



AUDIT & GOVERNANCE COMMITTEE

Monday, 14 March 2022

Subject	CHANGES TO THE FINANCIAL PROCEDURE RULES
Report by	Councillor Maurice Cook, Cabinet Member with responsibility for Resources Councillor Edward Back, Assistant Cabinet Member for Resources
Supporting Officer	Brian Mew Chief Finance Officer Brian.mew@eastsoffolk.gov.uk

Is the report Open or Exempt?	OPEN
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Category of Exempt Information and reason why it is NOT in the public interest to disclose the exempt information.	Not Applicable
Wards Affected:	None

Purpose and high-level overview

Purpose of Report:

To enable the Committee to review and comment on proposed changes to the Financial Procedure Rules in the Council's Constitution.

Options:

The Financial Procedure Rules (FPR) provide the framework for the financial administration of the Council with a view to ensuring that financial matters are conducted in a sound and proper manner, constitute value for money and minimise the risk of legal challenge. The Chief Finance Officer is responsible for maintaining a continuous review of the Financial Procedure Rules and submitting any additions or changes necessary to the Council for approval.

In determining the approach to giving clarity to the rules in areas that tend to have alternate interpretations, consideration has been given to either:

- a. Adding further wording to the constitution.
- b. Introducing financial guidelines (required by the current FPR)

To avoid the FPR becoming excessively detailed and ensuring that the FPR covers the key principles and the framework for financial management in the Council, rather than detailed processes, the approach chosen has been to introduce guidelines that give effect to the FPR but do not change the FPR.

Recommendation/s:

That having reviewed and commented upon the proposed changes to the Financial Procedure Rules, the Committee recommended them to Full Council for approval.

Corporate Impact Assessment

Governance:

The proposed changes are primarily aimed at simplification; greater operational relevance; increased accountability; and enhanced compliance with best practice, including the CIPFA Financial Management Code.

ESC policies and strategies that directly apply to the proposal:

East Suffolk Council Strategic Plan

Medium Term Financial Strategy

General Fund Budget and Capital Programme

Housing Revenue Account and Housing Capital Programme

Financial Procedure Rules

Environmental:

There are no direct environmental impacts of this proposal.

Equalities and Diversity:

No impacts

Financial:

The changes will foster active budget management and use of virement to efficiently direct Council resources where they are most required thereby increasing financial sustainability. All resources required to implement the proposed changes are within existing revenue budgets.

Human Resources:

Successful implementation of the proposed changes and supporting Financial Guidelines will require increased awareness of budget responsibilities. The proposals and guidelines are intended to provide greater clarity to staff on their duties. Staff statutory responsibilities have not changed because of the proposals, and no contractual changes are required in respect of terms and conditions.

A series of half day sessions are being planned to communicate the changes along with financial management refresher sessions to ensure the new procedures are embedded Council-wide.

ICT:

Current processes will need to be enhanced in some areas to ensure effective implementation and embedding in the authority. In particular, the upgrade of the council's Financial Management System, Navision, to Business Objects during 2022/23 will facilitate this.

Legal:

The proposed changes to the financial procedure rules have taken into account consultation with the Head of Legal and Democratic Services as well as with input from external legal advisors on the proposed principles for governance and transacting with our companies.

Risk:

The proposed changes include amendments to financial thresholds. This will naturally give greater financial responsibility to budget managers than is currently the case and the Internal Audit team have identified that some of the changes may increase risks associated with financial governance and oversight at Management level.

To mitigate against this risk, the applicability of these amended thresholds has been restricted only to financial management decisions that do not increase the Council's financial commitment during the MTFS period. Hence financial decisions which budget holders are permitted to take are strictly in fulfilment of their delegated responsibilities and within existing council resources, and to the extent that they do not increase the net resource requirement.

The training and development plan for budget holders will mitigate the increased risk identified by the Internal Audit review.

The financial threshold for key decisions to be referred to the Cabinet remains the same at £250,000.

Finally, the Internal Audit review also highlighted that “there are also benefits in reducing the volume of items to be considered by senior management, allowing the opportunity to focus on high-value strategic matters only”.

External Consultees:	External legal advisors provided advice on principles of governing and transacting with East Suffolk owned companies to align them with Companies Act 2006.
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Strategic Plan Priorities

Select the priorities of the Strategic Plan which are supported by this proposal: <i>(Select only one primary and as many secondary as appropriate)</i>		Primary priority	Secondary priorities
T01	Growing our Economy		
P01	Build the right environment for East Suffolk	<input type="checkbox"/>	<input type="checkbox"/>
P02	Attract and stimulate inward investment	<input type="checkbox"/>	<input type="checkbox"/>
P03	Maximise and grow the unique selling points of East Suffolk	<input type="checkbox"/>	<input type="checkbox"/>
P04	Business partnerships	<input type="checkbox"/>	<input type="checkbox"/>
P05	Support and deliver infrastructure	<input type="checkbox"/>	<input type="checkbox"/>
T02	Enabling our Communities		
P06	Community Partnerships	<input type="checkbox"/>	<input type="checkbox"/>
P07	Taking positive action on what matters most	<input type="checkbox"/>	<input type="checkbox"/>
P08	Maximising health, well-being, and safety in our District	<input type="checkbox"/>	<input type="checkbox"/>
P09	Community Pride	<input type="checkbox"/>	<input type="checkbox"/>
T03	Maintaining Financial Sustainability		
P10	Organisational design and streamlining services	<input type="checkbox"/>	<input checked="" type="checkbox"/>
P11	Making best use of and investing in our assets	<input type="checkbox"/>	<input checked="" type="checkbox"/>
P12	Being commercially astute	<input type="checkbox"/>	<input checked="" type="checkbox"/>
P13	Optimising our financial investments and grant opportunities	<input type="checkbox"/>	<input checked="" type="checkbox"/>
P14	Review service delivery with partners	<input type="checkbox"/>	<input type="checkbox"/>
T04	Delivering Digital Transformation		
P15	Digital by default	<input type="checkbox"/>	<input type="checkbox"/>
P16	Lean and efficient streamlined services	<input type="checkbox"/>	<input type="checkbox"/>
P17	Effective use of data	<input type="checkbox"/>	<input type="checkbox"/>
P18	Skills and training	<input type="checkbox"/>	<input checked="" type="checkbox"/>
P19	District-wide digital infrastructure	<input type="checkbox"/>	<input type="checkbox"/>
T05	Caring for our Environment		
P20	Lead by example	<input type="checkbox"/>	<input type="checkbox"/>
P21	Minimise waste, reuse materials, increase recycling	<input type="checkbox"/>	<input type="checkbox"/>
P22	Renewable energy	<input type="checkbox"/>	<input type="checkbox"/>
P23	Protection, education, and influence	<input type="checkbox"/>	<input type="checkbox"/>
XXX	Governance		
XXX	How ESC governs itself as an authority	<input checked="" type="checkbox"/>	<input type="checkbox"/>
How does this proposal support the priorities selected?			

The proposed changes are primarily aimed at simplification; greater operational relevance; increased accountability; and enhanced compliance with best practice, including the CIPFA Financial Management Code, enhancing and strengthening Corporate Governance in the Council.

Background and Justification for Recommendation

1 Background facts	
1.1	<p>The purpose of the constitution as defined in part 1, paragraph 1.2. - is “...to ensure that the Council's <i>decision-making and governance</i> arrangements help the Council to achieve its aims, objectives and priorities <i>effectively</i> and <i>efficiently</i>”.</p> <p>Existing provisions in the constitution in Part 3, paragraph 1.2.6. – also state that “The CFO is responsible for maintaining a continuous review of the Financial Procedure Rules and submitting any additions or changes necessary to the Council for approval. An annual review shall be undertaken”.</p>
1.2	<p>In October 2019, CIPFA published the Financial Management Code (FM Code), presented to A&G in December 2021, which provides guidance for good and sustainable financial management in local authorities and will provide assurance that authorities are managing resources effectively.</p>
1.3	<p>The FM Code applies a principle-based approach. It does not prescribe the financial management processes that local authorities should adopt. Instead, the code requires that a local authority demonstrates that its processes satisfy the principles of good financial management for an authority of its size, responsibilities, and circumstances.</p>

2 Current position	
2.1	<p>In addition to the introduction of the FM Code, the Council’s circumstances, and levels of activity in a range of areas have changed significantly following becoming one council three years ago. Any review and revision of the FPR inevitably involves some routine tidying up of the document, however in response to these key developments, the three most significant areas of changes to the FPR – Revenue Budget Monitoring, Capital Programme Monitoring, and ESC companies - are referred to in section 3 below.</p>

3 How to address current situation	
3.1	<p>Revenue Budget Monitoring</p> <p><u>Virements (Budget Transfers)</u></p> <p>A “whole service” approach is proposed in respect of allocating existing budget commitments, whereby, for example, Heads of Service and Budget managers will be able to move existing budgets around as required for service delivery, provided they do not create additional budget commitments or significantly change ESC services and policy. The proposed virement (budget transfer) thresholds that give effect to this approach are shown below:</p>

	Virement Scheme Approver Thresholds - Summary of Para 3.1.19 – 3.1.21																	
	Approver	Individual Threshold	Cumulative threshold															
	Budget holder	up to £50,000	N/A															
	Head of service	up to £100,000	N/A															
	Portfolio holder and Section 151 Officer	£100,001 - £250,000	£250,000 per portfolio															
	Cabinet	£250,001 - £1,000,000	£1,000,000															
	Council	Over £1,000,000	N/A															
3.2	<u>Guidelines</u> Guidelines have been produced using simple wording and decision flow trees to provide clear guidance to staff in applying Budget Management rules.																	
3.3	<u>Grant Funding</u> The proposed changes encourage a long-term view in accepting grants and clarify budget managers' existing delegated authority to accept grants that are in line with strategic priorities and have net zero financial commitment outside the council's existing budgets. All grant funding that requires additional net budgets or which significantly change services and/or policies will continue to require Cabinet approval up to the cumulative £1m threshold and Council approval beyond that threshold.																	
3.4	<u>Earmarked Reserves</u> The proposals provide clearer rules on delegated authority for the allocation of earmarked reserves, the officers that can approve this use, including a definitive list of general reserves, the use of which still require Cabinet and/or Council approval.																	
3.5	<u>Supplementary Estimates</u> The proposals are intended to streamline the approval, monitoring, and reporting of supplementary estimates. This includes guidance to officers in the financial guidelines to equip them to consider alternatives before requiring supplementary budgets. The thresholds for these are presented below and are in accordance with the current Constitution thresholds for Significant items:																	
	<table border="1"> <thead> <tr> <th colspan="3">Supplementary Budget Thresholds</th> </tr> <tr> <th>Approver</th> <th>Individual Threshold</th> <th>Cumulative Threshold</th> </tr> </thead> <tbody> <tr> <td>Portfolio holder and Section 151 Officer</td> <td>Up to £250,000</td> <td>£250,000</td> </tr> <tr> <td>Cabinet</td> <td>£250,001 - £1,000,000</td> <td>£1,000,000</td> </tr> <tr> <td>Council</td> <td>Over £1,000,000</td> <td>N/A</td> </tr> </tbody> </table>			Supplementary Budget Thresholds			Approver	Individual Threshold	Cumulative Threshold	Portfolio holder and Section 151 Officer	Up to £250,000	£250,000	Cabinet	£250,001 - £1,000,000	£1,000,000	Council	Over £1,000,000	N/A
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3.6	Capital Programme Monitoring The FPR now also references the Capital Programme guidelines that have been drafted by Finance in consultation with the Asset Management Group (AMG).																	

3.7	There will now be an explicit requirement in the capital programme guidelines for officers to adopt the project management framework, including a need to prepare an options appraisal for all new projects for AMG consideration prior to presenting to Cabinet and Council.
3.8	A requirement is now also included for AMG to conduct post implementation reviews of significant capital programmes (Over £250,000 spend) to foster organisation wide learning on programme management and project delivery. There is also intended to be Cabinet review of these post implementation reports, especially where there is significant divergence from approved capital programme.
3.9	<p>Principles for monitoring and transacting with ESC Companies</p> <p>The proposals introduce principles for designing sustainable services to and from companies; including clearer responsibilities for Heads of Service for council services contracted out to companies. These should ensure control is retained over statutory services, whilst ensuring that trading entities do not receive unusually favourable arrangements stifling the ability of local businesses to compete.</p>
3.10	<p>The proposals include basic principles for Council companies to align annual business planning and periodic performance reporting timelines to the Council. They are also intended to create the base for company governance arrangements to be designed in line with Companies Act 2006.</p> <p><i>NOTE: These do not represent the governance arrangements of Council companies. Each company governance arrangement will be contained in their articles of association and ESC's shareholder or membership agreement with each of them. These documents will be presented along with papers relating to those companies as required.</i></p>
3.11	Cabinet will also be considering the proposed changes to Financial Procedure Rules at its meeting on 5 April 2022, and Full Council will consider the recommendations of both Cabinet and the Audit and Governance Committee at its meeting on 25 May 2022.

4 Reason/s for recommendation

4.1	To enable the Audit and Governance Committee to review, comment upon, and recommend the proposed changes to the Financial Procedure Rules to Full Council.
4.2	The recommendations are considered to strike an important balance between the ability of officers to deliver services within delegated authorities, whilst ensuring effective and appropriate financial management, governance, and oversight.

Appendices

Appendices:

Appendix A	East Suffolk Council Constitution_ Financial Procedure Rules Proposed Version incorporating proposed changes (to be dated 25 May 2022)
Appendix B	East Suffolk Council Constitution_ Financial Procedure Rules Version dated 14 October 2021

Background reference papers:

Date	Type	Available From
13 December 2021	Audit & Governance Committee - CIPFA Financial Management Code	CMIS