

Report of:	Interim Director of Finance
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Submitted to:	Corporate Affairs and Audit Committee
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Date:	15 August 2023
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Title:	Review of Financial Regulations
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Report for:	Information
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Status:	Public
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Strategic priority:	All
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Key decision:	No
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Why:	Not applicable
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Urgent:	No
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Why:	Not applicable
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Executive summary

The Council is currently under a governance qualification from its external auditor (Ernst & Young) as part of its value for money assessment during the audit of its 2020/21 accounts. In addition to this, central government has issued a 'Best Value' notice meaning that governance activities in the Council need to improve substantially.

As part of the governance improvement plan being undertaken, a key element is an update of the existing financial regulations comprising Finance Procedure Rules (FPRs and Contract Procedure Rules (CPRs). These are part of the Council's overall Constitution and represent the operating rules that Officers and Members need to follow to ensure good financial governance is in place in the organisation.

Compliance with these rules is essential in ensuring the appropriate levels of financial probity and safeguarding are in place and that value for money is achieved in all activities undertaken.

Recent work undertaken by the Council's external auditors confirm that breaches of these rules have occurred in the recent past and that these undermine the credibility of the systems in place and affect the reputation of the Council and its financial standing.

Following approval of the FPRs and CPRs by Council in September, comprehensive mandatory training will be provided to all officers involved in the financial management and procurement activity of the Council in order to improve compliance and drive a culture of robust governance. Training will also be provided to elected members in relation to their role in respect of these governance arrangements.

Purpose

1. The purpose of the report is to present an updated set of Finance and Contract Procedure Rules (F&CPR) for review and comment by the Corporate Affairs and Audit Committee and to reflect appropriate changes in the final version that will be presented for consideration and approval by the Council in September.
2. This is in the context of a refreshed Constitution, which the financial regulations are an integral part of, plus governance concerns from both the external auditor and central government regarding how the Council operates. Compliance with these rules by everyone working within the Council is the cornerstone of ensuring good governance is in place.
3. This Committee is the lead body within the Council on governance matters. The FPRs and CPRs will need to be ultimately approved by a full Council meeting, the views of this Committee are sought in relation to the development and finalisation before they are presented to Council for approval.

Background and relevant information

4. The Finance and Contract Procedure Rules provide a framework for ensuring robust financial control in the financial administration of Middlesbrough Council. They set out the framework within which business is required to be conducted in a sound and proper manner, delivering value for money and minimising the risk of legal challenge. These rules set out the principles and processes that underpin the day-to-day management of public funds. However, they are not intended to constitute a set of detailed rules to respond to every contingency. A financial management handbook will be developed to provide more detailed operational procedures to ensure compliance with these rules.
5. The F&CPRs are established in accordance with Section 151 of the Local Government Act 1972, which states that “every authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs”. In Middlesbrough, this officer is the Director of Finance. All references in this document to the “Chief Finance Officer” relate to the Director of Finance post, or their approved deputies – the Head of Financial Support & Planning and the Head of Finance & Investments.
6. The current set of rules for the Council was originally produced and approved in 2016. A cosmetic update was provided in early 2020, mainly updating post titles and other key references in the document. However, a detailed review of operational procedures has not been undertaken for some time. Given the changing local government environment post Covid-19, the current financial challenges facing the organisation and the governance concerns highlighted by external regulators, this has now become essential to ensure that confidence is delivered for both internal and external stakeholders.
7. An updated set of F&CPRs is attached to this report. This has been produced with the support of the Chartered Institute of Public Finance and Accountancy (CIPFA), acting as external advisers. **Appendix 1** gives a summary of the main changes that have been made since the 2020 version. **Appendix 2** presents the updated rules for Members to consider and comment on.

8. In parallel to this work and as part of the governance improvement plan, the Constitution for the Council has also been updated. The aim is to take both the new Constitution and the F&CPR to full Council during September 2023 for approval. Any views that Members may have will be considered as part of this overall process.

What decision(s) are being recommended?

That the Corporate Affairs and Audit Committee:

- Consider the changes being made to the Council's Finance and Contract Procedure Rules and discuss any matters that they want to raise before these are taken to Council for approval in September.

Rationale for the recommended decision(s)

9. The Committee is the lead body within the Council on governance matters. The Council has received governance criticism in recent months and as a result needs to re-set its operating rules, so they are fit for purpose going forwards. Members of the Committee will play an integral role in the development of the new rule base.

Other potential decision(s) and why these have not been recommended

10. There are no other potential decisions applicable.

Impact(s) of the recommended decision(s)

Legal

11. The updated set of finance and contract procedure rules is part of the Council's overall Constitution. This is the legal basis for how the organisation operates and does business. Any activities undertaken need to be compliant with this set of rules.

Strategic priorities and risks

12. The report is a component part of ensuring that the Council has good governance arrangements in place. Having this update ensures that a robust operating platform is in place and is essential in meeting all the strategic priorities and managing any associated risks.

Human Rights, Equality and Data Protection

13. Not applicable

Financial

14. There are two financial implications to be considered in producing this report. The officer time in considering and updating the financial regulations, plus the cost of external advice from CIPFA.

15. Officer time is provided within existing budgets, whilst the cost of the CIPFA advice provided to this project is £24,000 and is met from the Corporate Contingency Budget as approved by Executive on 19 July 2023.

Actions to be taken to implement the recommended decision(s)

Action	Responsible Officer	Deadline
Any comments provided by Members of the Committee will be updated into the F&CPR document before consideration by full Council in September.	Interim Director of Finance Head of Commissioning & Procurement Head of Finance & Investments	31 August 2023

Appendices

1	Main Changes to the Finance and Contract Procedure Rules - August 2023
2	Updated Draft Finance and Contract Procedure Rules
3	

Background papers

Body	Report title	Date
Corporate Affairs & Audit Committee	Audited Statement of Accounts 2020/21 (audit results report)	22 nd July 2022

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