



DERBY CITY COUNCIL

COUNCIL CABINET
12 JULY 2005

ITEM 26

Report of the Director of Finance and
Director of Corporate Services

Contract and Financial Procedure Matters Report

RECOMMENDATION

- 1.1 To note progress made to date in delivering the requirements of the Efficiency Agenda following the Gershon review.
- 1.2 To approve the latest allocations from the e-Derby/Building on Excellence budget as detailed in paragraph 2.2.
- 1.3 To authorise the Council to enter into a contract with Derwent for the construction of an all weather pitch, floodlights, changing rooms sustainable energy provision and drainage and associated works at St Benedict school and Performing Arts college subject to:
 - (a) the school entering into the agreement with the Council to:
 - act as the Council's agent
 - appoint and pay the fees of suitably qualified advisers
 - meet any overspend on the contract over the projected proceeds of the land sale
 - not to hold the Council liable for any deficiency in the contract works or specification
 - (b) the school agreeing with the Council's proposed arrangement for the holding and application of the land sale proceeds
 - (c) the Diocese agreeing to use all its proceeds from the land sale towards the Capital Scheme and associated costs
 - (d) Derwent providing a performance bond or other form of security to the satisfaction of the Director of Corporate Services.
- 1.4 To approve the revised terms of sale of the land at St Benedict school in paragraph 2.3.16, including easements being created over retained land.
- 1.5 To add the Council's element of the St Benedict school capital works to the capital programme.
- 1.6 To approve the tender for the business process re-engineering consultancy contract.

- 1.7 To approve the changes to the 2005/06 approved capital programme and capital scheme commencements, as detailed at Appendix 2.
- 1.8 To authorise acceptance of a further £400,000 grant from the Arts Council England for the Quad project.
- 1.9 To approve the financial protocol for Local Area Agreement – LAA – pooled funding, at Appendix 7.

SUPPORTING INFORMATION

2.1 Annual Efficiency Statements

- 2.1.1 Local authorities are required to submit an Annual Efficiency Statement, AES, to demonstrate progress towards meeting Gershon efficiency targets. An authority's AES will also form part of the Use of Resources assessment in demonstrating value for money.
- 2.1.2 The Annual Efficiency Statement, AES, is separated into two elements, the forward look and backward look. The forward look is a plan outlining efficiency gains for the forthcoming financial year. The plan will include the authority's broad strategy for securing and delivering efficiency gains along with estimates of both cashable and non-cashable efficiency gains. The first forward look AES for 2005/6 was submitted on 15 April.
- 2.1.3 The backward look AES reports actual savings achieved in the last financial year. The backward look AES for 2004/5 was submitted on 15 June. This deadline was a challenging one when outturn figures had not yet been completely finalised and guidance from the Government was not released until 16 May.
- 2.1.4 The Gershon efficiency targets mainly relate to 2005/6 to 2007/8 performance in terms of budgets and the forward looking report which was issued in April to the Government's deadline was compiled on that basis. This report outlines the targets set by ODPM for Derby City Council and progress made towards these through completion of both the backward looking AES 2004/5 and the forward look AES 2005/6. Both efficiency statements are attached to this report in Appendix 2 and 3.
- 2.1.5 Efficiencies made during 2004/5 will also count towards the running total that the Council will be judged on in relation to the overall targets. They therefore represent an extra year's worth of efficiency gains that can be formally counted towards the three-year targets from 2005/6 to 2007/8.
- 2.1.6 The Council's annual efficiency target is shown below along with details of the efficiency gains reported in the efficiency statements submitted to date.

Annual efficiency target (at least half should be cashable)	£4.31m
AES 2004/5 backward look	£4.280m (of which £3.772m cashable)
AES 2005/6 forward look	£5.437m (of which £3.920m cashable)

- 2.1.7 Based on efficiency statements submitted for 04/5 and 05/6 the annual target has already been exceeded, although items identified in the forward look AES 05/6 are estimates based on planned activities to achieve efficiency gains and will be monitoring and updated during the financial year.

2.2 e-Derby/Building on Excellence allocations

- 2.2.1 The following allocations from the e-Derby/Building on Excellence budget require approval by the Council Cabinet:

- Development & Cultural Services - Highways by Exor development 2005/06 £57k Capital costs, £46k Revenue costs Total £103k - £68k to be funded from Building on Excellence budget.

To implement a paperless delivery of front and back office systems within the Street Care section, to automate the Highways inspection procedures and to roll out the 'Enquiry Manager' module across all the Highways, Transportation and Waste Management functions of D&CS, to act as the back office system for the customer care monitoring, and to link in to the Corporate CRM software

The capital element will be added to the Capital programme.

This was approved by e-Derby Board on 5 May and Building on Excellence Board on 27 May.

- Permanent transfer from 2004/05 to the e-Business revenue budget £58,673

This is to create an on-going revenue budget for the following on-going commitments for e-Derby related activities falling within the e-Business unit:

- the Council's annual membership contribution to the Derbyshire e-Government Partnership which provides wider e-Government development & support - £18,376
- the Council's annual contribution to the CMS Partnership-on-going website maintenance - £17,557
- e-Derby operating budget to provide for the day to day non staffing running costs of the e-Business unit - £22,770.

This was approved by Building on Excellence Board on 22 April and e-Derby Board on 5 May.

2.3 St Benedict School and Performing Arts college capital scheme arrangements

- 2.3.1 St. Benedict School wish to construct an all weather pitch, floodlighting, changing rooms, a learning and resource centre, a management suite and also carry out sustainable energy provision, partial drainage improvements and other miscellaneous works, including an equipment and maintenance store for the all weather pitch. This is referred to as the "Capital Scheme".

- 2.3.2 It is envisaged that the Capital Scheme will be funded from the proceeds of sale of a strip of land, approximately two acres in size, at the front of the School site fronting Duffield Road. This land is partly owned by the Council (76.84%) and partly by the Diocese (23.26%).

Disposal of Land

- 2.3.3 The Department for Education and Skills (DfES) have given its consent to the disposal of the land subject to the proceeds being used for the Capital Scheme and the Council have agreed to contribute its share of the proceeds towards this cost. Council Cabinet approval was given on 5 November 2002 and 18 January 2005.
- 2.3.4 Following a joint marketing exercise, bids for the land were received from a number of developers and in August 2004 a bid from Radleigh Homes with a minimum sale price of £2.7m, less the cost of abnormal ground conditions, was accepted. There were also overage provisions under which the Council would get 50% if Radleigh's development subsequently yielded a land value of more than £2.7m. This reported to Council Cabinet on 10 August 2004.

Construction Contracts

- 2.3.5 Around August 2004 the architects Matthew Montague and construction cost consultants Armsons, appointed by the School, calculated that the estimated cost of the Capital Scheme would be £2.46m. The School therefore sought tenders for the learning and resource centre, management suite, changing rooms and sustainable energy provision and five contractors were invited to tender on the 21 February 2005. Separate bids were sought from three specialist firms for the all weather pitch and Nova Sport were selected for this work which they will do as a nominated sub contractor to the main contractor.
- 2.3.6 Derwent Valley Construction Limited -Derwent - were subsequently chosen as the preferred main contractor even though there was a slightly lower bid. This was because they had previously satisfactorily completed a £389,287 six- classroom language block for the school in 2003/2004. The school were very satisfied with the way in which Derwent managed this scheme, the quality of the work and the way in which they dealt with health and safety issues while building on an operational school site.
- 2.3.7 The size of this main contract is significantly above the Council's financial assessment of the size of contract Derwent should be awarded. However, this was not considered to be a problem at the time as it was the School, not the Council, who were going to enter into the construction main contract for the Capital Scheme with Derwent. Derwent are in any event currently working on a £1,2m Mill Adventure Base scheme for Nottinghamshire County Council and a £1,1m scheme at Uttoxeter New Road, Derby, for Derwent Living.
- 2.3.8 However, when the VAT issue was investigated the position changed. After detailed discussions between the School and Council's finance officers it was recognised that considerable savings of around £190,000 would be made on the VAT liability if a contract for part of the Capital Scheme was let by the Council, rather than the School.

- 2.3.9 The VAT position is that the Council can reclaim it where it is responsible for the capital expenditure. In relation to voluntary aided schools, such as St. Benedicts, that responsibility is basically for playing fields and associated works. The School on the other hand, though it cannot reclaim VAT, can, if it uses its charitable status, get zero VAT rating for certain construction works.
- 2.3.10 The proposed arrangement therefore is that the Council will enter into a contract with Derwent for the construction of the all weather pitch, floodlights, changing rooms, sustainable energy and drainage and the School will let a separate contract with Derwent for the learning centre and management suite.
- 2.3.11 In relation to the Council contract the School will act as our agents in running it but to protect the Council position the School would be required to enter into a prior-agreement with the Council under which the School would agree to:
- appoint and be responsible for the fees of suitably qualified professional advisers
 - meet any overspend on the contract
 - not to hold the Council liable for any deficiency in the contract work or specification.
- 2.3.12 There would also be detailed arrangements about how the proceeds of the land sale would be held and applied in meeting the cost of the Capital Scheme, including a general requirement that such proceeds will only be used in accordance with the DfES conditions on the land disposal consent – see paragraph 2.3.3.
- 2.3.13 In addition, as Derwent don't meet the Council's financial requirements for a contract of this size, additional security, in the form of a performance bond or parent company guarantee or some other acceptable security, will be needed.

Land Sale

- 2.3.14 In relation to the land sale proceeds -see paragraph 2.3.4, site investigations revealed significant abnormal ground conditions and further negotiations resolved the appropriate reduction in the sale price to reflect these additional development costs.
- 2.3.15 In addition, because of changes in market conditions and competing developments, Radleigh have altered their approach. To enable them to proceed at the same purchase price they wish to develop the site more intensively than before and therefore don't wish the overage provisions to remain.
- 2.3.16 Clarified and revised heads of terms have therefore been agreed for the land sale. The principal proposed terms now are:
- sale price to be £2,510,000
 - arrangements for upgrading shared services, such as drainage, by the developer
 - there will be no Overage provisions, but there will be a restrictive covenant substituted which allows a development of a maximum floor area of private housing of 3,830 sq. m. (41,228 sq. ft.)
 - the sale is unconditional but the purchasers expect to have planning permission in place on exchange

- there is a need to divert services which presently cross the site to be sold, along with upgraded services to provide sufficient capacities for the residential units and for the Capital Scheme. The school and their advisers are agreeing suitable arrangements with the purchasers for such works to be ordered in advance under arrangements which will achieve this and which will share the costs appropriately. This will require service easements to be provided within the school grounds and for working arrangements and the method of procurement to be agreed. The School will provide an undertaking in advance of contracts being exchanged to allow these works to be ordered, on terms which will involve an appropriate degree of risk for the school for the level of costs envisaged (around £70,000)
- a 10% deposit will be paid on exchange but timing of payment of the 90% balance was still under discussion at the time of writing because of its linkage to the above aspect. An oral update will be given at the meeting on the arrangements proposed
- obligations which would have been imposed by the Council as Local Planning Authority, when granting planning permission for the development, will be included in the sale agreement rather than a Section 106 Agreement.

2.3.17 The joint marketing agent advises that there will be no adverse effect on the School or Council by agreeing these new terms, which have the advantage of producing greater certainty as to the actual sale price to be received: £2.51M.

Construction Costs

2.3.18 Since the original estimate in August 2004, changes in legislation (such as the Disability Discrimination Act), insulation requirements and various additions and alterations to the scheme by the school have increased costs. In May 2005 Armsons reassessed the original estimate of £2.46M -see paragraph 2.3.5 - and arrived at a total cost figure of £2.548M. Further work is being done to refine this figure to give as accurate picture as possible and this should be available by the time of the Cabinet meeting.

2.3.19 It is now evident, given the fixed sale proceeds and revised cost figure, that the overspend of cost over proceeds is already approximately £40,000. This is likely to increase. The Council commitment to the Capital Scheme is however given on the understanding that the School will be responsible for any overspend on the construction costs. See table below for estimated budget costs provided by the School.

Capital Receipt	£2,510,000
Estimated Project Costs:	
Principal Capital Expenditure - Council responsibility	£1,112,500
Principal Capital Expenditure – Governor responsibility	£1,435,500
Total	£2,548,000
Estimated shortfall *	-£38,000

*The shortfall will be funded by the school

2.4 Business Process Re-engineering consultancy contract

2.4.1 Across the Council there is an urgent need for services to be reviewed and processes to be redesigned. There are a variety of reasons why this work is needed. These include...

- Services being moved to a centralised contact centre.
- To deliver improved customer service across all areas of the Council.
- Poor performance in some services.
- A need to demonstrate efficiency savings in line with Gershon.
- To prepare services for new ways of working in the new offices.

2.4.2 Business Process Re-engineering - BPR must become embedded in the organisation and it is therefore important that whatever methodology is developed will enable managers across the Council to understand and lead on successful BPR reviews either within their own areas or potentially other parts of the Council.

2.4.3 To support the Council with this work, companies specialising in the area of BPR have been invited to tender for a two-year contract. The contract is to work with the Council to develop a suitable framework for BPR, to provide training to managers and employees involved in BPR reviews as well as on-going mentoring support on an ad-hoc basis as determined by the Council.

2.4.4 Over 80 companies expressed an interest in the contract and over 40 companies submitted a pre-qualification questionnaire. Seven companies were invited to tender for the work and three have been shortlisted to attend a selection interview on 30 June 2005. Following these interviews, a decision will be made based on quality, previous experience, innovation and cost and the most suitable company appointed.

2.4.5 The three companies selected to attend the interviews are:

- KPMG
- Deloitte MCS Limited
- Capita / Optevia.

2.4.6 The outcomes of the tender process as well as details of the financial implications will be available at the Cabinet meeting.

2.4.7 Council Cabinet on 26 April 2005 approved the establishment of a Change Management team and budget for 2 years to progress this work, to be funded from the Building on Excellence budget. The costs of this contract will be met from that budget.

2.5 Capital Programme 2005/2006 changes and scheme commencements

2.5.1 Appendix 2 details proposed changes to the 2005/06 approved capital programme, and capital scheme commencements for schemes over £100k. Under financial procedure rules these changes require approval by Council Cabinet .

2.6 Quad Arts Council Funding

- 2.6.1 Council Cabinet on 15 March 2005 approved a funding agreement with the Arts Council England (ACE) at the level of £2.5 million secured for Quad. An additional £400,000 has now been offered to help with the final stages of the capital project, on the same terms as the original grant.
- 2.6.2 All of the remaining funding will be dependent upon obtaining planning consent. This is expected in September 2005.

2.7 Financial Protocol for LAA pooled funding

- 2.7.1 Attached at Appendix 3 is the financial protocol for LAA pooled funding.
- 2.7.2 The protocol meets the guidance set out in the ODPM Advice Note No. 3 on payment arrangements and guards the interests of the Council as the Accountable Body for the LAA. It is also an important element of the governance arrangements to be adopted by DCP for the LAA, as noted by Cabinet in agreeing the draft LAA on 15 March 2005, and was agreed by DCP on 23 June.

For more information contact:	Carolyn Wright 01332 255349 e-mailCarolyn.Wright@derby.gov.uk
Background papers:	None
List of appendices:	Appendix 1 – Implications Appendix 2 – Capital Programme 2005/2006 scheme changes and scheme commencements Appendix 3 - LAA Financial Protocols for pooled funding in 2005/6

IMPLICATIONS

Financial

1. As detailed in the report

Legal

2. None

Personnel

3. As detailed in the report.

Equalities impact

4. None

Corporate objectives and priorities for change

5. These recommendations, where relevant, are in line with approved budgets which accord with the Council's corporate objectives and priorities.

Capital Programme 2005/2006
Scheme changes and scheme commencements

Commercial Services IT systems – scheme change

The 2005/06 approved capital programme for Commercial Services includes £140k for the replacement of the Building Repairs and Maintenance Computer System, to be funded from earmarked capital reserves. This system controls the operations of the building maintenance workforce in Commercial Services.

The item was originally placed in the Capital programme over a concern that the system would not survive following a company buy out by ICL/Fujitsu. Alternative systems have been investigated and none were found to be better than the existing system, which has since continued to work with no fall off in service and has maintained a strong user base.

Fujitsu have recognised this and have developed an upgrade which also includes a major improvement to include modules for work scheduling and tenant appointments, following work done in partnership with a market leader.

It is now proposed to purchase an upgrade to the existing system, together with the additional functionality of the appointments module, rather than look for a replacement system. The estimated cost for the upgrade and appointments system is £114,000. Cabinet approval is sought for the change to the capital programme.

Derby Homes are keen to improve the appointment arrangements and they agree that there are clear and major benefits from the proposal and have agreed to work with us in developing the operation by using the new system.

Development and Cultural Services – scheme change

Addition of a new scheme 2005/6 - Traffic Street and Bradshaw Way Diversionary Works

This scheme, to reconstruct and re-align Bradshaw Way and Traffic Street, forms part of the renewal and improvement of the Inner Ring Road, as a result of Connecting Derby working in partnership with Westfield Developers.

There is an opportunity to complete some of the works required on the carriageway this financial year before other Major Scheme works take place in 2006/07. There is also an opportunity for Westfield to programme their works around the renewal of the highway. Therefore it is proposed the works start now.

The total cost is estimated at £800k as outlined in the table below. The actual cost will be entirely funded by a contribution from Westfield.

Bradshaw Way and Traffic Street estimated scheme costs

Utility Service	£ 000
NTL	103
Transco	8
BT	134
Atkins Telecom (Cable and Wireless)	83
Central Networks - street lighting	39
Central Networks - mains/supply	325
Severn Trent Water - supply	5
Kinston Communications	103
Total	800

Education – scheme commencements

Proposed single classroom at Redwood Infant school, Sinfen

This is a New Deal for schools – NDS - Modernisation fund scheme.

The latest approved programme includes £165k for 2005/06 funded from New Deal for schools modernisation fund Supported capital expenditure allocation.

The revised scheme cost and funding is:

- 2005/6 - £113,200 NDS and £73,800 school contribution
- 2006/7 - £5,900 NDS

Approval is sought to amend the capital programme and approve scheme commencement

DRAFT TO DCP STRATEGY COORDINATION GROUP
26 MAY 2005

LAA FINANCIAL PROTOCOLS FOR POOLED FUNDING IN 2005/6

This protocol sets out the basic structure for the financial management of the elements of Derby's LAA in 2005/6 that are subject to pooling of funding, to supplement the financial procedure rules that govern financial decisions by spending agencies. They are consistent with the approach set out in Section 1.4 of the LAA, which gave notice that the governance arrangements were being further developed. To take effect they require adoption by Derby City Partnership and also Derby City Council as the LAA's Accountable Body, within any delegated powers applying within these bodies.

The LAA makes it clear that these are interim protocols for the first year of operation only, and as such the financial protocols are designed to leave substantive decision making in the hands of the agencies receiving funding, subject only to the need to provide basic assurance to the LAA block management bodies that the use of funding remains consistent with the aims of the LAA. For 2006/7 and subsequent years of operation, the financial protocols may vary significantly, depending on the extent to which more use is made of partnership decision making within the LAA's structures. As the LAA is a voluntary agreement, any such change would require the agreement of the various partners if funding streams are to remain within the LAA.

1. Accountability and Decision Making – 2005/6 Uses

- For each funding stream, the budget holder empowered to make decisions on detailed uses will be confirmed by DCP Strategy Coordination Group and the Council Cabinet on the basis of a continuation of the arrangements in place for 2004/5. The budget holder will be defined as the funded agency and where possible a decision-making group or individual within the agency will also be identified.
- The initial budget for 2005/6 for each LAA funding stream is as set out in the LAA agreement.
- Any variations in specific LAA funding streams in 2005/6 will be passed on directly to the funded agency by the Council in its role as Accountable Body.
- For each funding stream, the funded agency will draw up an broad outline Statement of Use of 2005/6 funding in a specified format and notify DCP/the Council of this. The Statement of Use will include details of
 - The general basis on which funding is to be applied, at a minimum providing similar detail to the conditions on specific use that previously have accompanied the relevant Government specific grant conditions
 - Any material variation in this basis of use compared to the uses to which funding was put in previous years
 - How the general uses of funding are considered consistent with specific LAA outcomes, justifying this in sufficient detail to enable the relevant LAA block management body to satisfy itself to this effect

- If the LAA block management body was not satisfied that the basis of use were sufficiently closely related to satisfying LAA outcomes then it could refer the Statement of Use back to the funded agency for clarification. The LAA block management body would formally inform the funded agency if concerns remained following clarification, prior to any decision making on 2006/7 funding. If the concerns of the block management body or Strategy Co-ordination Group were not resolved, the Council as Accountable Body could notify GOEM and the relevant Government Department and might be unable to certify that funding had been used in accordance with the LAA conditions.
- The funded agency may amend the Statement of Use for 2005/6 at any point with the agreement of the block management group.

2. Accountability and Decision Making – 2006/7 and Later Years

- Funded agencies should generally refrain from making decisions that involve new commitments of LAA funds from 2006/7 until the future approach to making such decisions through the LAA process has been considered and protocols developed further. Exceptionally, commitments of 2006/7 funding may be made where:
 - These are the ongoing effect of 2005/6 commitments of a similar magnitude, as it is not intended to restrict the scope for 2005/6 commitments to those with a one-off impact.
 - Decisions are already made within partnership frameworks, in which case limited new commitments of funding may be made in 2006/7 where this is unavoidable.
- Other than this, significant new unilateral commitments that rely on LAA funding in 2006/7 should not be made until future governance arrangements have been confirmed. Funded agencies should be aware that such commitments would not be consistent with a continuation of the relevant funding streams within a voluntary LAA framework.

3. Virement of 2005/6 Funding

- All virements of LAA funding will be required to be approved by the funded agencies under their delegated powers as necessary, irrespective of these additional rules applying below.
- Funding streams are ring-fenced within each LAA block and funded agencies cannot vire between LAA funding held in different blocks.
- One-off virement between different LAA funding streams paid to the same funded agency is permitted but is subject to prompt reporting of virements to the LAA block management body and an accompanying explanation of how this will assist in delivery of LAA outcomes and confirmation that uses of the vired funds by the new budget holder would be consistent with the Statement of Use of the either the receiving or the viring funding stream. The LAA block management body could challenge the virement retrospectively only in circumstances where the virement clearly resulted in uses that were inconsistent with the Statement of Use and which did not aid LAA outcomes. For the challenge to stand GOEM would

have to support this view and the funded agencies would then be expected to reverse the virement.

- One-off virement between different LAA funding streams in the same block paid to different funded agencies is again subject to prompt reporting accompanied by explanations. In addition it requires the agreement of the LAA block management body and the agreement of both funded agencies (receiving and offering funds).

4. Treatment of Underspending and Overspending in 2005/6

- The use of carried forward unspent LAA funding will be required to be approved by the funded agencies under their delegated powers as necessary, irrespective of these additional rules applying below.
- Any unspent 2005/6 LAA funding allocations may be retained and carried forward by the funded agency provided that
 - The LAA block as a whole had not had funding withheld by GOEM on account of any underspending
 - Underspending is automatically netted off against any overspending of LAA funding by the same funded agency for this purpose only, without prejudice to the need for formal approval of virements
 - The funded agency can demonstrate to the satisfaction of the LAA block management body that the proposed uses of the carried forward budget remained consistent with either the Statement of Use for 2005/6 or any alternative agreed use. If the LAA block management body is not satisfied it may impose conditions on the use of this underspending in so far as these ensure consistency with the Statement of Use.
- In cases where LAA block funding were withheld, then this withholding would be passed on to the relevant funding agencies as follows:
 - If the withholding were clearly attributable to a specific funding stream, then the funding would be deducted from funding agencies underspending within that funding stream
 - If the withholding were not clearly attributable, then the withheld funding would be deducted in proportion to the scale of net underspending within each funding stream.
- 2005/6 underspending could be reallocated to other funded agencies within the LAA block with the agreement of the underspending funded agency and the LAA block management body.
- Net overspending above LAA funding levels is the responsibility of the funded agency and is required to be funded by that agency. The City Council will not accept responsibility for the overspending in its role as Accountable Body to the LAA.

5. Budget Monitoring

- Funded agencies should have arrangements in place to permit continual monitoring of expenditure against each LAA funding stream, such that expenditure against specific funding streams can be measured in detail.
- Reports should be provided by funded agencies shortly after the end of each quarter of the financial year, in a standard format and to a timetable set by the

Council as Accountable Body, summarising spending against profiled budgets for each funding stream. Reports will be provided to both the LAA block management body and the Council as Accountable Body.

- Funded agencies should by the end of the first quarter of 2005/6 have provided a realistic profile of their planned monthly expenditure against each funding stream in 2005/6. This will be provided to both the LAA block management body and the Council as Accountable Body.
- For each funding stream the total profiled should be reconciled to the initial budget for 2005/6 set out in the LAA funding agreement, net of any variation in external funding notified and passed on by the Council. The total profiled must not exceed this amount. If the total profiled is less than this amount, then the difference will be treated as estimated slippage.

6. Payment Arrangements

- Where the funded agency is not part of the Council, the Council and the funded agency must reach a separate agreement setting out the basis on which payments will be passed on to the funded agency, consistent with the terms of the LAA, audit requirements and any other requirements of the relevant Government Department.

7. Audit Arrangements

- Audit requirements are subject to change depending on the final confirmation of treatment of LAAs by the Audit Commission. It is currently expected that this will provide for self certification of the annual audit statement by the Chief Executive or Chief Finance Officer of the Council and for audit certification to be provided by internal auditors. The Audit Commission's current position is that external auditors in LAA pilot areas will not continue to certify LAA funding streams.
- Funded agencies, LAA block management bodies, DCP and the Council will provide access as required by the Council's Head of Internal Audit and the Council's external auditors sufficient to provide appropriate assurance that
 - claims and returns for relevant LAA funding streams are fairly stated and in accordance with specified terms and conditions
 - LAA governance arrangements meet necessary standards of internal control and are operating as intended

This will include access to all supporting information that evidences the expenditure made, and other relevant records as requested, and testing of the robustness of the internal control systems in place.