

## Managing Money Policy

### General Duty

Local Councils must have in place safe and efficient arrangements for managing money, to the highest standard of honesty and integrity.

Arrangements should allow local Councils safely to upgrade the quality of their funds movement and take advantage of efficiencies from modern methods whilst continuing to protect assets and the public purse.

### Definitions of 'must', 'should', 'may' (shown in bold type)

- 'Must' defines those requirements that failure to meet represents non-compliance with this proper practice
- 'Should' identifies the minimum level of acceptable proper practice
- 'May' identifies practices for the Council to consider and apply by exercising its discretion

In this document:

- 'Money' includes cash and all other forms of negotiable instrument and stores of value that can be easily converted to cash. A non-exhaustive list of money includes for example:
  - physical cash and notes, petty cash, unclaimed receipts, imprest accounts, cash in transit
  - unpaid income held by debtors
  - signed & unsigned cheques, drafts and other orders for payment
  - signed schedules of agreed payments
  - current, deposit and investment accounts at banks and financial institutions, and access to undrawn borrowing facilities
  - credit cards (where held – see below), debit cards, store cards, fuel cards
  - access to balances by telephone or electronic transfer
  - the ability to buy goods or services on credit

### Statutory Environment

There have been two recent key changes in the statutory environment for payment by local councils.

- In 2008 the Payments Council<sup>1</sup> set out a strategic vision for UK payment. The plan accepts the long term decline in the use of cheques and sets 2018 as a target closure date for cheque clearing. Local councils therefore need to identify safe and efficient alternative methods of payment for goods and services.

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<sup>1</sup> Set up by the payment sector, supported by HM Treasury and the Office of Fair Trading (OFT) to undertake a strategic role in the development of payments in the UK – <http://www.paymentscouncil.org.uk/payments/plan>

- The repealed Section 150(5) of the Local Government Act 1972 governed the stewardship of money by local councils. It required that ‘every cheque or other order for the payment of money shall be signed by two members of the council’.

Whilst supporting progress, central Government expressed concerns that ‘the removal of S150(5) should not leave the public funds, controlled by parish councils, at any greater risk of loss through misconduct or poor control’<sup>2</sup> and that ‘safeguards be put in place (so) that all the payments made by parish councils are legitimate and that there is no misuse of the system’.<sup>3</sup>

## Roles and Responsibilities of the Responsible Financial Officer (RFO)

- 1.1 The law requires every local authority to arrange for the proper administration of its financial affairs and that one of its officers has responsibility for those affairs.<sup>4</sup> This officer is the Responsible Financial Officer (RFO), whether by formal appointment or by default as the person responsible for keeping the accounts.
- 1.2 The RFO **should** be familiar with statutory duties for the financial administration and stewardship of the local council which arise from:
  - Sections 114 and 151 of the Local Government Act 1972
  - The Local Government and Housing Act 1989
  - The Accounts and Audit Regulations 2003 (as amended) (“the Regulations”)
- 1.3 The responsibilities of the RFO for managing money are to advise the council on:
  - the corporate financial position
  - the key financial controls to secure sound financial management
  - its management of cash and investments ( or treasury)

## Roles and Responsibilities of Members

- 2.1 Proper arrangements to protect money are grounded in good practice and councils **must** review their effectiveness regularly to identify and protect against possible risks.
- 2.2 A local council’s members are jointly and individually responsible for putting proper governance arrangements in place to safeguard public funds. Councils **may** delegate the role of protecting its money to individuals, for example, the Town Clerk or the RFO, but the legal responsibility always remains with the council and its members.
- 2.3 Arrangements **should** demonstrate how the council intends to meet its responsibilities within the legal framework. They should be current and include specific duties and responsibilities of named individuals for securely managing money and arranging its security<sup>5</sup>, as well as for identifying internal controls and supervision measures.
- 2.4 The Council **may** seek external advice and guidance if it does not have sufficient or appropriate internal expertise or knowledge. Reviews of arrangements **may** be carried out by members or by Internal Audit.

<sup>2</sup> Letter dated 21.07.2010 from Rt.Hon. Grant Shapps MP, Minister for Housing and Local Government to NALC, SLCC and other stakeholders.

<sup>3</sup> CLG Ministerial statement 09.10.2010 <http://www.communities.gov.uk/nwsstories/newsroom/1735546>

<sup>4</sup> Section 151 Local Government Act 1972

<sup>5</sup> Statutory requirements for security arrangements in relation to officers controlling money are found in S114 of LGA 1972

## Corporate arrangements for monitoring and scrutiny

- 3.1 Councils **must** identify and protect all sources and forms of income and expenditure and the money represented by each. They **must** ensure that controls over money are embedded in Standing Orders and Financial Regulations.
- 3.2 Councils **must** not relinquish the 'two member signatures' control over cheques and other orders for payment until they have put in place safe and efficient arrangements in accordance with guidance. (The 'two member signatures' control is just one of many possible controls but by itself it is unlikely to meet the requirements of the general duty of care).
- 3.3 The council **must** approve the setting up of and any changes to all accounts with banks and other financial institutions.
- 3.4 A decision to enter a 'pooling' or 'sweep' arrangement whereby the bank aggregates the council's various balances daily to minimise interest costs, **must** be approved by council.
- 3.5 Where held, the corporate credit card accounts **must** be set up to operate within a limit set by the council and to be cleared monthly by direct debit from the main bank account.
- 3.6 The council **should** approve the bank mandate, including the list of authorised signatures and the limits of authority on each account as well as any amendments. Where multiple accounts are held, authorised signatures **should** not be allocated to just a few members; sharing responsibility adds to control. Authorise signatories **should** be rotated.
- 3.7 Internal controls set out within Financial Regulations **should** include the temporary holding, transit and permanent storage of money.
- 3.8 Councils **should** set out clearly in writing the responsibilities of officers and their managers in relation to money. Where employees have responsibilities for collecting money or making payments, their terms and conditions of employment **should** include adherence to internal controls, including any updates. Officers **should** acknowledge in writing they have understood these special responsibilities and received appropriate training.
- 3.9 When recruiting officers to be responsible for money and funds management, or when choosing members to be controlling account signatories, councils **should** consider a Disclosure and Barring Service (DBS) check before appointment and periodically thereafter. Any decision not to carry out a DBS check **should** be clearly documented.

## Corporate controls to manage risk, error and fraud

- 4.1 Risk assessment and internal controls **must** focus on the safety of the council's assets, particularly money. Councils **must** practice a clear segregation of duties regarding money and its movements.
- 4.2 Councils **must** be constantly vigilant and avoid complacency about managing money.
- 4.3 Members **should** keep themselves informed so that they can address known risks and threats to money. Councils **may** engage with the police and local anti-fraud and corruption networks to keep up to date with risks and security threats.
- 4.4 Fidelity Guarantee or any other form of insurance over threats to money is not by itself acceptable protection for the council's funds. Insurance **should** always be adequate to cover risk exposure. Insurers do not, as a general rule, pay claims where internal controls are

inadequate or unenforced. Police investigations are hampered and prosecutions weakened by lax control over vulnerable assets.

- 4.5 The council **should** insist on accurate record keeping of transactions by regular review. Rotation of responsibilities should be practised to avoid familiarity.
- 4.6 Members **should** always be aware about where their money is and who has access to the funds for which they are responsible. A listing of all accounts held, their current authorised signatures and their current balances, **should** be available for members in the form of bank reconciliation. Councils **should** expect to see a bank reconciliation produced by the RFO at every council meeting. In the event of a bank reconciliation discrepancy, explanations **should** be checked and verified independently. A failure to produce a bank reconciliation indicates a possible threat to financial resources.
- 4.7 Transfers between bank accounts are excluded from bank reconciliation but **should** be subject to the same authorities and controls as other payments and receipts.
- 4.8 Councils **may** from time to time wish to ask banks and other institutions holding the council's funds for written confirmation of balances. This **should** be sent to a named member who is not an authorised signatory. This is a particularly important control where paper statements are not received and reliance is placed on electronic information.
- 4.9 The RFO **should** issue any cheques or other orders for payment immediately after approval by the council. Cheques approved for payment by the council but held back by the RFO are not only vulnerable to theft or misappropriation but can result in an over optimistic view of available financial resources.
- 4.10 Trade credit arrangements with local suppliers **should** be cleared monthly. This not only meets government targets on proper payment procedures by local government bodies but also supports local businesses that **should** not be called on to finance local councils.