

FINANCIAL REGULATIONS REVIEW

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| Head of Service: | Lee Duffy, Chief Finance Officer |
| Wards affected: | (All Wards); |
| Urgent Decision? | No |
| If yes, reason urgent decision required: | N/A |
| Appendices (attached): | 1 – LGA Peer Review Feedback Report 2 – Council Action Plan, Update 3 – Amended Financial Regulations |

Summary

Following the Local Government Association (LGA) Finance Peer Review, this report presents a review of the Council's financial decision-making procedures and recommends changes to the Financial Regulations for the Committee's consideration. The report also provides an update on the LGA Peer Review Action Plan.

Recommendation (s)

The Council is asked to:

- (1) Agree with Strategy and Resources Committee's recommendation to approve the proposed changes to Financial Policy Panel's responsibilities and to the Financial Regulations as set-out in this report, with effect from 1 April 2022.**

1 Reason for Recommendation

- 1.1 In March 2021, the LGA Finance Peer Report (Appendix 1) recommended that the Council review its approach to decision making and scrutiny. The Council's agreed Action Plan (Appendix 2) included a commitment to undertake this review by November 2021.

2 Background

- 2.1 The Financial Regulations were last reviewed and updated in 2019, and this latest review considers the following key recommendations from the peer review report:
 - 2.1.1 Review the approach to financial decision making and scrutiny.

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- 2.1.2 Ensure budget monitoring is considered by the relevant committee(s).
- 2.1.3 Refresh the approach to the Capital Programme.
- 2.2 The whole peer review report, attached at Appendix 1, has been considered in this review and the recommended changes to the Financial Regulations. In addition, the following statement from the peer report is highlighted:
- 2.3 *Many councils choose to separate the Audit and Scrutiny elements into separate committees, which is an option the Council can consider as part of this. As part of this review, the Council may also wish to consider the role and benefits of the Financial Policy Panel (FPP). Due to operating a committee system of governance the Council could be equally or even better served by placing the duties of the FPP within the remit of the Strategy and Resources Committee. Some of the functions discharged at the FPP might also be considered as a potential role for Scrutiny. In terms of audit, the peer team are of the view that the Council should take the Statement of Accounts to an Audit Committee meeting for sign off, to bring the Council in line with best practice elsewhere.*
- 2.4 The separate Committee Terms of Reference Review agenda item incorporates the recommended changes to committee responsibilities that are set-out in this report.
- 2.5 **On 27 January 2022, Strategy and Resources Committee considered the changes proposed in this report, and agreed to recommend to Full Council that the report proposals be approved.**

3 Review of Financial Policy Panel

- 3.1 Financial Policy Panel (FPP) is currently scheduled to meet four times a year. It provides a forum for the Committee Chairs of Strategy & Resources, Community & Wellbeing, and Environment & Safe Communities, together with five other nominated members, to discuss and advise S&R Committee on financial matters. The specific functions of FPP are included in the following table, alongside a recommendation for whether the function should remain with FPP or transfer to another Committee.

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| Table 1 - Existing FPP Responsibilities | | Current Committee | Proposed Committee | Rationale |
|---|--|---|------------------------------------|--|
| To advise S&R Committee on: | All matters relating to the Budget and Policy Framework (including the setting of staff pay); | Financial Policy Panel | Financial Policy Panel | It is considered important to retain FPP, as it provides a cross-committee forum, including opposition representation, to discuss strategic budget and finance matters. The Panel provides S&R with important advice and recommendations, supported by a cross-committee mandate, prior to formal reports going to the Committee. Specifically, FPP should be retained to: <ul style="list-style-type: none"> - Advise on the budget setting framework for the next financial year - Consider the annual central government funding settlement and provide a recommendation to Council on the level of council tax for the next financial year, with a cross-Committee mandate. - Consider the Treasury Management Strategy, before it is approved at Full Council. |
| | New legislation or government policy relating to local government finance; | Financial Policy Panel | Financial Policy Panel | |
| | To respond on behalf of the S&R to urgent consultation requests from central or regional government. | Financial Policy Panel | Financial Policy Panel | |
| | Performance against key performance indicators. | Financial Policy Panel | Audit, Crime & Disorder & Scrutiny | The majority of corporate performance indicators are not finance related. Current practice is to report performance indicators to Audit, Crime & Disorder and Scrutiny; it is proposed that this be continued. |
| | The capital programme, capital funding and to receive annual CIL and S106 Update reports. | Financial Policy Panel | Strategy & Resources | Currently, the programme is reviewed by both Capital Member Group and FPP, before approval at S&R. As FPP duplicates the work of Capital Member Group, FPP's involvement could be discontinued. |
| | Procurement strategy and those matters that have budget or procurement implications for more than one committee. | Financial Policy Panel | Strategy & Resources | In practice, the Council's procurement policies and Contract Standing Orders are approved directly at S&R; it is proposed that this be continued. |
| | To ensure effective scrutiny of the treasury management strategy and policies. | Financial Policy Panel & Strategy & Resources | Audit, Crime & Disorder & Scrutiny | The Treasury Management function should be monitored and scrutinised by the Council's Audit Committee, therefore the treasury management interim and outturn reports should transfer to ACDS. Member training will be provided annually, to facilitate effective scrutiny of the treasury function. |

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| | Any major variances of the Capital Programme | Financial Policy Panel | Strategy & Resources and relevant Policy committee | S&R has responsibility for the Council's funding framework; it is not considered necessary for FPP to duplicate this work on the capital programme. Requests for additional resources will be the responsibility of S&R and Policy Committee, in line with the Financial Regulations. Quarterly capital monitoring reports will go to ACDS. |
|--|--|------------------------|--|---|

- 3.1 It is considered important that FPP be retained, as it provides an important cross-Committee forum for discussing the Council's budget and financial policy framework, and for making recommendations to S&R with a cross-Committee mandate.
- 3.2 However, as can be seen from the table, five of FPP's eight existing responsibilities could be undertaken equally or more efficiently by other existing Committees.
- 3.3 Should the re-alignment of responsibilities proposed in Table 1 be agreed, the number of FPP meetings could be reduced, from four per year to two. One meeting would be required in July to advise on the budget setting framework for the next financial year, with a second meeting in late January to consider the annual central government funding settlement and to provide a recommendation to Council on the level of council tax for the next financial year, with a cross-Committee mandate.

4 Review of Other Responsibilities

- 4.1 The Peer Review recommended that the Council consider splitting the audit and scrutiny elements of Audit, Crime & Disorder and Scrutiny Committee (ACDS) into separate committees. As the smallest district council in Surrey with just 38 members, it is considered that resources are too limited to operate two separate Committees for audit and scrutiny.
- 4.2 Therefore, as the Council would have difficulty resourcing a new Committee within existing resources and budgets, for practical considerations it is recommended that responsibility for both audit and scrutiny should remain with the existing ACDS Committee.
- 4.3 Other key recommendations of the peer review – as previously set out in section 2 – are considered in the following table:

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4.4

| Table 2 - Other LGA Recommendations | Current Committee | Proposed Committee | Rationale |
|--|----------------------|------------------------------------|--|
| To receive quarterly budget monitoring reports | New responsibility | Audit, Crime & Disorder & Scrutiny | Budget monitoring reports are currently circulated on Members Update, with adverse budget variances >£100k reported to the relevant Policy Committee. Following the Peer Review key recommendation, it is proposed that quarterly revenue budget monitoring reports should be taken to Audit, Crime & Disorder and Scrutiny Committee. This would require ACDS Committees to take place in September, November, February and July each year. Adverse budget variances >£100k would still also be reported to the relevant Policy Committee to identify mitigating actions. |
| To receive the financial outturn, Statement of Accounts, and external audit reports. | Strategy & Resources | Audit, Crime & Disorder & Scrutiny | In accordance with the Peer Review recommendation for the final accounts, it is proposed that responsibility for approving these reports should transfer to Audit, Crime & Disorder & Scrutiny Committee. |
| To agree a 5 Year Rolling Capital Programme | Council | Council | The capital programme, presented annually to Full Council, currently covers three years with projections for Years 2 and 3 typically only forecasting Disabled Facilities Grant expenditure. Following the Peer Review recommendation to refresh the capital programme, it is proposed to extend the projections to five years, and to include indicative costings for all foreseeable capital schemes from the Asset Management Plan (not just Disabled Facilities Grant) in the five year period. |

- 4.5 To implement the changes proposed in the table above and in section 3, Appendix 1 contains the amendments (as tracked changed) to the Financial Regulations that would be required. The Financial Regulations have also been updated to reflect the current senior officer management structure.
- 4.6 Full Council is asked to accept the recommendation from Strategy and Resources Committee to approve the above changes and Financial Regulations amendments.

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- 4.7 The actions and proposed changes in this Financial Regulations Review are in addition to the actions agreed within the Action Plan approved by S&R Committee in May 2021. Appendix 2 provides an update on progress against the whole Action Plan.

5 Other Proposals

- 5.1 The Financial Regulations currently require that any proposal containing a request for additional resources should be reported both to the relevant policy committee and to S&R Committee for approval.
- 5.2 The rationale for this requirement is to ensure one Committee (S&R) has oversight of all new spending commitments, which enables financial implications to be monitored and considered holistically, to ensure they are affordable, rather than in isolation by individual committees. Without this requirement, it would be possible for individual policy committees to separately commit the Council to unaffordable spending plans, without the proper oversight of one Committee to consider spending plans holistically.
- 5.3 Therefore, the Financial Regulations ensure there is a sound process for agreeing additional resources. However, while the theory behind the requirement is sound, in practice it can result in relatively minor new commitments being reported to two Committees, or even bypassing the relevant policy committee and going straight to S&R Committee.
- 5.4 To ensure proper oversight is maintained but in a manner that is proportionate, a threshold of £50,000, per policy committee per financial year is proposed, under which policy committees can approve new proposals without a separate report to Strategy & Resources Committee, provided that both a funding option for the additional expenditure can be identified, and the approval of the Chair of Strategy and Resources Committee and Chief Finance Officer is obtained.
- 5.5 The procedure at paragraph 5.4 can be used on multiple occasions, but with a cumulative cap of £50,000 per policy committee in a financial year.
- 5.6 By retaining the approval of the Chair of Strategy & Resources and CFO, the Council will ensure that new spending proposals continue to be considered in the round, but without a separate full report being required to S&R Committee for every item under the £50,000 threshold.
- 5.7 Members are asked whether they wish to support this threshold, which is included within the amended Financial Regulations (Appendix 3) at paragraph 6.7.
- 5.8 **Should this threshold be supported, it is also proposed to update the thresholds for use of capital reserves – as set out as tracked changes in section 7 of the Financial Regulations – to become consistent with the existing revenue reserves threshold, and to streamline operational procedures and reduce the burden on Committees.**

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- 5.9** The Financial Regulations have also been updated to reflect the Council's current officer structure, specifically to include Directors, and job titles have been updated as appropriate.
- 5.10** It is proposed that any changes that are agreed to the Financial Regulations and Financial Policy Panel's responsibilities should be effective from 1 April 2022.

6 Finance Training for Members

- 6.1** The Peer Review Action Plan committed to providing members with annual training on finance related matters. To meet and exceed this commitment, the finance team plans to provide the following member engagement on an ongoing basis, as agreed at Strategy and Resources Committee on 27 January 2022:
- 6.1.1** Following each quarterly budget monitoring report, a one-hour, virtual 'drop-in' session will be held to communicate the budget monitoring position and for Members to ask any related questions.
- 6.1.2** A comprehensive annual Members' Briefing, around late Autumn, to cover key aspects of local government finance, including the Council's overall financial position, progress on revenue/capital budget setting, reserves and any government funding announcements.
- 6.1.3** Annual treasury management training will continue to be provided to members responsible for scrutinising the treasury management function. The training can be open to all members who wish to attend.

7 Risk Assessment

Legal or other duties

- 7.1** Impact Assessment
- 7.1.1** It is considered that the proposed changes will improve and strengthen the Council's financial decision-making procedures, while removing any unnecessary duplication of responsibilities that currently exists.
- 7.2** Crime & Disorder
- 7.2.1** None arising from the contents of this report.
- 7.3** Safeguarding
- 7.3.1** None arising from the contents of this report.
- 7.4** Dependencies

7.4.1 The Committee Terms of Reference Review incorporates the recommended changes to committee responsibilities set-out in this report.

7.5 Other

7.5.1 None arising from the contents of this report.

8 Financial Implications

8.1 There are no additional cost implications associated with the proposed amendments to the Financial Regulations.

8.2 By streamlining the responsibilities of FPP to remove duplication, and updating the financial thresholds within the Financial Regulations, the Council should become more operationally efficient, while maintaining a robust framework for financial management.

8.3 **Section 151 Officer's comments:** The LGA Peer Review has provided an opportunity for the Council to review and further strengthen its already robust financial processes.

8.4 The changes proposed in this report would achieve that key objective and address the related LGA Peers' recommendations.

9 Legal Implications

9.1 None arising from the contents of this report.

9.2 **Monitoring Officer's comments:** None arising from the contents of this report.

10 Policies, Plans & Partnerships

10.1 **Council's Key Priorities:** The following Key Priorities are engaged: Effective Council.

10.2 **Service Plans:** The matter is included within the current Service Delivery Plan.

10.3 **Climate & Environmental Impact of recommendations:** No significant impact.

10.4 **Sustainability Policy & Community Safety Implications:** None arising from the contents of this report.

10.5 **Partnerships:** None arising from the contents of this report.

11 Background papers

11.1 The documents referred to in compiling this report are as follows:

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Previous reports:

- LGA Finance Peer Review report to S&R Committee, 13 May 2021

Other papers:

- None.