



Batheaston Parish Council

A NEW FRAMEWORK OF FINANCIAL GOVERNANCE

A PROPOSAL FOR APPROVAL

Background

1. The internal audit identified we do not have a complete and understood financial governance framework.
2. The SLCC Financial Regulations do not give us a sufficient basis to build a suitable financial governance framework for our ambitions. They are in fact quite confusing, with e.g. clauses not under headings they relate to, frequent repetitions and little reference to other guidelines.
3. The SLCC Financial Regulations also miss several issues relevant to councils investing in building community assets and using borrowing to do so, containing little to nothing on financial prudence: leverage and repayment cover, distress modelling, capitalisation, ...
4. The Finance Committee decided at its 20th October 2020 meeting that we need to build a new financial governance framework fit for the business of this council.

Proposed Framework

5. Financial governance typically has 4 basic goals: (1) to establish Legitimacy, (2) to apply Competence, (3) to manage Uncertainty and (4) to prevent Crime.
6. Establishing **Legitimacy** relates to ensuring we spend on things the residents mandate us to spend on. We propose that this is established through:
 - a. Participatory budget and precept setting, which involves our residents in setting the level of precept and the priorities to be funded by the precept;
 - b. The Council's Standing Orders, ensuring transparent and informed decision-making in a way that allows residents to hold council and councillors accountable;
 - c. The Finance Committee's Terms of Reference, creating a centre of engagement and expertise to manage the Council's finances.
7. Applying **Competence** relates to the procedures and controls we follow for good housekeeping of all income and expenditure approvals and actions. These are set out by the Practitioner's Guide, made practical through the Day-to-Day RFO procedures.
8. Managing **Uncertainty** relates to policies, techniques and data focused on avoiding financial distress. This is a new area for us and in particular requires us to start taking into account future events to assess

the affordability and resilience of current actions. It is proposed that new Reserve and Risk Management policies are developed for this purpose.

9. Preventing **Crime** is also a new and important area for us as dealing with larger sums of money and projects create more opportunity for fraud, bribery, corruption, money laundering, etc. Our council needs new policies and procedures prevent negligent or wilful committing and/or abetting of financial crime.

Discussion and approvals sought

10. The above framework is desirable to have at our current level of precept and operational expenditure; it is necessary at higher levels of precept and capital expenditure to build community assets.
11. Creating the proposed financial governance framework will be time-consuming and requires professional knowledge and skill that is not naturally resident within the current council. Writing it in a way that allows any (future) councillor to read a section (e.g. budget control) and have a complete and clear understanding of what may be required of him/her in that domain is another key challenge for which we are not well equipped.
12. Council is therefore asked to approve that:
 - a. Council will continue with current policies and procedures until such time that precept and budget start including capital expenditure;
 - b. FinCo will use reasonable efforts to update the current policies and procedures to make them as fit for practical purpose;
 - c. FinCo prepares a costed project to outsource the creation of the policies, procedures, measures and controls necessary for implementing the proposed financial governance framework.