Report to: **Governance Committee**

Date of meeting: **23 January 2018**

By: **Chief Operating Officer**

Title: **Amendment to Financial Regulations – Capital Programme**

Purpose: **To consider proposals to update the Council's Financial Regulations.**

RECOMMENDATIONS

The Governance Committee is recommended to recommend the County Council to agree to the Financial Regulations being amended as set out in Appendix 1 of the report

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Supporting information

1. Financial Regulations

1.1 The Council's Financial Regulations, which form part of the constitution, provide a framework of control, responsibility and accountability for the administration of the Council's financial affairs. Ongoing review of the Financial Regulations is undertaken to ensure they remain relevant and fit for purpose.

1.2 The Capital Programme Management section of the Financial Regulations has been reviewed to ensure the efficient and effective management of the Capital Programme.

1.3 Appendix 1 provides the proposed updated regulations. The main changes are:

- To update the regulations for current practice including:
    - Formal inclusion within the Financial Regulations of the Capital and Strategic Asset Board, and its agreed governance arrangements;
    - An update of the variation approval Regulations;
    - Ensuring the Regulations remain relevant and fit for purpose following restructures within finance and new basic need considerations.

2. Conclusion and reasons for recommendations

2.1 The Committee is asked to recommend the County Council to agree the proposed updates to the Financial Regulations set out in Appendix 1.

Kevin Foster
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LOCAL MEMBERS: All

Appendix 1

A5.3 Capital Programme Management

A.5.3.1 Capital expenditure, as defined in the Local Authorities (Capital Finance) Regulations 1990, or in such subsequent Regulations as may succeed these, will be considered for inclusion within the approved Capital Programme. The Chief Finance Officer will periodically review and issue a minimum threshold value below which projects cannot be charged to capital.

A.5.3.2 The Government places controls on the financing capacity of the Council. This means that capital expenditure should form part of a programme, should be carefully prioritised in order to comply with the Council Plan, maximise the benefit of scarce resources and comply with CIPFA's Prudential Code for Capital Finance in Local Authorities (2013).

A.5.3.3 A Capital Strategic Asset Board (CSAB) is in place to review and scrutinise the Capital Programme and to recommend business cases for inclusion in the Capital Programme. The membership of the CSAB includes senior officers from each service department, as well as Property, Finance and Procurement. The Chair of the CSAB is the Chief Operating Officer.

A.5.3.4 Capital projects shall be incorporated in a Capital Programme for consideration by the Council, in conjunction with the annual revenue budget process detailing the phasing of expenditure on such projects and the full year revenue cost associated with each project, and having regard to the level of available resources. ~~The first year of the plan will form the approved capital budget for the forthcoming financial year.~~

A.5.3.5 Prior to the approval by the Council of a Capital Programme each year, Chief Officers, jointly with the Chief Finance Officer, shall ~~prepare financial appraisals of all projects to be put forward for inclusion in~~ review the Capital Programme. This will be based on recommendations from the CSAB.

A.5.3.6 The Chief Finance Officer, will determine the financing of the Capital Programme, taking into consideration the availability of reserves and balances, funding from other bodies and the affordability of borrowing.

A.5.3.7 Subject to paragraphs ~~A.5.3.5 and A.5.3.6~~ A.5.3.8, A.5.3.10 and A.5.3.11 below, no expenditure shall be incurred on capital projects which is not included in the approved Capital Programme and no contracts entered into or tender accepted unless any necessary government approvals and borrowing powers have been received, and resources approved in accordance with these Regulations.

A.5.3.8 The Capital Programme may be varied with the agreement of the Chief Finance Officer, if no additional commitments for future years are incurred, in the following circumstances:

(a) where budget provision is transferred to capital expenditure financed from revenue account (CERA) in accordance with Regulation A.13 (Financial Limits) below or the recommended use of the capital risk provision by CSAB.

(b) where earmarked capital receipts and grants or other specific funding are spent for the purpose they were received, provided that capital resources are enhanced by the amount received and that the capital receipts are received either before the payments are made, or within the same financial year.

For all other proposals that vary the Capital Programme, the approval of the Cabinet must be obtained subject to A.5.3.7 below.

A.5.3.9 Capital schemes shall not be changed without the approval of the Cabinet ~~and any consequent increase in the cost of the scheme shall be contained within the relevant Department's approved Capital Programme.~~ Any significant alteration to the size, content or specification of a scheme which increases the cost by more than 10% must be reported in a timely manner to the Cabinet. Variations within 10% of a project's total current budget can be agreed by the Chief Finance Officer, where funding has been identified (as outline in a.5.3.8 above). This should be done in line with CSAB governance and with current variation policy and guidance.

A.5.3.10 A capital risk provision is held to mitigate the risks associated with having a Capital Programme. These include inflationary pressures on construction costs, uncertainty regarding delivery of projects, still unknown requirements and the uncertainty regarding the level of Government grants. The level of the capital risk provision is to be determined annually by the Chief Finance Officer after considering financial risk. The Chief Finance Officer, following recommendation from the CSAB, can approve use of this provision on individual projects. The use of which will be reported to Cabinet as part of the RPPR process.

A.5.3.11 Capital payments must be contained within the individual provisions in the approved Capital Programme.

(a) Where slippage occurs on a project ~~Where over and underspendings arise because of slippage~~ and there is no effect on the availability of capital resources, these should be reported at the earliest available opportunity as part of quarterly monitoring and equivalent adjustments will be made to the following year's programme as part of the wider RPPR process.

(b) Where overspendings compared to the annual provisions in the Capital Programme arise, ~~which are not the result of slippage,~~ departments must report the figures to the ~~Chief Finance Officer, together with proposals for equivalent savings from other approved projects.~~ CSAB, together with proposals for funding the overspend. These will be signed off by the Chief Finance Officer following recommendation of the Board.

(c) Where underspends occur these must be reported to the CSAB who again will make recommendations on the use of the underspend to the Chief Finance Officer for approval.

A.5.3.12 If a tender price exceeds the Capital Programme provision, then ~~provision may be transferred from one approved project to another~~. This should be raised at CSAB in line with A.5.3.11 (b)~~If such a transfer is not possible then the approval of the Cabinet must be obtained before the tender is accepted~~.

~~A.5.3.13 The final cost of each capital scheme chargeable against the Capital Programme shall be reported by the appropriate Chief Officer to the Cabinet if the cost exceeds the provision in the Capital Programme by 10% or more, as soon as possible after completion together with explanations for variances from the estimated cost.~~

A.5.3.13 The Chief Finance Officer will report on the outturn of capital expenditure to the Cabinet as soon as practicable after the end of the financial year.