

 Brent	Full Council 12th July 2021
	Report from the Director of Finance
Financial Regulations and Scheme of Virements and Transfers	

Wards Affected:	All
Key or Non-Key Decision:	Council
Open or Part/Fully Exempt: (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	Open
No. of Appendices:	Two Appendix 1: Proposed Financial Regulations Appendix 2: Proposed Scheme of Virements & Transfers
Background Papers:	
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1. Summary

- 1.1. The council has had a strong record for financial management in recent years, with a clear strategic vision, and effective delivery of this vision to ensure that the council's expenditure remains within its budget, despite a very challenging set of circumstances for local authorities' finances. However, the future for local authority finances remains challenging, with forecasts of continued demographic pressures on expenditure, ongoing inflation and limited growth in income. This means that the council has to work to continuously improve its financial management.
- 1.2. The Chartered Institute for Public Finance and Accountancy (CIPFA) has recently released its Financial Management Code to set standards for financial management in local authorities. This code sets the standard for how local authority finances should be managed, and local authority responses to this code. In several areas,

such as making governance a key part of financial management, and how financial appraisals of future plans are carried out. It reflects wider trends within the finance and accountancy profession in this: for instance responsibility for Governance is increasingly seen as part of the responsibility of the Director of Finance's role.

- 1.3. In addition, the National Audit Office has updated the Code of Audit Practice, which sets what the external auditors are required to review for local authorities. This review has increased the level of evidence that local authorities are expected to maintain for audit and given external audit additional responsibility to review arrangements by local authorities to secure efficiency, effectiveness and economy, and specifically comment on three items:
 - Financial sustainability: How the body plans and manages its resources to ensure it can continue to deliver its services.
 - Governance: How the body ensures that it makes informed decisions and properly manages its risks and finances.
 - Improving economy, efficiency and effectiveness: How the body uses information about its costs and performance to improve the way it manages and delivers its services.
- 1.4. These comments can be service specific, if the auditors identify a problem with securing efficiency, effectiveness and economy in a specific service area. The final code will apply from the audit of the 2020/21 Statement of Accounts.
- 1.5. The Financial Management Code and Code of Audit Practice are in many ways related in the expectations they set on local authorities. The council has not substantially revised its Financial Regulations or its Scheme of Virements and Transfers for a number of years, and the current financial regulations do not reflect the latest expectations of financial management by local authorities. Therefore this paper proposes a revised set of financial regulations to address these expectations, and set appropriate standards for members and officers.

2. Recommendations

- 2.1. To agree the proposed Financial Regulations at Appendix A to replace the current Financial Regulations in the constitution (the changes are coloured blue and the areas removed coloured red with a strike through).
- 2.2. To agree the proposed Scheme of Virements and Transfers at Appendix B to replace the current Scheme of Virements and Transfers in the constitution (the changes are coloured blue and the areas removed coloured red with a strike through).

3. Detail of Revisions

- 3.1. The following major revisions have been made to meet the requirements of the Financial Management Code and be able to satisfy the auditor's expectations for the Code of Audit Practice:

- a) It formally adopts the CIPFA Statement on the Role of the Chief Financial Officer in Local Government as defining the role of the Director of Finance
- b) It sets out a new set of Principles of Financial Management for staff and members adopted from those in the Financial Management Code
- c) It requires the Director of Finance to prepare a long term financial strategy for, and a medium term financial strategy.
- d) It strengthens reporting requirements for capital so that material failures in these areas are reported to Cabinet
- e) It introduces requirements for how the council's ancillary financial systems (e.g. those used for collection of council tax and business rates) are to be used to reduce risks in these areas.
- f) It introduces a requirement for the Director of Finance to set a policy on balance sheet monitoring, in order that the council maintains robust financial management of its assets and liabilities.
- g) It increases the limit at which debts written off need to be reported to Cabinet to £20k per item from £3k per item.
- h) It clarifies that management has principal responsibility for assurance and internal controls, and internal audit's role is to review if the council's internal controls are adequate.
- i) It adds a new section on how business cases should be assessed and financial implications evaluated.

3.2. The following minor revisions have been made to meet the requirements of the Financial Management Code and be able to satisfy the auditor's expectations for the Code of Audit Practice:

- a) It clarifies the responsibilities of Directors for self-service and financial transactions in their areas
- b) It clarifies the responsibilities of internal audit with respect to reporting on internal controls
- c) It formalises reporting of progress on savings plans to cabinet, and requires directors to work to mitigate issues with savings
- d) It sets requirements for linking council's contract monitoring policy to the council's finances, so that suppliers are not overpaid.
- e) It strengthens the requirement for budget holders to record their financial transactions clearly and promptly, and to communicate the appropriate methods of payment to customers. It also creates a requirement for the Director of Finance to set a policy on cleansing financial data.
- f) It refines council policy on taxation to ensure that it's unambiguous that we will apply HMRC's requirements fully and bring the approach in financial regulations in line with self service, and adds a responsibility to track which properties the council has opted to tax for VAT purposes.
- g) It sets out a set of priorities for officers and members responsible for Accountable Body and Partnership Arrangements
- h) It adds a requirement for tax implications of providing goods, services and works to other bodies to be considered as this is a complex area that can change the decisions the council might make.
- i) It requires that Directors ensure their staff follow the council's Gifts and Hospitality policy.

- j) It puts responsibility for opening and amending bank accounts with the Director of Finance.
- 3.3. The revision also brings into financial regulations the responsibilities for self-service in respect of some financial matters by service areas that have underpinned the delivery of savings by Finance in recent years, in order that these are in Financial Regulations and are easily accessible to anyone reading Financial Regulations.
- 3.4. In addition, there are a few minor updates where the current financial regulations are out of date, or use slightly incorrect wording or terminology, for example, referring to the construction industry scheme correctly. Further minor updates have been made to reflect the current responsibilities of Members of the Council Management Team.
- 3.5. The current Scheme of Virements and Transfers is focused on controlling New Spending, but at the same time provides substantial overrides to these controls, such as an override where necessary to keep form and function together. This combination of rules on new spending together with substantial overrides makes it hard for readers to understand what power is delegated to where. By changing the focus of the proposed Scheme of Virements and Transfers to address how new income is used, the delegation of powers can be made much clearer.
- 3.6. The proposed Scheme of Virements and Transfers also clarifies the document by removing the definitions from the front of the document, and placing them into the text, as some of these definitions significantly changed the sense of subsequent paragraphs, meaning that a reader who just jumped to read the sections they were interested in could easily misunderstand the intention of that section.
- 3.7. Finally, the terminology of the proposed Scheme of Virements and Transfers has been updated to reflect current council terminology.
- 3.8. Overall, the requirements of the Financial Management Code and Code of Audit Practice require the council to increase the formal responsibilities that officers and members take for the financial management of the council, this is reflected in the proposals for updating Financial Regulations. Much of this additional responsibility has been placed on the Director of Finance and other Directors to reflect the importance of good financial management for the council.
- 3.9. It is intended that in future the Financial Regulations, including the Scheme of Transfers and Virements, are kept under regular review to ensure they continue to meet required standards and the needs of the Council.

4. Financial Implications

- 4.1. This report is about the Council's Financial Regulations, but there are no direct financial implications in agreeing the report.

5. Legal Implications

- 5.1. The Director of Finance as the Council's Chief Finance Officer in accordance with section 151 Local Government Act 1972 is responsible for ensuring that there is

effective management of the Council's financial affairs. The Council's Financial Regulations are an important element of this.

- 5.2** The Transfers and Virements Scheme is adopted by the Council pursuant to Standing Order 20(l) to establish the extent to which the Cabinet and officers may make transfers or virements within the budget set by full Council.

6. Equality Implications

- 6.1. There are no direct equality implications in agreeing the report.

Report sign off:

MINESH PATEL
Director of Finance