

THE CUMBRIA AGREEMENT

PRACTICE NOTE 1

MANAGING FINANCE

VERSION 3 – 28th February 2007

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1. INTRODUCTION

This practice note explains the principles and processes for the financial management of the Cumbria Agreement. The management of finances is integral to the achievement of the outcomes and targets in the agreement, and the contents of this note sit alongside the overall Governance Framework and the Performance Management Framework, and should not be viewed in isolation from them. Making funding decisions based on priorities and performance will be vital to achieve added value from the Agreement, and financial management arrangements that promote accountability and effective use of resources are vital to convert plans into effective actions.

This practice note explains in outline the national framework for the management of funds supporting Local Area Agreements, and explains in more detail the local application of that framework.

1.1. NATIONAL FRAMEWORK

1.2. Pooled Funding

A feature of the Local Area Agreement is that government pools some funding streams. Some are automatically pooled, and others are pooled subject to local request. Except for some of the SSCF funding streams that are already pooled, these are paid in 2006-07 as separate allocations to the recipient organisations, each with their own terms, conditions and claim processes. Under the LAA these funds are combined into a single payment for each LAA block, largely with a single set of conditions, and for partners to agree locally how to use this funding to meet the agreed priorities and targets in the LAA. This gives more local flexibility in the use those funds, and should rationalise the grant claims process. Government pays funds to the designated Accountable Body (which in 2-tier areas is the County Council).

The Accountable Body has overall responsibility for distributing funds linked to agreed outcomes and targets in the LAA, and for making arrangements for proper and effective management of those funds.

Where funds are pooled:

- The former grant conditions are replaced by a general requirement to use funds towards outcomes and targets in the LAA, and by a set of standard general conditions. There may be more specific conditions where certain funding streams are included, for example, requirements to include specific outcomes and targets in the LAA. The government sets out the terms and conditions in the Grant Determination, which is made to the Accountable Body.
- There is no longer a separate grant claim for each individual funding streams. Instead, government will pay the Accountable Body the total allocation for each block in regular instalments. The Accountable Body will still need to account for

- spend in total against the allocation for each block, provide assurance that funds have been used to support the objectives in the LAA, and provide assurance that outcomes are being delivered. Government can reduce or withhold future payments if performance is not satisfactory or claim back underspends.
- The Accountable Body is responsible for making appropriate arrangements for the distribution of funds to delivery partners. Government expects that the conditions of funding for individual delivery partners to reflect the conditions of the grant determination to the Accountable Body.

1.3. Aligned Funding

Most outcomes and targets in the LAA depend at least in part on mainstream and other funds that are not covered by the pooling arrangements. So partners need to agree locally how non-pooled funds are allocated to support LAA outcomes i.e. how partners can focus existing funds towards achievement of targets. Funds allocated in this way are referred to as 'Aligned Funds'.

Aligned funds will continue to be paid by government to the existing recipient. Current terms, conditions and monitoring arrangements applicable to those grants will continue, rather than the conditions applied to pooled funds, and they continue to be subject to individual grant claims. The recipient organisation remains responsible for final decisions on the use of those funds.

2. MANAGEMENT OF POOLED FUNDS

This section sets out the framework for the management of pooled funds in Cumbria. The general approach is that funding allocations be backed by a funding agreement with the lead delivery partner that will set out the terms and conditions relating to that allocation. Those terms will incorporate as applicable the terms in the government's Grant Determination, and will reflect the decision-making and monitoring arrangements in Governance Framework and in the following sections.

2.1. Allocation of Pooled Funding

- The fundamental condition of pooled funding is that it must contribute towards the outcomes and targets in the Local Area Agreement. It is not a requirement that all activities relate directly to specific targets, but they need at least to support the outcomes.
- For 2007-08, LAA pooled funding, apart from PPG, is allocated by block, and funds can only be used to support outcomes and targets for that block. In the longer term the government has said that it intends to allocate all LAA funds as a 'single pot' i.e. a total allocation for Cumbria with the allocation between blocks decided locally. It will then be for partners collectively to agree as part of the annual refresh how to distribute the total to best support outcomes and targets.

- Under a ‘single pot’ framework the CSP Executive would recommend initial funding allocations to each block for planning purposes, based on relative priorities.
- The Thematic Partnerships will advise on the allocation of pooled funding to lead partners within each block. Funding will be allocated so as to best support the achievement of agreed outcomes and targets. Thematic Partnerships will need to consider what activities best support outcomes and targets, which are the appropriate delivery bodies, and whether proposed allocations are good value for money.
- The CSP Executive will take an overview of recommendations from the Thematic Partnerships and check that the allocation of funds reflects the overall priorities for Cumbria in the Cumbria Sustainable Community Strategy. It will also seek to maximise the links and synergies between activities across all blocks. In the light of this, it will then recommend funding allocations to the County Council. Formal responsibility for decisions on funding allocations rests with the County Council as the Accountable Body. Subject to the timescales set by government for the annual refresh and the announcement of funding streams, the County Council will agree allocations in January or February.
- The lead delivery partner may in turn rely on other partners for some of the activities. The lead partner should ensure that it has appropriate agreements in place where pooled funds are passed on to other partners. These arrangements should make clear to other partners the purpose for which funding is being given, and terms and conditions they are required to follow. These should be sufficient to give to ensure that funds are used for the intended purpose, but be proportionate to the amounts involved and degree of risk.

2.2. Payment arrangements

- Government will automatically pay all LAA pooled funds to the accountable body i.e. the County Council.
- The County Council will transfer funds to lead partners based on the agreed allocations. The standard arrangement will be to pay funds on a quarterly basis . Partners will need to provide details of the bank account to which funds will be paid.

2.3. Eligible Spend

- Pooled funding can only be used to contribute towards the outcomes and targets in the Local Area Agreement. It is not a requirement that all activities relate to specific targets, but they need at least to support the outcomes.
- Delivery partners will need to demonstrate that spending meets this requirement. To achieve this, and to make responsibilities clear, Thematic Partnerships will agree action plans to achieve outcomes and targets, including the allocation of resources to support them. Delivery partners will then manage and record spend against those agreed activities.

- The conditions in the grant determination define expenditure for the purpose of grant eligibility as being when legal tender (or a cheque, or instruction for electronic transfer) pass out of the control of the accountable body or anyone acting on its behalf i.e. on a cash rather than an accruals basis. The conditions also specify certain types of spend that are not eligible for grant e.g. political donations, depreciation etc. These conditions will be incorporated in the agreements with delivery partners.

2.4. Capital Expenditure and Asset Management

- The grant determination may specify how much grant is for capital expenditure and how much for revenue expenditure. Any limits will be reflected in the funding agreements with delivery partners. Capital resources cannot be used to fund revenue spend, and under the current framework there is no scope to use revenue resources to fund capital spend, although the latter is subject to review by government.
- Any assets purchased or created with LAA funding must be used to achieve the LAA objectives. If the assets are sold, or their use changed, then DCLG can recover the amount of grant originally invested.
- For this reason, DCLG requires authorities to keep a register of the relevant fixed assets of a value above £5,000. Delivery partners will need to inform the County Council via the monitoring returns of any such assets. The County Council will take a legal charge on any assets funded from pooled funding and held by partners to cover the event of grant recovery being required.
- Partners should notify the County Council if such assets are to be sold, or their use changed. Partners should assume that grant will be repayable. However requests can be made to the Government Office to recycle these funds where the proceeds of the assets sold or the new use continue to meet LAA objectives. Any requests should be made through the County Council on the recommendation of the Thematic Partnership.

2.5. Finance and Performance Monitoring

- There is a separate Practice Note covering the framework and procedures for performance management. However, performance management and financial management are linked through the alignment of resources to performance.
- Thematic Partnerships will therefore oversee the financial management of pooled funds within each block alongside performance management. They will be able to recommend redistribution of pooled funds in circumstances where it is agreed that refocusing of resources would improve performance. Thematic Partnerships might also make recommendations on the use of pooled funds in the event that monitoring information projects that government limits on carry-forwards might be exceeded. Any recommendations on redistribution of funds should be in consultation with partners affected and take account of any need for partners to obtain their own internal approvals.

- The Thematic Partnerships will therefore receive financial monitoring information on a quarterly basis as part of the quarterly performance update through the Business Support Officer.
- The CSP Executive will also receive a 6-monthly monitoring summary. Under the current '4-block' funding model the CSP Executive cannot recommend moving resources between blocks, although this would be possible under a 'single pot' framework. But under the existing framework it has a role taking an overview of spend across the four blocks and ensuring Thematic Partnerships take appropriate measures in the event that the limit on carry forwards for the LAA overall might be exceeded.
- Monitoring information should be presented using an 'Excel' template in a standard format. The information will show the amount of funds allocated, actual spend to the end of the reporting period, forecast spending to the end of the year, and the forecast variance at the year end. This will be accompanied by a supporting commentary to explain the implications for performance against outcomes and targets, any options to address under-performance where applicable, any issues affecting ability to spend allocations, and options to manage forecast spending variations.
- Financial monitoring information will be placed on the CSP website alongside performance reports.
- Thematic Partnerships can only make formal recommendations on the use of pooled funds. Thematic Partnerships might request information on the use of aligned funds on an exception basis in the event that performance management identifies performance issues linked to the use of aligned funds. They could influence delivery partners to review how aligned funds are used, but cannot make formal recommendations, as aligned funds remain the responsibility of the designated recipient.

2.6. Reporting to Government

- The Government Office requires financial and performance monitoring information on a regular basis. The current timescale is for a mid-year report for the end of November, a provisional outturn for mid-March, and a year-end Statement of Grant Usage in early summer. The mid-year information will form the basis of the six-month review meetings with the Government Office.
- Information for these reports will be taken from the regular monitoring information to Thematic Partnerships. Reports to Government Office should not require additional material from partner organisations, although the format and timing of monitoring information will be influenced by these requirements.

2.7. Variances and Carry Forwards

- The LAA Grant Determinations set a limit on the amount of pooled funds that can be carried forward automatically, except for PPG. For 2006-07, the limit is 5%. This limit applies to the LAA overall and not to individual blocks. So,

for example, a carry forward of 6% against an individual block might not be a problem if spend for other blocks is on target. However, under the current 4-block funding framework, overspends on a block cannot be used to offset underspends in other blocks, as that would breach the current ringfence of funds to outcomes and targets within that block.

- The CSP Executive will monitor overall spending of pooled funds across the LAA. Under the current framework it cannot recommend that funds are moved across blocks to offset variances, but the CSP Executive will need to alert Thematic Partnerships in the event that carry forward limits might be exceeded and ensure that they take appropriate action to manage the situation.
- Thematic Partnerships have a role to ensure that resources are used effectively within each block. They can recommend reallocating resources between activities where this would support effective use of resources. For example, they might agree to recommend bringing forward activity in one area if delays in spending on another activity that might otherwise result in funding being lost. However, partners should work on the basis that they will need to fund any overspends.
- Thematic Partnerships will make recommendations on the use of carry forwards at the end of the year. Recommendations should take account of reasons for underspends, implications for outcomes and targets, the overall financial position, relative priorities, and stability of funding for delivery partners. Recommendations will require approval by the County Council as the accountable body.
- In the event that funds are not spent, or agreed as carry forwards at the year-end, unspent funds will be recoverable by the Accountable body (since they are recoverable by government).
- Virement within blocks.

2.8. Decision Making

- Government has placed the formal responsibility for decisions on the allocation of funding with the Accountable Body, which in 2-tier areas is the County Council. The County Council will therefore need to formally approve recommendations on funding made by Thematic Partnerships and the CSP Executive.
- The full County Council will formally approve the annual refresh around January, depending on the exact timetable for the refresh.
- There may be circumstances when decisions on funding allocations need to be taken during the year, for example, if some funding allocations are announced late, or if Thematic Partnerships agree that funds be redistributed to address performance issues or limits on carry forwards. The County Council is examining options to allow changes within certain financial parameters to be agreed using delegated authority in order to speed up formal approval of decisions. Any fundamental changes exceeding these thresholds will be subject to agreement by Cabinet and the County Council.

- Where it has been agreed to allocate funding to a specific locality, an option being examined is to delegate approval of detailed spending programmes to the relevant Local Committee.

2.9. Audit and Certification Requirements

- LAA pooled funds are not subject to a grant claim, but there is a requirement for the Accountable Body to provide assurance to government that funds have been used for the purpose intended. This assurance will rely substantially on an audit opinion from the Head of Internal Audit of the Accountable Body.
- To support this, partners will be asked to provide written confirmation at the start and end of the financial of the estimated and actual amount of spend, and confirmation that spending meets the requirements of the Grant Determination. The funding agreements will highlight which clauses relate specifically to this requirement. This should be in the form of a self assessment, which must include details of the spend and also confirmation of the financial controls in place.
- Partners will therefore be required to keep accurate records of estimates and spending, backed by supporting documentation, and maintain sound systems of financial control.
- LAA spending will be subject to audit by the County Council's Internal Auditors, and partners should provide reasonable assistance to any such audit. The frequency and nature of audit examination will be subject to a risk-based assessment and will be informed by the content of the self-assessment referred to above.
- LAA spending is not subject to the audit of a claim, but CLG reserves the right to undertake its own audit work if required. Similarly, the Audit Commission, and exceptionally the National Audit Officer, may include LAA funding in their work. For these reasons, the funding agreements will require audit access for these organisations.

3. ALIGNED FUNDS

Where funds are aligned rather than pooled, formal decision-making authority rests with the grant recipient. However, partners' decisions on the allocation of these funds need to take account of the priorities and targets in the LAA, and partners should be able to demonstrate this to the Thematic Partnership if requested.

- The Thematic Partnerships might request information on the use of aligned funds on an exception basis, for example, in the event that performance management reports identify performance issues that may be connected to use of aligned funds.

- Thematic Partnerships could request that delivery partners review the use of those funds and to report back on proposals. Unlike pooled funds, the formal decision-making powers rest with the current grant recipient.

4. PUMP PRIMING GRANT

Pump Priming Grant (PPG) is paid by government to support achievement of stretch targets. The total allocation for Cumbria is £750,000 + £1 for each member of the population i.e. nearly £1.25m in total to cover the 3 years of the agreement. The grant is paid initially as capital, but a third of it can be converted to revenue each year. It is for local partners to agree how it is used.

- A panel of the CSP Executive met in December to make recommendations on the allocation of PPG. The stretch targets are fixed for the duration of the LAA: they are not renegotiable at the annual refresh. Activities to deliver stretch targets are three-year programmes, and so will not be subject to fresh decisions each year. The Thematic Partnerships and the CSP Executive could review funding allocations only on an exceptional basis, for example, if it is clear that a target area is not going to spend its full allocation.
- Payments of PPG funding will be subject to a funding agreement with the lead delivery partner following the general principles applicable to pooled funding. The agreement will be modified to reflect specifically the terms applicable to PPG. The principal differences are that the carry forward limits applicable to pooled funding do not apply to PPG, and that the payment profile for individual targets will vary e.g. depending on duration of the activity, and the mix of revenue and capital spend.

5. REWARD GRANT

Reward Grant is paid over the 2 years following the end of the agreement and is subject to achievement of the stretch targets i.e. half in 2010-11 and half in 2011-12. Half is paid as revenue grant, and half as capital. The CSP Executive and the County Council, following consultation with partners, have agreed that Reward Grant, once achieved, will all be allocated based on shared priorities in the Community Strategy and LAA at the time.