

FINANCIAL DIRECTIVES

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1. FINANCIAL REPORTING

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Introduction

This Financial Directive gives advice on the Council's requirements for accounting procedures and records, production and publication of Annual Accounts, and the presentation of External Audit reports to the Audit Committee.

- 1.1 The accounting procedures and records of the Council will be approved by the Chief Officer, Corporate Solutions and all accounting records of the Council will be compiled by the Chief Officer, Corporate Solutions, or under his direction.
- 1.2 Each Director and Chief Officer is responsible, taking into account all procedures, controls and instructions issued by the Chief Officer, Corporate Solutions for ensuring that: -
 - a) All commitments to incur expenditure are relevant and have the appropriate approval.
 - b) All income due to the Council is invoiced timeously.
 - c) All liabilities are accounted for.
 - d) All assets are protected and risk is controlled.
- 1.3 The Chief Officer, Corporate Solutions will prepare the Annual Accounts in accordance with the International Financial Reporting Standards (IFRS), reporting the Council's financial performance for the year to 31 March to the Council. The completed Accounts must also be sent to the Controller of Audit no later than the 30th June of the same year or such date as decided by the Controller of Audit.
- 1.4 Amongst other things, the Council's financial statements provide details of income and expenditure for the year in question and provide a summary of the assets and liabilities at the year-end. Compliance with the accounting and other arrangements detailed elsewhere in the Financial Regulations, and Directives and Guidance Notes, provides a framework, which helps ensure that the accounts are materially accurate.
- 1.5 The Chief Officer, Corporate Solutions will prepare and issue, on an annual basis, guidance and instructions for Relevant Officials which provide details of specific tasks and information required to support the preparation, approval and publication of the financial statements. The general guidance and instructions will be available on the Intranet under '[Finance→FAQ→Year End Guidance](#)'. Executive Directors and Chief Officers need to provide any information necessary for the closure of the Accounts within prescribed timescales.
- 1.6 The Chief Officer, Corporate Solutions will arrange the presentation of all External Audit reports including reports on the audited Annual Accounts to the Full Council and the Audit Committee.
- 1.7 The Chief Officer, Corporate Solutions will make appropriate arrangements for public inspection of the Council's Accounts.
- 1.8 All claims, returns or written submissions relating to grants and financial statistics will be submitted to the Chief Officer, Corporate Solutions, and must be signed by a Relevant

Official within that Directorate. Any exception to this must be agreed by the Chief Officer, Corporate Solutions.

1.9 Where appropriate, every report for Elected Members` consideration will include a financial implications section that will indicate: -

- The quantity of cost and savings of proposals for the current, first full year and future years.
- The sufficiency of the budgetary provision to meet the financial consequences. If budgetary provision is insufficient then the section should state where the provision could be found.
- Whether a supplementary estimate is required.
- Whether the proposal is a spend to save scheme and if so detail the revenue and capital savings to be made.
- Whether the proposal falls under the New Monies Protocol.
- Whether the recommendations will introduce any cash or time releasing efficiencies.
- Whether a capital proposal has been assessed by the Capital Plan and Asset Management Board.

Reports must also contain a statement to the effect that the Chief Officer, Corporate Solutions has confirmed the financial implications.

1.10 In the event that reports do not meet the above criteria, or insufficient time is given to the Chief Officer, Corporate Solutions to allow proper consideration of the matter, the Chief Officer, Corporate Solutions may withdraw such an item from the relevant agenda. The Relevant Chief Officer should be advised of the reason for withdrawal.

2. CAPITAL STRATEGY, PLANS & EXPENDITURE

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This Financial Directive details the Council’s requirements for Capital Expenditure in relation to the approved Capital Plans.

2.1 Capital Strategy

The Chief Officer, Corporate Solutions is responsible for preparing and maintaining the Council’s Capital Strategy, and reporting this to Council for approval. The Capital Strategy provides the following:-

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

It also sets out the governance and monitoring arrangements, whereby the outcomes will be monitored by the Capital Plan & Asset Management Board (CPAMB), the Capital Plan Management Group (CPMG) and the Capital Plan Programme Boards.

The Capital Strategy is one of the Council’s key strategic documents required as part of the new CIPFA Prudential Code for Capital Finance in Local Authorities.

2.2 Capital Plans

The Council maintains two Capital Plans - one for General Fund Services and one for the Housing Revenue Account (HRA). The Chief Officer, Corporate Solutions determines the relevant account (General Services or HRA) in which Capital income and expenditure should properly be recorded.

The resources available to the Council to acquire or improve assets through these plans are limited, and as required under the Prudential Code, Capital Plans must be affordable and sustainable not just in the short term but over the medium to longer term. The Council has therefore developed a Capital Strategy and Capital Plan Board Structure to drive the decision making process and ensure the Council’s capital plans remain affordable and sustainable.

2.3 General Services Capital Planning Process

The Chief Officer, Corporate Solutions is responsible for preparing and maintaining a ten-year asset investment plan and General Service’s capital investment programme and presenting this to the Capital Plan & Asset Management Board for approval prior to its consideration by Council. The capital planning strategy is integrated with asset management planning, strategic planning and option appraisal and takes account of the Council’s duty to comply with the Prudential Code.

Capital investment decisions are based on Strategic Outline Business Cases and prioritise investment based on council priorities, asset management principles, legal requirements and financial and non-financial benefits. The capital plan is fully integrated with the Council’s Medium-Term Financial Strategy, the Treasury Management Annual Investment Strategy Plan, and Corporate Plan.

2.4 HRA Capital Planning Process

The Chief Officer, Corporate Solutions is responsible for preparing and maintaining a ten-year asset investment plan and HRA capital investment programme and presenting this to the Capital Plan & Asset Management Board for approval prior to its consideration by Council.

Capital investment decisions are based on Strategic Outline Business Cases and prioritise investment based on the Strategic Housing Investment Programme (SHIP), council priorities, asset management principles, legal requirements and financial and non-financial benefits. The capital plan is fully integrated with the council's Medium-Term Financial Strategy, the Treasury Management Annual Investment Strategy Plan, and HRA rent setting strategy. Investment decisions will take account of the Council's responsibilities to adhere to the Social Housing Quality Standard.

2.5 Governance Structure – CPAMB/CPMB/Programme Boards

The Council has implemented a robust structure to provide robust and strong governance around its capital investment decision making. Underneath full Council, a series of Officer Boards have been established to ensure appropriate monitoring, reporting and governance arrangements for both existing and new project projects.

There are 5 Programme Boards (Children & Young People's Programme Board; Transport, Energy & Infrastructure Programme Board, Asset Management Programme Board, Regeneration & Development Programme Board and Housing Programme Board) who meet on a 6 weekly cycle, aligned with Council meetings, and which monitor and report on projects within their remit to the Capital Plan & Asset Management Board, before onward reporting to Council as part of the quarterly update reports and annual budget setting reports. A Capital Plan Monitoring Group has also been established to assist with the management of projects and reporting between Programme Board and full Capital Plan & Asset Management Board level.

2.6 Inclusion of Projects within Capital Plans

The process for including projects within the Council's capital plan must be in compliance with the provisions of the CIPFA Prudential Code. This means that no Capital project will be undertaken unless it can be shown to be prudent, affordable and sustainable when viewed in conjunction with all other planned capital projects and the financial provisions to be made in current and future Revenue Budgets.

Project Proposals

At the point of inception of a new project, a Project Proposal form should be prepared and presented to the relevant Programme Board. This must cover the business need for the project, the options that have been assessed, and the expected costs, timeline and dependencies of the project. [Templates can be found here.](#)

Following completion of this, a decision will be made by Programme Board on whether to recommend the Project Proposal to CPAMB, and then subsequently Council, for approval.

If the Project Proposal is approved to proceed by Council, budgetary provision for the costs of developing an outline business case will be made via either the establishment of a capital expenditure budget in the General Services Capital Plan, or through feasibility funding in the Council's revenue budget. It is important to note that budgetary provision for the expected total costs of the project WILL NOT generally be made at this stage.

It is only CPAMB that can approve projects to be recommended for inclusion in the relevant Capital Plan by Council.

Executive Directors and Chief Officers have no authority to incur Capital Expenditure until the full Council has approved the individual project in the Capital Plan for the relevant financial year. It is the responsibility of each Executive Director, Chief Officer and Head of Development to control expenditure and income in accordance with the approved Capital Plans.

Strategic Outline Business Case

This will allow the project to proceed to Outline Business Case Preparation. The SOBC will cover a number of areas including the business aims, needs, objectives and constraints, full consideration of stakeholder issues, consideration of options (both financial and non-financial), a full funding & affordability assessment detailing whether external grant or developer contribution funding has been sought/secured and the level of prudential borrowing required for the project, and a full consideration of how expected risks will be managed.

Following completion of this, a decision will be made by Programme Board on whether to recommend the SOBC to CPAMB, and then subsequently Council, for approval.

If the SOBC is approved to proceed by Council, budgetary provision for the total expected development costs will be made in the General Services or HRA Capital Plans

It is only CPAMB that can approve projects to be recommended for inclusion in the relevant Capital Plan by Council.

Executive Directors and Chief Officers have no authority to incur Capital Expenditure until the full Council has approved the individual project in the Capital Plan for the relevant financial year. It is the responsibility of each Executive Director, Chief Officer and Head of Development to control expenditure and income in accordance with the approved Capital Plans.

2.6 Monitoring of Projects within the Capital Plans

Forecast Variances against budget (overspends)

Once the Capital Plans have been approved there is no need to seek Elected Member approval for contract acceptance in respect of individual projects, except where there is insufficient budgetary provision.

In these cases, all reasonable effort should be made to use value engineering or adjustments to the project scope – which do not impact on the ability of the final solution to meet the Council's corporate aims and objectives – to bring the forecast total development cost of the project back within the approved capital expenditure budget.

Where this is not possible, the Project Manager/Service Lead for the project/asset strand must prepare an Issues Report for presentation to the relevant Programme Board and CPAMB, outlining the projected overspend and the measures that have been taken to bring the project back within budget. This report must outline what further measures if any can be taken through the remaining development/construction of the project which may mitigate any projected overspend.

CPAMB will provide guidance on the appropriate next course of action which may require further value engineering or scope alteration work to be undertaken and a further report brought back to CPAMB, or for the overspend to be reported as a stand-alone report to Council.

Amendments to Project Scope / Deletions / Virements

Money can only be diverted (vired) from one capital project to another with the approval of the Council. For the avoidance of doubt, a 'project' means a separate line in the relevant Capital Plan approved by Council; therefore if it is proposed to add a new capital project, delete an approved capital project from the programme (and/or replace this with another capital project in its place), or materially change a capital project from the scope set out in the Strategic Outline Business Case, then any request to do this must be presented to the relevant Programme Board, and follow the same escalation process through the CPAMB and full Council to attain approval for any amendment.

Project Monitoring

Executive Directors, Chief Officers and Heads of Development have responsibility for individual projects and the Financial Services team will assist them in maintaining control of spending by providing relevant information and monitoring statements to Capital Programme Boards on a 6 weekly basis. To support this process, Project Managers and Service Leads will provide robust expenditure profiles of projects prior to their inception and at 6-weekly intervals for the Capital Programme Board cycles.

Executive Directors, Chief Officers, Heads of Development and Project Managers/Service Leads provide the Chief Officer, Corporate Solutions with any required explanations regarding significant variations from approved Capital Budgets.

The full Council will receive regular reports from the Chief Officer, Corporate Solutions to enable it to monitor and regulate financial performance against the Capital Plans throughout the Financial Year – these comprise, as a minimum, four Quarterly reports on performance against budget for (a) the General Services Capital Plan and (b) the HRA Capital Plan; with one budget setting report for the forthcoming financial year (which will normally form part of one of the Quarterly Update reports) and one outturn report reporting on actual expenditure for the year against budget (again this will form part of one of the Quarterly Update reports).

2.7 Capital Expenditure Definitions

Projects submitted for inclusion in either Capital Plan must following proper accounting practices and comply with the Accounting Code of Practice definition of Capital Expenditure. Capital expenditure guidance and specific definitions of what can be

classified as eligible capital expenditure can be found on the intranet at
'Finance→FAQ's→Capital→Capital Expenditure Guidance & Definitions'

In very broad terms, capital expenditure relates to the improvement, enhancement of existing facilities or the construction/purchase of a new asset. Expenditure in relation to maintaining or repairing an asset is revenue expenditure and cannot be classified as capital expenditure. Further detailed guidance is available on the link in the paragraph above.

The Council also has a de-minimis level which needs to be met for a project to be considered to be as capital and not revenue expenditure. This limit is £10,000 – any expenditure on a project by project basis that does not meet this threshold will be classified as revenue expenditure.

Introduction

This Financial Directive details the Council’s requirements for the preparation of Revenue Budget Estimates as part of the Financial Strategy process. Executive Directors and Chief Officers have a key role to play in supplying the Chief Officer, Corporate Solutions with accurate and timeous information on which to prepare Revenue Estimates. The approval of the Revenue Budgets by the Council gives Executive Directors and Chief Officers the authority to incur appropriate expenditure.

- 3.1 The Chief Officer, Corporate Solutions will determine the arrangements for the preparation of the Revenue Estimates and this forms an integral part of the Corporate and Financial Planning process.
- 3.2 The Chief Officer, Corporate Solutions will prepare Revenue Budget Estimates of income and expenditure for the following year and future year projections in line with any Government Spending Reviews and budget settlements. He will determine the information required from Executive Directors and Chief Officers, who will be required to provide this information within the prescribed timescales.
- 3.3 As part of the Financial Strategy Planning process a report detailing the proposed Revenue Budget Estimates will be presented at a full meeting of the Council. This report will make recommendations and seek decisions regarding existing levels of net expenditure for Corporate and Directorate priorities, Efficiency Savings, Income Generation and Service Reductions or any other alterations to Revenue Budget Estimates.
- 3.4 The Financial Strategy report will also recommend to Council for approval the Council Tax rate and rent levels to be levied.
- 3.5 Approval of the Revenue Budget Estimates gives Executive Directors and Chief Officers authority to incur expenditure, other than those items which the Council has rejected or deferred decisions on.

Where an Executive Director or Chief Officer wishes to incur expenditure not originally included in the estimates, or reduce income so provided, this will require a supplementary estimate to be approved by Council.

4. ADDITIONAL RESOURCES

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Introduction

This Financial Directive details the arrangement for managing the use of additional resources, whether revenue or capital, provided by:

- **The Scottish Government, whether as part of Scottish Government Grant (SGG) or outwith.**
- **Other funding bodies, such UK Government, lottery funding bodies, . etc.**

It incorporates the accounting arrangements which are in place to support the effective policing of the policy.

The objective of this Financial Directive is to ensure that additional resources, which are significant in terms of the overall resources available to the Council, are considered corporately and are utilised in the most effective way to support the delivery of Corporate and Directorate priorities and ensure Best Value to the Council.

- 4.1 This Financial Directive relates to the treatment of Additional Resources received from The Scottish Government and other funding bodies. It applies to additional resources even when they will be used in a multi-agency project.

Additional Resources received from Scottish Government through SGG

- 4.2 It is important to remember that resources allocated through SGG are not ring fenced apart from a small number, and it is therefore for the Council to determine how these are spent, while taking cognisance of nationally agreed priorities.
- 4.3 Resources for new burdens etc are normally announced in one of two ways.
- Where they are an outcome of the Spending Review or grant settlement process they are normally announced in advance.
 - Included in the annual Scottish Local Government Settlement, either by incorporating them in the announcement in December or as a redetermination during the year.
- 4.4 The new burdens that arise as part of any Spending Review will be considered as part of the Corporate & Financial Planning Process. To do this the Chief Officer, Corporate Solutions will report to the Corporate Management Team giving details of the increases made to Grant Aided Expenditure (GAE) - i.e. what the Scottish Government estimate it will cost, and the actual money added to SGG.

Where it's a year on year increase in funding then the total now available will be provided as supplementary information. The report will include proposals on each of the new burdens together with any other relevant information.

4.5 Finance Services will provide Directorates with details of the additional resources arising and request the following information from each Directorate which, after review, will be included as an appendix to the report in 4.4 above :-

- The impact of the new burden or service provision.
- How the funding will support the achievement of the Council's priorities, or whatever new priorities arise from it, together with details of the anticipated outcomes.
- Links to other Directorates or initiatives and the impact if any on other Directorates and or Community planning partners.
- Identify current services that could be changed to meet the new objectives.
- The overlap if any with mainstream provision, and the extent to which the resources can be mainstreamed.
- Confirmation of the element that can be "mainstreamed" to support "overheads" (admin support and existing staff time which is usually required for new initiatives). The expectation is that this should be at least 8%.
- Indicate in broad terms what the funding will be spent on, i.e. staffing, consultants etc.
- Clearly explain the ongoing consequences for future years, i.e. ongoing costs once the funding "dries up", and how these will be dealt with.
- Clearly explain the existing strategy, if one is required
- The consequences and risk of not allocating the resources.

4.6 CMT will then consider this information and their recommendations will be considered as part of the overall Corporate and Financial Planning process.

4.7 All other additional resources which are to be provided through SGG for new burdens etc should be reported to CMT by the Relevant Directorate as they arise. These reports should provide the information as outlined in section 4.5 and the report must be agreed in advance with the Finance Unit.

4.8 Arrangements will be made to incorporate the additional resources into the revenue budget. The resources will be held centrally until the Directorates requests them to be vired to the operational budgets. The virement will not be processed until specific details of the expenditure to be incurred are approved and made available to the Finance Team (if significant variations arise from the original proposals provided to CMT, then these may require to be referred back to CMT, for endorsement). For the avoidance of doubt these arrangements will apply to resources provided through SGG.

Additional resources outwith SGG

4.9 The arrangements outlined in sections 4.7 & 4.8 above will apply to all additional resources provided by the Scottish Government as "Funding outwith SGG" or funding provided by other bodies where it exceeds £25,000.

4.10 Where the funding provided is a capital grant then the proposed capital project may also need to be subject to the Capital Project Evaluation process (see guidance on Intranet in '[Finance→Finance FAQ's→Capital→Capital Bids guidance](#)'). The relevant Directorate should still report to CMT under this protocol in the first instance. Failure to do so will delay the project being incorporated in to the Capital Plan.

Bids for Funding

- 4.11 All bids or applications for funding of £25,000 or more must comply with this section of the protocol.
- 4.12 The protocol applies to bids or applications to any funding body. There are no exceptions.
- 4.13 CMT will be given the opportunity to consider such bids or applications before they are submitted or any commitment to do so is made.
- 4.14 For bids or applications between £25,000 and £250,000 the Directorate should develop proposals and submit a report to CMT, which will provide details of:
- The funding body and the nature of the funds being applied for.
 - How the funding will support the achievement of the Council's priorities.
 - Any links to other Directorates or initiatives, identifying and quantifying overlaps and the impact if any on other Directorates or Community planning partners.
 - The overlap, if any, with mainstream provision.
 - Any match funding required and its source.
 - What the funding will be spent on, i.e. staffing, consultants etc.
 - The ongoing consequences for future years, i.e. ongoing costs once the funding is capital only or when funding "dries up", and how these will be dealt with.
 - The existing strategy, if one is required.
 - The measures to be put in place to monitor the performance of the initiative i.e. increase activity, attainment etc.
 - The usual Financial Implications and Policy sections and be cleared in the normal way.
- 4.15 Where bids or applications are anticipated to exceed £250,000, the Directorate should first seek CMT approval to proceed with the bid. The report should provide details of :
- a) A broad assessment of the information in section 4.14.
 - b) The resources required to develop the bid, from both the sponsoring Directorate and others affected.
 - c) Any resources required to develop the bid.
 - d) The proposals to manage the project implementation if successful.
 - e) An outline of the key risks associated with the proposals.
- 4.16 In normal circumstances the submission of bids over £25,000 will also require to be reported to Cabinet. CMT will consider exceptions to this on a case by case basis.
- 4.17 In circumstances where the actual funding awarded is significantly different from that originally reported to CMT, and then the Directorate should report back to CMT on the implications of this.
- 4.18 Once the funding body approves the bid, the Directorate should request a virement from the Financial Services section so that the initiative is properly reflected in the appropriate budget. Virements will not be actioned if this protocol has not been followed which in

turn may delay the authorisation of new post authorisation forms etc. Please refer to the guidance on the virement of Revenue Budgets, available on the Intranet under 'Finance→Finance FAQ's→Guidance on Virement of Revenue Budgets.'

- 4.19 Where the funding provided is a capital grant then the proposed capital project may also need to be subject to the Capital Project Evaluation process (see guidance on Intranet under 'Finance→Finance FAQ's→Capital→ Capital Bids Guidance'). However the relevant Directorate should still report to CMT under this protocol in the first instance. Failure to do so will delay the project being incorporated in to the Capital Plan.

Other Considerations

- 4.20 Where the additional funding relates to projects that will operate for several years, and where there are no significant year on year changes in the level of resources or the type of expenditure then there is no need to report back on an annual basis.

Support and Assistance

- 4.21 In the first instance you should contact the Financial Services section.

5. CONTROL OF REVENUE EXPENDITURE

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Introduction

This Financial Directive provides details of the Council's requirements for budget monitoring, phasing of budgets, variance reporting, and virement. Emergency procedures for immediate needs are also covered.

Budget monitoring is an essential tool in developing a business and management culture, which continually monitors and reviews the use of resources.

- 5.1 Throughout the financial year, Council will receive regular reports from the Chief Officer, Corporate Solutions to enable it to monitor and regulate financial performance of the Revenue Estimates.
- 5.2 In consultation with the Chief Officer, Corporate Solutions, Executive Directors and Chief Officers will provide an estimate of the net expenditure to be incurred in each accounting period for each budget line in the approved Revenue Estimates in accordance with the timescales established by the Chief Officer, Corporate Solutions.
- 5.3 The Chief Officer, Corporate Solutions will provide Executive Directors and Chief Officers with periodic budget monitoring statements. In addition, Executive Directors and Chief Officers will provide the Chief Officer, Corporate Solutions with any explanations regarding significant variances, and as far as is possible within their powers, ensure that Revenue Estimates are not overspent and that net expenditure conforms to the requirements of the Financial Directives.
- 5.4 The Scheme of Devolved Budget management, (see Intranet under '[Finance→Finance FAQ's→SDBM.](#)') details the flexibility available to Executive Directors and Chief Officers regarding the management of their Revenue Budget. In addition, subject to the requirements of the Financial Regulations, Executive Directors and Chief Officers have authorisation to take remedial action necessary to avoid an overspend in the year of account, however, any action requiring a change in policy will require Cabinet approval.
- 5.5 The Chief Officer, Corporate Solutions has authority to approve up to a limit of £25,000, budget transfers, which relate to new or additional service provision and or policy initiatives; above this level such transfers will require Cabinet approval. Written requests for transfers within the £25,000 limit should be submitted to the Chief Officer, Corporate Solutions and should provide information in support of the transfer.
- 5.6 A Executive Director or Chief Officer may divert money from one operational head of their Revenue Budget to another. Authority to approve all operational virements rests with the Chief Officer, Corporate Solutions and such virements, between approved budget lines, will only be permitted if they are in accordance with the Guidance on Virement of Revenue Budgets, or in the case of schools, the Devolved Budget Management Scheme.

Emergencies

- 5.7 Where no financial provision exists in either the Capital or Revenue Budgets, these Financial Directives do not prevent Executive Directors and Chief Officers from incurring expenditure essential to meet immediate needs arising from a statutory requirement, or which relate to Section 84 of the Local Government (Scotland) Act 1973. This is dependent on the expenditure being approved by Council.
- 5.8 Where it is not feasible for expenditure to be deferred pending Council approval, Executive Directors and Chief Officers may incur expenditure subject to the estimated cost not exceeding £50,000. Where such expenditure exceeds £50,000 the prior agreement of the Chief Executive is required.
- 5.9 Where approval in advance has not been obtained for such expenditure, a report must be submitted to the next meeting of the Council after the expenditure has been incurred.

6. FINAL ACCOUNTS

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Introduction

This Financial Directive provides details of the statutory requirement to prepare and publish annual accounts.

- 6.1 The financial year is from 1st April to 31st March, and the Chief Officer, Corporate Solutions is responsible for ensuring that annual financial statements are prepared, approved and published by the 30th June following the year end.
- 6.2 The format and content of the financial statements is governed by The Code of Practice on Local Authority Accounting in the United Kingdom; International Financial Reporting Standards (IFRS). The Chief Officer, Corporate Solutions is responsible for ensuring that the Council's Accounts comply with the IFRS.
- 6.3 Amongst other things, the Council's financial statements:
 - a) Provide details of the income and expenditure for the year in question.
 - b) Provide a summary for the assets and liabilities at the year-end.
- 6.4 Compliance with the accounting and other arrangements detailed elsewhere in these directives provides a framework which helps ensure that the accounts are materially accurate. In addition, the Chief Officer, Corporate Solutions will prepare and issue on an annual basis, guidance and instructions for Relevant Officials, which provide details of specific tasks, and information required to support the preparation, approval and publication of the financial statements. General guidance and instructions will also be available on the Intranet under '[Finance→Finance FAQ's→Year End Guidance.](#)'

7. **BANKING ARRANGEMENTS, PETTY CASH AND IMPREST ACCOUNTS**

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Introduction

This Financial Directive details the Council's requirements for banking and the operation of Petty Cash and Imprest Accounts.

Banking Arrangements

- 7.1 The Chief Officer, Corporate Solutions will make all arrangements with the Council's Bankers, as he considers necessary to operate Bank Accounts and can authorise Bank Accounts to be managed by other Directorates.
- 7.2 The Financial Services Section of the Place Directorate will reconcile each of the Council's main bank accounts to the general ledger, every four weeks, and will ensure that all withdrawals are properly authorised.
- 7.3 All cheques will be ordered on the authority of the Chief Officer, Corporate Solutions who will make proper arrangements for their safe custody.
- 7.4 Cheques drawn on the Council's Payments Account will bear the facsimile signature of the Chief Officer, Corporate Solutions. All manual cheques and other debit instructions drawn on the General Fund Account will be signed by two authorised signatories. Details are contained in the electronic authorised signatory system.
- 7.5 All Council employees involved in cheque handling or control will be made aware that:
 - a) Under normal circumstances no Council cheques should be altered.
 - b) In circumstances where a minor change is required this must be initialled by an authorised signatory.
- 7.6 Where a creditor reports the non-receipt or loss of a cheque Creditors will check whether the cheque has been cashed and, if possible put a 'stop' on it with the bank. In instances where it is not possible to place a 'stop' on a cheque a replacement will only be issued on receipt of a properly completed indemnity form signed by the creditor.
- 7.7 The Chief Officer, Corporate Solutions will arrange payments through the Bankers Automated Clearing System (BACS), the Faster Payments Service (FP) and the Clearing House Automated Payments System (CHAPS), and ensure that appropriate security procedures are implemented and that there is proper segregation of duties which are reviewed on a regular basis. These are outlined in more detail in Section 15 of these Financial Directives (Payment of Accounts and Ad Hoc Payments).
- 7.8 The Chief Officer, Corporate Solutions will grant such indemnities as he considers necessary in respect of banking arrangements including indemnities against losses arising from the use of facsimile signatures, night safe wallets and direct debits.
- 7.9 Only the Chief Officer, Corporate Solutions has authority to enter into a commitment to pay by direct debit.

Petty Cash & Imprest Accounts

- 7.10 Requirements for Petty Cash and Imprest Accounts will be determined by the Chief Officer, Corporate Solutions on request from other Executive Directors and Chief Officers.
- 7.11 Income received on behalf of the Council will not be paid into Petty Cash or Imprest Accounts but must be paid into the Council's Bank Account. Any bank interest accrued must be remitted separately and timeously to the Chief Officer, Corporate Solutions.
- 7.12 Payments from Petty Cash Accounts are limited to minor items of expenditure only, unless otherwise approved by the Chief Officer, Corporate Solutions. All payments will be supported by a receipted voucher.
- 7.13 Relevant Officials responsible for Petty Cash Accounts are required to account for the petty cash and make returns, accounting for the sum held, to the Chief Officer, Corporate Solutions.
- 7.14 On leaving the employment of the Council, or when ceasing to be entitled to hold an Imprest Account, Relevant Officials return or account for the amounts advanced.
- 7.15 Further guidance on the use of Petty Cash may be obtained on the Intranet under 'Finance→ FAQ's→ Petty Cash.'

8. TREASURY MANAGEMENT

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Introduction

This Financial Directive explains the Council's Policy for Treasury Management.

Treasury management is defined as:

“The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.

There is a code of practice in place to ensure the proper management and execution of this function and the following directives ensure that the Council complies with the Code.

- 8.1 All borrowing and lending will be performed in the name of the Council.
- 8.2 All funds in the hands of the Council will be aggregated for the purposes of Treasury Management and will be under the control of the Chief Officer, Corporate Solutions (Section 95 Officer).
- 8.3 The Council will fully adopted the latest edition of the Code of Practice on Treasury Management in the Public Services, as issued by the Chartered Institute of Public Finance and Accountancy's (CIPFA).
- 8.4 Accordingly, the Council has created and will maintain:
- a) A Treasury Management Policy statement, stating the policies and objectives of its treasury management activities.
 - b) Treasury Management Practices (TMP's) and Investment Management Practices (IMP's), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
- 8.3 The Council receives reports on the Council's treasury management policies, practices and activities, including:-
- an annual Treasury Management and Investment strategy plan in advance of the year;
 - a mid-year review report; and
 - an annual report after its close
- in the form prescribed in its TMP's/IMP's.
- 8.4 The execution and administration of treasury management decisions are delegated to the Chief Officer, Corporate Solutions as the officer designated in terms of Section 95 of the Local Government (Scotland) Act 1973, who acts in accordance with the Council's policy statement and TMP's.

- 8.5 The scrutiny of treasury management strategy and policies is delegated to the Audit Committee.
- 8.6 Where facilities are proposed to be acquired or created by leasing, joint venture, or Private Finance Initiative or Public Private Partnership the financial arrangements underpinning those agreements are made by the Chief Officer, Corporate Solutions.

Deposits, Borrowings and Trust Funds

- 8.7 All executive decisions on borrowing, deposits or financing shall be delegated to the Chief Officer, Corporate Solutions, who will be required to act in accordance with the CIPFA Code and in particular:-
- All loans to the Council will be negotiated by the Chief Officer, Corporate Solutions and wherever possible will be paid direct by the lender or his/her agent to the Council's bank account.
 - All Council loan certificates will, prior to use, be in the custody of the Chief Officer, Corporate Solutions and issued by him/her only when required for completion.
- 8.8 All deposits of money under its control will be made in the name of the Council or in the name of the nominees approved by the Council and in accordance with the Council's Treasury Management Policy and Practices.
- 8.9 All securities which are the property of, or are in the name of, the Council or its nominees together with the Title Deeds of all property in its ownership are held in the custody of the Chief Officer, Corporate Solutions.
- 8.10 All borrowings and all Trust Funds are to be in the name of the Council.
- 8.11 The Chief Officer, Corporate Solutions is the Council's Registrar of Stocks, Bonds and Mortgages and maintains records of all borrowing of money by the Council.
- 8.12 All Relevant Officials acting as trustees by virtue of their official position deposit all securities etc relating to the Trust, with the Chief Officer, Corporate Solutions unless the deed otherwise provides.

9. CHARITABLE FUNDS

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Introduction

This Financial Directive details the Council's requirements for the stewardship of the Common Good Funds and other Charitable Funds.

- 9.1 The Chief Officer, Corporate Solutions will manage the investments of the Common Good Funds on a discretionary basis.
- 9.2 All securities that are the property of, or are in the name of the Council will be held in the custody of the Chief Officer, Corporate Solutions.
- 9.3 Unless otherwise provided for in a trust deed or discretionary agreement, the sale of investments, will be in line with the policy determined by the General Purposes Committee.
- 9.4 All Relevant Officials acting as Trustees will deposit all securities etc. relating to trusts or charitable funds with the Chief Officer, Corporate Solutions unless the deed states otherwise.
- 9.5 The Chief Officer, Corporate Solutions will ensure appropriate custody and control of all charitable funds held by the Council ensuring that all expenditure is in accordance with the conditions of relevant trust deeds.
- 9.6 The Chief Officer, Corporate Solutions, in consultation with Executive Directors or Chief Officers will make arrangements to oversee funds held on behalf of clients.
- 9.7 Returns will be submitted for all registered charities on the basis of the regulations as set out by OSCR.

Introduction

Most of the above funds are generated principally through local fund-raising activities. These funds can vary in scope and value but are generally administered by an employee of the authority. Typically they may be welfare funds in or School Funds in Schools.

For the convenience of schools, the Children, Young People and Partnership Directorate also uses such funds to supply funds for extra-curricular excursions. These funds generally augment the official budgets for each school. The Council has an oversight duty to see that these non-council administered funds are administered properly, without activating day-to-day control.

Legal Responsibility

- 10.1 As such funds remain for the benefit of the public e.g. school pupils, clients; the authority has a legal responsibility to ensure that there is adequate financial and administrative control over them and is entitled to audit all such funds.

Management of Non Council Administered Funds

- 10.2 To safeguard the interests of individual staff, a Committee should be formed to authorise expenditure from the fund and a treasurer appointed. Minutes of the Committee meetings should be kept to provide a record of decisions and to provide continuity in knowledge of the administration of the fund as staff changes take place.

The Treasurer should be responsible for

- a) The safe custody of funds.
- b) Proper accounting of receipts and payments.
- c) Preparation of annual accounts for review/certification by an Honorary Auditor.
- d) Reporting to the Committee on a regular basis on matters relating to the funds.

To safeguard her/his own interests a treasurer leaving office should arrange for accounts to be prepared locally and audited to that date. He/she should also obtain certification from the incoming treasurer or Committee of the amount of cash and bank balances being handed over.

Bank Accounts

- 10.3 A current account should be opened in the name of the fund to enable payment to be made by cheque, thereby providing records of transactions.
- 10.4 Depending on the amount of money held in the fund account, it may either operate with a single interest bearing current account or with both a current and deposit account, whichever is most advantageous to the fund.
- 10.5 Funds are meant to be used for the benefit of current clients/pupils and significant bank balances should not be built up.

- 10.6 It is essential that all funds are administered through a single current account and/or deposit account rather than operating different accounts for different projects within an establishment. Financial statements for particular projects can be provided, if required, from the cash book analysis.

Signatories

- 10.7 It is recommended that there should be four authorised signatories and cheques drawn in the name of the fund account would require the signature of the treasurer and one other person.

Financial Records

- 10.8 Detailed financial records should be kept of all transactions within the fund. The main record of income and expenditure is the Cash Book. Subsidiary records should also be maintained for regular income collections.
- 10.9 Reconciliations should be performed between accounting records and bank statements on a monthly basis and checked by a person independent of the daily control of the account with all discrepancies investigated. This ensures the monies are independently monitored and any errors are timeously corrected.
- 10.10 Each payment made from the fund should be by cheque, wherever possible. A receipt should be obtained as evidence of all expenditure transactions, cash or cheque and cross-referenced to accounting records.
- 10.11 Where income is paid into the account, a duplicate receipt book should be used. The top copy should be issued to the depositor and the bottom copy retained in the pad.
- 10.12 Where trading type activities are undertaken, a trading account statement should be drawn up on at least a six monthly basis.
- 10.13 All receipts and financial/trading statements should be retained for two financial years plus the current year for audit purposes.

Annual Financial Statement

- 10.14 At the end of each financial year, or other agreed period, expenditure should be drawn up and audited by an Honorary Auditor.

Income

- 10.15 Only income directly attributable to the fund should be credited to it.
- 10.16 Any income generated by activities undertaken by Council Staff, etc on Council time is properly the income of the Council and must be accounted for in the Council accounts.
- 10.17 In addition income generated from the use of the Council buildings and vehicles are again properly the income of the Council.

- 10.18 If you are unsure on the treatment of income please contact your normal finance contact or a member of the finance unit.

Income Tax and VAT

- 10.19 In general funds will not be liable for Tax on their activities. However it is the responsibility of the Committee responsible for such funds to ensure this is so.
- 10.20 In respect of VAT funds are not covered by the Council's VAT registration. Where income from trading type activities on a fund exceeds the VAT registration threshold (see www.HMRC.gov.uk) then the Committee responsible for the fund must arrange VAT registration.

Insurance

- 10.21 It is recommended that the Committee responsible for the fund consider taking out fidelity, fire and theft insurance to cover any assets belonging to the fund.

Audit

- 10.22 Annual financial statements should be independently reviewed and presented to a committee. The auditor should be someone independent of the management of the fund, e.g. another member of staff, a parent. The auditor must be satisfied that:
- a) Sufficient information has been made available for the audit
 - b) Proper and adequately detailed records of expenditure and income have been kept
 - c) Financial statements are in accordance with the books and papers submitted for audit

The auditor should issue a signed statement, which should be kept with the financial statement to which it refers. The auditor should comment on anything that is found to be amiss as the absence of any statement is interpreted as satisfaction with the accounts.

11. TAX MANAGEMENT

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Introduction

This Financial Directive sets out the Council's requirements for Tax Management. It includes:

- **Allocation of responsibility for taxation to the Chief Officer, Corporate Solutions.**
- **The appointment of professional advisers.**
- **The requirement for Executive Directors and Chief Officers to consult the Chief Officer, Corporate Solutions on transactions which have tax implications.**

Periodically, the Council is inspected by HM Revenue and Customs. These inspections may result in the imposition of penalties for non-compliance with tax legislation. Therefore, it is essential that Executive Directors and Chief Officers ensure that employees are aware of any relevant taxation matters and that where necessary guidance is obtained from the Chief Officer, Corporate Solutions.

- 11.1 The Chief Officer, Corporate Solutions will be responsible for the taxation procedures of the Council, ensuring where possible, that tax liabilities and obligations are properly reported and accounted for, avoiding any possible losses.
- 11.2 In particular the Chief Officer, Corporate Solutions will be responsible for:
- a) Ensuring that transactions comply with relevant statutory requirements and authorities.
 - b) Minimising the Council's tax liability.
- 11.3 In carrying out such responsibilities the Chief Officer, Corporate Solutions will:
- a) Define and allocate duties in relation to taxation and tax management.
 - b) Ensure that financial control systems operate effectively, produce the necessary information and minimise the risk of error.
 - c) Ensure appropriate guidance is provided to employees involved in processing tax-related transactions.
 - d) Ensure assistance is provided for any investigations undertaken by a Collection Agency and that justification for assessments made resulting from investigations are properly reviewed.
 - e) Implement arrangements to monitor the execution of these responsibilities.
 - f) Report any significant changes to the Council's tax affairs to the Cabinet.
- 11.4 The Chief Officer, Corporate Solutions may appoint external tax specialists.
- 11.5 The Chief Officer, Corporate Solutions will be responsible for the dissemination of information on tax matters as appropriate. Executive Directors and Chief Officers will be responsible for implementing guidelines introduced by the Chief Officer, Corporate Solutions regarding any particular aspect of tax.

- 11.6 Where transactions of a new or unusual nature are being considered, Executive Directors and Chief Officers will consult with the Chief Officer, Corporate Solutions on the tax implications before committing the Council.

VAT

- 11.7 VAT paid on goods or services bought is termed input tax and VAT collected on goods or services sold is termed output tax.
- 11.8 The majority of the Council's activities are non-business and no output tax is added to or accounted for on charges made to "customers" for non-business activities. Input tax incurred on purchases for such activities is fully reclaimed from HM Revenues & Customs. Business activities however will fall into one of the following categories:
- a) Standard rated, in which case output tax at 20% is added to or accounted for on income received.
 - b) Lower rated, which mainly relates to energy, in which case output tax is added to or accounted for on income received at the appropriate rate.
 - c) Zero rated, where no output tax is applied because the rate is set at 0%, e.g. sale of publications.
 - d) Exempt, where no output tax is applied to or accounted for on the income, e.g. certain lets of property or certain education or sporting charges.
- 11.9 When input tax is incurred in the provision of standard, lower rated or zero rated activities then it is fully reclaimed from HM Revenues & Customs. However, input tax incurred on exempt activities is only reclaimable if it amounts to less than 5% of the total input tax recovered by the Council. This 5% limit is called the partial exemption limit, if input tax incurred on exempt activities exceeds 5% then none of the exempt input tax is recoverable and so becomes a real cost to the Council.

Responsibilities for VAT

- 11.10 The Chief Officer, Corporate Solutions is responsible for managing the VAT affairs of the Council. This section provides the framework for this.
- 11.11 The Chief Officer, Corporate Solutions will put in place arrangements to monitor the VAT incurred on exempt activities. To do this it will be necessary for Relevant Officials to advise the Chief Officer, Corporate Solutions at an early stage of any service developments which may be classified as exempt for VAT purposes.
- 11.12 Executive Directors and Chief Officers, and other Relevant Officials are responsible for ensuring that the appropriate VAT treatment is applied to charges for services or supplies made by their Directorate. When determining the proper treatment Executive Directors and Chief Officers, and other Relevant Officials are required by this Directive to seek the advice from the Chief Officer, Corporate Solutions. This should be done via the VAT helpdesk (Vathelp@midlothian.gov.uk). Failure to seek advice may result in financial loss to the Council.
- 11.13 The Council's financial system enables VAT to be identified when debtor accounts are issued and income banked. There are penalties for not accounting for output tax on income and so it is essential that all relevant income be correctly identified.

- 11.14 Invoices rendered by the Council for services provided will conform to the standards required by HM Revenues & Customs and will be agreed with the Chief Officer, Corporate Solutions.
- 11.15 The Council's purchase ledger systems allow for automatic recovery of input tax through the use of specific payment codes.
- 11.16 To reclaim VAT, the Council must have a valid tax invoice from a registered trader and be able to produce it on request. If input tax is claimed and not supported by a valid invoice the Council may be liable for penalties for misdeclaration of tax.
- 11.17 Invoices for services or supplies to the Council will conform to the standards required by HM Revenues & Customs. All invoices must be in the name of the Council – the Council cannot reclaim VAT on an invoice that is addressed to any other party/company.
- 11.18 The detail required by Customs & Excise is limited for invoices for individual supplies of less than £100 e.g. petty cash purchases. The Chief Officer, Corporate Solutions will provide guidance on the minimum requirements within the petty cash guidelines available on the Intranet under 'Finance→FAQ→Petty Cash Procedures'.
- 11.19 Under no circumstances can VAT on an invoice rendered to (or by) the Council be altered. Similarly, the amount charged for goods or services supplied (to which VAT relates) cannot be amended for errors, returned items, deductions for incomplete service, etc. as the VAT would no longer be correct. Errors must be corrected via credit notes or supplementary invoices issued by suppliers, unless the supplier cancels the original invoice and issues a revised one.
- 11.20 If a supplier offers a discount on condition that the Council pays within a specified time, the tax value to be reclaimed will be based on the discounted value.

VAT and School Funds etc

- 11.21 School Funds and other “arms length” funds are treated as separate entities for VAT purposes and are not covered by the Council's VAT registration. This means that:
- a) The person responsible for administering each fund must make sure that the Fund registers for VAT if it exceeds the VAT registration threshold (details available from HMRC.gov.uk).
 - b) The Council cannot recover VAT incurred purchases made directly from School Funds etc.
- 11.22 Where the School Fund etc is to be used to finance the purchase of goods or services for use by the School etc then the Council should order and pay for the goods/services in the normal manner (with the VAT being recovered). The payment from the School Fund should then be treated as a donation, however under this arrangement ownership of any goods purchased remains with the Council.

12. INCOME

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Introduction

Midlothian Council cannot operate without funds derived from the various fees and charges that it levies. It follows that the effectiveness of the Council's collection arrangements will impact directly on the sums available for the continued provision of services.

The arrangements for the accounting, prompt collecting and recording of income must be underpinned by clearly defined principles. The following paragraphs provide direction on the principles required (and supplements the guidance on the Intranet under [Finance→FAQ→Income Collection Guidance](#).)

Fees and Charges

- 12.1 The main income streams are:

Council Tax

Set by the Council annually as part of the budget process. Collected by the Council's Revenues Team.

House and Garage Rents

Set by Council annually as part of the Housing Revenue Account budget process and collected by the Council's Revenues Team.

Non Domestic Rates

Set by Central Government, with the majority of income effectively returned to Central Government. Collection is carried out on behalf of Midlothian Council by the City of Edinburgh Council.

Other fees and charges e.g. Libraries, Leisure and Planning fees

Some are set by the Council with others set nationally by Central Government. Various collection methods are employed, from payment in advance to collection via the accounts receivable system operated by Revenues Operations.

- 12.2 Executive Directors and Chief Officers will, at least annually, review the charges for goods and services provided by their Directorate. To maintain the real value of such income, any increases will take inflation into account. Any proposed charge increases must be approved by Cabinet.
- 12.3 It is imperative the Value Added Tax (VAT) is accounted for properly on fees and charges. The majority of fees and charges are of a recurring nature and the Relevant Officials concerned are aware of the VAT treatment. However, for new charges or where there is any doubt as to the VAT treatment it is imperative to seek advice from Financial Services (Vathelp@midlothian.gov.uk)

Collection of Income

- 12.4 As comprehensive arrangements for billing and collection of Council Tax, Non Domestic Rates and House Rents are made by Revenues Operations, this Financial Directive focuses on other income streams, in particular fees and charges levied by Council Services.
- 12.5 Regardless of the arrangements that follow it is imperative that any facility that collects fees and charges makes sure that arrangements are in place to provide each and every customer with a receipt for the sums received. The type of receipt issued will be dependent on the systems adopted but may range from a till receipt produced by a cash register to a hand written official receipt. Whatever arrangements are put in place these should be agreed in advance with the Risk and Audit team.
- 12.6 The Chief Officer, Corporate Solutions is responsible for ensuring proper collection, control and banking of all cash due to the Council and has the authority to inspect any relevant documentation as considered necessary.
- 12.7 Wherever possible income from fees and charges should be collected either in advance of the service being provided or at the point of service delivery. Payment may be accepted in cash or cheque or by Debit/Credit Card although specific arrangements need to be made with Financial Services for the latter.
- 12.8 Where facilities collect income on site in this way, arrangements must be made with Financial Services to agree the accounting records required, to make arrangements for security of cash held on the premises, to ensure security over electronic payments, and to arrange secure transfer of the cash to the Council's Bank.
- 12.9 All money received by an official on behalf of the Council will, without delay, be paid into the Council's bank account. No deduction may be made from such income, unless specifically authorised by the Chief Officer, Corporate Solutions. Personal cheques must not be cashed from monies held on behalf of the Council.
- 12.10 Where it is not possible to collect in advance or at the point of service delivery then it is necessary to use the Accounts Receivable system operated by Revenues Team. It is imperative that fees and charges that are levied using this method are done so promptly (preferable within five working days although it is acknowledged that by exception the five day target will be unachievable for some services) as any delay can impact on the ability to collect the sums due. The Service Directorate concerned will need to set up the Customer on the system and raise the account for the charges concerned.
- 12.11 Once a charge has been raised on the Accounts Receivable system, Revenues Team will manage recovery assisted by the Directorates, in accordance with the Accounts Receivable recovery and write-off procedures. The system will provide the customer with additional means to pay including, Direct Debit, standing order as well as cheques and cash. Payment of accounts can be made by post or at the main collection offices as well as Leisure and Library facilities etc.

- 12.12 The Accounts Receivable system is the preferred means to account for and collect recurring charges such as commercial rents and membership charges. Arrangements for these should be made with Revenues Team.
- 12.13 Due to money laundering regulations, the maximum cash payments for goods and services is £5,000 unless otherwise approved by the Chief Officer, Corporate Solutions.
- 12.14 Transfers of money between employees must be evidenced in directorate records by the signature of the receiving official.

Debt Recovery

- 12.15 Where fees and charges are levied using the accounts receivable system the Revenues section, assisted by Directorates in accordance with the Council's agreed recovery and write-off procedures, will make arrangements to pursue payment, by issuing reminders and taking appropriate recovery action. Where income is collected via customer debit and credit card, either over the telephone or electronically, the collecting Directorate, in liaison with Digital Services, ensures that computer and income collection procedures are secure.
- 12.16 Any manual records created showing customer debit and credit card details are securely held and destroyed after 18 months.
- 12.17 Where income is directly downloaded from a Bank, the Chief Officer, Corporate Solutions ensures that proper controls are in place to receive this income, including segregation of duties, procedures for staff to follow and clear timetables.
- 12.18 The Chief Officer, Corporate Solutions or any Relevant Official authorised by him/her may sign petitions and certificates to the Sheriff Court for Summary Warrant applications.
- 12.19 The Chief Officer, Corporate Solutions can take action to recover Rates under Section 247(5) of the Local Government (Scotland) Act 1947.

Bad Debts

- 12.20 Provision will be made in the Council's accounts for potentially Bad and Doubtful debts. To do this requires a charge to be made to service Revenue accounts that originally raised the accounts, which will reflect the historic levels of bad debts.
- 12.21 When Rents, Rates, Council Tax or Sundry Debts cannot be recovered, the Chief Officer, Corporate Solutions or a Relevant Official authorised by him/her, may authorise writing off any balance in respect of:
 - a) an individual in sequestration or who has signed a Trust Deed (and a suitable claim has been lodged or actioned appropriately as advised through the Trustee, Accountant in Bankruptcy etc).
 - b) a company in liquidation (and a suitable claim has been lodged or actioned appropriately as advised through the Trustee, Accountant in Bankruptcy etc).
 - c) short periods under the terms of Sections 240 and 241 of the Local Government (Scotland) Act 1947.

- d) sums claimed from the estate of a deceased person where confirmation received that there are no funds to meet the outstanding liability.
- 12.22 When Rents, Rates, Council Tax or Sundry Debts cannot be recovered, the Chief Officer, Corporate Solutions or a Relevant Official authorised by him/her, may authorise writing off balances up to £1,000 in respect of:
- a) debts where all possible methods of recovery have been exhausted and it is clear that an amount will not be recovered.
 - b) debts where the debtor cannot be traced.
 - c) debts considered uneconomical to pursue.
 - d) prescribed debt.
 - e) any other categories of bad debt not otherwise mentioned in 12.21 or 12.22.
- 12.23 The write-off of all debts of over £1,000 (or combined debts for a single debtor/liable party) requires the approval of Cabinet.
- 12.24 The Chief Officer, Corporate Solutions or relevant official nominated by him/her will consider disputed accounts and take the appropriate course of action. Cabinet approval is required when the disputed debt to be written off exceeds £1,000.

13. PAYROLL, TRAVEL AND SUBSISTENCE

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Introduction

This Financial Directive provides details of the Council's requirements for payroll, travel and subsistence. It is essential that Directorates ensure that timeous and accurate information is passed to Employment & Reward, overtime information is accurate, and that leavers are deleted promptly from the payroll.

Salaries, Wages and Pensions

- 13.1 The Chief Officer, Corporate Solutions is responsible for the administration and regulation of the Council's payroll system. Executive Directors and Chief Officers are responsible for ensuring that any information which affects the payment of salaries and wages is passed promptly to Employment & Reward.
- 13.2 All employee salaries, wages, compensation, expenses, subsistence, claims and other emoluments will be paid through the payroll system.
- 13.3 Each Executive Director and Chief Officer will notify the Chief Officer, Corporate Solutions of the following matters, which affect the payment of salaries and wages:
- a) Appointments, resignations, dismissals, suspensions, secondments and transfers.
 - b) Absences (for sickness or otherwise).
 - c) Changes in remuneration (other than normal increments and pay awards).
 - d) Any information needed to maintain records of service for Superannuation, Income Tax, and National Insurance.

The Chief Officer, Corporate Solutions will then update records.

- 13.4 The appointment of all employees will be made in accordance with the Standing Orders and the approved establishments, grades and rates of pay.
- 13.5 All time records and pay-related documents will be:
- a) In a form approved by the Chief Officer, Corporate Solutions.
 - b) Certified as correct in writing by or on behalf of the Executive Director or Chief Officer.
- 13.6 Executive Directors and Chief Officers will be responsible for maintaining the electronic database of authorised signatories for their Directorate.
- 13.7 The Chief Officer, Corporate Solutions will make the necessary arrangements for the collection, recording and payment to the appropriate organisation, of Income Tax, National Insurance Contributions and pension contributions related to employees' pay.

Members and Officials Allowances

- 13.8 The following employee claims will be submitted to the Chief Officer, Corporate Solutions having been signed by the employee and authorised by the relevant official:

- a) Payment of car allowances
 - b) Subsistence allowances
 - c) Travelling expenses
 - d) Incidental expenses
- 13.9 Executive Directors and Chief Officers are also entitled to payment of travel and subsistence expenses relating to approved duties. Executive Directors and Chief Officers are required to submit claims with appropriate receipts and these claims should be submitted in accordance with Council policies. These policies can be found on the Intranet. (Personnel→Policies and Procedures→Subsistence Scheme).
- 13.10 Executive Directors and Chief Officers will ensure that any claims and applications are submitted on official expenses claim forms. The Chief Officer, Corporate Solutions will be sent a list of Relevant Officials authorised to sign claim and allowance forms.
- 13.11 The Chief Officer, Corporate Solutions is responsible for administering the payment of Members' remuneration and expenses in accordance with the relevant statutory provisions.

14. PROCUREMENT OF GOODS, WORKS & SERVICES

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Introduction

A major requirement for the Council under Best Value is to have a procurement regime, procedures and guidelines that prompt members of staff to follow consistent methods of ordering goods, works and services and secure value for money.

- 14.1 Each Director and Chief Officers will ensure that procurement within their Directorate complies with the Council's Corporate Procurement Policies and Procedures (<http://intranet/Council/minisites/MiniSite02.asp?siteid=1>).
- 14.2 Where procurement is by contract Executive Directors and Chief Officers must follow Standing Order 20 and the Council's Procurement Policies and Procedures Manual. Further details are given in Financial Directive 17 on the financial control of contracts.
- 14.3 No procurement of goods, works or services is made by Directorates unless the resulting expenditure can be met from an approved Capital or Revenue Budget or other financial provision as determined by the Chief Officer, Corporate Solutions.
- 14.4 Official orders, in the format agreed by the Chief Officer, Corporate Solutions, are used for goods and services and Executive Directors and Chief Officers ensure that these are used correctly, including the secure storage of unused orders, as per the Chief Officer, Corporate Solutions.
- 14.5 Official orders indicate clearly the nature of the purchase, the quantity or service involved, and any agreed terms/ price.
- 14.6 Official orders must be signed by a Relevant Official, with the signatory previously included in the electronic authorised signatory system (intranet).
- 14.7 Official orders with an estimated value of £50,000 and over must be counter-signed by a Director or Chief Officer.
- 14.8 Official orders should be used for all procurement of goods, works and services except:
 - a) Civil Engineering and Building contracts.
 - b) Public Utilities.
 - c) Periodic payments such as rent.
 - d) Petty Cash purchases.
 - e) Other exceptions as detailed in the Procurement Policies and Procedures Manual.
- 14.9 Each Director and Chief Officer ensures that proper procedures are observed for:
 - a) Receiving goods/checking that services have been carried out satisfactorily.
 - b) Updating/matching the copy order with the delivery note.
 - c) Updating records, systems and inventories accordingly.
 - d) Ensuring that the invoice is correct when received from the supplier/service provider and it is paid within a stipulated deadline on the signature of a Relevant Official.
- 14.10 Procurement of goods, works and services must be made from the appropriate contracted suppliers listed in the Council's Contracts Register.

14.11 No procurement of goods, works or services may be made from suppliers who do not appear on the Purchase Ledger database until a New Supplier Form has been completed and authorised in advance.

15. PAYMENT OF ACCOUNTS AND AD HOC PAYMENTS

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Introduction

Payments to the Council's suppliers should normally be paid within thirty days of their receipt, in accordance with the Late Payments of Commercial Debts (Interest) Act 1998. Procedures for the payment of invoices are therefore required to ensure the achievement of this objective. In addition control of the Council's expenditure must be maintained and be proper to the Council's activities. In order to achieve this it is necessary to designate those Relevant Officials who may certify payments and for them to know what is expected of them and the limits of their powers.

- 15.1 Money due by the Council is usually paid by automated bank payment or cheque drawn on the Council's Bank Account.
- 15.2 Each Executive Director and Chief Officer is responsible for ensuring that Relevant Officials responsible for examining, verifying and certifying payments on his behalf have checked these to the related order. Similarly any other payment vouchers and accounts arising from sources in the Directorates are examined to ensure that they are properly prepared, evidenced and certified. Certification is required by or on behalf of the Executive Director or Chief Officer. Each Executive Director or Chief Officer sends the names and specimen signatures of Relevant Officials authorised to sign payment vouchers on his behalf to the Chief Officer, Corporate Solutions on request and on the occasion of any change. If approved, this allows the Council's Authorised Signatories Database to be updated to ensure that all officers authorising any payment on behalf of the Council are listed appropriately on this database.
- 15.3 Relevant Officials for the purposes of the certification of payments are those listed in the Authorised Signatories database as posted on the Intranet under Finance→Authorised Signatories' and then selecting the appropriate category for the authorisation/certification of
 - i. Invoices
 - ii. BACS e-form payment files
 - iii. Bankline e-form Payment Request Forms (as the case may be).
- 15.3 Executive Directors and Chief Officers must ensure that the guidelines for making payments posted on the Intranet under 'Finance→FAQ's→Payments→Payment Guidelines' encompassing payments through the central accounts payable system and electronic payments through BACs and Bankline are complied with in full by Relevant Officials.

Introduction

The Local Government in Scotland Act 2003 and the associated Scottish Government guidance empowers Councils to be innovative and to work in partnership with other parts of the public, private and voluntary sectors. As part of Best Value, Councils are expected to work effectively through partnership at all levels. Partnership working is seen by the Government to be a potentially powerful tool for tackling policy and operational problems and is led by the Midlothian Community Planning Partnership, which includes key partners such as Health and the Police.

The Council works effectively through partnerships at all levels. This includes both mandatory partnerships (for example, community planning, Regional Transport Partnership, Integrated Joint Boards, Criminal Justice Authority) and partnerships where there are communities of interest (e.g. older people, gypsy/travellers), including collaborative working, networks and partnerships at regional or sub regional level. It identifies partners with whom it can deliver sustained improvements in outcomes for citizens, and finds its partnership working on effective consultation and analysis of need. Programmes and projects are visible and relevant to local communities and innovation is encouraged. Clear objectives are set for all partnership activity. Activities and tasks carried out in partnership are subject to the council's performance management framework, and carry the same burden of accountability as activities carried out solely by the council.

- 16.1 The foundations for partnership working are laid down in the Midlothian Community Plan, which can be viewed on the Council's website.
- 16.2 The statutory requirement under the above Act, to secure Best Value, means that every Director and Chief Officer, in line with corporate guidance, will periodically review the options available for the delivery of services (options appraisal) which includes analysis of whether services are delivering best value, including potential options for partnership working and shared services.
- 16.3 Executive Directors and Chief Officers must ensure that any proposed partnership has clearly mapped benefits, is legal, and has measurable outcomes and clear opportunities for improvements to services.
- 16.4 No partnership can be entered into unless it has Council or Cabinet approval. Each report seeking approval must include:
 - a) A business case
 - b) An analysis of inherent risks
 - c) A realistic evaluation of the proposed partnership
 - d) A statement on how likely issues will be managed
 - e) Details of how partners' actions will be governed
- 16.5 Whenever a partnership is proposed, and before any Partnership Arrangements are progressed, a joint risk assessment must be produced and be agreed and certified by the partners. This risk assessment must be reviewed bi-annually.

- 16.6 Each partnership must have a formal agreement, which should determine:
- a) Funding input.
 - b) Representation, respective roles and responsibilities and voting rights.
 - c) Accountability to the partnership itself and to individual partners.
 - d) The main arrangements for committing funds and making payments.
 - e) The reporting routines.
 - f) Collective performance measures and targets.
 - g) Any collective arrangements for procurement.
 - h) Common risk management language.
 - i) The Business Continuity plan.
 - j) Insurance and liability arrangements.
- Equality implications
- 16.7 The Council may also fund ‘Outside Bodies (OB)’ and ‘Supported Organisations (SO).’ Each Director and Chief Officer proposing to make a payment to such a body is subject to other Financial Directives on approved budgets and authorising/checking payments.
- 16.8 Elected Members or Officials representing the Council on a Partnership, Joint Venture or OB/SO are regulated by the Council’s codes of conduct.

17. FINANCIAL CONTROL OF CONTRACTS

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Introduction

The Council enters into a wide range of contractual obligations, such as building projects, purchase of computers, social care and professional services. The requirement to secure Best Value means that the Council must secure value for money from its contractual obligations.

This Financial Directive details the Council's requirements in relation to the financial control of contracts.

Awarding contracts

- 17.1 Executive Directors and Chief Officers will not enter into a contract unless it is legal, budgetary provision is available and the long-term implications of the obligations are assessed. The Chief Officer, Corporate Solutions, through the Legal Service, will advise on contracts and will be notified by Executive Directors and Chief Officers before any contractual commitment is agreed.
- 17.2 Executive Directors and Chief Officers will comply with Standing Order 20 and the Council's Procurement Policies and Procedures when entering into contracts. The Council's Procurement Manager is the key contact on these matters and there is an expectation that he/she is consulted on all procurement matters.
- 17.3 Executive Directors and Chief Officers must ensure that each contractual obligation represents Best Value.

Payment by Instalment

- 17.4 Where Capital or Revenue contractual payments are paid by instalments, the Chief Officer, Corporate Solutions will maintain a record of these in a contract register. This register will record details of all payments and contractual obligations against the agreed budget.
- 17.5 The Chief Officer, Corporate Solutions will ensure that payments by instalment are regularly reconciled to the central Finance System and suitable financial information is made available from this process.
- 17.6 In the case of civil engineering and building contracts each payment by instalment will be transacted by means of an approved certificate signed by a Relevant Official. In other cases instalments are paid on an invoice certified by a Relevant Official which shows the payments to date and the outstanding sums. In both instances Executive Directors and Chief Officers are responsible for detailed checks over the work carried out by the contractor over the goods received process.
- 17.7 The responsible Executive Director or Chief Officer ensures that contractual payments are bona fide and the goods, services or works have been received and are of the agreed standard and quality.

- 17.8 Payments will not be made without Cabinet approval where estimated cumulative contract variance is greater than £20,000 or 10% (for contracts over £200,000). The Chief Officer, Corporate Solutions will be notified where the cost overruns are likely with guidance on how to deal with potential overruns available on the Intranet.
- 17.9 All contracts that span a timescale and involve instalment payments will be subjected to monthly progress reports including the presentation of monthly cost reports being made by the Relevant Official to the appropriate Director or Chief Officer.

Contractors' Claims

- 17.10 No final instalment will be authorised for payment by a Relevant Official unless it is clear that the contractor has fulfilled all contractual obligations.
- 17.111 Contractor's claims covered by contract conditions will be dealt with by the responsible Executive Director or Chief Officer unless they involve potential cost overrun when they are then dealt with under financial directive 17.8.
- 17.12 Contractors' claims not clearly covered by contract conditions will be referred to the Chief Officer, Corporate Solutions for consideration of the Council's legal and financial liability before any payment is made.

Service Concession

- 17.13 The monitoring of the operation of service concession (PPP/PFI etc) Contracts will be in accordance with procedures agreed between the Chief Officer, Corporate Solutions and the Executive Director, Place and will include *inter alia*:
- (a) monitoring the performance of the contractor;
 - (b) the checking and verification process;
 - (c) penalty deductions for poor performance; and
 - (d) timeous payment of invoices.

18. AUDIT

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Introduction

To help the Council apply Best Value principles, including sound Corporate Governance, there has to be a review and assessment function with the operational flexibility and authority to access all areas of Council activity and to follow the public pound to the “point of delivery”.

Internal Audit is an independent appraisal function, established to review, examine, evaluate and report on the adequacy of internal controls, governance and the management of risk within the Council. This Financial Directive details the Council’s requirements in terms of Internal Audit.

- 18.1 Internal Audit will review, appraise and where appropriate, report on:
- a) The effectiveness of established internal controls, mainly in core, financial systems and Strategic and Corporate risks, governance and risk management processes.
 - b) Compliance with approved Council policies, plans or procedures.
 - c) Whether Council assets are properly accounted for and safeguarded from losses arising from theft, fraud, waste, inefficient administration or poor value for money.
 - d) The suitability and reliability of management data produced within the Council.
 - e) How effectively service managers discharge their responsibility to achieve
 - f) Best Value.
- 18.2 The main structure/stages of an audit review are:
- a) Identification of Risks.
 - b) Evaluation of Controls established by Management to address the risks.
 - c) Testing the effectiveness of the controls.
 - d) Reporting findings and recommending improvements.
- 18.3 Internal Audit findings are reported initially to the appropriate Director and Chief Officer, and are then considered by the Council’s Corporate Management Team and then reported to Audit Committee. The Chief Internal Auditor will also report to the Chief Officer, Corporate Solutions, and to the Chief Executive if deemed appropriate. The Chief Internal Auditor has access to the Chair and Committee Members of the Audit Committee.
- 18.4 Internal Audit reports will identify controls strengths and weaknesses in the business operations reviewed and make recommendations accordingly. It is a Director and Chief Officer responsibility to decide whether to implement audit recommendations. The Audit Committee will have a view on the requirement to install recommendations.
- 18.5 It is also a Director or Chief Officer responsibility to ensure that:
- a) All employees work closely with Internal Audit to ensure that audit reviews are completed as quickly as possible.
 - b) Responses to audit reports are within agreed timescales. These deadlines are agreed by the Corporate Management Team and endorsed by the Council’s Audit Committee.

- c) Internal Audit recommendations are successfully installed within agreed timescales
 - d) The Chief Internal Auditor is made aware of any proposed new systems or significant changes to existing processes.
 - e) The Risk Register is kept up to date.
- 18.6 The Chief Internal Auditor has a formal link with the Audit Committee and all audit reports submitted are in his/her own name. Executive summaries of published audit reports are presented to the Audit Committee for consideration.
- 18.7 In addition, the Chief Internal Auditor submits summary reports to the Audit Committee on audit activity, and emerging internal control issues, and the report issued in April/May of each year includes an opinion on the Council's internal control arrangements, in support of the Assurance Statement of Governance made by the Chief Executive and Leader of the Council.
- 18.8 The Internal Audit Section has authority to:
- a) Enter any Council premises or land, at reasonable times.
 - b) Have access to all records, documents and correspondence relating to any accounting financial and other operational transactions of the Council.
 - c) Require and receive such explanations as are necessary concerning any matter under examination.
 - d) Require any employee of the Council to produce cash, stores or any other Council property under the employee's control.
- 18.9 The Chief Internal Auditor must be immediately notified of any possible discrepancies relating to cash, stores or any other Council property as well as any suspected irregularity associated with the Council.
- 18.10 Any irregularities will be dealt with in accordance with the Council's Counter Fraud and Corruption Policy. Details of this Policy strategy can be found on the Intranet under [Finance > FAQs > Internal Audit > Fraud and Corruption Policy](#).

Introduction

Best Value guidance requires councils to have in place a comprehensive and organisation-wide risk management strategy and system. This should focus on the major risks in Corporate Priorities, Corporate Aims and Objectives, Human Resources, Money, Property, Technology, Information, Reputation, Other Assets, Projects and Partnerships.

Further, a major requirement under Corporate Governance is for a system to be in place to provide assurance to Senior Management, Elected Members and the wider public audience.

The Council's Risk Management Strategy and System of Assurance can be found on the Intranet under '[Finance→FAQ→Risk Management](#).'

Risk Management

- 19.1 The Executive Director, Place facilitates and coordinates a risk management framework covering all the strategic, operational, project and thematic risks within the Council including its relations with outside bodies and partners. Executive Directors and Chief Officers are obliged to activate the Risk Management systems and processes within their Directorates.
- 19.2 The Cabinet approves the risk management policy and strategy and receives an annual update on progress and the risk exposures facing the Council.
- 19.3 The Executive Director, Place reports quarterly to the Audit Committee on the Council's risk management performance.
- 19.4 The Executive Director, Place ensures that Elected Members and Relevant Officials are provided with proper training and guidance on risk management.
- 19.5 The Risk Management Group, chaired by The Chief Officer Place, is attended by representatives from Directorates. The Group's purpose is to improve risk mitigation across the Council and it has links to Directorate and Corporate Management Teams.
- 19.6 The Executive Director, Place maintains a Corporate Risk Register, which includes all Generic Risks. This can be accessed by all stakeholders. Each Director or Chief Officer must ensure that the register is kept up to date in relation to their services.
- 19.7 The Corporate Management Team will ensure that high level strategic risks are properly managed. The Executive Director, Place reports to the Corporate Management Team on the management and mitigation of risk at the strategic level and the Corporate Management Team agrees an Action Plan. So that possible impediments are identified, the council's corporate priorities are risk assessed.
- 19.8 Executive Directors and Chief Officers are responsible for ensuring that operational risks are mitigated properly through a process of identification of risks, analysis, evaluation and approved control measures. The Chief Internal Auditor provides reports to each

Director and Chief Officer on the risk management processes and risk exposure within their Directorates. Each Director and Chief Officer ensures that risk considerations are included in Directorate and Business Plans.

- 19.9 Executive Directors and Chief Officers ensure that all reports to the Corporate Management Team, Council Committees, Cabinet or Council include, where appropriate, 'Risk Management Statements' alongside 'Financial Implications'. Guidance on these statements can be found on the Intranet under '[Finance→FAQ→Risk Management→Risk Management Statements in Reports.](#)'
- 19.10 Where the Council makes significant capital investment in the community each project will be prefixed with a risk assessment which forms part of the business case. A further risk log supports the currency of each project. Risk assessments and logs are also required for computer projects.
- 19.11 Elected Members and Officials of the Council must report to the relevant Director any new risk exposure that arises which could seriously damage the operations of the Council. This is so that significant risk exposure can be mitigated through insurance, transfer of the risk to another body, sharing the risk with another body or through internal control measures.
- 19.12 The Executive Director, Place operates a Contingency Planning service, which assists in the prevention and damage limitation of any major threat to the Council's Business Continuity and the Community including compliance with the Civil Contingencies Act.
- 19.13 The Executive Director, Place chairs the Contingency Planning Group which deals with matters under 19.12 above

Assurance

- 19.14 The Executive Director, Place is responsible for ensuring that the Council operates an effective Assurance System that informs the Annual Governance Statement which provides assurances to Elected Members, management and the wider public.
- 19.15 The Assurance System consists of:
 - a) Annual written assurances to the Executive Director, Place, from other Executive Directors and Chief Officers, that their Directorates are complying with Standing Orders and Financial Regulations/Directives and that Place guidance on Financial Matters is being complied with.
 - b) Written assurances to the Executive Director, Place, from other Executive Directors and Chief Officers, that they are properly mitigating risks.
 - c) Annual reports on risk management and agreed action plans to Executive Directors and Chief Officers by the Chief Internal Auditor.
 - d) Financial processes like Capital Planning, Budgetary Control and Reporting, Financial Policy statements and the adoption of Best Practice through recognised Codes of Best Practice.
 - e) The work and reporting of the Internal Audit section and Annual Report on the Internal Control system by the Chief Internal Auditor.
 - f) The scrutiny and performance monitoring role of the Audit Committee.

- g) The adoption of Audit Committee principles.
- h) Corporate and Service Planning processes.
- i) Reviews and reports by Audit Scotland and other external inspection agencies.
- j) The review arrangements of the Council's Monitoring Officer.

20. INSURANCE

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Introduction

The Council is exposed to many risks and whilst these must be managed they cannot be entirely avoided or eliminated. It is therefore prudent to have appropriate insurance cover and professional help to acquire this and manage any claims that do arise.

This Directive seeks to ensure that Relevant Officials understand the responsibility for procuring insurance and providing information as appropriate.

- 20.1 The Chief Officer, Corporate Solutions effects all insurance cover, appoints Advisors and Claims Adjusters to negotiate all claims. Relevant Officials are consulted as necessary.
- 20.2 Executive Directors and Chief Officers will immediately notify the Chief Officer, Corporate Solutions of all new risks, properties, vehicles, plant, equipment and other supplies which require to be insured and of any alterations affecting existing insurance risks.
- 20.3 Executive Directors and Chief Officers will notify the Chief Officer, Corporate Solutions immediately of any loss, liability or damage or any events likely to lead to a claim, and inform the Police if appropriate.
- 20.4 All officials will follow the guidance provided on the Intranet at [Finance/FAQs/Insurance/Insurance do and do not.](#)
- 20.5 The Chief Officer, Corporate Solutions reviews annually or at such other period as may be considered necessary, all insurance cover in consultation with other Executive Directors and Chief Officers as appropriate.
- 20.6 Executive Directors and Chief Officers will consult the Chief Officer, Corporate Solutions regarding the terms of any indemnity which the Council is requested to give.
- 20.7 From time to time the Council's insurers undertake risk surveys, and Executive Directors and Chief Officers must take due account of any recommendations arising from them.
- 20.8 The Chief Officer, Corporate Solutions will make arrangements to provide information to Relevant Officials as regards claims made and or settled.

21. PHYSICAL ASSETS

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Introduction

Midlothian Council owns a variety of land and buildings and other assets. Their individual values will vary significantly but, irrespective of their relative value, the Council must, at any time, have an accurate and reliable record of all such physical assets. An Asset Management Plan indicating each asset's fitness for purpose, the measures necessary to ensure this, and recommendations for future use or disposal as necessary should exist to support this aim.

This directive aims to provide the principles to be applied by Executive Directors and Chief Officers to ensure such a record is kept up to date and that effective measures are in place to safeguard the assets and to ensure that any insurance arrangements provide sufficient "cover".

Further guidance on physical assets can be found on the Intranet under ['Finance→Finance FAQ's→Physical Assets.'](#)

Property Register

- 21.1 The Executive Director, Place will maintain an up-to-date register of all land and buildings owned or leased by the Council (even if this is under a Trust or Local Authority Company).
- 21.2 The Executive Director, Place maintains a register of properties provided under the Housing Acts and tenancies granted thereon.
- 21.3 Records kept will be in such a form as required by the Chief Officer, Corporate Solutions for the maintenance of financial records and returns.

Vehicles and Moveable Plant and Equipment

- 21.4 The Executive Director, Place will maintain a register of all Council vehicles and moveable plant and equipment.

Stocks and Stores

- 21.5 Care and custody of stocks and stores is the responsibility of Executive Directors and Chief Officers who will ensure that stocktaking is carried out at regular intervals.
- 21.6 Supervision of stocktaking checks will be agreed in advance with the Chief Officer, Corporate Solutions.
- 21.7 Stocks will not be held in excess of normal requirements, except in special circumstances to be approved by the Chief Officer, Corporate Solutions.
- 21.8 Executive Directors and Chief Officers will arrange for periodic test examinations of stocks by persons other than storekeepers and will ensure that all stocks are checked at least once in every year.

- 21.9 The Chief Officer, Corporate Solutions is entitled to receive from each Director and Chief Officer such information as required in relation to stores for the accounting, costing and financial records.
- 21.10 Surplus materials, stores or equipment will be disposed of under arrangements approved by the Chief Officer, Corporate Solutions. Details can be found on the Intranet under 'Finance→FAQ's→Physical Assets.'

Property and Security of Assets

- 21.11 All heritable securities which are the property of, or are in the name of the Council or its nominees together with the title deeds of all property in its ownership will be held in the custody of the Chief Officer, Corporate Solutions.
- 21.12 Executive Directors and Chief Officers are responsible for maintaining appropriate security for all buildings, stocks, stores, fittings furniture, equipment, cash, computer equipment etc. under their control.
- 21.13 The Chief Officer, Corporate Solutions or their authorised representative must be consulted in any case where security may be defective or where it is considered that special security arrangements may be needed.
- 21.14 Maximum limits for cash holdings will be agreed with the Chief Officer, Corporate Solutions and must not be exceeded without his approval.
- 21.15 The Chief Officer, Corporate Solutions will be responsible for ensuring that secure arrangements are in place for the preparation and storing of pre-printed/predesigned cheques, stock certificates, bonds and other financial documents.
- 21.16 Any scheme to write-off or otherwise dispose of assets will require the appropriate Director or Chief Officer, subject to any scheme of delegation in force, to consult with and receive written approval from the Chief Officer, Corporate Solutions prior to any action being undertaken.
- 21.17 Council property will not be removed otherwise than for Council purposes except in accordance with specific instructions issued by the Director or Chief Officer concerned.
- 21.18 Executive Directors and Chief Officers are responsible for keeping fixed asset inventories and may keep inventories of other assets, if the risk of loss merits the administrative burden.

22. INTERNAL CONTROL AND AUTHORISATION

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Introduction

Internal control comprises the whole system of methods and measures designed and implemented to promote the achievement of objectives with the optimum use of resources and the minimisation of loss, harm or other undesired event.

The purpose of internal control is to maintain and regulate systems and procedures to help the Council attain current objectives and also to cope with change, risk, external forces and future events.

This Financial Directive provides advice on authorisation and internal control.

Further guidance on Internal Control can be found on the Intranet under [Finance→FAQ's→Internal Audit→Improving Internal Control - Achieving a High Rating during an Internal Audit](#)

Internal Control

- 22.1 Each Director and Chief Officer has responsibility to exercise control and establish such arrangements within their Directorate so that:
- a) Its activities are demonstrably conducted in a regular and well-ordered manner.
 - b) Opportunities are identified and assessed.
 - c) Risks are guarded against.
 - d) Resources are used prudently with due regard to propriety, economy and efficiency.
 - e) Performance meets the desired standards.
 - f) Established procedures are followed.
 - g) Goals are met and objectives are achieved.
- 22.2 It is essential therefore that control ensures those policies, priorities, practices and procedures are reviewed for their continuing relevance, effectiveness and value.
- 22.3 Internal controls are implemented to ensure that the Council's business is conducted in an orderly and efficient manner; its policies adhered to, its assets protected and its records complete and accurate.
- 22.4 It is the responsibility of Executive Directors and Chief Officers, with appropriate advice and assistance, to devise and implement appropriate systems of control, regularly to review those controls for compliance, adequacy and continued validity, and to adapt and improve such procedures as necessary. The aim at all times being to deliver against objectives and strive for Best Value.
- 22.5 Internal controls will vary throughout the council depending on activity, size, and volume of transactions and geographical distribution. However, three types of internal control will apply as a minimum requirement:
- a) Separation of Duties
 - b) Internal Check
 - c) Management Review

- 22.6 Separation of duties is necessary so those individuals cannot influence financial transactions from start to finish. Therefore, transactions will be progressed in stages by a number of people. For example, orders may be prepared and signed by one person but the same person should not authorize the invoice. Variations from these arrangements must be agreed by line management and documented in the relevant risk register.
- 22.7 All financial transactions must be subject to internal check at every stage i.e. input prepared by one person must be checked by another. Controls will be evidenced by the signatures or initials of the person undertaking the work and the person checking it.
- 22.8 In order for internal controls to be effective, it is important that each Relevant Official has a clear role. As such, each post within a Directorate will have a clearly defined job description, detailing the role and responsibilities of the post holder in delivering the Directorate service(s).

Authorisation

- 22.9 The Council will only enter into transactions that are required. Therefore, all financial transactions will be authorised before being processed.
- 22.10 By authorising financial transactions the Relevant Officials are accepting responsibility for them, confirming that they are satisfied that the following are true:
- a) **For orders:** Goods/services are procured at an appropriate price and quality from an approved source.
 - b) **For timesheets:** Hours stated were actually worked by the employee concerned and were in accordance with the appropriate contract of employment or overtime approval.
 - c) **For expense claims:** The activity claimed was approved in advance and was necessary to the business of the Council. Further, the claim is not against the Council's financial interests in terms of cost-effectiveness and value for money.
 - d) **For imprest claims:** The expenditure incurred was on items which could not have been otherwise purchased, and the claim is fully supported by till receipts or other reliable vouchers.
 - e) **For invoices:** The goods or services were received by the Council in good condition and the price paid is consistent with order details/contractual arrangements.
 - f) **For Accounts Receivable:** The accounts raised represent the amount due, are for the maximum amount obtainable under the current scale of charges and are correctly calculated.
- 22.11 Relevant Officials will not authorise transactions in which they have a personal interest.
- 22.12 Executive Directors and Chief Officers are responsible for determining the numbers and distribution of Relevant Officials who will be authorised signatories to meet the needs of their services in accordance with the management structures of their Directorate(s).
- 22.13 Executive Directors and Chief Officers are responsible for determining internal controls in computer systems that require electronic authorisation by officials and these authorisation methods cannot be activated without the approval of the Chief Officer, Corporate Solutions.

- 22.14 The Chief Officer, Corporate Solutions will facilitate an electronic authorisation system and provide the overall system administration.
- 22.15 Executive Directors or Chief Officers will nominate a Directorate officer (and substitute) for the purpose of maintaining the system up to date. Directorate officers will ensure that leavers are deleted from the system and new authorised signatories added (with the approval of the Director or Chief Officers).
- 22.16 The Chief Officer, Corporate Solutions will ensure that no transactions are processed through corporate systems without proper authorisation.

Introduction

This Financial Code provides guidance on the retention and disposal of financial documents.

Main Issues

- 23.1 The main reasons behind questions on document retention are storage difficulties, cost and value for money. Once documents are no longer required for day to day administration there is a strong incentive to dispose of them. However, there are certain requirements imposed by HM Revenue & Customs which must be adhered to.
- 23.2 Apart from these requirements Executive Directors and Chief Officers will decide what is to be retained, based on operational needs and the availability of storage facilities. However, the premature disposal of documents can be prejudicial to enquiries involving fraud.
- 23.3 Further information on record retention issues and requirements can be found on the Intranet under [‘Council→Freedom of Information→Records Management.’](#)
- 23.4 Generally the original document will be retained. Therefore directorate duplicate copies (e.g. of timesheets) may be disposed of before the relevant time scales have passed. However, Directorates must ensure that the original has been retained before disposing of any duplicates.
- 23.5 To save storage costs, documents can be retained on microfilm or document imaging systems rather than in paper form. However, it is important to establish the legal admissibility of information stored in photographic or electronic form first, as well as dealing with issues such as the potential for loss by fire, computer failure, etc. Advice on the most efficient methods of storage can be obtained from the Council’s Archivist.

Retention Periods

- 23.6 HM Revenue & Customs require all business records to be kept for a minimum period of six years. These records include:
- a) Orders and delivery notes
 - b) Purchase orders for creditors and copy supply invoices to debtors
 - c) Any debit or credit notes issued or received
 - d) Cash records and till rolls
 - e) Bank statements and paying-in slips
 - f) Creditors, debtors and cash income ledger control accounts
 - g) VAT account
 - h) Annual accounts
 - i) Import and export documents
 - j) Relevant business correspondence

With the exception of credit card details relating to payments made to the Council, which only require to be kept for a period of 18 months.

- 23.7 HM Revenue & Customs allow organisations to retain records on microfilm or microfiche, provided that copies can be produced and there are adequate facilities for Customs & Excise staff to view these when required. However, this approval can be withdrawn if these requirements are not met.
- 23.8 For batch disposal of time expired material at the end of each financial year, current year + 6 years is recommended.

HMRC

- 23.9 HMRC requires records for the payment of salaries or wages to be retained for a minimum of three years after the end of the year in which they occur. These can be kept on either paper or in a computerised format.

External Audit

- 23.10 A number of documents must be retained for external auditors to verify the final accounts of the Council. Other documents required by external audit which do not have to be retained for a longer period because of statutory or other reasons need only be retained until the audit has been completed.
- 23.11 Annual Accounts and associated working papers should be retained indefinitely. Further, certain types of grant claims should be permanently retained.
- 23.12 In addition, financial documents considered to be of historical interest may merit permanent retention. Where this is likely, advice will be sought from the Council's Archivist.

Introduction

Section 10 of The Local Government in Scotland Act 2003 requires Local Authorities to maintain and disclose trading accounts for significant trading operations and for them to break even over a rolling three year period.

Guidance has been produced by the CIPFA Executive Directors of Finance Section and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) entitled “A best value approach to trading accounts: a guidance note for local authority practitioners” to support the Finance practitioners in accounting for significant trading operations. The guidance is available on the Intranet under ‘Finance→ Finance FAQ’s→Trading Accounts Guidance.’

In addition the Best Value Task Force has produced an advisory note to provide guidance to Local authority senior managers.

The purpose of this Financial Directive is to set out the relative responsibilities in relation to the requirement to maintain Statutory Trading Accounts and to provide a brief explanation of these.

Responsibilities

- 24.1 There are four broad areas of responsibility in relation to statutory trading operations (STO’s):
- a) The arrangements made to identify trading operations and to consider which are significant: this is the responsibility of Financial Services.
 - b) Notifying Financial Services of changes in service provision which may trigger the STO’s provisions: while Financial Services will monitor changes in services, it will be the responsibility of Executive Directors and Chief Officers to inform Financial Services of such changes.
 - c) The maintenance of trading accounts and their disclosure in the financial statements. This is the joint responsibility of Financial Services and Executive Directors and Chief Officers.
 - d) The achievement of break-even over a rolling three-year period for each trading account: this is the responsibility of the Director or Chief Officer of the service concerned.

Identification

- 24.2 A service will be considered a trading operation where:
- a) It is provided in a competitive environment, i.e. where the user (the public or other Directorates etc) is free to choose an alternative provider.
 - b) It is charged for on a basis other than a straight recharge of cost.
- 24.3 The guidance states that trading operations in the following categories will be deemed to exist in a competitive environment:

- a) Trading services or undertaking with the public or with other third parties i.e. markets, trade refuse collection and rental of industrial units.
- b) External trading operations which have won contracts with other public bodies.
- c) Internal trading operations arising from voluntary competitive tendering.
- d) Support services provided in a free internal market to budget holders who have freedom to buy externally.

Where a service meets both of the above criteria, and is therefore deemed a trading operation, it is then necessary to consider whether it is significant. The test of significance is important as it determines which trading operations require to maintain Statutory Trading Organisations.

24.4 Financial Services will set parameters for the following financial and non-financial criteria to be used to determine significance and will apply these consistently over all trading operations:

- a) Turnover relative to the net Revenue Budget.
- b) Exposure to risk of financial loss in carrying out the operation.
- c) The importance of maintaining a trading account to demonstrate service improvements and achieving targets.
- d) The risk of service or loss of reputation that the Council is exposed to by carrying out the operation.
- e) The importance of the service area to key stakeholders.

24.5 Where a trading operation is deemed significant then a Statutory Trading Account will require to be set up and maintained. Where a trading operation is not considered significant then it may still be appropriate to maintain a trading account for management information purposes.

Existing STO's and What May Trigger New Ones.

24.6 When the STO requirements were introduced the Finance Unit carried out the above assessments and identified the following as STO's:

- Roads Maintenance Service
- Building Maintenance Service

24.7 The way in which services are provided is subject to continual change and Financial Services will monitor service developments to assess whether the STO requirements are triggered. To support this, Executive Directors and Chief Officers must inform Financial Services of any changes, which may trigger the STO requirements.

24.8 The following list gives an indication of the types of events that may trigger STO requirements:

- a) Changes in the way a service is to be recharged (i.e. if no longer charged at below cost or on a straightforward recharge of cost).
- b) The service tendering for contracts of a material value from other public bodies or external parties.
- c) The service being exposed to voluntary competitive tendering.

- d) Changes which allow service users to select alternative suppliers.
- e) Externalisation of a significant part of only part of a service through either joint arrangements or through PPP.

Maintaining Statutory Trading Organisations

- 24.9 Trading Accounts require to be maintained in accordance with proper accounting practice. The Best Value Accounting Code of Practice (BVACOP) sets out proper accounting practice for the consistent financial reporting of services. This includes defining total cost, which includes all expenditure attributable to the trading operation. In addition to the direct costs in respect of employees, premises and supplies and services it will include Capital Charges and an appropriate share of support services and other overheads.
- 24.10 Financial Services will make the necessary arrangements to maintain the trading account in the financial ledger and, in conjunction with Executive Directors and Chief Officers, will make arrangements so that costs and income attributable to the trading operation can be separately identified and posted to the trading account.

Financial targets

- 24.11 Each STO is required to break even (income should not be less than expenditure) over a rolling three year period.

Disclosure requirements

- 24.12 The “Code of Practice for Local Authority Accounting in the United Kingdom” (ACOP) sets out the proper accounting practice for the Council’s financial statements and this includes the requirements in respect of STO’s.
- 24.13 Although STO’s require to be disclosed separately ACOP requires that they be properly consolidated into the Council’s financial statements. Where an STO is an integral part of the total cost of a particular service it will be consolidated with that service in the financial statements, otherwise it will be included in a separate trading operations line.
- 24.14 ACOP requires the nature, turnover and surplus/deficits of any STO's to be disclosed as a note to the Comprehensive Income and Expenditure Statement.

Introduction

The Council, in some respects, relies heavily on funding from External sources over and above the Aggregate External Finance support from the Scottish Government. External funding may come from the European Union or it may be service specific in respect of, for example, grants from Sport Scotland.

This Financial Directive details the Council's requirements in respect of External Funding Bids.

- 25.1 Executive Directors and Chief Officers are responsible for allocating sufficient resources and time to formulating bids.
- 25.2 Executive Directors and Chief Officers are responsible for ensuring that all funding bids within their Directorates are fully explored and where external funds are identified the Chief Officer, Corporate Solutions.
- 25.3 Where funding covers more than one service, or is Council wide, the responsible Director or Chief Officer should act jointly in respect of the requirements in these Directives.
- 25.4 When compiling bids for Midlothian Capital Funds, bids that include external funding will include full details of the external funding and the status of it, whether it is provisional, conditional and fully approved.
- 25.5 Executive Directors and Chief Officers are responsible for ensuring that match funding provided from the Council budgets is in place.
- 25.6 Executive Directors and Chief Officers are responsible for ensuring that any funding conditions can be fully met.
- 25.7 Executive Directors and Chief Officers are responsible for sound financial control in expediting the funding.
- 25.8 Executive Directors and Chief Officers must liaise with the Chief Officer, Corporate Solutions in relation to financial control, period reporting, and interim and final claims for funding.
- 25.9 The Chief Officer, Corporate Solutions certifies all final claims for funding.
- 25.10 Executive Directors and Chief Officers are responsible for retaining all project documentation for the period prescribed in the funding conditions.

Introduction

In furtherance of its statutory duties and Corporate Objectives the Council has in the past funded Arms Length External Organisations (ALEO's) to carry out certain functions to support the aims of the Councils. Funding of individual organisations can be sizeable but at the other end of the spectrum there are several small grants made to voluntary bodies.

- 26.1 A corporate system for 'Following the Public Pound' has been devised and can be viewed on the Finance Intranet ('[Finance > FAQ > Risk Management](#)') and Executive Directors and Chief Officers are obliged to comply with the guide.
- 26.2 The Chief Officer, Corporate Solutions is responsible for updating the corporate system and procedures and ensuring those Directorates receive adequate training in 'Public Pound' procedures.
- 26.3 Each Executive Directors and Chief Officers proposing to make a payment to an ALEO is subject to other Financial Directives on approved budgets and authorising/checking payments as well as ensuring that members of staff are adhering to the new corporate system.
- 26.4 Executive Directors and Chief Officers ensure that, in disbursing payments to ALEO's:-
 - a) Proper records of individual funding are maintained.
 - b) Risk assessment of "substantial" funding is applied.
 - c) Proposed payments are bona fide.
 - d) The ALEO is a legitimate partner in the Council pursuing its stated objectives e.g. social inclusion.
 - e) The ALEO is made accountable for expediting the funds granted.
 - f) There is a clear audit trail of how the funds have been used.
 - g) Employees or Elected Members representing the Council are fully briefed on their responsibilities, reporting to the Council and any possible conflicts of interest.
- 26.5 Executive Directors and Chief Officers may make non-cash contributions to ALEO's such as in the use of premises. These contributions are also subject to the corporate guidelines.

Introduction

The Council has a duty under Best Value to protect public assets. A counter fraud and corruption culture is encouraged amongst Elected Members, Employees and Members of the Public.

Prevention is better than detection and the main focus is on deterring fraud and corruption. However there is a need to have robust detection and damage limitation procedures in place in the event that the Council's assets are exposed.

- 27.1 It is the duty of every Elected Member, Director and Chief Officer, and Employee to be vigilant towards fraud and corruption and to report any concerns forthwith.
- 27.2 The Chief Officer, Corporate Solutions is responsible for the production of corporate procedures that engage all parties listed in 27.1. The most recent corporate procedures (Policy, Strategy and Guideline) can be viewed on the Finance Intranet ([Finance > FAQ > Internal Audit > Fraud and Corruption Policy](#)).
- 27.3 Elected Members observe the Code of Conduct for Councillors.
- 27.4 Employees observe the Code of Conduct for Midlothian Employees.
- 27.5 Members of the public can raise concerns over corruption directly to the Chief Investigating Officer of the Standards Committee of Scotland or they can raise concerns with an Elected Member or a Director or Chief Officer. Concerns over fraud (general fraud or benefit fraud) can be made to any Elected Member, Directorate, the Chief Internal Auditor (using a whistle blowing facility) or the Benefit Fraud Hotline.
- 27.6 The Chief officer (Monitoring Officer) would normally investigate allegations of corruption and may engage other Executive Directors and Chief Officers and other agencies (e.g. Police) in this.
- 27.7 Elected Members, Executive Directors and Chief Officers, or other levels of management do not investigate instances of fraud or corruption by any other means than through the corporate system mentioned in 27.2 above. Fraud investigations are normally carried out by the Internal Audit team or by the HT team.
- 27.8 Where carrying out covert surveillance each Chief Officer must consult the Legal & Governance Manager and observe the Regulation of Investigatory Powers Act 2000 and the Regulation of Investigatory (Scotland) Act 2000. RIPSAs Codes of Practice can be viewed on the Council's Intranet ([Council→Legal →Surveillance Guidance](#)).
- 27.9 The Chief Officer, Corporate Solutions must be consulted where disciplinary procedures are being expedited against an Employee.
- 27.10 To assist all levels of management with internal control, reference should be made to the Internal Control Guideline ([Finance Intranet→FAQ→Internal Audit 'Internal Control Guideline'](#)) and to Service Risk Registers.

27.11 The Chief Officer, Corporate Solutions arranges for local data matches and for compliance with national exercises like the NFI.

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