

Report of	Meeting	Date
Director (Finance)	Governance Committee	25 September 2024
	Council	19 November 2024

Review of Financial Regulations and Financial Procedure Rules

Is this report confidential?	No
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Is this decision key?	No
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Purpose of the Report

1. To recommend to Governance Committee the acceptance of the reviewed Financial Regulations which form part of the Council's Constitution.

Recommendations

2. The Governance Committee is asked to review the proposed changes to the Financial Regulations and to recommend approval of their adoption to full Council.

Reasons for recommendations

3. The Council's Financial Regulations are a key component of the Council's Constitution and Corporate Governance arrangements.
4. The documents should be reviewed on a regular basis and any amendments reported to the Governance Committee, and then to full Council for approval. It is good practice to keep the Financial Regulations under regular review in order to take account of evolving working practices and changes in legislation.
5. The last review and update of the Financial Regulations was undertaken in 2019 and approved by Governance Committee on 23 July 2019.

Other options considered and rejected

6. None.

Corporate priorities

7. The report supports the delivery of the following corporate priorities:

Housing where residents can live well	A green and sustainable borough
An enterprising economy with vibrant local centres in urban and rural areas	Healthy, safe and engaged communities

The Review of the Financial Regulations

8. The Financial Regulations cover all aspects of the Council's financial arrangements and activities. They apply to every Member and Officer of the Council and anyone acting on the Council's behalf.
9. Any breach of these Financial Regulations, unless they are made under the Powers of Urgent Decisions outside of the budgetary framework, must be brought to the attention of the Chief Finance Officer and the Monitoring Officer, who may decide that disciplinary action should be brought against the individual(s) breaching the regulations.
10. The Financial Regulations form part of the Council's Constitution and as a consequence, require the approval of Full Council where changes are made.
11. The presentation of the review has been quite problematic; in reviewing the existing Finance Regulations, consideration has been given to best practice in other authorities and also to issues and queries raised by colleagues across the Council in respect of the interpretation and application of the current Regulations. This in turn has meant that there are many changes in respect of format, exemplification and simplification of wording, and so marking tracked changes on the existing Financial Regulations (attached at **Appendix 2**) has not been possible, as it has made them near impossible to read.

Key Proposed Changes to the Financial Regulations and Financial Procedure Rules

12. As an output of the review, a revised version of the Financial Regulations and Financial Procedure Rules has been produced (the proposed Financial Regulations) and is now recommended for adoption; this is attached at **Appendix 1**. The key changes can be summarised as follows:
13. The most significant change is in the format; the current format (summarised below) is such that it is difficult to locate the Regulation for specific areas of financial governance and control and this has been raised on numerous occasions by Officers across the organisation:

Financial Regulations	Introduction
Financial Regulation A	Financial Management
Financial Regulation B	Financial Planning
Financial Regulation C	Risk Management and Control of Resources
Financial Regulation D	Systems and Processes
Financial Regulation E	External Arrangements
Financial Procedure Rule A	Financial Management
Financial Procedure Rule B	Financial Planning
Financial Procedure Rule C	Risk Management and Control of Resources
Financial Procedure Rule D	Systems and Processes
Financial Procedure Rule E	External Arrangements

14. In order to address this, the document has been simplified to list the title of the individual Financial Regulations and then to provide the subject matter that each covers as follows:

Fin Reg 1	General
Fin Reg 2	Internal Control
Fin Reg 3	Accounting
Fin Reg 4	Revenue Budget
Fin Reg 5	Capital Programme
Fin Reg 6	Budgetary Control – Revenue and Capital
Fin Reg 7	External Funding and Partnership Arrangements
Fin Reg 8	Treasury Management – Investments, Borrowing, Leasing and Trust Funds
Fin Reg 9	Banking, Cheques and Petty Cash
Fin Reg 10	Income and Irrecoverable Debts
Fin Reg 11	VAT
Fin Reg 12	Pay, Conditions of Employment, Travel and Subsistence and Members Allowances
Fin Reg 13	Assets, Inventories and Stores Records
Fin Reg 14	Insurance
Fin Reg 15	Security
Fin Reg 16	Irregularities
Fin Reg 17	External Audit and Inspection
Fin Reg 18	Internal Audit
Fin Reg 19	Contracts and Purchasing (<i>including Orders for Work, Goods and Services and Payment of Accounts</i>)

15. The proposed Regulations have been included based on the contents of the current Financial Regulations and supplemented with several new Financial Regulations based on a review of best practice and specific topics covered in other local authorities e.g. Financial Regulation 11 – VAT.
16. In the case of existing Financial Regulations and Financial Procedure Rules that have been subsumed within the proposed Financial Regulations document, and those that have expanded on the current detail, it is intended that users of the new Regulations will be able to navigate the content much more easily, and that the information is provided in a more logical and user-friendly style with more clarity in the wording.
17. An example of this is **Financial Regulations 4, 5 and 6** – within the proposed document, the content specific to the setting of the Revenue Budget (Regulation 4) and the agreement of the Capital Programme (Regulation 5) are covered individually, and then developed in Regulation 6, to cover in-year budgetary control, including virements and approval of new budgets for both Revenue and Capital during the year, following the initial budget agreed by Finance Council in February each year. As budget adjustments are subject to specific governance and approval processes, it is felt appropriate to extract this element and create a specific regulation for this.
18. **Financial Regulation 6 – Budgetary Control.** The proposed Financial Regulation contains the content of the existing regulations and the existing financial thresholds

however it now clarifies and provides more detail of existing practice. The key points to note are that;

- a. **Point 6.3** – the position has been strengthened regarding Temporary Staff, with the requirement for the Head of Paid Service (Chief Executive) to approve all temporary staff recruitment (as is the case with the replacement of existing, established and new, additional posts), and to address any potential overspend on Temporary Staff and Salary Budgets, which is currently absent from the regulations.
 - b. **Point 6.8** – within the current Financial Regulations there is no reference to capital scheme virements so this has now been included for completeness, adopting the consistent levels of approval as for the approval of new schemes and overspends.
 - c. **Points 6.11 to 6.19** address requests for additional, in-year budget for both Revenue and Capital. No changes have been made to the current levels of authorisation, but the regulations are now more specific on the processes to be followed and the applicable thresholds in these scenarios (virements, additional budget requests and new capital schemes). The proposed Regulation now stipulates the need to identify where such additional budgets are to be funded from.
 - d. At **Points 6.22 to 6.24** a section has been included on Partnership Expenditure and External Funding. **Point 6.22** is highlighted as there has been confusion on the reporting of grants that fully cover expenditure. The proposed Regulation recommends approval based on the financial thresholds for virements and additional, in-year budget requests, and that this is based on the value of the Council's net financial contribution to the revenue or capital cost of the project, At present, the current Financial Regulations are silent on this and so approvals are more often than not based on the value of gross income and gross expenditure, i.e. both income and expenditure are reported through, firstly for approval to accept the funding and then subsequently to spend the funding – the reports are based on gross values, when there is often little or no actual cost to the Council.
19. **Financial Regulation 7 – External Funding and Partnership Arrangements**, the content of the current Financial Regulations and Financial Procedure Rules is limited in this area and so has been expanded with the proposal now covering the processes around receiving and awarding grants, the bidding process, and the required controls and checks.
 20. **Financial Regulation 8 – Treasury Management** – the proposed regulations include regulations around leases. This is important given the very recent changes in lease accounting brought about by International Financial Reporting Standard (IFRS) 16.
 21. **Financial Regulation 10 – Income and Irrecoverable Debts**. There is currently an inconsistency in the write-off policy and the financial regulations resulting in an inconsistent approach to the write-off of irrecoverable debts. The proposed Financial Regulations at **Points 10.17 to Point 10.19** aim to address this with a simplified position:

Value of debtor write-off	Approval level
Less than £100	Officers within the Revenues, Benefits or Sundry Debtor Teams (as applicable) provided the debt meets one or more of the established criteria for write-off
Up to £1,000	Manager within the Revenues, Benefits or Sundry Debtor Teams (as applicable) provided the debt meets one or more of the established criteria for write-off
Up to £10,000	Chief Officer for the service area to which the debt relates
Up to £15,000	Chief Finance Officer
Up to £50,000	Chief Finance Officer, in consultation with the Executive Member responsible for Finance
Over £50,000	Executive

Proposed Changes

22. If the revised draft is approved by Governance Committee, the changes to the Financial Regulations will be proposed to Full Council for approval.

Implementation and Training

23. Training will be provided by the Finance Team, both face to face and via the Learning Hub, to highlight the key areas of compliance required from budget holders with regards to the revised Financial Regulations. This training will be made mandatory for all Budget Holders and also, moving forward, as part of the Budget Management Induction Training for any new Budget holders.
24. The Finance Team continue to provide training for all staff responsible for requisitioning purchase orders and approving invoices. Completion of this training is required for all new staff involved in this process before access is given to them to the finance system. This training will incorporate the proposed changes relating to these areas, to facilitate staff compliance with Contract Procedure Rules and Financial Regulations.

Climate change and air quality

25. The review of the Financial Regulations has no direct impact on the carbon emissions and the wider climate emergency and sustainability targets of the council.

Equality and diversity

26. There are no equality or diversity implications arising from the contents of this report.

Risk

27. The Financial Regulations are a key control measure in the mitigation of financial risk to the Council as they provide the detail to support the financial framework in delivering sound corporate governance and strong financial control.
28. The Financial Regulations form part of the Council's Constitution. Under the requirements of the Local Government Act 1972 Section 151, the Financial Regulations provide a control framework through which the Chief Finance Officer carries out their statutory duty on behalf of the Council.

Comments of the Statutory Finance Officer

29. This report outlines a number of changes to the Financial Regulations however none of these change the responsibility and requirement for proper financial management.
30. Training will be provided to update both existing and new Budget Holders on their responsibilities in relation to the Council's Financial Regulations and financial procedures.

Comments of the Monitoring Officer

31. The changes outlined in the report and in Appendix A are in response to the Council's review of its constitution as outlined in the Annual Governance Statement.

Appendices

Appendix 1 – proposed Financial Regulations and Financial Procedure Rules

Appendix 2 – existing Financial Regulations and Financial Procedure Rules.

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