

<b>Report title:</b> Financial Regulations and Scheme of Delegation for Financial Management	
<b>Report to:</b> Cabinet	
<b>Report author:</b> Margaret Lee – Executive Director for Corporate and Customer Services	
<b>Date of meeting:</b> 24 January 2017	<b>For:</b> Decision
<b>Enquiries to</b> Margaret Lee, Executive Director for Corporate and Customer Services 03330 134558	
<b>Divisions affected:</b> All Essex	

## 1. Purpose of report

- 1.1 The purpose of this report is to explain changes that are proposed to the Council's Financial Regulations and Scheme of Delegation for Financial Management, and to invite comments on these changes prior to these being presented to full Council for approval.

## 2. Recommendations

- 2.1 That the Cabinet supports the proposed revisions to the Financial Regulations and Scheme of Delegation for Financial Management, as appended to this report, and recommends their adoption by full Council.

## 3. Summary of issue

- 3.1 The Financial Regulations and Scheme of Delegation for Financial Management set out the financial policies and the framework for managing the Council's affairs. They seek to ensure that the Council conducts its affairs in a way that complies with specific statutory provisions, generally accepted accounting principles and professional good practice. The Financial Regulations and Scheme of Delegation for Financial Management are kept under continuous review.
- 3.2 Many of the thresholds for financial decision making that are defined within Financial Regulations are aligned to the Council's key decision threshold, which is defined within the Constitution. As the key decision threshold was recently increased, from **£500,000** to **£2m**, it is appropriate to review financial thresholds within Financial Regulations.
- 3.3 Whilst reviewing the financial thresholds, the opportunity has also been taken to undertake a general review of the Financial Regulations.

- 3.4 The aim of the amendments is to ensure we manage ECC's risks appropriately, whilst having a process and procedures framework that is proportionate to ECC's risk.
- 3.5 The proposed revisions to the Financial Regulations and Scheme of Delegation for Financial Management were considered by the Audit Committee at their meeting on **12th December 2016**. The Committee supported the proposed revisions to the Financial Regulations and Scheme of Delegation for Financial Management, and recommended their adoption by full Council, subject to two minor amendments to drafting which have been incorporated.
- 3.6 The draft revision of the Financial Regulations and Scheme of Delegation for Financial Management is attached at **Appendix 1**. The proposed changes to the Financial Regulations and Scheme of Delegation for Financial Management are not 'tracked' in the version appended, but a 'tracked changes' version can be provided upon request.
- 3.7 Section 4 of this report provides an overview and explanation of all of the changes that it is proposed are made to the Financial Regulations and Scheme of Delegation for Financial Management. The explanations are provided in the order that the changes arise within these documents, rather than in order of significance.

#### **4. Overview of proposed changes**

##### **General**

- 4.1 Changes have been made throughout the Financial Regulations and Scheme of Delegation for Financial Management for changes in role titles.

##### **Section 1 – Introduction**

- 4.2 No changes are proposed to this section.

##### **Section 2 – Roles and responsibilities**

- 4.3 Section 2.3 of the Financial Regulations on the role of the Cabinet with regard to preparation of the Council's policies and budget (under the direction and authority of the Leader) has been updated to explain that Cabinet also makes recommendations on them to Council.

### **Section 3 – Financial Planning**

- 4.4 Section **3.3.5** of the Financial Regulations on the maintenance of reserves and balances has been updated to clarify that there are three routes through which reserves and balances can be increased:
- As part of the budget setting process;
  - By returning funds previously drawn from reserves which are no longer required for the agreed purpose; and
  - By transfer of an under spend into reserves (subject to approval in accordance with the thresholds stipulated in the Scheme of Virement).

An additional sentence has also been added to make it clear that no money withdrawn from reserves may be spent other than for the purpose approved at the time it was withdrawn without the agreement of the Cabinet Member for Finance.

There are no changes proposed to the approval required to create a reserve or to withdraw funds from reserves which remain subject to the approval of the Cabinet Member for Finance or the Cabinet.

- 4.5 Paragraph **3.4.1** of the Financial Regulations defines the de-minimis limits for capital expenditure. Whilst no changes are proposed to these limits, the Financial Regulations now clarify that the application of these limits is determined by the Section 151 Officer, with any exceptions being reported retrospectively to the Cabinet Member for Finance.

### **Section 4 – Financial Management**

- 4.6 The Scheme of Virement thresholds (section **4.3.3**) have been uplifted, as follows:

Threshold	Approval required
Up to £500,000	Director
Between £500,000 and £2m	Executive Director in consultation with the Section 151 Officer and Service Cabinet Member(s)
Between £2m and £5m	Cabinet Member for Finance
More than £5m	Cabinet

These limits are now subject to aggregation, such that the cumulative impact of virements on a portfolio budget is also considered. Any that have the cumulative impact of increasing or decreasing a portfolio's original controllable net budget by more than **25%** or **£5m** will be subject to the approval of the Cabinet Member for Finance.

Previously, all virements in excess of **£500,000** were subject to Member approval.

- 4.7 Section **4.3.4** on supplementary estimates has been updated to make it explicit that funds can only be used for the agreed purpose, and hence that any unspent funds must be returned.
- 4.8 Section **4.5.1** of the Financial Regulations on approval to spend on capital projects now clarifies the need to comply with the requirement in the Constitution on key decisions, rather than just referring to the need to comply with the financial limits in the Constitution. This is a point of clarification only.
- 4.9 Section **4.5.3** of the Financial Regulations provides the scheme of virement for capital projects. This scheme has not been changed, other than to uplift the financial thresholds for decision making, as follows:

Threshold	Approval required
Up to £500,000	Director in consultation with the Section 151 Officer
Between £500,000 and £2m	Executive Director in consultation with the Section 151 Officer and Service Cabinet Member(s) unless the saving being utilised is greater than 25% of the project, in which case the next level approval is required.
Between £2m and £5m	Cabinet Member for Finance
More than £5m	Cabinet

Previously, all virements in excess of **£500,000** were subject to Member approval.

- 4.10 Section **4.5.4** of the Financial Regulations explains the approval required to re-profile capital payment guidelines between financial years. The financial thresholds have been uplifted as follows:

Threshold	Approval required
Up to £500,000	Director in consultation with the Section 151 Officer
Between £500,000 and £2m	Executive Director in consultation with the Section 151 Officer and Service Cabinet Member(s) unless the amount being re-profiled between years is greater than 25% of the project, in which case the next level approval is required.
Between £2m and £5m	Cabinet Member for Finance
More than £5m	Cabinet

Previously, any request to re-profile capital payment guidelines between financial years that exceeded **£500,000** was subject to Member approval.

## **Section 6 – Risk Management and Internal Control**

- 4.11 The financial thresholds in paragraph **6.3** on Insurance Arrangements have been amended, as follows:

<b>Threshold</b>	<b>Approval required</b>
Up to £20,000	Senior Claims Handler
Between £20,000 and £150,000	Insurance Manager
Between £150,000 and £1m	Director with responsibility for Insurance
More than £1m	Section 151 Officer

Previously, only those claims in excess of **£500,000** were subject to approval by the Director with responsibility for Insurance.

Also, a new requirement has been introduced, such that a report will be made to the Cabinet Member for Finance in the event that the aggregate value of claims settled in each insurance class exceeds **£2m** in the financial year.

- 4.12 Section **6.6** on audit requirements has been updated to reflect changes to the legislative framework governing external and internal audit functions.

## **Section 7 – Control of Resources**

- 4.13 The financial thresholds in Section **7.1.4** on property transactions have been updated as follows:

<b>Threshold</b>	<b>Approval required</b>
Up to £250,000	Head of Property Management
Between £250,000 and £500,000	Director with responsibility for Property Management
Between £500,000 and £2m	Executive Director with responsibility for Property Management
Between £2m and £5m	Cabinet Member with responsibility for Property Management
More than £5m	Cabinet

These financial thresholds apply to decisions based on the open market value (*i.e. the value based on **highest and best use***) of the interest in the property or land at the date of approval. Previously, any transaction in excess of **£1m** required Member approval.

Clarification has been provided that separate consideration is required in respect of any 'moveable' assets (e.g. paintings) located within the properties proposed for sale.

- 4.14 A new requirement has been added (in section **7.1.5**) related to the disposal of other assets. The disposal of such items is subject to the same financial thresholds as for the disposal of property assets.

- 4.15 Section **7.3.3** related to loans to third parties has been expanded to include loans to third parties for purposes other than for financing expenditure which, if incurred by the Council, would constitute capital expenditure. Such loans will be subject to the approval of the Section 151 Officer up to a value of **£2m**, after which Member approval would be required. This section has also been updated to explain that the rate of interest chargeable on loans to third parties will be determined in consultation with the Section 151 Officer, and having due regard to State Aid rules.
- 4.16 Section **7.3.4** related to bank accounts has been updated to clarify that the creation of new bank accounts is to be avoided, particularly in respect of money held temporarily, as this can usually be dealt with by use of a holding account within the Council's accounts.

### **Section 8 – Income & Expenditure**

- 4.17 Section **8.3.1** related to orders for work, goods and services has been updated to increase the 'level three' financial limit from **£1m** to **£2m** (this being the value of orders that can be approved by a Director).

This section has also been updated to explain that contracts can be signed using electronic signatures, provided these are in a form approved by the Monitoring Officer.

- 4.18 The upper most financial threshold in section **8.4** on Authority to make payments has been reduced from **£2.5m** to **£2m** to align with the key decision threshold. The lowering of this threshold is not anticipated to result in any practical implications as there are very few payments made for such amounts.
- 4.19 Section **8.5.3** relates to ex-gratia payments, and has not been revised. However, the arrangements for making ex-gratia payments are under review, and so this section of the Financial Regulations will be updated upon completion of that review.
- 4.20 The authorisations required to make emergency payments are set out within section **8.7** of the Financial Regulations. These have been uplifted, as follows:

Threshold	Approval required
Up to £500,000	Executive Director
Between £500,000 and £2m	Chief Executive or Section 151 Officer
More than £2m	Cabinet Member for Finance

Previously, all payments in excess of **£1m** were subject to Cabinet Member approval.

## **Section 9 – External Arrangements**

- 4.21 The examples of alternative delivery models provided in section **9.1.1** have been updated to explain the types of legal form that a local authority trading company could take and to include joint committees and social impact bonds in the list of possible options.
- 4.22 Paragraph **9.1.2** has been updated to clarify the key stakeholders that ought to be consulted in the development of a business case for an alternative delivery model – this was largely necessary to reflect organisational changes.
- 4.23 The financial thresholds for delegation of budget to a partnership have been uplifted (in section **9.2.3**) as follows:

Threshold	Approval required
Up to £250,000	Director
Between £250,000 and £500,000	Executive Director
Between £500,000 and £2m	Section 151 Officer
Between £2m and £5m	Cabinet Member for Finance
More than £5m	Cabinet

Previously, Member approval was required for any proposal to delegate budget to a partnership of **£500,000** or more.

## **Section 10 – Financial Limits**

Section **10** of the Financial Regulations brings together all of the financial limits that are contained throughout the rest of the document. This section has therefore been updated to reflect the changes referred to in the previous paragraphs.

### **Scheme of Delegation for Financial Management**

The only change to the Scheme of Delegation for Financial Management is to update the content related to the Authorised Signatory Database, which has been replaced as part of the Transforming Corporate Systems implementation. The requirement to adhere to the authorised signatory framework is otherwise unchanged.

## **5. Issues for consideration**

### **5.1 Financial Implications**

There are no specific financial implications associated with this report.

### **5.2 Legal Implications**

Financial Regulations are part of the constitution and any decision to amend or change them must be made by full Council.

**6. Staffing and other resource implications**

- 6.1 There are no staffing or other resource implications associated with this report.

**7. Equality and Diversity implications**

- 7.1 There are no equality and diversity or other resource implications associated with this report.

**8. List of appendices**

- 8.1 **Appendix A** – Updated draft of the Financial Regulations and Scheme of Delegation for Financial Management.

**9. List of Background Papers**

- 9.1 None