

Financial Regulations and Scheme of Delegation for Financial Management

Report by Councillor Christopher Whitbread, Cabinet Member for Finance, Resources and Corporate Affairs

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1. Introduction

- 1.1 This report asks the Council to agree revised financial regulations.

2. Background and proposals

- 2.1 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.
- 2.2 The current version of the Financial Regulations and Scheme of Delegation was last approved in July 2017. At that time, many of the thresholds for financial decision making that are defined within Financial Regulations were updated, to align them to the Council's key decision thresholds, which are defined within the Constitution and. These thresholds for financial decision making are considered to remain appropriate and no changes are proposed.
- 2.3 The purpose of this update is simply to update terminology and referencing and to make technical changes to address areas of ambiguity and practical issues arising as a consequence of implementing the Council's new financial management computer system in October 2021. A summary of the key changes is attached at **Appendix A** and the revised Financial Regulations and Scheme of Delegation for Financial Management is attached at **Appendix B**. A 'tracked changes' version of the Financial Regulations can be provided on request by emailing Christine.golding@essex.gov.uk.
- 2.4 The proposed revisions to the Financial Regulations and Scheme of Delegation for Financial Management were considered by the Audit, Governance and Standards Committee on **31 January 2022**. The Committee supported the proposed revisions to the Financial Regulations and Scheme of Delegation for Financial Management and recommended their adoption by full Council.

3. Policy context

- 3.1 The Financial Regulations set out the financial policies and the framework for managing the Council's financial affairs, and the Scheme of Delegation for Financial Management explains how the Council's Financial Regulations are implemented and operated in practice. Together, they aim to ensure that the Council conducts its financial affairs in a way that complies with specific statutory provisions and best practice and that an effective internal controls framework is maintained.

4. Financial Implications

- 4.1 There are no specific financial implications associated with this report.

5. Legal Implications

- 5.1 Financial Regulations form part of the standing orders of the Council and therefore form part of the Constitution. It is important that the Regulations are consistent with the Constitution and that the rules are as clear as possible – otherwise decisions taken by the Council may be subject to challenge.

6. Equality and Diversity implications

- 6.1 These Regulations relate to the Council's internal processes. They are designed to make the Council more efficient and thus help ensure that the use of resources is maximised for the benefit of all Essex residents. There are no specific equality and diversity implications associated with this report.

Summary of proposed changes to the Financial Regulations and Scheme of Delegation for Financial Management

Section 2 – Roles and responsibilities

1. A new bullet point has been added to paragraph **2.7** on the roles and responsibilities of Executive Directors, as a point of clarification, to make it clear that they must obtain the prior approval of the Section 151 Officer on any proposal to commission **external financial** and/or **tax advisory services** on behalf of the Council. This requirement does not apply to the Monitoring Officer, although they must consult with the Section 151 Officer before commissioning such advice.

Section 3 – Financial Planning

2. A new sentence has been added to paragraph **3.4.2** on the **Capital Programme** to make it clear that each project that is added to the Capital Programme will be for the provision and for the purposes of delivering public services and that no scheme will be added if its only purpose is to achieve a financial return.
3. Paragraph **3.6** on **internal trading activities** has been reworded, to improve clarity, and guidance has been added to explain the approval required to close such an account.

Section 4 – Financial Management

4. Paragraph **4.3.4** on **supplementary estimates** (comprising drawdowns from the General Balance or an earmarked revenue reserve) has been updated to make it clear that the approval of the Cabinet Member with responsibility for Finance is required to extend the period of utilisation of a supplementary estimate by more than one year beyond the original approved time period.
5. Paragraph **4.4** on the treatment of **year end balances** has been amended to make it clear that, whilst budget carry forwards may be approved before the end of the financial year, the Cabinet nevertheless reserves the right to unwind them if the final outturn position is less favourable than was projected.
6. Paragraph **4.4** has also been amended to make it clear that funds carried into the grant equalisation earmarked reserve will be released from this reserve if it can no longer be evidenced that they need to be retained for the purposes for which the grants were given.

Section 6 – Risk management and internal control

7. Paragraph **6.3 on insurance arrangements** has been amended to enable the Head of Assurance to approve claims up to **£500,000** in value. This change aligns the delegations in place for insurance arrangements with those that apply generally for committing expenditure.
8. Paragraph **6.5.6 on money laundering** has been updated to explain that receipts and payments not related to the Council's own activities will not be transacted through the Council's own bank accounts without the prior approval of the Section 151 Officer.

Section 7 – Control of resources

9. Paragraph **7.1.4 on property transactions** has been updated to make clearer the approval required to enter into low value transactions related to the Council's portfolio of investment properties.
10. Paragraph **7.1.4** has also been updated to remove the requirement to consult with the Cabinet Member with responsibility for Finance where a **property disposal** is below the previous book value; the requirement to consult with the Cabinet Member for Finance when it is intended to dispose of a property below market value remains though.
11. Finally, the definition in paragraph **7.1.4** of what constitutes a **property transaction** has been updated to include the disposal of any leasehold interest with an unexpired term; previously approval was only required where the unexpired term of a lease was 7 years or more.
12. Paragraph **7.3.3 on loans to third parties** has been updated to make it clear that the repayment of such loans to the Council constitutes a capital receipt that will be applied to repay the loans advanced by the Council.
13. Paragraph **7.3.4 on bank accounts** has been amended to make it clear that new bank accounts include escrow and performance bonds and, in line the proposed update to paragraph **6.5.6 on money laundering**, to make it clear that cash not related to the Council's own activities will not be paid into an ECC bank account.

Section 8 – Income and Expenditure

14. Paragraph **8.1.4 on writing off debts** has been updated to explain the circumstances when debts may be written off and to enable the Head of Finance for Transactional Services or the Service Manager – Income and Assessments to approve the write off of non-recoverable debts up to a limit of **£10,000** (subject to the oversight of the Section 151 Officer); previously, the write off of debts of up to £10,000 was subject to the approval of the relevant budget holder.
15. Paragraph **8.1.5 on credit notes** has been updated to enable the Head of Finance for Transactional Services or the Service Manager – Income and Assessments to

issue credit notes to cancel or reduce a debt following a financial assessment of the amount payable, or to correct a factual inaccuracy or administrative error.

16. A new paragraph (8.3.2) has been added on **authorised signatories**. This explains that:

- a primary (lowest level) approver must be assigned to each cost centre code and that the designated primary approver must be in the line management hierarchy of the budget holder.
- Directors will be responsible for determining the delegated approval limits for primary approvers, and any other approvers with delegated authority to act on a budget holder's behalf (i.e. within the limits permitted by the Financial Regulations), and who approvers can delegate their approval permissions too.
- No approver will reassign their authorisation permissions to an officer with a lower delegated limit to their own.
- Nobody can approve a purchase order unless they are satisfied that they have the delegated power to commit the expenditure.

17. Paragraph 8.3.3 (previously 8.3.2) on **receipt of work, goods and services** has been updated to make more explicit the requirement to 'receipt' purchase orders when the relevant work, goods or services have been received and to make it clear that purchase orders must not be 'receipted' in advance of receiving the relevant goods or services.

18. Paragraph 8.4 on the **authority to make payments** has been updated to make it clear that the Level 4 (L4) approval limit of **£500,000** now applies to any Head of Service and to explain that Directors have discretion about how to apply the Level 5 (L5) approval limit of up to **£150,000** – that is, the primary approver and any other officer with delegated approval to act on a budget holder's behalf can have a lower delegated limit than **£150,000**.

Section 9 – External arrangements

19. Paragraph 9.4 on **work for other organisations** now explains that the Section 151 Officer will determine the accounting, banking and other financial arrangements to be put in place for such contracts.

Section 10 – Financial limits

20. This section brings all of the **financial limits** set out within Financial Regulations together in one place. This section has therefore been updated to reflect proposed changes to the limits set out elsewhere within the Regulations. The only updates required to this section as a consequence of the proposals to make changes elsewhere within the Financial Regulations are:

- Paragraph 10.3 on **supplementary estimates**, which has been updated to reflect the proposal that the approval of the Cabinet Member with responsibility for Finance is required to extend the period of utilisation of a supplementary estimate by more than one financial year.

- Paragraph **10.6** on **settling insurance claims**, which has been updated to enable the Head of Assurance to approve the settlement of claims in excess of **£150,000** and up to **£500,000**.
- Paragraph **10.7** on **property transactions**, which has been updated to clarify the approval required to enter into transactions with a value of less than **£2m** related to the Council's commercial investment properties.
- Paragraph **10.12** on **writing off debts**, which has been updated to enable the Head of Finance for Transactional Services or the Service Manager – Income and Assessments to approve write offs of up to **£10,000** rather than the relevant budget holder.

Scheme of delegation for Financial Management

- 21.** One change is proposed to **Section 3** of the Scheme of Delegation on financial delegations. The proposed change is to enable the self-certification of low value requisitions (i.e. those for items individually up to **£200** and raised against those corporate mandated contracts approved by the Section 151 Officer).
- 22.** Section 5 on the authorised signatory process has also been updated to reflect the changes proposed to the signatory arrangements (referred to in paragraph 0 above and set out within paragraph **8.3.2** of the Financial Regulations).