

FINANCIAL MANAGEMENT

Code of Practice

Presented to Parliament by the Secretary of State for the Home Department
pursuant to section 39 of the Police Act 1996

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CODE OF PRACTICE ON FINANCIAL MANAGEMENT

This revised Code is issued under section 39 of the Police Act 1996. It relates to the discharge by police authorities (but not the City of London) of their functions relating to finance. Police authorities must have regard to the Code under section 6(3) of the 1996 Act. This is a revision of the Code of Practice on Financial Management issued by the Secretary of State under section 28C of the Police Act 1964 and laid before Parliament on 2nd November 1994.

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CONTENTS

	Page
Glossary	vii
Police Authority Financial Regulations	1
The Role of the Treasurer	3
The Role of the Force Finance Director	4
Audit	4
Property and Contracts	5
– Property	6
– Contracts	6
Loans and Investments	7
Exercise of Delegated Responsibilities	7
Virement	8
Capital Expenditure	8
Responsibility for Goods and Services	8
Payment of Accounts	9
Imprest Accounts	9
Banking Arrangements	9
Stocks and Equipment in Use	9
Insurance and Risk Management	9
Ex-gratia Payments	10
Payment of Wages, Pensions and Salaries	10
Voluntary Unofficial Funds	10
Gifts, Loans and Sponsorship	10
Charging	11
Appendix A – Sponsorship	12

GLOSSARY

Treasurer

This term is used to describe the officer with overall responsibility for the administration of the police authority's financial affairs, as set out in section 112 of the Local Government Finance Act 1988 or, in the case of the treasurer to the Metropolitan Police Authority (MPA), as set out in section 127(2)(b) of the Greater London Authority Act 1999. Since the police authority has ultimate responsibility for all funds spent by the police force, there is no distinction in law between the financial responsibilities of the police authority and the financial responsibilities of the force.

Clerk

This term is used to describe the officer with responsibility for the general administration of the police authority. This appointment is made under section 16 of the Police Act 1996. This officer may also be designated the monitoring officer, under section 5(1) of the Local Government and Housing Act 1989, with responsibility for ensuring the legality of the actions of the police authority and its officers.

Chief Officer

This term is used to describe both chief constables appointed under section 11 of the Police Act 1996 and the Commissioner of Police of the Metropolis appointed under section 9B of that Act, as inserted by section 315 of the Greater London Authority Act 1999. Section 101 of the 1996 Act includes the Commissioner of Police for the City of London in the definition of a chief officer of police; however, this Code is not intended to apply to the City of London police force.

The Force

This term refers to all those working for the chief officer. It covers both police officers and employees appointed under section 15 of the Police Act 1996 (except those staff employed under section 15(3) and therefore not under the direction and control of the chief officer). This use goes beyond the legal definition of a force (which applies only to those with the status of constable) but is employed in the Code for the sake of brevity and simplicity.

Force Finance Director

This term is used to describe the chief officer's senior financial officer, who is responsible to the chief officer for financial activities undertaken in the force, and who should have a place on his or her policy team. The force finance director should possess a formal accountancy qualification and manage staff working on financial matters in the force. He or she may either be an employee appointed under section 15 of the Police Act 1996 or an appropriately qualified police officer.

Police Fund

This term describes the single budget which funds both the police authority itself (members and officers) and the force.

Financial Regulations

This term is used to describe the regulations drawn up by the police authority treasurer, with the chief officer, to govern the respective responsibilities of the police authority and force on financial matters and the relationship between them in such matters.

Standing Orders Relating to Contracts

These standing orders, drawn up by the police authority clerk, with the chief officer, govern the handling of contracts and the relative responsibilities of the police authority and force. These standing orders should be distinguished from the standing orders relating to the procedures of the police authority.

Italics

The Code is set out in italics. The rest of the text, in ordinary type, contains background material including references to relevant legislation.

CODE OF PRACTICE

Police Authority Financial Regulations

Each police authority should draw up and adopt a set of standing orders relating to contracts and financial regulations. These will govern the relationship between the police authority and the police force in financial matters. This Code sets out the principles to which police authorities should have regard in establishing their financial regulations. It draws on best practice both in current police authorities and as recommended by the Audit Commission¹ and other professional bodies.²

This best practice focuses on bringing operational and financial management together with accurate, complete and timely financial information. The extent of delegation will clearly vary according to the adequacy of the systems and expertise in the force to handle delegated management. Where these do not exist or are inadequate, police authorities should encourage their creation, development or implementation as appropriate, with the ultimate aim of aligning managerial and financial responsibilities in the police force.

1. *The financial regulations³ and the standing orders relating to contracts should be drawn up jointly by the police authority clerk and treasurer and by the chief officer, and be approved by the police authority. Subsequent amendments should also be effected through this process.*

2. *The financial regulations of the police authority should:*

(a) ensure that the financial dealings of the authority and of the force are conducted properly and in a way which meets the requirements of best practice.

¹ The Audit Commission recommended (Report No. 10 "Pounds & Coppers – Financial Delegation in Provincial Forces", March 1991) the introduction of local financial management to align managerial and financial responsibilities. They found that forces which had devolved some financial management to their local police commanders (and where financial management had already been devolved from the police authority to the force) had improved control of spending, efficiency and effectiveness in the use of resources.

² This includes "The Role of the Finance Director in Local Government" published by CIPFA, December 1999. The Code is intended to complement, and not substitute, other guidance already in existence.

³ They need to take into account European Community Directives on procurement (the Works Directive (93/37/EEC), the Supplies Directive (93/36/EEC), and the Services Directive (92/50/EEC)) and associated UK regulations (Public Works Contracts Regulations (SI 2680, 1991), Public Supplies Contracts Regulations (SI 201, 1995), and Public Services Contracts Regulations (SI 3228, 1993)).

(b) include sufficient safeguards for the police authority treasurer who is responsible for ensuring that its financial affairs are properly administered to discharge properly his or her statutory obligations⁴ (see further paras 9-13); and

(c) encourage the delegation of responsibility to the lowest level consistent with (a) and (b). This applies to the delegation of financial responsibility between the police authority and the police force, and within the force itself.

3. *Unless there are good reasons to the contrary, police authorities should delegate financial management to the chief officer so that, as far as possible, the financial management of a force takes place within that force.*

4. *The police authority should also encourage the force itself to devolve financial management to local police commanders, following the Audit Commission's recommendations, provided that reliable information systems exist to supply local managers with accurate, complete and timely information.*

5. *The police authority, advised by its treasurer, must be satisfied that the chief officer exercises delegated financial responsibilities in a proper and effective manner.*

6. *The police authority should:*

(a) agree a budget requirement and set the precept, on the advice of the treasurer (this does not apply to the MPA⁵);

(b) approve the chief officer's proposed allocation of resources as set out in a format agreed by the chief officer and treasurer;

(c) monitor financial outcomes; and

(d) identify and agree longer term spending commitments.

7. *The chief officer and those working for the chief officer should have as much day to day responsibility for financial management of the force as possible within the framework of the agreed budget and rules of virement. Only when significant changes of policy are envisaged or when significant sums are involved should the approval of the police authority be sought once more. The meaning of 'significant' should be defined in the financial regulations.*

⁴ Section 112 of the Local Government Finance Act 1988 places a duty on each police authority to make arrangements for the proper administration of its financial affairs, and to ensure that one of its officers – that is, the police authority treasurer – has responsibility for the administration of these affairs. Section 112 applies to all police authorities under section 3 of the Police Act 1996; section 127 of the Greater London Authority Act 1999 applies to the Metropolitan Police Authority.

⁵ In the case of the Metropolitan Police Authority, the Mayor and the London Assembly will agree the budget requirement and set a precept after consultation with the MPA.

8. *Financial instructions, for use by the force, should deal with matters delegated to the chief officer. They should be drawn up by the chief officer in consultation with the treasurer, who must be satisfied that they provide for effective managerial control and review.*

The Role of the Treasurer

The statutory responsibilities of the police authority treasurer are set out in sections 112 (or in the case of the MPA, section 127 of the Greater London Authority Act 1999) and 114, as amended by section 130 of the Greater London Authority Act 1999, of the Local Government Finance Act 1988. The qualifications required for the treasurer are set out in section 113 of the same Act, as amended by section 129 of the Greater London Authority Act 1999. The Accounts & Audit Regulations 1996 (SI 590, 1996) impose further responsibilities. Taken together, these mean that the treasurer is responsible for:

- ensuring that the financial affairs of the authority and the force are properly administered and that financial regulations are observed and kept up to date;
- reporting both to members of the police authority and to the external auditor any unlawful, or potentially unlawful, expenditure by the members or officers of the authority or force;
- reporting both to the police authority and to the external auditor when it appears that expenditure is likely to exceed the resources available to meet that expenditure;
- producing a statement of accounts; and
- when delegated by the police authority, maintaining an effective internal audit function, operating in accordance with best practice as recommended by the Institute of Internal Auditors and CIPFA guidelines as well as statutory obligations and regulations.

9. *The treasurer is the authority's professional adviser on financial matters. The treasurer's duty is to:*

- *provide financial advice to the police authority on all aspects of its activity, including the strategic planning and policy making process;*
- *advise members on all relevant issues associated with best value;*
- *advise the police authority on financial propriety;*
- *ensure that accurate, complete and timely financial management information is provided to the authority and chief officer;*
- *secure the preparation of statutory and other accounts;*

- *provide an effective audit service and assistance in providing safe and efficient financial arrangements;*
- *secure treasury management including loans and investments;*
- *advise, in consultation with the police authority clerk, on the safeguarding of assets, including risk management and insurance;*
- *arrange for the determination, issue and transfer of the precept (this does not apply to the Metropolitan Police Authority treasurer); and*
- *advise on budgetary matters including any consequent long term implications.*

10. *The treasurer has certain statutory obligations which cannot be delegated, namely, reporting any potentially unlawful decisions by the authority or the force on expenditure and producing a statement of the authority's accounts.⁶*

The Role of the Force Finance Director

The force finance director is responsible to the chief officer for all financial activities undertaken within the force or contracted out under the supervision of the force. The force finance director should be a member of the force senior policy team. His or her prime responsibility, however, is for ensuring effective and efficient use of the resources available to the force and he or she should not be responsible for delivering operational performance.

Audit

Audit is needed:

- to enable the police authority to fulfil the obligation under the Accounts and Audit Regulations 1996 (SI 590, 1996) to ensure an effective internal audit function is maintained, including the systems put in place by the force;
- to satisfy the chief officer that effective internal control systems are in place in the force; and
- to satisfy the external auditor that financial systems and internal controls are effective, and that the police fund is managed so as to secure economy, efficiency and effectiveness.

The chief officer, the force finance director, the police authority and its treasurer have different and overlapping interests in both internal and external audit. In order to avoid duplication and maximise the benefits of audit activity, it is essential for both internal and external audit to work with maximum co-operation.

⁶ The treasurer will need a small team to carry out these functions.

11. *Internal audit is the responsibility of the police authority under the Accounts and Audit Regulations 1996 (SI 590, 1996). The police authority will normally delegate this function to the treasurer in order to support his or her statutory duties, in particular his or her need to be satisfied as to the system of financial controls in place and the effectiveness of financial administration systems.*

12. *The arrangements for internal audit should ensure that the chief officer, who has a direct interest in secure, efficient and effective arrangements for internal audit, receives regular internal audit reports as a matter of course.*

13. *Before deciding which aspects of force financial activity to include in the internal audit plan, the treasurer should consult the chief officer. The chief officer should also be able to request directly from the internal audit team systems audits or value for money audits as an essential tool of good management. Such reports should be directed to the chief officer so that their recommendations can be acted upon, but should be copied to the treasurer.*

14. *The Audit Commission is responsible for external audit. External auditors have full access to internal audit reports.*

15. *In developing the external audit plan, the external auditor should work closely with the treasurer and the chief officer.*

16. *The police authority should use the reports of external auditors to aid it in its monitoring role and to ensure that the regulations agreed by the authority and force are being followed.*

17. *An audit committee should be established under the chairmanship of a police authority member other than the chairman.⁷*

Property and Contracts

The police authority has direct responsibility for property and contracts.⁸

18. *Provided that the authority, advised by the treasurer and clerk, can be satisfied that its legal responsibilities can be fulfilled, and is confident in the chief officer's ability to take on the financial responsibilities involved, responsibility for the daily administration of property and contracts should be delegated to the chief officer, as follows.*

⁷ An audit committee provides a mechanism for achieving close liaison between the various external and internal audit activities. It gives members of the police authority the opportunity to ask questions about the conduct of the authority's finances (on the lines recommended in the Cadbury Report ("Report of the Committee on Financial Aspects of Corporate Governance" published 1 December 1992)). The committee should receive both external and internal audit reports.

⁸ This is because the police authority owns all police property and holds the police fund.

Property

19. *Plans for the significant rationalisation or expansion of the estate, and provision for maintenance, should be included in the budget and policing plan issued by the authority each year.*

20. *The police authority's financial regulations and standing orders relating to contracts should contain provisions for purchases and sale of property, including the value above which decisions must be referred to the authority for prior approval.*

21. *Any transaction which exceeds thresholds set in the standing orders relating to contracts or financial regulations, or which does not fall under the strategy outlined for the year in the policing plan, should be subject to the prior approval of the police authority.*

22. *Within this framework, the chief officer should be given responsibility for management of the police estate, including maintenance of property.*

Contracts

23. *The standing orders relating to contracts should cover procedures for tenders and contracts.*

24. *The police authority should set a contract value above which competitive tendering should normally take place. In making this decision, the police authority should take note of statutory requirements.*

25. *The police authority should also ensure, through the standing orders and financial regulations, that any contract not awarded to the lowest bidder is approved by it or reported to it.*

26. *Provided that arrangements within the force satisfy the police authority, the chief officer and the chief officer's staff should manage the tendering and contracting process, except where the police authority has decided that it must be advised of particular contracts in advance of agreement because of their size or sensitivity. The management of this process should be conducted in accordance with the standing orders relating to contracts as approved by the police authority. The police authority treasurer should not normally be involved but the clerk should ensure propriety, eg in the opening and acceptance of tenders.*

27. *The police authority should be the contracting party for the purposes of agreeing contracts for the provision of goods and services to the force.*

28. *The authority may require a chief officer to identify from within the force a “project manager” for the procurement of a service and to ensure that the manager has available, from within the force or otherwise, appropriate professional expertise to support the specification and tendering process.*

29. *The “project manager” of the force may authorise other officers of the force to enter into contracts on behalf of the authority acting in accordance with the authority’s standing orders relating to contracts.*

30. *The police authority should ensure through its standing orders relating to contracts that those individuals, within the force, with responsibility for agreeing contracts comply with all relevant legislation including EC Directives.*

Loans and Investments

31. *The police authority is directly responsible for loans and investments and for borrowing money. Within the policy agreed, the treasurer should decide what investments are to be made and approve any borrowing.⁹ However, the treasurer may, with the agreement of the chief officer, ask the force finance director to undertake, or procure in a manner acceptable to the treasurer, the daily management of loans and investment work – following up decisions made by the police authority. All loans and investments should be arranged in line with best practice as embodied in the CIPFA Code of Practice on Treasury Management.*

Exercise of Delegated Responsibilities

The following paragraphs cover matters which the police authority should seek to delegate to the chief officer, and which should be covered in greater detail in the financial instructions issued by the chief officer.

32. *The police authority, advised by the treasurer, must be satisfied that the chief officer has effective internal control and managerial control systems in his or her force to handle delegated responsibilities.¹⁰*

33. *All forces should have their own finance team advising the chief officer and acting as a bridge to the police authority treasurer.*

⁹ Operating under sections 43-7 and 66 of the Local Government and Housing Act 1989 and associated Regulations.

¹⁰ In view of the responsibilities to be undertaken by the force finance director, this person should possess a formal accountancy qualification. All force finance directors appointed after 1 April 1995 should have membership of one or more of the bodies listed in section 113 of the Local Government Finance Act 1988. For existing postholders, extensive experience of financial administration should be regarded as an acceptable qualification. The chief officer should involve the treasurer in the selection of this important member of the force senior policy team.

34. *The police authority should delegate to the chief officer responsibility for the provision of such services as payroll, pensions, and general financial administration within the force as well as other services such as the management and maintenance of the estate.*

35. *If the services are purchased¹¹ from other authorities, or from the private sector, the chief officer, clerk and the treasurer must be satisfied that the service bought takes into account any European Community procurement Directives³, and represents efficient and effective use of resources. The chief officer should have, or secure, the necessary expertise to set up suitable contractual arrangements.*

36. *Where services are run within the force, these too should be subject to value for money principles.*

Virement

37. *The police authority's financial regulations should cover the extent to which the chief officer may vire money.¹² Virement may be defined as the permission to spend more under one budget head when this is matched by a corresponding reduction on some other budget head, always providing the total budget is not already overspent, or expected to be overspent.*

38. *As a general principle the chief officer should only be required to refer back to the police authority when virement would incur continuing significant liabilities or substantive changes in police authority policy.*

39. *The thresholds for referrals should be agreed by authority and force and set out in the financial regulations of the police authority.*

Capital Expenditure (see paragraphs 19-22 on Property)

40. *The capital expenditure programme should be approved by the police authority and cross referenced to relevant sources of finance, including capital grants, credit approvals, usable capital receipts and revenue contributions.¹³*

Responsibility for Goods and Services

41. *The chief officer's proposals for buying goods and services (and anticipated expenditure) should be covered in the budget.¹⁴*

11 In purchasing services, police forces may choose to act jointly if they can do so more efficiently (under section 23 of the Police Act 1996).

12 Virement from capital to revenue is not permitted.

13 The capital programme of the Metropolitan Police Authority will be approved within the arrangements for the Greater London Authority's unified capital spending plan.

14 These may take the form of contracts with local authorities, with another police authority or with the private sector. (See paras 23-30)

42. *Once the proposals are agreed by the police authority, the force should be responsible for operating within the terms of the budget. Any departure from agreed policy or spending plans that is not provided for within standing orders relating to contracts or financial regulations must be approved in advance by the police authority.*

43. *The systems for ensuring efficiency and propriety should be approved by the police authority, advised by the treasurer.*

Payment of Accounts

44. *The financial regulations should ensure that the police authority, advised by the treasurer, is satisfied with the control systems in place in the force for the payment of accounts.*

Imprest Accounts

45. *The chief officer should arrange for separate imprest accounts. The financial regulations should give the chief officer the power to do so subject to reasonable conditions and controls on the items which might be paid from these accounts.*

Banking Arrangements

46. *The financial regulations should cover banking arrangements. The police authority treasurer is responsible for all banking arrangements and must authorise the creation or closure of any account.*

47. *The daily management and operation of accounts should be delegated to the force, provided the police authority, advised by the treasurer, is satisfied with the control systems in place.*

Stocks and Equipment in Use

48. *The chief officer should be responsible for management of stocks and equipment.*

49. *The police authority, advised by the treasurer, should be satisfied that the systems which are in place for regulating stocks and writing off deficiencies are in accordance with best practice.*

Insurance and Risk Management

50. *The general arrangements for insurance and risk management should be agreed by the police authority.*

51. *The treasurer, or clerk, should advise the police authority on appropriate arrangements for insurance including police authority members, assets and liabilities. Implementation of these arrangements should be delegated to the force.*

Ex-gratia Payments¹⁵

52. *Financial regulations should set out the circumstances in which the chief officer may award ex-gratia payments.*

Payment of Wages, Pensions and Salaries

53. *This should be delegated to the chief officer, who may take on the work within the force or contract it out (see paras 34-36).*

Voluntary Unofficial Funds

54. *The treasurer should be confident that the chief officer knows of the existence of all voluntary unofficial funds and that they are properly audited.¹⁶*

Gifts, Loans and Sponsorship¹⁷

55. *A police authority may decide to accept gifts of money, gifts or loans of other property if they will enable the police either to enhance or extend the service which they would normally be expected to provide. The terms on which gifts or loans are accepted may allow commercial sponsorship of some police force activities. Gifts, loans and sponsorship are particularly suitable for multi-agency work such as crime prevention, community relations work, and victim support schemes. Forces are not expected to pay undue attention to soliciting gifts, loans or sponsorship.*

56. *Gifts, loans and sponsorship can be accepted from any source which has genuine and well intentioned reasons for wishing to support specific projects. In return, the provider may expect some publicity or other acknowledgement. It is acceptable to allow the provider to display the organisation's name or logo on publicity material, provided this does not dominate or detract from the purpose of the supported project. These points are covered in greater detail in Appendix A.*

¹⁵ In the case of personal injury, damage and loss of property.

¹⁶ Voluntary unofficial funds for benevolent and other purposes which do not form part of the police fund and which are controlled by an officer of the police force are a matter for the chief officer and not for the police authority. However, for the public image of the force, it is important that such funds are properly administered.

¹⁷ Under section 93 of the Police Act 1996, as amended by paragraph 101 of Schedule 27 to the Greater London Authority Act 1999, a police authority may, in connection with the discharge of its functions, accept gifts of money, and gifts or loans of other property, on such terms as the authority thinks fit. The police authority is responsible for approving force policy and regulations on the acceptance of gifts, loans and sponsorship.

Charging

57. *Policy on charging under section 25 of the Police Act 1996, as amended by paragraph 80 of Schedule 27 to the Greater London Authority Act 1999, should be agreed by the police authority. It should keep in mind that the purpose of charging for special services is to ensure that, wherever appropriate, those using the services pay for them. Charges should be made on the basis of recovering the full cost of the service provided.*

58. *Police authorities should ensure that there are arrangements in place to ensure that expected charges are clearly identified in their budgets, and that costs are accurately attributed and charged.*

59. *Within the policy framework set by the police authority, decisions on charging under section 25 are a matter for the chief officer.*

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APPENDIX A

SPONSORSHIP

1. *Gifts, loans of property and sponsorship must comply with conditions laid down by the police authority. The following points need to be given weight in the locally agreed conditions.*

- *Gifts, loans and sponsorship can be defined, for the purpose of this guidance, as the voluntary provision to the police service of non-public funds, services, equipment or other resources. They should not be accepted where there is a risk of offending the integrity or propriety of the police. For example:*

by accepting offers from sources which come under the direct scrutiny of the police;

where the provider seeks endorsement of a product or service in order to gain preferential treatment in supplying or contracting goods and services to the police force; or

to influence the direction of a particular policy or operation.

It is unwise to use such arrangements to support police activities which cannot readily be discontinued, since they can be withdrawn at any time on the initiative of the donor.

- *Where offers of gifts, loans or sponsorship are made from more than one company in a competing market, care should be taken to demonstrate an even-handed approach in accepting and/or rejecting any offer.*
- *Police authorities and forces should ensure that priority is given to meeting the needs of the force rather than those of the sponsor, and should be careful to avoid the following:*
 - *potentially sensitive associations with inappropriate sponsors;*
 - *potentially sensitive associations with companies already in a contractual arrangement to provide goods or services to the force, which could be construed by competitors as preferential treatment;*
 - *projects which could distract effort from tackling agreed priorities;*
 - *projects of dubious or limited benefit in policing terms;*
 - *offers of gifts, loans or sponsorship with conditions attached;*

- *offers of gifts, loans or sponsorship which could involve the force in additional costs;*
- *offers of equipment which is incompatible;*
- *inadequate contractual arrangements; and*
- *the risk of becoming unduly dependent on a facility liable to be withdrawn.*

Where publicity is sought, a commercial agreement is likely to be necessary.

- *Police authorities should devise their own policy and procedural guidelines locally. The total value of gifts, loans and sponsorship accepted should not exceed a maximum equivalent value of 1% of the force budget annually as approved by the police authority. As long as it remains below that figure, the authority can assume that the value of gifts, loans and sponsorship will be ignored for the purposes of calculating Government grants to the police authority. A record of the market value of all gifts, loans and sponsorship received should be maintained by the police authority. It will be for the police authority to demonstrate, to the satisfaction of the external auditor, that its record provides a suitable account of the extent to which such additional resources have been received.*

2. *The police authority may also wish to ensure that all gifts, loans and sponsorship above an agreed sum are referred to the authority for approval before they are accepted.*