

## **EAST SURREY SHADOW AUTHORITY AUDIT AND GOVERNANCE COMMITTEE**

**MEETING DATE: 2 November 2026**

**REPORT OF: Nikki O'Connor, Interim Chief Finance Officer (s151 Officer)**

**SUBJECT: Finance Procedure Rules and Procurement and Contract Procedure Rules**

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| <b>Purpose of the Report:</b> |
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This report presents the proposed Finance Procedure Rules and the Procurement and Contract Procedure Rules to the Shadow Audit & Governance Committee for consideration and endorsement prior to inclusion in the draft Constitution for East Surrey Council.

Section 9P of the Local Government Act 2000 requires every local authority to prepare, maintain, and keep up to date a formal constitution. This document controls how the local council operates, makes decisions, and handles its governance. It is therefore essential that the unitary authority of East Surrey establish new Procedure Rules ahead of vesting day on 1<sup>st</sup> April 2027.

The Finance Procedure Rules and the Procurement and Contract Procedure Rules (“the Rules”) importantly set out arrangements for how the council:

- governs the manner in which the financial activity is conducted and its financial interests are safeguarded; and
- authorises and manages expenditure and resulting commercial contracts with other organisations.

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| <b>Recommendations:</b> |
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It is recommended that the East Surrey Shadow Audit and Governance Committee resolves to:

1. Consider the proposed Finance Procedure Rules and recommend to the Constitution Committee its inclusion in the constitution for East Surrey Council for approval by the Shadow Authority; and
2. Consider the proposed Procurement and Contract Procedure Rules (PCPRs), including the proposed internal threshold, and recommend to the Constitution Committee its inclusion in the constitution for East Surrey Council for approval by the Shadow Authority; and

3. Support the principle of Procurement oversight and visibility of procurements valued between £25,000 and £100,000 to promote compliance, identify aggregation opportunities and enhance value for money.

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| <b>Reason for Recommendations:</b> |
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As part of the preparations for Vesting Day, it is a requirement for East Surrey Council to have approved Finance and Procurement and Contract Procedure Rules to include in the Constitution of East Surrey Council. The Shadow Audit & Governance Committee are asked to review the proposed procedural rules and endorse for inclusion in the Constitution ahead of approval by the Shadow Authority.

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| <b>Options, including alternatives (if any)</b> |
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4. Annexed to this report are proposed Finance Procedure Rules and Procurement and Contract Procedure Rules, developed in line with feedback detailed in this report. The Options for committee are therefore:

**Option 1: Endorse the proposed Finance Procedure Rules and Procurement and Contract Procedure Rules for inclusion in the new Constitution of East Surrey (recommended)**

This option is recommended for the following reasons:

- Allows the progression of the proposed Rules through relevant Committees ahead of inclusion in the Constitution before Vesting Day.
- Acknowledges the proposed Rules as best suiting the size and nature of the new organisation, being a good fit when viewed against benchmarking and related analysis, and appropriately articulating the necessary governance and controls in respect of finance and procurement activity.
- Allows Officers across Finance and Procurement time to develop the necessary processes and guidance required to support the implementation of the rules from vesting day, and minimises the level of change to existing processes and systems, when compared to existing practice.
- Endorsing these Rules does not prevent review and revisions in the initial year(s) of the new East Surrey Authority.

**Option 2: Make amendments to the proposed Finance Procedure Rules and/or Procurement and Contract Procedure Rules prior to their inclusion in the new Constitution of East Surrey**

The Audit & Governance Committee are asked to raise any specific amendments or suggestion they have in relation to the attached procedure rules for consideration by relevant statutory officers and Local Government

Reorganisation workstreams before the final draft is proposed for inclusion in the Constitution.

### **Option 3: Do not approve the proposed Finance Procedure Rules and/or Procurement and Contract Procedure Rules**

If the Audit & Governance Committee do not endorse the Procedure Rules, there is risk to the timeline for agreeing the Constitution for East Surrey. It will also limit the time available for officers to prepare colleagues for working to the new rules post vesting day.

The Committee will need to give detailed guidance regarding desired content for a revised set of Rules and allow time for re-drafted and consultation of new sets of Finance and/or Procurement and Contract Procedure Rules.

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| <b>Summary:</b> |
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### **Finance Procedure Rules**

#### **Context**

5. Local Government Reorganisation (LGR) and the formation of the new unitary authority of East Surrey requires the development of a new Constitution. That Constitution must contain key governance procedures in respect of finance.
6. The Draft Finance Procedure Rules were previously discussed at East Surrey Shadow Audit and Governance Committee on 2nd September 2026. This early draft did not contain any financial thresholds but feedback was given on its form and content.

#### **Changes since last iteration**

7. Feedback from the committee and senior officers has been incorporated into the Finance Procedure Rules as follows:
  - 7.1. Greater clarity has been provided on when non-compliance to these rules would be considered substantial and the reporting lines changed to include Audit and Governance Committee in all instances (FR2.12).
  - 7.2. Specific reference has been made to the monitoring of grants and contributions to the Voluntary Community & Social Enterprise sector (FR19.5).
  - 7.3. Reference has been made to hosting arrangements and the requirement for hosted teams to abide by the Finance Procedure Rules of the authority for which they are completing work, not where they are based (introduction).

#### **Financial thresholds**

8. Various financial thresholds have been proposed throughout the document. These have been based on the existing thresholds in all current Surrey authorities and, where information was available, have been benchmarked against organisations of similar sizes. The thresholds have been discussed and agreed with statutory officers and by the LGR Finance workstream.

## **Procurement and Contract Procedure Rules (PCPRs)**

### **Context**

9. Local Government Organisation (LGR) and the formation of the new unitary authority of East Surrey requires the development of new constitutional procedures for the procurement and management of contracts. This presents an opportunity to create a new set of procedures rather than simply amend or combine existing documents from across the County (SCC) and District and Borough (D&B) organisations.
10. The proposed approach to the development of the Procurement and Contract Procedure Rules (PCPRs) was discussed by the Audit and Governance Committee on 2 September 2026<sup>1</sup>. Combined feedback from this body, statutory officers, the Procurement Workstream and related stakeholders is summarised and responded to as follows:
- **Glossary:** A list of definitions has been included in Appendix 1 of the PCPRs.
  - **Be clear on scope, regulations, principles (including value for money):** Sections 1, 2 and 4 of the PCPRs cover these requirements.
  - **Exemptions:** Position earlier in the document and provide comprehensive details. Consider inclusion of Grants. Section 3 of the PCPRs includes details of exemptions and what rules apply instead. Grants are covered in the Finance Procedure Rules.
  - **Strengthening of contract management:** Ensure contract management responsibilities are clear, strengthen the provisions, and ensure a dedicated contract manager for significant contracts. Comprehensive contract management requirements are covered in sections 11-13 of the PCPRs, including the requirement to have a named contract manager, adhere to the Contract Management Framework, and provide performance monitoring reports where required.
  - **Ethical Procurement:** Feedback included suggestions of separate sections for social value and climate change, what should be considered, monitoring arrangements and the need for separate policies. Section 7 entitled “Social Value, Environmental Sustainability and Ethical Procurement and Supply Chains” covers a broad range of ethical procurement considerations. Grouping these together has the advantage of presenting all ethical considerations together, with sub-sections clearly

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<sup>1</sup> [Financial Procedure Rules and Contract Standing Orders.pdf](#)

calling out the separate policy matters and appearing in the table of contents. In respect of each policy area:

- **Social Value:** The PCPRs reference the Social Value Model, an outcomes-focused methodology based on best practice, with outcomes aligned to strategic priorities. At the earliest opportunity, the outcomes reflected in the model will be updated to reflect the strategic priorities of the new unitary authority. Further work will be required post-vesting to refine the model or models, as directed. References are also made to the Social Value Policy, evaluation approach and minimum weightings, reporting against delivery plans and other requirements to help the delivery of social value.
- **Climate Change and Environmentally Sustainable Procurement:** the section highlights key aspects of, and refers to, the Environmentally Sustainable Procurement Policy, and states that all procurements must make appropriate inclusions such as specifications, tender questions, KPIs etc to deliver environmental benefits covering:
  - Climate Change Mitigation and Adaptation;
  - Prevention of Pollution;
  - Sustainable Resource Use and Consumption; and
  - Protection and Restoration of Biodiversity.
- **Modern Slavery and Ethical Supply Chains:** requires Officers to have due regard to the risk of modern slavery, human trafficking and unethical labour practices within authority supply chains. Includes appropriate due diligence to be undertaken to mitigate the risk of exploitative practices.
- **Thresholds:** Analysis and review undertaken to assess the appropriate thresholds above which procurement must lead activity, including benchmarking, is included in Annex 2.
- **Local Government Reform (LGR):** Consideration of whether additional inclusions are required to deal with specific matters arising from LGR. Section 15 of the PCPRs sets out guidance relating to specific LGR related matters.
- **Legal involvement:** Ensure clear guidance on legal involvement in procurement processes. Sections 13.3 and 13.4 reference legal involvement, with more detail pending in the related 'How to Buy Guide'. The governance table in Appendix 3 of the PCPRs further sets out when legal must be involved in contract drafting and signing.
- **Further approvals:** Be clear when these are required, for example project overruns, contract modifications, scope creep etc alongside cost changes. These are set out across the PCPRs, e.g. section 5 and 13 and in the Governance Tables found in Appendix 3 of the PCPRs.

## **Internal Threshold for Procurement Involvement and Other Governance Decisions**

11. The PCPRs set out the contract value above which Procurement must undertake procurement activity. Annex 2 to this paper sets out analysis undertaken to consider different internal thresholds using the following information:
  - **Benchmarking:** Thresholds used by a range of authorities of varying sizes.
  - **Contract Volumes:** Estimates of contract / procurement project volumes for the two new unitary councils at different value thresholds.
  - **Resource levels:** Comparison of staffing levels and current work volumes vs. the threshold options
12. The conclusion of that analysis is that an internal threshold of £100,000 is recommended. This would apply to goods, works and services, with some variations in respect of contracts procured using Light Touch or the Provider Selection Regimes, and also any Concessions contracts.
13. The following risks have been identified in relation to the proposed internal threshold of £100,000 (ex VAT):
  - **Visibility and savings opportunities:** a potential lack of visibility of activity below £100k limits the ability to aggregate contracts and achieve savings from economies of scale.
  - **Level of process change:** existing County council and some District and Borough council processes and systems are set up to undertake procurement work at different levels.
  - **Oversight and regulatory compliance:** alternative measures need to be put in place to ensure Procurement Act 2023 publishing requirements and considerations for convertible procurements (where, by way of extension or modification, a contract originally below the regulatory threshold is pushed above that threshold), can be met.
14. It is therefore proposed that arrangements for Procurement oversight of procurements between £25,000 and £100,000 are established. Greater visibility of planned procurement activity in this range would support the identification of aggregation opportunities, efficiencies and other value-for-money benefits and aid in detecting non-compliance, whilst avoiding the resource implications of requiring Procurement to lead all such procurements. To achieve this, the PCPRs include the following requirements in respect of contract values between £25,000 and £100,000 (section 10.6 of the PCPRs):
  - Procurement must be informed of the intention to procure prior to the commencement of the procurement exercise;
  - Procurement must approve procurements before they proceed;

- Procurement reserve the right to call in any procurement for review to ensure that it is following all appropriate regulations, and may, in exceptional circumstances, step in and take over the procurement process to be run within the procurement team;
  - Procurement may refer the purchase to be undertaken by Procurement where it has been identified as an opportunity for aggregation or financial opportunities (cost saving);
  - The Service must run the procurement on the e-sourcing platform applicable at the time of the procurement (with LGR transition arrangements in place where they do not have such access);
  - The Service is responsible for ensuring any notices required under PA23 are published in time and to sufficient quality, and for informing Procurement that this has occurred; and
  - The Service is responsible for ensuring all internal system records relating to the procurement and the contract are made and maintained and can provide an appropriate audit trail.
15. Other key governance points are set out in the Appendix 1 of the Procurement and Contract Procedure Rules (themselves contained in Annex 3 of this paper). The table in Appendix 1 of the PCPRs covers the following governance matters:
- Procurement Route Options
  - Who must authorise Approval to Procure
  - Procurement Process
  - Type of Contract Required
  - Who must approve Contract Award prior to commencement
  - Who signs the contract on the Council's behalf

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| <b>Consultation:</b> |
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16. The Procedure Rules have been developed in collaboration with Officers from the Finance & Property and Procurement LGR workstreams, Shadow Authority interim statutory officers and related stakeholders, and are based on feedback from Shadow Audit & Governance Committees.

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| <b>Risk Management and Implications:</b> |
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17. The principal risk is that the Council does not have a comprehensive set of Finance Procedure Rules and/or Procurement and Contract Procedure Rules in time for Vesting Day, which would put it in contravention of Section 151 of the Local Government Act 1972.

18. In addition, there is various legislation relating to procurement activity, in particular the Procurement Act 2023 and the Public Services (Social Value) Act 2012, that govern how local authorities procure goods, services and works. Failure to have robust Procurement and Contract Procedure Rules in place in time for vesting day would put the authority's ability to comply with this legislation at risk.
19. These risks can be best mitigated by engaging in activity to refine the proposed Rules and supporting their progress through the democratic process.

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| <b>Financial and Value for Money Implications:</b> |
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20. There are no direct financial implications arising from the proposed action. However, the proposed documents are important for maintaining compliance with financial and procurement regulations, and ensuring the new unitary authority has sufficient controls and governance to minimise the risk of financial loss. This will ensure that value for money is embedded as a core value of the new authority and maximise value for money.
21. There may be financial and value for money implications should the authority elect to set financial thresholds different to those proposed, for example reducing the proposed thresholds would require increased resources to deliver procurement activity so would have to be considered against the value for money of doing so.

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| <b>Section 151 Officer Commentary:</b> |
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22. East Surrey Council will operate in a very challenging financial environment, with significant budgetary pressures from increasing demand and costs of service delivery, coupled with limited financial resources and reducing government funding. East Surrey Council will be increasingly reliant on Council Tax as the primary source of income.
23. Decisions made by the sovereign councils in East Surrey and the East Surrey Shadow Authority will need to consider the ongoing financial impact and ensure that expenditure does not exceed the resources available. It is vital that significant importance is placed on effective financial management and medium-term financial sustainability to achieve a balanced budget position and protect service delivery.
24. The proposals in this paper and associated annexes ensure that East Surrey Council will have robust Financial, and Procurement and Contract Procedure Rules in place for Vesting Day. They set out the proposed initial set of rules for the new Council and are considered appropriate thresholds for a local authority of the size and scale of East Surrey Council. Regular review of these procedure rules will be important on an ongoing basis, but particularly in the early months and years of the new Council, to ensure that they deliver the

appropriate balance between ensuring strong internal control and the ability to deliver essential services to residents.

25. The proposed procedure rules support a culture of strong financial management and budget accountability, encouraging good financial decision-making and value for money.

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| <b>Legal Implications (Monitoring Officer Commentary):</b> |
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26. The statutory and regulatory requirements are set out within the body and financial sections of this report. The governance route for approval of the final Financial Procedure Rules and Procurement and Contract Procedure rules is set out below. This process complies with the Shadow Authority Constitution and the Surrey (Structural Changes) Order 2026.

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| <b>Workforce Implications (People/Human Resources Commentary)</b> |
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27. There are no direct staffing or employment implications arising from the approval of the proposed Procurement and Contract Procedure Rules. Their implementation will, however, change responsibilities for some officers, particularly where services will be required to undertake procurement activity below the £100,000 internal threshold. Clear guidance, training and access to appropriate systems will therefore be required so that officers understand their responsibilities and have the capability to comply with the new arrangements. The impact on workloads and capacity within both services and the Procurement hosted shared service should be monitored during implementation, with any material changes to roles or working arrangements managed through the Council's usual people management and consultation processes.

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| <b>Equality and Diversity:</b> |
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28. There are no equality impacts arising directly from this report. However, the council's equality duty and equality impacts are considered in relation to each individual procurement or applicable financial transaction undertaken, and references to equality and diversity policies are written into the PCPRs.

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| <b>Climate Change and Sustainability:</b> |
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29. There are no direct climate change and sustainability impacts arising directly from this report. However, the proposed PCPRs do set out requirements for considering these matters at the time of any given procurement and so, accordingly sustainability and related considerations will be made at the time any applicable individual procurement or financial transaction is undertaken.

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| <b>What Happens Next:</b> |
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30. The proposed Procedure Rules and associated supporting documents are due to be considered by:

- Audit and Governance Committee – November 2026
- East Surrey Constitution Committee - December 2026
- East Surrey Shadow Authority – January 2027

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**Report Authors:**

Georgina Mistry, Head of Finance Business Partnering (Corporate), LGR Finance and Property Theme - Sub-workstream Lead for Financial Governance

Anne Epsom, AD Procurement, LGR Procurement and Contract Theme - Governance Workstream Lead

**Annexes:**

**Annex 1** – Finance Procedure Rules

**Annex 2** - Internal Thresholds Data Analysis (exempt from publication under regulation 3 of Schedule 12A of the Local Government Act 1972 as it relates to the financial or business affairs of the predecessor councils)

**Annex 3** – Procurement and Contract Procedure Rules

**Sources/background papers:**

East Surrey Shadow Authority Audit and Governance Committee, 2 September 2026, East Surrey Constitution: Financial Procedure Rules & Procurement and Contract Procedure Rules: [Financial Procedure Rules and Contract Standing Orders.pdf](#)

Regulatory procurement Thresholds: [Guidance: Thresholds \(HTML\) - GOV.UK](#)

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