource requirements at the earliest opportunity.

3.6.2 There is also an additional pressure to monitor capital schemes carefully, to ensure that the county council's capital financing capacity, governed by the Prudential Code for Capital Finance, including other internal funds and external grants and receipts, is fully utilised, but not exceeded.

The Chief Finance Officer must:

3.6.3 Administer and keep under review the county council's scheme of virement as set out in the finance rules.

3.6.4 Ensure assistant directors and cost centre managers have access to regular and frequent reports on spending, including sums committed, but not yet paid, against the approved budget.

3.6.5 Prepare and submit, with strategic directors, joint reports to the cabinet in respect of any revenue expenditure for which the strategic director concerned is unable to identify appropriate resourcing from within the existing approved budget.

3.6.6 Prepare and submit reports to the cabinet in respect of any planned or actual expenditure which the chief finance officer (in consultation with the monitoring officer) believes to be unlawful; and during the time between the possibility of unlawful expenditure coming to light and its consideration by cabinet, prevent any payments other than those which are contractual commitments (this applies equally to revenue and capital expenditure).

3.6.7 Prepare and submit regular reports to the cabinet on progress against the approved capital programme, highlighting any slippage and detailing any requests for amendments to approved programmes.

3.6.8 Administer the authorisation of capital schemes approved by full council as detailed in the finance rules.

3.6.9 Provide strategic directors, assistant directors and cost centre managers with appropriate guidance and finance rules.

3.6.10 Administer the county council's arrangements for under and overspendings to be carried forward to the following financial year as outlined in the financial procedure rules.

3.6.11 Prepare and submit a report to the relevant overview and scrutiny committee by 30 September each year comparing actual treasury management performance against the approved strategy, for the previous financial year.

Strategic Directors must:

3.6.12 Ensure that their assistant directors comply with the county council's scheme of virement and notify the chief finance officer of any additional authorisation limits/reporting arrangements they may wish to set.

3.6.13 Recommend to members the level of their directorate’s carry forward underspends from one financial year to the next.

3.6.14 Inform the chief finance officer immediately of any planned or actual expenditure that the strategic director believes to be illegal. During the time between informing the chief finance officer and receiving his response, ensure that no payments are incurred other than those required to meet contractual commitments (this applies equally to revenue and capital expenditure).

Assistant Directors must:

<u>Revenue Expenditure:</u>

3.6.15 Prepare and submit, with the input of the chief finance officer and their strategic director, joint reports to the cabinet in respect of any revenue expenditure for which the assistant director concerned is unable to identify appropriate resourcing from within the existing approved budget.

3.6.16 Make sure that expenditure for each financial year does not exceed the available budget.

3.6.17 Make sure that all income and expenditure, including forecasts of future income and expenditure, are entered on the general ledger.

3.6.18 Seek cabinet approval (to be sought only with the approval of their strategic director) in advance for all virements within their service which exceed the lower of £500,000 or 5% of the service’s net revenue budget (this applies both to an individual transaction and where the cumulative total of virements in their service exceeds this limit in any financial year).

3.6.19 Seek cabinet approval (to be sought only with the approval of their strategic director) in advance for all virements between services irrespective of the amount of the virement.

3.6.20 Ensure that, when budgets are delegated, responsibility for financial control is clearly defined and ensure that they have sufficient controls in place to meet their obligations under finance regulations.

3.6.21 Ensure that cost centre managers are notified of any virements affecting their cost centre and that the reason for the virement is explained.

Capital Expenditure:

3.6.22 Ensure a project manager is allocated to all capital projects.

3.6.23 Ensure that all project managers comply with all the rules relating to capital expenditure and financing.

3.6.24 Ensure all appropriate approvals have been granted before committing to any capital expenditure.

3.6.25 Ensure adequate funding is in place for all capital expenditure over the lifetime of a project and that accurate phasing of capital expenditure over financial years is undertaken at the same time.

3.6.26 Record capital income and capital expenditure separately.

3.6.27 Ensure capital expenditure does not exceed the approved budget limit.

3.6.28 Ensure that capital expenditure is not moved between schemes without member approval.

3.6.29 Ensure that adequate information is kept to ensure accurate capital accounting rules are maintained.

3.6.30 Ensure members, their strategic director and the chief finance officer are kept informed of progress and latest cost estimates for all capital projects.

3.6.31 Provide financial and performance information on capital projects when requested by members, their strategic director or the chief finance officer.

3.7 ACCOUNTING FOR THE USE OF RESOURCES

Why is this area important?

3.7.1 The county council has a statutory responsibility to prepare its annual accounts to fairly represent its operations during the year. Full council is responsible for approving the annual accounts. These are subject to external audit scrutiny before publication. External audit scrutiny provides assurance that all expenditure is legal, the accounts are properly prepared and appropriate accounting practices have been followed.

The Chief Finance Officer must:

3.7.2 Provide assistant directors and strategic directors with guidance and a timetable for closing their accounts, to ensure compliance with the statutory timetables.

3.7.3 Prepare and submit reports to the cabinet outlining, firstly, probable and, subsequently, the actual income and expenditure of the county council, for each financial year.

3.7.4 Prepare and publish the audited accounts of the county council for each financial year in accordance with the accounts and audit regulations, in particular:

- make appropriate arrangements for the external audit of the county council's accounts;
- publish the statement of accounts, with the auditor's certificate or report, within 4 months of the financial year end.

3.7.5 Provide assistant directors and strategic directors with a detailed closedown timetable in order to meet the deadlines specified by the chief finance officer.

Assistant Directors must:

3.7.6 Ensure that all expenditure and income is coded to appropriate areas of their budget to accurately reflect service activity in the financial year.

3.7.7 Make sure that they comply with the procedures and timetable for closing the accounts at the end of the financial year.

3.7.8 Maintain suitable accounting records and make these records available for inspection by external auditors when requested.

4. FINANCIAL ADMINISTRATION

Why is this area important?

4.1.1 The county council, being a public body, has a responsibility to the local community to ensure that its financial affairs are properly managed, and its assets safeguarded. The public is entitled to expect the highest standards of financial conduct and integrity. It is the chief finance officer's responsibility to ensure that appropriate systems and controls are in place to satisfy these expectations.

4.1.2 The county council has a statutory responsibility to make arrangements for the proper administration of its financial affairs. This includes determining the accounting systems and procedures, the form of accounts and supporting financial records.

The Chief Finance Officer must:

4.1.3 Produce detailed finance rules outlining the roles and responsibilities of officers for the financial administration of services under their control.

4.1.4 Ensure that both members and officers comply fully with the finance rules as they have equal importance along with the financial regulations and non- compliance will be dealt with in the same way as non-compliance with the financial regulations.

4.1.5 In consultation with the monitoring officer, review the adequacy of the financial regulations annually and, where necessary, recommend amendments to either the financial regulations or the finance rules.