

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

5 DECEMBER 2013

REVIEW OF PROPERTY AND FINANCIAL PROCEDURE RULES

Report of the Corporate Director – Strategic Resources

1.0 PURPOSE OF THE REPORT

- 1.1 To note proposals relating to changes in principle to Property Procedure Rules.
- 1.2 To consider and discuss options for future change to Financial Procedure Rules in light of developments in the operating context of the County Council and work now underway in relation to modernising the finance function of the County Council.

2.0 BACKGROUND

- 2.1 According to the Terms of Reference of the Audit Committee one of its functions is:

“To review and recommend to the Executive changes to the Finance, Contract and Property Procedure Rules”.

- 2.2 The need for changes to any of these Procedure Rules can arise from a number of factors including changes in legislation/regulation, issues identified during the course of internal audit reviews and/or developments in business practice, which in turn may be the result of changes in the operating context of the County Council.

- 2.3 Changes to Contract Procedure Rules were considered by the Audit Committee on 18 July 2013 and have subsequently been approved by both the Executive and County Council. As a result they are not considered again in this report.

3.0 PROPOSAL - PROPERTY PROCEDURE RULES (PPR)

- 3.1 The Property Procedure Rules have largely remained unchanged since 2004. As a result, a number of areas require update including –

- Financial thresholds for a range of decisions
- Delegations to officers given current management responsibilities
- Materiality of some operational arrangements (disposal of assets pending the 2020 North Yorkshire Programme and a likely reduced asset base)

- 3.2 As the 2020 North Yorkshire Programme will be firmed up during 2014, it is proposed that the associated Rules are brought back with proposed amendments sometime in 2014. Whilst it is hoped that this will be at the same time as the Finance Procedure Rules (**Paragraph 4.3**) this may not be possible.

4.0 REVIEW - FINANCIAL PROCEDURE RULES (FPR)

- 4.1 The Financial Procedure Rules have been reviewed at an in principle level with Finance and other colleagues and design principles are noted in this report for discussion and comment from the Committee. These will be taken forward as part of a comprehensive review during 2014/15. This will be a collaborative piece of work involving staff from across the finance function (Finance, Business Support Services, Budget Holders), Legal and Democratic Services and Veritau.
- 4.2 The reason for taking this approach is based on two key factors. Firstly, the period of austerity is continuing and the County Council is faced with a potential savings requirement of £77m over the four year period from 2015/16; the 2020 North Yorkshire programme will address this as part of building the Council of the future for North Yorkshire. Secondly, a programme of modernisation is underway of the finance function (2020 Finance); this covers the whole function from Finance staff to budget holders and will look in-depth at ways of working and a re-implementation of the Oracle Financials System.
- 4.3 The above two items are significant influencing factors on any review of FPR. With these programmes in mind it is timely to step back and reassess FPR rather than simply move them on incrementally. The intention is to present the outcome of the comprehensive review to the June 2014 Audit Committee.

5.0 DESIGN PRINCIPLES AND DISCUSSION POINTS - FPR

5.1 The stated aims of FPR are to:

- Facilitate service delivery by setting out best practice for the administration of all financial matters throughout the County Council;
- Ensure a high quality of financial information;
- Enable better decision making;
- Remain relevant to the day to day activities of the County Council.

These are underpinned by the general statutory duty from the Local Government Act 1972 and the Accounts and Audit Regulations to:

- Make arrangements for the proper administration of our financial affairs, and appoint an officer to ensure the proper administration;
- Ensure the financial management of the County Council is adequate and effective, and
- Have a sound system of internal control which facilitates the effective exercise of the County Council's functions, which includes arrangements for the management of risk.

The above all remain as valid aims and provide a basis upon which to set out design principles.

5.2 The in principle review and feedback from colleagues has indicated that FPR and supporting documents:

- Are at times, inconsistently applied;
- Are not always easy to understand or interpret;
- Do not necessarily reflect a suitable approach to risk and materiality in all cases given the current climate;

5.3 The Finance Manual is also part of the financial control framework; in parts it is unwieldy and improvements can be made to its user-friendliness. In places it also indicates a higher degree of detail and accuracy than may be considered as required in reality.

5.4 The comprehensive review of FPR will set out design principles to achieve the aims and requirements set out in **paragraph 5.1**. A draft set is noted below for consideration:

- Be clearly understandable and usable;
- Clearly define and recognise responsibilities of Members, Corporate Director – SR, Corporate Directors and other delegated officers;
- Enable aims to be delivered with the maximum value for money;
- Reflect an appropriate level of risk and materiality given the operating context of the County Council;
- Provide effective internal control focussed on achieving organisational objectives.

5.5 Other requirements set out in the Constitution cross reference to the FPR. They are statutorily based and are contained mainly in the Budget and Policy Framework Procedure Rules and refer to issues concerning budget decisions and budget setting and affect virement rules. These will be incorporated into the review.

5.5 Attention will also be given in the review on how adherence to FPR should be monitored. The internal audit function plays a role in this regard. Work will be undertaken to assess how officers operating within the finance function itself should also undertake such a role.

5.6 To illustrate key issues and promote discussion the table in **Appendix 1** sets out specific points in relation to the design principles, related comments on the current FPR and considerations for the review.

6.0 **RECOMMENDATIONS**

6.1 That the Audit Committee -

- a) Comments on the principles identified in **Paragraph 3.1** as the basis for amendment of Property Procedure Rules.
- b) Comments on the design principles and discussion points contained in this report for incorporation into the comprehensive review of FPR; and
- c) Notes the intention to consider the outcome of the review of FPR at the June 2014 Audit Committee.

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APPENDIX 1

Assessment of FPR against design Principles with examples for illustration

Design Principle	Current Rules	Review Considerations and Options
Be clearly understandable and usable	<ul style="list-style-type: none"> - Feedback indicates a lack of awareness and understanding of the FPR; - Unwieldy document contributes to lack of use and over-reliance on Finance staff to interpret. 	<ul style="list-style-type: none"> - The FPR to be a high level document with procedural matters contained in revised supporting documents; - Supporting documents take the form of a self-service question and answer toolkit that is quick and intuitive to use, is tailored to common questions and day to day practical activities in the organisation; - Launch The FPR after the review and effectively engage with relevant Members and Officers.
Clearly define and recognise responsibilities of Members, Corporate Director – SR, Corporate Directors and other delegated officers	<ul style="list-style-type: none"> - Current definitions are reasonably clear; - There are some differences in how budget management responsibility is discharged between budget managers and finance officers across services; elements of this reflect specific service considerations. 	<ul style="list-style-type: none"> - FPR to reflect the accountability of Corporate Directors for their budgets; - Ensure responsibilities and practices reflect 2020 Finance outcomes; - Review schemes of delegation based on responsibilities to ensure a good fit across all services.
Enable aims to be delivered with the maximum value for money	<ul style="list-style-type: none"> - Elements of the framework, as stated, require a degree of comprehensiveness, accuracy and frequency of financial information that may not be necessary in practice given how the financial climate is changing. 	<ul style="list-style-type: none"> - Review requirements in line with the outcome of new ways of working defined by the 2020 Finance programme; - Consider how the achievement of value for money is best reflected through the framework.

<p>Reflect an appropriate level of risk and materiality given the operating context of the County Council</p>	<ul style="list-style-type: none"> - Grant rules require Member authorisation of any grant above £100k; - Senior Finance staff must countersign invoices over £30k; - Executive approval is required for increases in capital scheme costs of £10k or 5%, whichever is the greater. 	<ul style="list-style-type: none"> - In recognition that resources will be significantly less in future, accept higher levels of risk where this reduces administrative activities or where a rule does not add meaningful value to our control environment; - Ensure there is consistency across expenditure and income headings in terms of our approach.
<p>Provide effective internal control again focussed on achieving organisational objectives</p>	<ul style="list-style-type: none"> - Arguably some rules do not add meaningful internal control such as: <ul style="list-style-type: none"> - Senior Finance staff must countersign invoices over £30k (Authority is committed to expenditure at this stage and Finance Officer not best placed to countersign without expending significant time); - Virement (and some other) rules are set at a lower materiality compared to some similar authorities. 	<ul style="list-style-type: none"> - Identify areas where improvements to efficient and effective internal control can be achieved; - Review thresholds for virements and other matters subject to threshold limits to ensure they are fit for purpose in the current operating context and design principles.