

Item 3: Extract from the Southwark Constitution 2004/05

FINANCIAL STANDING ORDERS

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GLOSSARY INTRODUCTION

The Council allocates resources for both capital and revenue purposes. The Council has systems to monitor expenditure and income on an accruals basis and to monitor accounting commitments on both revenue and capital budgets. All references to income and expenditure in the Financial Standing Orders and Financial Regulations include accrued income and expenditure in addition to cash receipts and payments. A short glossary of other terms is appended to the Financial Standing Orders for ease of reference – a more detailed version may be found appended to the Financial Regulations.

References in these Standing Orders to “the Executive” should be taken to include decisions taken by the whole Executive, decisions by any sub-committee of the Executive and decisions by individual members of the Executive. Delegations to the Executive are set out in the Constitution.

1. FINANCIAL ADMINISTRATION

a) Finance Director

- i) The Finance Director is the officer appointed by the Council in accordance with Section 151 of the Local Government Act 1972, the Accounts and Audit Regulations 2003, Section 114 of the Local Government Finance Act 1988 and Section 25 of the Local Government Act 2003. The postholder must ensure that the Council's financial affairs are administered in a proper manner, in compliance with all relevant professional codes of practice, and all statutory obligations;
- ii) All matters connected with the financial administration of the Council's affairs are the delegated responsibility of the Finance Director, except any matters which are delegated to other officers or reserved to committees of Council Members, the Executive, or to the Council itself. The Finance Director may authorise other officers to carry out matters delegated to him/her except the Section 151 responsibilities.

b) Strategic Directors

Strategic Directors are responsible for ensuring that there is proper financial management within their department. Specific responsibilities are set out in the Scheme of Delegation for Financial Authority and Accountability. Strategic Directors must maintain adequate systems of internal control over financial operations and processes and secure the accuracy and integrity of financial information and systems operating within their departments. Strategic Directors must ensure compliance with procedural instructions on financial administration issued by the Chief Executive. Strategic Directors must set and maintain a departmental scheme of management setting out the levels of authorisation and standards for the department.

c) Financial Advice to the Executive

- i) Corporate and strategic matters. The Finance Director will provide financial advice to the Council, its committees, sub-committees, and similar bodies of members – including the Executive on all matters of a corporate or strategic financial nature or of an inter departmental nature;
- ii) Departmental matters. Strategic Directors are responsible for financial advice to service sub-committees and similar service bodies of members – including the Executive on all financial matters of a departmental nature.

d) Financial Regulations

The Finance Director will issue Financial Regulations applicable to all or specified categories of Council staff. Strategic Directors will ensure that all relevant staff in their departments fully comply with them. Individual council officers must familiarise themselves with Financial Regulations or similar, relevant to their work, and fully comply with them.

The 'Managing Money' section of the Council's Business Managers Handbook for the purposes of these Financial Standing Orders is the Council Financial Regulations.

e) Fees and Charges

Changes in all fees and charges, which are less than the annual RPI, and the introduction of new fees and charges, including proposals affecting rents and associated charges for Council dwellings, require Executive approval. However, within the fees and charges set, Strategic Directors are responsible for maximising income for the Council

f) Debt Write Offs

The authority to write off bad debts is delegated to Strategic Directors within the Scheme of Delegation for Financial Authority and Accountability, subject to compliance with the Council's Write Off policy. Write-off's in excess of £50,000 per case are key decisions that should be dealt with through the Council's protocol for decision-making.

g) Internal Audit

- (i) The Finance Director is responsible for:
 - Safeguarding the independence of internal audit;
 - Determining the overall audit arrangements and the annual internal audit plan;
 - The content and distribution of internal audit reports; and
 - The form and frequency of reports which may be made to the Executive arising from internal audit activity;

- (ii) It is the responsibility of all Council officers to implement agreed recommendations and to provide, upon the request of the Finance Director or a person nominated by him or her for this purpose, any information, explanation or document under the control of the officer concerned which is required for the purposes of or in connection with an internal audit inquiry, project, or investigation; and
- (iii) The Finance Director will report to the Executive any serious breach of Financial Standing Orders or of the Financial Regulations or Procedural Instructions issued in accordance with them.

2. FINANCIAL PLANNING

a) Planning Process

The Council's financial planning processes and planning horizons, for the revenue budgets (including the Housing Revenue Account) and the capital programme, will be determined by the Finance Director, subject to approval by the Executive. This will have regard to the Council's Community Strategy, Corporate Priorities and business plans.

3. PREPARATION OF THE REVENUE BUDGET

a) Finance Director's Responsibilities

The Finance Director is responsible for the overall co-ordination of the budget process. Under Section 25 of the Local Government Act 2003 s/he also has specific responsibilities for reporting on:

- the robustness of the estimates
- the adequacy of the proposed financial reserves

b) Strategic Director Responsibilities

- (i) Preparing the revenue budget for the services in his/her departments, which will have regard to the Community Strategy, Corporate Priorities and business plans.
- (ii) Ensuring that corporate deadlines are met.
- (iii) Securing the approval of that budget within the agreed cash limit by the Executive.
- (iv) Ensuring that resources are allocated through a detailed budget on SAP by the deadline set by the Finance Director.

c) Budget Working Papers and Revenue Estimates

- (i) All working papers and revenue estimates must be prepared in accordance with issued procedural instructions. The instructions will include information in respect of inflation, capital financing costs and other variables outside the control of service departments.

- (ii) The revenue estimates must include forecast expenditure and income for the year.

d) Budget Timetable and Cash Limits

As part of the Council's arrangements for medium-term financial planning and budget preparation, the Executive will give guidance on the budget timetable to be adopted and the resource constraints (cash limits) within which business plans and budget estimates must be prepared. The Executive may also, as part of a strategy to integrate strategic planning with 3-year budgeting, issue indicative cash limits for up to 3 years ahead.

4. SETTING THE ANNUAL BUDGET AND THE COUNCIL TAX

a) Precepting Authorities and the Tax Base

The Council must before 31 January each year approve the council tax base for the following financial year. Following the Council decision, the Finance Director will inform precepting and levying bodies of the approved council tax base.

b) Collection Fund

The Finance Director will determine the probable Collection Fund surplus or deficit for the year, notify precepting bodies, and report to the Executive.

c) Decision by Members

- (i) The Executive will make recommendations to the Council regarding the annual budget for the following financial year and the council tax required to finance it; and
- (ii) At a meeting on or before 1st March each year, the Council will set the overall council tax (including impact of the GLA precept) for the following financial year.

5. MONITORING AND CONTROL OF THE REVENUE BUDGET

a) Budget Spending

Following approval by the Council of the annual revenue estimates, Strategic Directors may spend within the agreed budget for their departments. They must ensure that the net expenditure for their departments does not exceed the approved budget. They must also ensure that they do not incur expenditure on budgets outside of their departmental budget without first getting approval from the relevant Strategic Director.

b) Monitoring

- (i) Strategic Directors must:
 - i ensure that there are adequate systems to monitor and audit the resources allocated to services;

- ii monitor at least monthly the accurately projected income and expenditure outturn for the financial year under each budget heading, having regard to any contingent or other liabilities for which financial provision may be required.
- iii present reports containing up to date summary projections to the relevant Executive member each month;
- iv present reports containing up to date summary projections to the Executive as a whole at least three times a year, in line with the corporate monitoring timetable.
- v The Finance Director will report on the overall financial position of the Council to the Executive as required, but at least three times a year. This report will include any concerns he or she may have about the budget projections being made by Strategic Directors or about financial controls within departments; and
- vi The Finance Director will report to the Council Assembly, not later than August of each year, on the financial outturn for the previous financial year.

c) Virements

Strategic Directors may vire budget provision between budget headings within their department, subject to the following:

- (i) The authority for all virements must comply with each Department's scheme of delegation;
- (ii) Provisions included within departmental budgets on the instructions of the Chief Executive, e.g. insurance, capital charges, leasing costs, Service Level Agreements etc, may not be vired for other purposes without the written consent of the Finance Director; and
- (iii) The departmental Strategic Director must report virements in excess of £500,000 to the Executive at least twice a year, in as much detail as requested by the Executive.

d) Budget Adjustments

- (i) Where responsibility for a service is transferred from one department to another, the Finance Director will transfer resources in consultation with the relevant Strategic Director(s). The transfer will be reported to the Executive at the earliest opportunity.
- (ii) The Executive may at any time during a financial year, having considered a report of the Finance Director, vary the departmental approved budget either:
 - i. To require mid-year savings to compensate for a projected corporate overspend;
 - ii. To allocate to departments sums included within corporate provisions or budgets; or

- iii. Following transfer of service(s) between departments.

e) Carry Forward of Underspend

The Finance Director may, on consideration of the overall financial position of the Council at the end of a financial year, recommend to the Council Assembly whether underspend by departments can be made available for specific projects or carried forward to the subsequent financial year, or otherwise accounted for.

f) Accuracy of Accounts

It is the responsibility of Strategic Directors, having regard to any guidance which may be issued by the Finance Director, to ensure that all items are correctly accounted for, and that all expenditure and income is charged to a revenue account in the first instance, in accordance with proper accounting practices. The only exceptions under the provisos of the Local Government and Housing Act 1989 are:

- Expenditure under finance leases
- Expenditure permitted to be charged to capital
- The repayment of sums borrowed
- Expenditure on approved instruments (Treasury loans)
- Payments from the Superannuation Funds
- The use of trust funds
- Transactions within the Collection Fund

6. ANNUAL STATEMENT OF ACCOUNTS

a) Finance Director

The Finance Director is responsible for the preparation and certification of the annual Statement of Accounts in accordance with current legislation and in particular with the Accounts and Audit Regulations 2003. The Finance Director will make arrangements for the co-ordination of the Council closing of accounts programme to ensure compliance with national guidelines.

b) Strategic Directors

Strategic Directors are responsible for ensuring:

- i. The accuracy of their departmental accounts and compliance with all current legislation and applicable accounting codes of practice; and
- ii. The prompt production of adequate working papers to justify all items attributable to them in the Statement of Accounts; and

- iii. The achievement of their departmental closing of accounts programme in-line with the Finance Director's timetable for the closure of accounts and production of the annual Statement of Accounts; and
- iv. The completion of all grant claims accurately, within deadlines and with adequate supporting working papers, ensuring that income due to the Council is maximised.
- v. That their staff fully co-operate with the Council's external auditors during their audit of the accounts and grant claims.

7. PREPARATION OF THE CAPITAL PROGRAMME

a) Capital Programme

The Executive will, on consideration of an annual report from the Finance Director, make recommendations to the Council regarding the capital programme. The report from the Finance Director will consider the capital resources available to the Council, the revenue implications of the proposed capital expenditure, and any other relevant information.

b) Financing of Schemes

Within the overall approved capital programme, the Finance Director will decide the method by which any particular scheme will be financed.

c) Capital Schemes

Approval to spend on individual capital schemes will only be given once issued procedural instructions have been complied with to the satisfaction of the Finance Director.

8. MONITORING AND CONTROL OF THE CAPITAL PROGRAMME

a) Control

Strategic Directors must ensure that their total departmental capital spending in any financial year does not exceed the relevant provision within the capital programme, except where approved by the Finance Director.

b) Reporting Requirements

- (i) Strategic Directors must report each month to the relevant Executive member and at least twice a year to the Executive as a whole on departmental capital expenditure incurred to date in the financial year and the projected out-turn for the financial year compared to budget.
- (ii) Strategic Directors must report to the Executive annually on the actual capital expenditure incurred in the previous financial year compared to budget together with a comparison between the approved total cost and the projected total cost for each scheme.

- (iii) The Finance Director will report on the actual capital expenditure incurred by the Council as a whole to the Executive as required, but not less than twice a year. This report will include details of the projected out-turn for the financial year and the total capital resources available to the Council with which to finance such expenditure.
- (iv) The Finance Director will report to the Executive on the out-turn position for capital expenditure for each financial year.
- (v) In addition Strategic Directors must report progress on those schemes designated as significant to each meeting of the Capital Working Group.

c) Variations to the Capital Programme

Strategic Directors may vary the budget for individual schemes or block provisions and may add schemes from the reserve list subject to any increase in budget being met by virements or additional resources and subject to the agreement of the Finance Director. They must report such variations to the Executive, at the earliest opportunity.

d) Major Overspends

Strategic Directors must report to the Executive on any schemes in progress, which are forecast to overspend by 25% or more compared to the contract sum unless the overspending amounts to less than £200,000. The report must give the reasons for the overspending.

e) Accuracy of Accounts

It is the responsibility of Strategic Directors, having regard to any guidance which may be issued by the Finance Director, to ensure that all items are correctly coded and only expenditure classified as capital expenditure in accordance with proper accounting practices or as defined as such under the Local Government and Housing Act 1989 is charged to capital.

LEASES

a) Inclusion in Capital Accounts

The taking or granting of a lease on any asset may form part of the Council's capital expenditure or receipts, and must, therefore, be provided for.

b) Consent

The taking or granting of a lease on any asset will be subject to the consent of the Finance Director. The exceptions to this are:

- (i) The granting of short term leases on property within the commercial property portfolio managed by the Head of Property Services; and
- (ii) The granting of leases on Housing Revenue Account dwellings under the Right to Buy provisions of the Housing Act 1985.

SCHOOLS FAIR FUNDING

a) Application of Standing Orders

Delegated budgets of schools, in accordance with the Schools Standards and Framework Act 1998, remain part of the authority. The statutory responsibilities of the Finance Director and apply to schools in the same way as any other part of the Council.

b) Financial Regulations

Financial Regulations applying to schools which differ from those issued to Strategic Directors and departments will be issued by the Director of Education after agreeing them with the Finance Director.

TREASURY MANAGEMENT

a) CIPFA Code of Practice

The Finance Director will ensure that all Council borrowings and investments are conducted in accordance with the CIPFA Code of Practice on Treasury Management in the Public Sector. To this end, all money in the hands of the Council (with the exception of money delegated to schools or under trust fund arrangements) will be aggregated for the purposes of treasury management and will be under the control of the Finance Director, referred to in the Code as the "Chief Financial Officer".

b) Decisions on Borrowing

Executive decisions on borrowing, investment or financing are delegated to the Finance Director.

c) Treasury Policy Statement

The proposed treasury strategy and borrowing limits for the coming financial year will be recommended to the Council by the Executive prior to or alongside its consideration of the revenue budget and council tax.

d) Reporting

The Finance Director will report to the Executive each financial year, on the activities of the Treasury Management operation and on the exercise of the Treasury Management powers.

e) Departure from the Code

Should the Finance Director wish to depart in any material aspect from the main principles of the Code, the reasons should be given in the report to the Executive.

GLOSSARY

Capital Programme

The capital programme is a medium term statement of the Council's proposals for capital expenditure, including leasing, having regard to the likely level of resources.

Financial Regulations

Financial Regulations are such procedures that the Finance Director shall issue from time to time as part of the Financial Standing Orders. Currently these are contained within the Managing Money section of the Business Managers Handbook and all complementary or otherwise similar procedures issued.

Schools Fair Funding

The Department for Education and Employment approves the Council's Fair Funding Scheme. The Scheme contains details of Financial Standing Orders and Regulations.

Treasury Management

In order to maximise the return on temporary surplus cash balances and minimise the cost of short-term borrowing, the Council employs a policy of "Treasury Management". The Council has adopted the CIPFA Code of Practice on Treasury Management in the Public Sector.

Virements

A virement is an agreed re-allocation of budgetary provision that has been approved for one purpose to another designated budget.