



DERBY CITY COUNCIL

SCRUTINY MANAGEMENT COMMISSION
24 October 2006

Report of the Corporate Director - Resources and
Housing

ITEM 8

Local Area Agreement Financial Arrangements

RECOMMENDATIONS

- 1.1 To consider the Cabinet report on the Local Area Agreement financial arrangements and refer appropriate comments.

SUPPORTING INFORMATION

- 2.1 At the last meeting of Scrutiny Management Commission, it was agreed to consider the report on Local Area Agreement financial arrangements, as shown in **Appendix 1**. The report will be discussed at the Part 1 Cabinet meeting on 31 October.

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Background papers: None
List of appendices: Appendix 1 – Report to Cabinet on Local Area Agreement Financial Arrangements



Local Area Agreement Financial Arrangements

SUMMARY

- 1.1 The Council as Accountable Body for the Local Area Agreement - LAA – must ensure there are appropriate financial governance arrangements in place to manage LAA funding. A Financial Protocol was approved for the first stage of the LAA and now requires updating to reflect the integration of the LAA into the work of the Derby City Partnership.
- 1.2 The updated Protocol provides for the key decisions on finance to be taken at the partnership level, subject to the safeguards required of the Accountable Body by Government.
- 1.3 It is intended that this Protocol runs for the remainder of the current financial year and forms the basis of future financial management arrangements.
- 1.4 Subject to any issues raised at the meeting, I support the following recommendations.

RECOMMENDATIONS

- 2.1 To ratify the Financial Protocol for Local Area Agreement funding.



Local Area Agreement Financial Arrangements

SUPPORTING INFORMATION

1. BACKGROUND

- 1.1 Derby was selected to pilot the Local Area Agreement - LAA - in 2005/06. Interim governance arrangements, including a Financial Protocol, were put in place to support the first year. The refresh for 2006/07 identified that the LAA should be integrated within the work of the Derby City Partnership - DCP- Cities to ensure alignment of agendas and underpin effective partnership working. The review of DCP structures has now been concluded and the Council as 'Accountable Body' for the LAA needs to update the LAA Financial Protocol to ensure it is fit for purpose.

2. LOCAL AREA AGREEMENT FINANCIAL PROTOCOL

- 2.1 The context of the Protocol needs to be set in the desire for the Partnership to be moving from a 'virtual organisation' to one with real powers and responsibilities. The national framework for Partnerships and the LAA has so far not allowed this to move too far but it is the intention to create an environment where DCP is seen as the 'formal' organisation responsible for decision making around the LAA. In this respect it is proposed that the Accountable Body role is at the minimum intervention level, subject to the normal safeguards regarding use of public money.
- 2.2 The Council has two roles within the LAA. First it is the Accountable Body, and in doing so has to make arrangements for the proper administration of the funds allocated to the Partnership. In addition, elected members form a key component of the membership of the Partnership itself and are able to influence decisions in this way.
- 2.3 The Partnership is well placed to take forward the Local Area Agreement and its supporting governance arrangements. In July 2006, the Partnership received a 'green' rating from Government Office on the progress made to date in delivering the Local Area Agreement.
- 2.4 The new governance arrangements reflect the developing nature of partnership working and the Government agenda of sustainable communities. Members will continue to play a significant role in local decisions on LAA funding through the new Area and Neighbourhood structures as well as through the Partnership itself. There will also be a role for Scrutiny in overseeing the LAA funding decisions made by DCP Cities.

- 2.5 The Protocol provides for the key decisions on finance to be taken at the partnership level, subject to the safeguards required of the Accountable Body by Government. The Protocol is attached in **Appendix 2** and makes arrangements for:
- making the distinction between pooled and aligned funding. It is however, envisaged that this distinction will start to disappear in future years as intended under the developing LAA framework
 - procedure for allocation funding and budgets by DCP and funders
 - arrangements for dealing with in year variations in funding and the virements of budgets
 - treatment of surplus/deficits at year end
 - standards of financial administration and audit.
- 2.6 It is intended that this Protocol runs for the remainder of the current financial year and forms the basis of future financial management arrangements.
- 2.7 A list of funding streams included in the LAA for 2006/07 can be found in Annex 2 of the Protocol.

3. NEXT STEPS

- 3.1 The Financial Protocol was approved by the LAA Steering Group on 28 September 2006 and now requires ratification from the Council as Accountable Body and other partner organisations involved in the LAA.
- 3.2 The outcomes and funding streams included in the current Local Area Agreement will be re-allocated to the new DCP Cities over the next few months as part of the refresh for 2007/08. Members will continue to receive quarterly performance reports on the progress of the Local Area Agreement.

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Background papers:

List of appendices: Appendix 1 – Implications
Appendix 2– LAA Financial Protocol

IMPLICATIONS

Financial

1. The Council as Accountable Body for the Local Area Agreement is responsible for ensuring there is appropriate financial governance arrangement to manage LAA funding. The Financial Protocol sets out the relevant roles and responsibilities of the Accountable Body, Derby City Partnership and funded organisations.

Legal

2. As noted above.

Personnel

3. None directly arising from this report.

Equalities impact

4. None directly arising from this report.

Corporate priorities

5. This report demonstrates progress made towards achieving the Council's corporate priorities.

LOCAL AREA AGREEMENT FINANCIAL PROTOCOL

1. Introduction

This protocol sets out the basic structure for the financial management of Derby's Local Area Agreement, LAA. This guidance will replace the 2005/06 protocol once adopted by the partner organisations within Derby City Partnership including Derby City Council as the LAA's Accountable Body, within any delegated powers applying within these bodies.

The finance and contract procedure rules of funded organisations will also apply to the funding allocated under the LAA but this protocol will take precedence in the event of any conflict with those provisions.

As the LAA is a voluntary agreement to pool funding, any changes to this protocol will require the agreement of the organisations, which would receive pooled funding directly in the absence of the LAA. This may be done through the LAA annual refresh process.

The terms used in this protocol are subject to the definitions set out in **Annex A**. The funding streams within the LAA, as at April 2006, are set out in **Annex B** and show how the various definitions are being applied to particular funding streams.

2. Pooled and Aligned Funding

The LAA makes provision for two types of funding streams:

Pooled Funding

Pooled funding relates to:

- Government funding streams which in the absence of LAA would be paid on an individual basis to funded organisations but which are now delivered in a single monthly payment from each central Government department
- Mainstream budgets that one or more partners may have chosen to pool within the LAA and which are not aligned funding.

The Council as Accountable Body is responsible for receiving and disbursing pooled funding in accordance with the decisions reached under the processes set out in the protocol. These funding streams are subject to monitoring by the relevant DCP City Group and other reporting mechanisms as set out in this protocol.

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

relevant Government Department. The agreement should be broadly consistent in terms of scope with the issues that were the subject of agreement for 2006/07 between the Council and Connexions as a minimum requirement.

Aligned Funding

Aligned funds are funding streams which are aligned (in full or part) to the outcomes framework of the LAA.

They continue to be paid to the funded organisation, which aims to deliver the agreed outcome set out in the LAA and retains ultimate accountability for delivery of the outcomes, but in full co-operation with the relevant DCP City Group.

The subsequent sections of this protocol apply only to pooled funding but there will be separate reporting requirements to the DCP City Groups for aligned funding streams.

3. Allocation of Funding and LAA Project Budgets

LAA pooled funding streams will be allocated by the DCP Management Group or a body nominated by DCP Management Group to DCP City Groups. DCP City Groups are empowered to make decisions regarding the allocation of the funding across specific LAA projects to deliver LAA outcomes, subject to meeting the conditions and constraints either set out in this protocol or subsequently developed in accordance with this protocol and any obligations so arising. Such decisions can only be made following full consultation with the organisations which would receive pooled funding in the absence of the LAA. The consultation should include proposals on the amount of funding to be allocated to specific projects. Where, as part of that consultation, those organisations are dissatisfied with the proposed decisions for the financial year, they will retain the opportunity to withdraw that funding from the LAA for that year.

The DCP Management Group will approve a budget showing the resources available from each LAA funding stream and the allocation of that funding to specific LAA projects based on the decisions by DCP City Groups. The Council will be required to approve that budget in its role as Accountable Body, in terms of confirming that proper procedures have been followed. For 2007/8 onwards, such budgets must be approved by the Management Group following consultation before the start of the financial year.

For each LAA project, a brief will be compiled to a minimum standard specification. The project brief should set out project aims and milestones and financial and other information. The minimum standard specification will be approved by the DCP Management Group. Either the DCP Management Group or the Accountable Body may add to these minimum standard requirements and the agreement of both will be required to any deletion or other amendment to them.

Working to this standard, the content of each individual project brief and any amendments to it will be agreed by the DCP City Group and the relevant funded organisations. If the financial element of the project brief is not agreed in full before the start of the financial year, the Accountable Body may determine temporary restrictions that limit the commitment of the project budget, in so far as those restrictions are relevant to any missing elements. The DCP City Group or DCP Management Group may determine additional relevant restrictions that limit the commitment of the project budget if the aims within the project brief are not agreed in full before the start of the financial year.

For each pooled funding stream the allocations to projects should be reconciled in total to the amount estimated in the LAA funding agreement, net of any variations in external funding notified to and passed on by the Council. The total allocation must not exceed this amount without the agreement of the DCP Management Group and the Council as Accountable Body.

4. Variations in Funding

Where, for any one pooled funding stream, the pooled funding available to the LAA rises to more than £50,000 above the level assumed when consulting on uses of funding, then decisions by the relevant DCP City Group on the allocation of the additional funding for that funding stream require further consultation with the organisation which would receive such funding in the absence of the LAA and approval by the DCP Management Group.

Where, for any one pooled funding stream, the pooled funding available to the LAA falls below the level assumed when consulting on uses of funding, then in the absence of other available funding the relevant DCP City Group will revise downwards the project budget allocations to the agencies already funded from that funded stream. The funded organisations must manage the consequences of any such reduced budgets. This revision will be subject to the agreement of the DCP Management Group if the DCP City Group considers that LAA outcomes would be materially affected. The DCP City Groups should consider the use of any unallocated pooled funding before making such reductions.

5. Virement of Budgets

All virement of LAA funding will be required to be approved by the funded organisations under their delegated powers as necessary, irrespective of these additional rules applying overleaf.

Funded organisations have authority to vire budgets between approved LAA project budgets within a single financial year provided that:

- the net virement into or out of any one project budget is not greater than 10% of the annual project budget or £100,000, whichever is the lower figure
- the virement is not inconsistent with LAA outcomes when taken as a whole
- non-recurrent budgets are not used to create spending commitments that are recurrent beyond the financial year end

- there is no net virement between project budgets allocated by different LAA City Groups
- there is no net virement between revenue and capital funding.

Virements meeting the above conditions may be made between LAA projects allocated to different funded organisations provided that each funded organisation approves the virement.

All budget virements that do not meet the above conditions require the approval of the DCP City Group. Where budgets are transferred between two City Groups this requires the agreement of the DCP Management Group.

It is the responsibility of the funded organisation to report promptly any virements to the DCP City Group together with an accompanying explanation of how this will assist in delivery of LAA outcomes and any revisions necessary to the LAA project brief. The DCP City Group could challenge the virement retrospectively only in circumstances where the virement clearly did not meet the conditions set out in this protocol. For the challenge to stand, the Government Office would have to support this view and the funded organisations would then be expected to reverse the virement.

6. Treatment of Underspent and Overspent Budgets at the Year End

The use of carried forward unspent LAA funding will be required to be approved by the funded organisations under their delegated powers as necessary, irrespective of these additional rules applying below.

After the financial year end, the DCP Management Group will approve a reallocation of net unspent LAA project budgets for use in the subsequent financial year. This approval will follow:

- Proposals drawn up by each DCP City Group
- A consultation process with each funded organisation

The proposals that may be approved by the DCP Management Group will be limited by the requirement that a funded organisation must give its express approval to a proposal to reallocate underspent budgets to a project other than the underspent project. This limiting requirement will only apply where all of the following conditions have also been satisfied:

- Underspending will first be netted off against any overspending of LAA funding by the same funded organisation for this purpose only, without prejudice to the need for formal approval of virements. The DCP City Group must agree if this is to be a permanent as opposed to a temporary virement of funding.
- The loss of any funding from an LAA funding stream at year end, from LAA underspending or other reasons, will be met by the relevant funded organisation. The relevant funded organisation would be the funded

organisation or agencies responsible for the actions leading to the loss of funding, for example an underspending of approved funding.

- Where funding is to be carried forward, it is for the same broad uses as set out in the approved LAA project brief, otherwise the rules on virement apply.
- The proposals from each DCP City Group must provide for carried forward funding to be no greater than the level of underspending in the prior year.

Net overspending above approved LAA project budgets, net of any virement and additional budget allocations that may be made, is the responsibility of the funded organisation and is required to be funded by that agency. This includes overspending that arises from a decision to revise downwards a LAA project budget. The City Council will not accept responsibility for the overspending in its role as Accountable Body to the LAA.

Carried forward LAA budgets must not be used to create spending commitments that are recurrent beyond the financial year end

The DCP Management Group and DCP City Groups may take into account actual or projected underspending in a prior year when taking decisions on the allocation of LAA funding in subsequent years.

7. Financial Administration

It is the responsibility of funded organisations and a condition of receipt of LAA funding that robust arrangements are in place to permit continual monitoring of expenditure against each LAA project budget.

Reports should be provided by funded organisations shortly after the end of each quarter of the financial year, to a standard format and timetable set by the Council's Chief Finance Officer, summarising spending against profiled budgets for each funding stream.

Reports will be provided to both the DCP City Group, copied to the Accountable Body.

As a condition of receipt of LAA funding the Accountable Body may direct funded organisations to put in place procedures to ensure the proper financial administration of LAA funds, additional to any requirements of those funded organisations own rules of procedure, provided that the additional procedures are broadly consistent with the Council's own finance procedure rules.

Any officer including the Director of Derby City Partnership and the responsible budget officer for a given LAA project must draw to the attention of the Council's Chief Finance Officer any circumstances which give cause to believe that the provisions of this protocol are not being followed.

8. Review and Audit Arrangements

The Accountable Body is currently required by Government Office to produce a Statement of Grant Use on a six monthly basis which must be signed by the Chief Finance Officer.

The Accountable Body is also required to make arrangements for audit of the Annual Statement of Grant Use by its Internal Auditors. External Audit may also be required to audit LAA funding streams or arrangements periodically.

Funded organisations, DCP and the Accountable Body 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. Funded organisations will retain such supporting information to enable this assurance.

9. Interpretation

Any dispute over the interpretation of the provisions of this protocol will be resolved by a jointly agreed decision of the DCP Management Group and the Council in its role as Accountable Body. If a joint decision cannot be reached, the Government Regional Office will arbitrate.

Annex A – Definitions

Accountable Body. The City Council. Where the Council exercises responsibilities under this protocol, the degree of delegation will be as allowed for under the Council's Constitution including its Finance Procedure Rules.

Aligned Funding. As defined in Section 2.

Budget holder. A named person who will be responsible for the financial administration and control of funds allocated to LAA projects and responsible for reporting on their use. The budget holder will normally be an officer of the relevant funded organisation.

DCP City Group. A group managing a defined element of LAA funding, as constituted by Derby City Partnership and whose actions are subject to any reporting requirements or other constraints determined by the DCP Management Group or the DCP Board. For the purpose of this protocol this definition may include other groups given such responsibilities by the DCP Management Group, in the case of cross cutting elements of LAA funding.

Funded organisation. An organisation that receives the budget allocation of pooled funding as determined by a DCP City Group. In the case of the City Council, each Council department will be treated as being a separate funded organisation, unless the Council Cabinet determines otherwise for any aspect of its provisions.

LAA Funding Agreement. The agreement governing the outcomes of the LAA, signed by the partners to the LAA and the Government.

Funding Stream. A source of pooled funding available to the LAA. Each grant pooled within the LAA shall be treated as a separate funding stream, in so far as the Government requires such grants to be reported on separately in statutory returns to the Government.

Pooled Funding. As defined in Section 2.

LAA Project Brief. An activity with defined resources and objectives that contribute towards specific LAA outcomes.

LAA Project Budget. The budget allocated to the funded organisation for delivery of specific actions and outcomes to be set out in the project brief.

Virement. A decision to reallocate budgets between LAA projects.

ANNEX B

LAA Funding Streams 2006/07 and 2007/08 (updated October 2006)

Children & Young People

Funding stream	Organisation funded in absence of LAA (Pooled Funding)	2006/07 £000	2007/08 £000	Aligned/ Pooled	Related Outcomes	Funded organisations
CAMHS 2006/07:						
City Council		426		Aligned	CYP 2	Derby City Council
Primary Care Trust		285		Aligned		Central and Greater Derby PCTs
CAMHS c/f from 2005/06:						
City Council		100		Aligned	CYP 2	Derby City Council
Primary Care Trust		200		Aligned	CYP 2	Central and Greater Derby PCTs
Children's Fund	Children's Fund	829	808	Pooled	CYP 1	Family Welfare Assoc
Connexions	Connexions	2,342		Pooled	CYP 2, 3, 6 & 7	Connexions
Education health partnerships		27	27	Aligned	CYP 2	Derby City Council
Extended schools (standards fund)	Council	368	368	Pooled	CYP 4, 5	Derby City Council
General Sure Start revenue grant	Council	3,042	3,077	Pooled	CYP 4, 5	Derby City Council
Sure Start Local Programmes	Council	2,497	2,174	Pooled	CYP 4, 5	Derby City Council
Secondary Strategy Behav and Attendance	Council	68	68	Pooled	CYP 7	Derby City Council
Secondary Strategy Central Coordination	Council	167	161	Pooled	CYP 4, 5, 7	Derby City Council
LPSA2 PPG:						
Target 7		124	76	Aligned	CYP4	Derby City Council
Target 6		60	60	Aligned	CYP4	Derby City Council
Target 1		80	81	Aligned	CYP5	Derby City Council
Target 2		80	84	Aligned	CYP7	Derby City Council
Neighbourhood Renewal Fund	Council	1,117		Pooled	CYP 1, 5	Range of organisations
Active England Sports Lottery		35	30	Aligned	CYP4	Derby City Council
PE National Strategy		20	20	Aligned	CYP4	Derby City Council
Positive activities for young people	Council / Connexions	292		Pooled	CYP 7	Derby City Council
Primary strategy central coordination	Council	162	139	Pooled	CYP 4, 5	Derby City Council
School travel advisers	Council	28	28	Pooled	CYP 1	Derby City Council
Teenage pregnancy	Council	141	141	Pooled	CYP 3	Derby City Council
Childrens services	Council	785	989	Pooled	CYP 1	Derby City Council
TOTAL		13,275	8,331			

Economic Development & Enterprise

Funding stream	Organisation funded in absence of LAA (Pooled Funding)	2006/07 £000	2007/08 £000	Aligned/ Pooled	Related Outcomes	Funded organisations
DDEP		300	0	Aligned		Range of organisations
SRB		1,544	1,782	Aligned		Range of organisations
Objective 2		2,262		Aligned		Range of organisations
URBANII		1,121		Aligned		Range of organisations
LPSA2 monies - Target 11		62	64	Aligned	EDE 5	Derby City Council
TOTAL		2,341	2,181			

Healthier Communities & Older People

Funding stream	Organisation funded in absence of LAA (Pooled Funding)	2006/07 £000	2007/08 £000	Aligned/ Pooled	Related Outcomes	Funded organisations
LPSA PPG - Target 5		71	70	Aligned	HCOP 1	Derby City Council
LPSA PPG - Target 12		57	59	Aligned	HCOP 2	Central and Greater Derby PCTs
Neighbourhood Renewal Fund	Council	395		Pooled	HCOP 2, 3	Range of organisations
PCT Tobacco Control		21	21	Aligned	HCOP 2, 3	Central and Greater Derby PCTs
PCT – targeted voluntary sector funding		31	31	Aligned	HCOP 1, T5	Central and Greater Derby PCTs
City Council – targeted vo sector funding		153	153	Aligned	HCOP 1, T5	Derby City Council
PCT Phys Activ Strategy Co-ordination		59	61	Aligned	HCOP 2, 3	Central and Greater Derby PCTs
Active England		5	5	Aligned	HCOP 3	Derby City Council
TOTAL		792	400			

Safer & Stronger Communities

Funding stream	Organisation funded in absence of LAA (Pooled Funding)	2006/07 £000	2007/08 £000	Aligned/ Pooled	Related Outcomes	Funded organisations
Anti-social behaviour grant	Council	25		Pooled	SSC1	Derby Community Safety Partnership
Building Safer Communities	Council	348		Pooled	SSC1	Derby Community Safety Partnership
Drugs intervention programme		679		Aligned	SSC1	Derby Community Safety Partnership
Young persons substance misuse		361		Aligned	SSC1	Derby Community Safety Partnership
Drugs strategy partnership grant	Council	70		Pooled	SSC1	Derby Community Safety Partnership
LPSA2 PPG:						
Target 8		66	54	Aligned	SSC1	Derby Community Safety Partnership
Target 4		84	60	Aligned	SSC1	Derby Community Safety Partnership
Target 9		69	50	Aligned	SSC1	Derby Community Safety Partnership
Target 10		94	65	Aligned	SSC4	Derby Homes
HRA Estate Sustainability	Council	150		Pooled	SSC2,3,4	Derby Homes
Neighbourhood Renewal Fund	Council	2,177		Pooled	All	Range of organisations
SSCF Cleaner Greener	Council	970	1,130	Pooled	SSC3	Derby Community Safety Partnership/ Derby City Council
SSCF neighbourhood element	Council	413	516	Pooled	SSC2,4	Derby Community Safety Partnership/ Derby City Council
TOTAL		5,506	1,875			