Safeguarding public money

Following the repeal of s 150(5) of the Local Government Act 1972 local councils in England applying this guidance may safely take advantage of modern payment methods while protecting the public assets in their care. Although Internal Drainage Boards (IDBs) operate under a different legislative framework, the IDBs in the Water Management Alliance have elected to adopt this guidance to do the same. Where WMA IDBs have departed from the guidance, this has been clearly stated in the appropriate section.

Framework to safeguard public money for local councils in England

Local councils must have in place safe and efficient arrangements to safeguard public money.

Where doubt exists over what constitutes money, councils must presume that it falls within the scope of this guidance.

Councils must review regularly the effectiveness of their arrangements to protect money.

Every local council must arrange for the proper administration of its financial affairs and that one of its officers has responsibility for those affairs.

Councils must identify and protect income and expenditure and the money represented by each. They must ensure controls over money are embedded in Standing Orders and Financial Regulations. *IDB controls are only embedded in Financial Regulations. They are not referenced in DEFRAs Model Standing Orders for IDBs.*

Councils must not relinquish the 'two member signatures' control over cheques and other orders for payment until they have put in place safe and efficient arrangements in accordance with this guidance.

The council must approve the setting up of and any changes to accounts with banks or other financial institutions. *Where temporary cash surpluses are invested, IDBs will only make such investments in accordance with their approved Investment policy.*

The council must approve entry into a 'pooling' or 'sweep' arrangement whereby the bank periodically aggregates the council's various balances via automatic transfers.

If held, corporate credit card accounts must be set up to operate within defined limits and cleared monthly by direct debit from the main bank account.

The council must approve every bank mandate, the list of authorised signatures for each account, the limits of authority for each account signature and any amendments to mandates.

Risk assessment and internal controls must include the safety of the council's assets, particularly money.

Those with direct responsibility for money must undertake appropriate training from time to time.

Overview

1. **Local councils must have in place safe and efficient arrangements to safeguard public money.**

2. Regulation 4(1) of the Accounts and Audit (England) Regulations 2011 requires local councils to ensure that financial management of the council is adequate and effective. The Regulations also require councils to have a sound system of internal control which facilitates the effective exercise of its functions. This includes arrangements for the management of risk. Nowhere is this more important than when considering how councils manage money.

3. The guidance in this section helps local councils to protect the money they use to provide services for local people. It:
   - defines 'money';
   - defines 'must', 'should' and 'may' requirements;
   - describes the drivers for change from statute and technology;
   - identifies roles and responsibilities for members;
   - identifies roles and responsibilities for Responsible Finance Officers
   - describes arrangements for monitoring and scrutiny; and
   - describes controls for managing risk, error and fraud.

4. This guidance should be read in conjunction with advice issued by NALC and SLCC on Standing Orders and Financial Regulations.

What is money?

5. 'Money' includes cash and anything easily converted into cash. For example, a non-exhaustive list of money includes:

   - physical cash and notes, petty cash and unclaimed receipts, imprest accounts, cash in transit;
   - unpaid income held by debtors;
   - signed and unsigned cheques, drafts and other orders for payment;
   - current, deposit and investment accounts at banks and financial institutions and access to undrawn borrowing facilities;
   - credit cards (where held – see below), debit cards, store cards, fuel cards;
   - access to balances by telephone or electronic transfer; and

- the ability to buy goods or services on credit.

6. **Where doubt exists over what constitutes money, councils must presume that it falls within the scope of this guidance.**

7. This guidance applies to all accounts held with financial institutions, as principal or trustee, including controls over access whether physical or electronic. ‘Public money’ refers to all money controlled by the council.

Definition of ‘must’, ‘should’ and ‘may’

8. In this section:

   - The word **‘must’** means there is a specific legal or regulatory requirement affecting local councils. To help you easily identify those sections that contain a legal or regulatory requirement we have used **bold type** in that section. **‘Must’** is a requirement that is essential.

   - We use ‘should’ to identify minimum good practice, but for which there is no specific legal or regulatory requirement. Councils follow this practice unless there is a good reason not to;

   - ‘May’ identifies practices councils apply exercising discretion.

The drivers for change

9. This guidance helps local councils to respond to key changes in the statutory and technological environment for payments.

10. The repealed Section 150(5) of the Local Government Act 1972 governed the stewardship of money by local councils. It required that ‘every cheque or other order for the payment of money shall be signed by two members of the council’. Although no longer the law, this remains good practice.

11. Central government expressed the view that ‘the removal of S 150(5) should not leave the public funds controlled by parish councils at any greater risk of loss through misconduct or poor control’[1] and that ‘safeguards be put in place (so) that all the payments made by parish councils are legitimate and that there is no misuse of the system.’[2]

12. In 2008 the Payments Council[3] set out a strategic vision for UK payments[4]. That plan identified the increasing variety of payments options and accepted the long-term decline in the use of cheques, setting 2018 as

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[1] Letter dated 21 July 2010 From Rt. Hon Grant Shapps MP, Minister for Housing and Local Government to NALC, SLCC and other stakeholders.
[2] CLG Ministerial Statement 9 October 2010 www.communities.gov.uk/newsstories/newsroom/1735546
[3] Set up by the payment sector, supported by HM Treasury and the Office of Fair Trading (OFT) to undertake a strategic role in the development of payments in the UK
[4] http://www.paymentscouncil.org.uk/payments_plan/

a target closure date for cheque clearing. Although the 2018 target was repealed in July 2011, the plan highlighted the advantages and risks associated with the technological progress of UK payments. It also brought into sharp focus the need for local councils to modernise their arrangements and put in place safe and efficient methods of payment for goods and services.

13. This guidance was developed by the sector to demonstrate how local councils safeguard public money within a contemporary framework.

Roles and responsibilities of members

14. **Councils must review regularly the effectiveness of their arrangements to protect money.**

15. Local council members are responsible for putting arrangements in place to safeguard public funds. Councils may delegate the role of protecting money to individuals, for example to the Clerk or the RFO, but the legal responsibility always remains with the council and its members.

16. Therefore, arrangements should:
    - demonstrate how the council meets its responsibilities;
    - be current; and
    - include specific duties of named individuals.

17. The duties of named individuals may include:
    - securely managing money;
    - arranging security on and off the premises;
    - identifying internal controls; and
    - supervision measures.

18. The council may seek external advice and guidance to enhance internal expertise, skill or knowledge. Periodic reviews of arrangements may be carried out by members or by Internal Audit. Reviews should rotate and all outcomes reported to full council.

Roles and responsibilities of the Responsible Finance Officer (RFO)

19. **Every local council must arrange for the proper administration of its financial affairs and that one of its officers has responsibility for those affairs[5].** This officer is the Responsible Financial Officer (RFO).[6]

20. In all circumstances, even where a local council has not made a formal appointment, there is always a council RFO. By default, the RFO is whoever keeps the council's accounts. The council should appoint a

[5] section 151 Local Government Act 1972
[6] See Practitioners' Guide paragraphs 1.22 to 1.28 and Appendix 2 for a general description of RFO responsibilities.

temporary RFO if the appointed RFO is unavailable through absence or illness and has not nominated a member of staff to act as RFO.

21. The RFO should be familiar with statutory duties for financial administration as they apply to local councils arising from:
    - Sections 114 and 151 of the Local Government Act 1972; and
    - The Accounts and Audit Regulations 2011 (‘the Regulations’)

22. The responsibilities of the RFO include to advise the council on its:
    - corporate financial position;
    - key financial controls necessary to secure sound financial management; and
    - treasury (that is cash and investments) management.

Corporate arrangements for monitoring and scrutiny

23. **Councils must identify and protect income and expenditure and the money represented by each. They must ensure controls over money are embedded in Standing Orders and Financial Regulations.**

24. **Councils must not relinquish the ‘two member signatures’ control over cheques and other orders for payment.** The ‘two member signatures’ control is just one of many possible controls. By itself it does not satisfy the requirement to have in place safe and efficient arrangements for managing money.

25. **The council must approve the setting up of and any changes to accounts with banks or other financial institutions**.

26. **The council must approve entry into a ‘pooling’ or ‘sweep’ arrangement whereby the bank periodically aggregates the council’s various balances via automatic transfers.**

27. Councils should avoid the use of credit cards as they are difficult to control and present unnecessary risks to public funds. *An IDB will only use credit cards if the arrangements to safeguard public money have been approved by the Board and the Internal Auditor*.

28. **If held, corporate credit card accounts must be set up to operate within defined limits and cleared monthly by direct debit from the main bank account.**

29. **The council must approve every bank mandate, the list of authorised signatures for each account, the limits of authority for each account signature and any amendments to mandates.**

30. Where multiple accounts are held, authorised signatures should not be concentrated for any length of time among just a few members but allocated widely. Authorised signatories should be rotated.

31. Councils should set out clearly in writing the responsibilities of those handling money. Where officers are to receive delegated responsibility for collecting money or making payments, their terms and conditions of employment should refer to the relevant council Standing Orders, Financial Regulations and internal controls.

32. Internal controls should include clear arrangements for the temporary holding, transit and storage of cash and clear rules about the frequency of banking. Those handling money and those with responsibilities for controls should be aware of the terms of the council's insurance cover for money movement and security.

Corporate controls to manage risk, error and fraud

33. **Risk assessment and internal controls must focus on the safety of the council's assets, particularly money.** Wherever possible, councils should apply and monitor a clear segregation of duties regarding money and its movements.

34. **Those with direct responsibility for money must undertake appropriate training from time to time.** Members should keep themselves informed about known risks and threats to money. Councils may engage with police and local anti-fraud and corruption networks to keep up to date with risks and security threats.

35. Fidelity Guarantee insurance or any other form of security is not by itself sufficient protection over threats to money or other assets. Risk assessed insurance should, however, always cover maximum exposure to loss of money.

36. Councils should expect to see a bank reconciliation at every ordinary council meeting. In the event of bank reconciliation discrepancy, explanations should be checked and verified. The clerk/chief executive should explain any failure to produce bank reconciliation.

37. The RFO should issue any cheques or other orders for payment promptly after approval by the council. Holding back cheques approved for payment by the council is discouraged and should be used sparingly. Unissued cheques are vulnerable to fraud and may create a false impression of the council's available financial resources. *The IDB chief executive is authorised to make payments to suppliers between meetings in accordance with the Board's reserved matters. However the Board must receive and approve a schedule of paid accounts, listing all payments that have been made to suppliers during the reporting period.*

38. If transfers between bank accounts are excluded from bank reconciliation, a listing of 'pooled' or 'swept' inter account transfers should be kept up to date and made available to any member on request.

39. A listing of all accounts held, their current authorised signatures and their current balances should be kept up to date and made available for any member on request.

40. Payments in respect of trade credit arrangements with local suppliers should meet government targets on proper payments.

41. Internal audit should review and report on controls over money annually.

42. Councils may from time to time request written confirmation of balances from the bank/financial institution. This should be more frequent where paper statements are not received and reliance is placed on electronic information.