

Horton Parish Council

Financial Procedures

In line with best practice the following sets out detail of the financial procedures in place at the Parish Council, as adopted at the meeting on 24 July 2018

Cashbooks and Bank reconciliations

The RFO will maintain the Council's cashbook records in spreadsheet format.

Both receipts and payments will be recorded in the cashbook with data entered at least once monthly, including Pounds and Pence.

The cashbooks will include such analysis columns as necessary to facilitate reporting of the cumulative (to date) receipts and payments against the Council's formally approved budget for the financial year.

Receipts analysis columns should be provided to identify the Precept (Box 2 of the Annual Return) plus, ideally, any Council Tax Support Grant receivable, Other grants / donations, other miscellaneous income and recovered VAT.

Such payment analysis columns, as are required by budget headings, should be included, also affording analysis for inclusion in the statutory Annual Return (i.e. Staff Costs (Box 4); Loan Repayments, if applicable (Box 5); and all Other non-pay related expensed (Box 6).

The analysis columns should record the value of payments made net of VAT, with the VAT recorded in a separate column to facilitate identification of the amounts recoverable periodically. ***NB: VAT may only be reclaimed where the invoice identifies the trader's VAT reference number: where taxable goods or services are provided and the invoice does not identify a VAT number, the trader should be contacted to establish whether or not they are registered for Vat and, if so, obtain the VAT reference number.***

The cashbooks should identify the opening balance as at 1st April annually as reported in Box 7 of the prior year Annual Return and closing cashbook balance for that year. (NB: The opening balance should consequently be net of any cheques uncleared as at the prior year-end close).

The cashbooks should be balanced at least quarterly to facilitate preparation of a bank reconciliation.

The cashbook detail should be checked against the bank statements routinely each month on receipt of the statements with a formal reconciliation in the format, as attached, applied.

Bank reconciliations and cashbooks should be prepared at least once quarterly and be submitted to Council for review and formal adoption.

Bank statements should be filed in chronological order.

Financial Procedures

Bank reconciliation format

Bank reconciliation as at

Bank balance as at

Current A/c £xxxxx.xx
Other A/cs £yyyyy.yy

Total bank balance as at £zzzzz.zz

Plus: cashbook receipts not yet on bank statements:

Identify all such individual items £aaaa.aa

Less: uncleared cheques at bank:

Identify all such individual items including cheque nos.
£bbbbb.bb

Combined cashbook balance as at £ccccc.cc

Combined Opening cashbook balance as at 1st April 20kk £hhhhh.hh

Plus: receipts to date in year (per cashbook) £nnnnn.nn

Less: payments to date in year (per cashbook) £ooooo.oo

Combined cashbook balance as at £ccccc.cc

NB: this must agree with the above “Combined cashbook balance”

Purchasing; Processing trader / purchase invoices, other payment documentation

The Clerk and Council must ensure that the requirements of the Standing Orders and Financial Regulations are complied with when seeking to acquire goods and services, together with ensuring compliance with relevant EU legislation and Public Contracts Regulations.

All payments **must** be supported by an appropriate trader invoice or, if relating to a grant or donation, a hard copy of the approving minute(s).

Ideally, where grants or donations are approved and issued a second copy of the letter advising payment should be provided with a request that it be signed acknowledging receipt and be returned to the RFO: it should then be attached to the copy of the approving minute and filed accordingly.

Ideally, invoices should be stamped with a suitably designed certification stamp containing the following information / certification initials: -

- Initials of Clerk or RFO confirming receipt of goods or services;
- Initials of Clerk or RFO confirming arithmetic accuracy of invoice;
- If applicable (bespoke accounting systems) the nominal cost centre and expense code(s);
- Cheque number or other relevant payment reference (if BACS, DDs or SOs are used, they should be given a unique sequential number throughout the year – e.g. DD1; DD2 etc);
- Date of payment; and
- Initials of member(s) signing cheques or authorising payment by BACS, etc

NB: if a certification stamp is not used, best practice still indicates that the above elements / certification is recorded on invoices / payment documentation.

Payments should be recorded in the cashbook in chronological order of payment (i.e. generally in cheque number order) for ease of identification.

Similarly, invoices, etc should be filed in chronological order.

As cheques are generally not now returned by banks, standard practice is for chequebook counterfoils to be initialled by the members signing the cheques at the time of signing the cheques.

Detail of payments processed should also, ideally, be presented to the Council at each meeting with minutes confirming approval of the payments: it is acceptable to detail just the cheque and BACS, etc numbers and total value of approved payments.

As indicated previously, any VAT expended should be identified clearly in the cashbook for periodic recovery.

VAT reclaims should be prepared at least once annually, ideally covering the financial year to 31st March or, if significant sums are involved, more frequently. On receipt of the settled VAT reclaim, the amount should be recorded appropriately in the receipt section of the cashbook, as indicated above.

Staff employment and salaries

Employment law requires that all employees are provided with a formal contract of employment, which should be signed and dated by the employee and generally the Council Chairman.

A copy of the signed employment contract and other relevant personal details (references, next of kin, etc) should be held on a personal file retained and maintained by the Clerk.

There are many ways of processing staff salaries, most bodies now using either bespoke payroll software or, if staff numbers are small, the HMRC's own Basic PAYE Tools software.

Most councils employ staff on a fixed or sliding point on the National NJC salary scales, which are subject to periodic review and awards, also working a contracted number of basic hours per week: the standard working week is 37 hours, except in the Inner London area, where it is 35 hours.

Each employment contract should clearly identify whether staff are on a sliding scale or fixed point on the scale and any conditions for enhancement through the scale (e.g. based on satisfactory performance).

Best practice requires that detail of any pay award is formally advised to the Council and minuted as formally approved.

Where employment contracts stipulate that staff will progress through the scale, unless there is any reason for no increase to be applied on the anniversary, the next spinal point should be applied automatically. Where a Council approves (as should be minuted) additional increments or changes to an employee's scale point (e.g. satisfactory completion of CILCA studies) or basic weekly working hours, a formal letter advising the change in employment terms should be issued and be signed by the Chairman

To determine the monthly salary payable, take the annual salary (say for ease £18,500), multiply it by the basic weekly hours (e.g.15) and divide by 37 hours and 12 months. I.e. ($£18,500 * 15 / 37 / 12 = £625.00$). The hourly rate of pay is generally identified in the NALC / SLCC circulars advising detail of pay awards, but if not, it should be calculated by dividing the annual salary by 37 and then by 52.1428 (i.e. 365 days / 7: or rounded to 52 – the difference is a matter of 1 or 2 pence).

HMRC revise and advise employers of tax codes and NI contribution rates annually. Clerks should ensure that they receive / are aware of the revised rates applying annually: a copy of the tax coding advice should also be held on the personal file. Detail of these, together with the basic pay information should be input to the software in use to calculate any tax or NI deductions / Council contributions due.

Where employees request admission to the LG Pension scheme, the relevant percentage contribution rate should be identified based on total gross salary including overtime or other enhancements payable in accordance with the County Pension Fund Administrators' advice and guidance for the year the percentage bandings are generally reviewed and updated annually. Where employees routinely work irregular amounts of overtime with resultant varying monthly gross salary payable, the Pension Regulations suggest that the contribution percentage is reviewed

Financial Procedures

only once annually, based on the previous financial year's total gross salary paid, and implemented from April annually.

Payslips should be printed each month, together with other basic monthly and cumulative summaries (dependent on the software in use), with copies of payslips and summaries retained for audit inspection (for security, these should be retained on a separate file stored securely when not in use).

As with trader payments, members should be provided with copies of the relevant detail and undertake similar checks to ensure that employees, HMRC and the Pension Fund Administrator's monthly payments are in line with the underlying documentation: the documents should be similarly initialled as approved for payment.

Petty Cash Account

Similar controls to those applied to traders' invoices should be applied, subject to the following, as generally such payments are of low value and do not require member sign-off of individual items.

Most councils operate their petty cash account on an "imprest" basis: i.e. a fixed balance of say £100 cash is held with monthly / periodic expenditure incurred reimbursed to return the cash holding to the "imprest" level.

A maximum value for individual petty cash transactions should be set, generally at no more than £25.

All petty cash payments should be supported by a till receipt, trader invoice or a signed acknowledgement of receipt.

All such payments should be sequentially numbered throughout the year and be recorded in a separate spreadsheet cashbook identifying the opening balance, individual amounts expended, line by line, with reimbursements similarly recorded in chronological order.

The spreadsheet should also identify a rolling balance after each transaction, together with the value of any VAT incurred, so that this may be readily identified for recovery as and when a reclaim is prepared and submitted to HMRC.

A nominated councillor should periodically check the physical cash held and sign-off the spreadsheet at that time confirming the accuracy of cash held. Should any shortfall or surplus be identified it should be investigated and appropriate adjustment made in the spreadsheet with detail of any variance duly reported to Council for sanction of the amendment, albeit it retrospectively.

Asset registers

The Governance and Accountability Manual requires all councils to maintain a formal register of assets owned by the Council, together with detail of any leased items held.

Assets must be recorded at cost price (i.e. net of VAT) and be reported in the Annual Return each year at an unchanged value: neither depreciation, nor appreciation (based on the insurer's annual inflationary increases in value) should be applied when reporting the total asset value in the Return.

Councils generally set a de minimus value of between £500 and £1,000 below which items are not included as fixed assets on the Annual Return, although they should be identified and recorded in a separate "Inventory" schedule.

Ideally, the asset register should identify the following information, although it is accepted that the cost price of items owned by the Council for several years may not be identifiable: where unknown, the value assigned in previous years' Annual Returns should be identified: -

- Asset detail
- Date acquired, where known
- Serial or registration number, where applicable
- Position where asset is sited
- Cost price, where known or prior year Annual Return proxy value (see above)
- Insured value
- Date of disposal, if applicable
- Sale value

As and when new assets are acquired, they should be added to the register promptly in order that they are not overlooked when compiling detail for the year-end Annual Return.

The Clerk or Council should undertake an annual inspection of the Council's asset stock ensuring its ongoing existence and whether it requires any repair or other attention.

As and when assets are disposed of, the Council should ensure that it seeks to receive a fair price for any goods or equipment so disposed of, ideally with receipt of a sample of quotes for their purchase.

Ideally, to assist the Council's insurers and, should they be involved, the police in the event that any Council equipment, furniture, etc is stolen or vandalised, it is good practice for councils to develop a photographic record of individual items of furniture, etc: this should be updated annually to give an indication of the condition of the items.

Budgetary control and precept

All councils have a responsibility to determine each year their budgetary requirements taking due account of their retained balances, be they held in specific earmarked reserves or in the General Reserve.

Obviously, this will in the main be based on the annual general running costs of the Council as indicated in the current year's performance detail, but should take account of any planned development or other potential one-off expenditure anticipated in the following year.

In order that the budget can be determined with a reasonable degree of accuracy, it is self-evident that current year financial detail should, as indicated above, be recorded accurately and promptly, ideally using the detailed budget headings as the basis for analysing current year spending. **Whilst any increase in the next year's budget or precept may well be expressed as a percentage, it should be based on a detailed assessment of financial requirements and not just the current year figure plus an inflationary or other percentage increase.**

In assessing the precept requirement, due account should be taken of the level of retained reserves and any intention to apply some of those to defray next year spending and underpin the precept to be requested.

Statute requires that the annual budget and precept are formally discussed and adopted at a meeting of the full Council: **this cannot be delegated to a standing committee.** The minute recording the approval and adoption of the next year's budget and precept value should record in monetary terms the actual value of the precept, with any additional Support Grant receivable, identified as a separate item.

Budget reports should be prepared routinely during the year, at least quarterly, contrasting the actual spend to date against the annual approved detailed budget and be presented to either the managing Committee or full Council.

With regard to reserves, where it is known that expenditure will arise in a future year, it is better to budget for that expense over a few years rather than face a significant drain on resources. This could include items such as election expenses or planned play area equipment: in determining the annual budget, allowance could or should be made for say a fourth of the total likely expenditure with the funds effectively transferred to a specific earmarked reserve (NB; this does not entail establishing a separate account, purely identifying and members formally approving each year the balance in each earmarked reserve to be rolled-over to next year).

As a rule of thumb, the residual General Reserve balance should be retained at between three and six months' revenue spending.

Financial Procedures

Risk Assessments and Governance

The Governance and Accountability Manual requires all councils to maintain, review and formally re-adopt, at least once annually, Financial and Health / Safety Risk Registers.

Obviously, it is also important that councils have appropriate insurance cover in place and insurance schedules should, therefore, be subjected to annual review.

When completing / considering and signing off the Annual Return, members should consider each element of the Governance Statement before signing off on a blanket “YES” basis.

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