

LAA FINANCE GUIDANCE

Introduction

1. This Guidance has been produced for Round One and Two areas with a Local Area Agreement (LAA) in 2006/07, and to inform Round Three areas in the process of setting up their systems for managing their LAAs. It supplements the Guidance issued in March 2006 and the grant determinations made in 2006, but supersedes advice issued to Round One areas in Advice Note 3.
2. The Guidance reflects both the experience of Round One areas in managing their LAAs and the experience of Government Departments and Government Offices in managing the 2005/06 LAA financial management process.
3. Our intention is that this should be a living document that is revised as required to reflect emerging issues. There will be a revision provided at the same time as the Grant Determinations for 2007/08 (March/ early April) to reflect any changes for Round Three. The Government Office will advise areas when an update is available.
4. Given the broad nature of the audience, the Guidance covers some of the core issues, eg 'What is an LAA?' However, it also offers advice on issues such as the reporting and auditing framework which will be of interest to those already working within LAAs.

Financial responsibility & accountability

5. **The effective stewardship of public resources is as important in partnerships such as Local Strategic Partnerships as in 'corporate' bodies such as local authorities. The designation of the lead authority¹ as the Accountable Body for the financial management of the LAA is aimed at promoting clear financial responsibility and accountability.**
6. Accountable Bodies should have regard to the Audit Commission's guidance on working in partnerships, 'Governing Partnerships - Bridging the Accountability Gap' (<http://www.audit-commission.gov.uk/reports>), and should ensure they have addressed risks around:
 - accountability between partners;
 - clarity in the processes for making decisions about the allocation of LAA funding;

¹ This is county councils, district councils exercising the functions of a county council in their area (including metropolitan district councils), London boroughs, the Common Council of the City of London in its capacity as a local authority and the Council of the Isles of Scilly.

- scrutiny of expenditure and allocations;
 - the adequacy of the systems for financial control and monitoring within the partnership; and
 - the adequacy of partners' financial skills, resources and systems to report on expenditure.
7. In short, local areas will need clear and robust governance arrangements to ensure effective and efficient delivery of the financial management element of the LAA.

What is a Local Area Agreement?

8. A Local Area Agreement (LAA) is a 3-year agreement, based on local Sustainable Community Strategies, that sets out the priorities for a local area agreed between Central Government, represented by the Government Office (GO), and a local area, represented by the lead local authority and other key partners through Local Strategic Partnerships (LSPs).

Objectives of an LAA

9. The primary objective of an LAA is to deliver genuinely sustainable communities through better outcomes for local people. LAAs also have the secondary objectives of:
- Improving Central and Local Government relations
 - Enhancing efficiency
 - Strengthening partnership working
 - Offering a framework within which local authorities can enhance their community leadership role

The direction of travel for LAAs

10. The pilot LAAs were conceived primarily as a means of capturing the wide range of *area based* funding streams, allowing for rationalisation of the funding and streamlining of the administration and monitoring that surrounds them.
11. Round Two has seen localities increasingly using LAAs as an opportunity to expand beyond funding streams into a more substantive document reflecting a wider range of shared social, economic and environmental priorities.
12. Round Three will see a further development of LAAs with the completion of the roll out to all 150 lead authorities.
13. The Local Government White Paper was published on 26 October 2006 and proposes a step change in the LAA arrangements. In relation to the financial framework, the WP proposes moving to an unringfenced LAA grant, giving areas more flexibility in the use of the grant within the context of wider proposed changes to LAAs and Local Government Finance. The

relevant extract from the White Paper is reproduced at Annex D. Information on the transition from the current arrangements to those outlined in the White Paper is likely to be covered in subsequent versions of the Finance Guidance.

The LAA framework

The 4 Blocks

14. The basic funding arrangements are simple in concept - 4 'Blocks' of funding are made available for the following areas of activity:
 - Children and Young People
 - Healthier Communities and Older People
 - Safer and Stronger Communities
 - Economic Development
15. Funding is provided for use in one or more of these blocks. Unless an area has "single pot status", it will be given a specific allocation for each block. Areas should not have additional blocks, unless it is a local arrangement that does not include any pooled funding.

Single Pots

16. 31 areas have been granted 'single pot' status for 2007/08, as of November 2006. Single pot areas do not have to group funding streams or outcomes under the 4 Blocks. These areas have freedom to spend 'pooled funding' on the achievement of any of the outcomes agreed as part of the LAA. The advantages of single pot status are that it gives areas the ability to structure their LAA around their Sustainable Community Strategies, and it provides the opportunity to develop an LAA that is more joined up and cross cutting. Areas should speak to GOs if they wish to apply for single pot status.

Pooled funding

17. A number of Government Departments allocate and distribute specific funding on an area basis. One of the objectives of LAAs is to bring as many of these grants as possible into a 'pooling' arrangement to give areas greater flexibility on the use of their funding and to simplify arrangements by having a single set of terms and conditions. It is also anticipated that it will generate efficiency savings for both central government and local areas.
18. Pooling takes two forms:
 - a number of grants are automatically pooled, subject to certain conditions (such as mandatory outcomes, targets or indicators, a list of which can be found in the LAA R3 Guidance); and
 - some grants can be pooled subject to agreement being reached between the local area and the GO and relevant conditions being met ('case by case' basis).

19. Annexes A and B set out which grants fall in which category. These are an updated version of those which appeared in the Round 3 Guidance as amended. If a funding stream you wish to pool is not mentioned in the Annex you should discuss this with your Government Office.
20. Automatically pooled funding is a largely new category for 2007/08 (only Safer Stronger Communities Fund was provided in this way in 2006/07). The advantage of automatic pooling is that local areas can focus on the consideration and negotiation of targets rather than spending considerable time negotiating the inclusion of the grant before that can happen.
21. The funding eventually agreed as pooled is then formally set out in a Grant Determination. **As a consequence of this element of choice, the funding streams in Local Area Agreements will vary between local areas.**

Aligned funding

22. Where appropriate areas can also choose to 'align' other grants to help achieve the outcomes and targets set out in the LAA. However, funding that is aligned remains subject to its existing terms and conditions, including any monitoring and reporting arrangements, even when it is helping to achieve the outcomes and targets set out in the LAA.
23. For example, mainstream funding, such as RSG, Police, NHS and Schools funding, is paid to local and other bodies which can then choose to align this funding with the LAA grant. Bodies receiving mainstream funding are strongly encouraged to align it locally with LAA funding by local agreement, wherever possible.
24. Non-Departmental Public Bodies such as Regional Development Agencies, Big Lottery, Sport England and Learning and Skills Council, can also choose to bring their funding together with the LAA funding locally. NDPB funding cannot be centrally pooled as it has already been allocated to the relevant body and is linked to the original targets and objectives for which it has been allocated. A list of grants which can be aligned is at Annex C.

Matched Funding

25. Some funding, such as the European Regional Development Fund, requires that a proportion of the total funding for a project is provided from another source. This is known as matched funding. LAA funding can be used as matched funding for other grants, provided it continues to be compatible with the LAA grant determination, particularly in that it is used to address the outcomes, indicators and targets included in the LAA. The authority must ensure that its use is also compatible with the terms of the grant with which it is being matched. Its use would still need to be reported through the LAA statement of grant, even if it also needed to be reported through the mechanisms of the matched grant. The grant with which it is matched should not be included in the LAA statement of grant.

26. Some DfES grants that are now part of the LAA grant previously required a percentage of the grant to be matched by grant from another source. Those conditions no longer apply, although obviously continuing such practices may aid delivery of the LAA.

LAA refresh

27. All existing LAAs will need to reflect the key changes in the Round 3 Guidance into their LAAs in their annual 'refresh'. From a finance perspective this means reflecting the inclusion of a number of automatically pooled funding streams (see Annex A) and their associated mandatory outcomes.
28. Refresh also provides an opportunity for areas to review both the funding streams and amount of funding included in the LAA. Areas can propose changes but these must be agreed with GOs acting as the broker for Government departments to GO timetables.

Financial Management Framework for Pooled Funding

29. This section deals only with pooled funding. As indicated above, locally aligned funding remains subject to its existing terms and conditions, including financial monitoring and reporting arrangements and so the following framework does not apply.

Grant Determination

30. Almost all pooled funding is subject to a single set of terms and conditions, including single financial and performance management arrangements. There are a few exceptions; the exceptions relating to financial reporting are covered in paragraphs 73-76.
31. The single set of terms and conditions are set out in the Grant Determination made by CLG which has to be in place before the first payments can be made. The Determination also confirms the agreed pooled funding allocations for the year, as decided by a Minister of State. For 2006/07, the Grant Determination covers pooled funding provided by CLG, DfES and the HO. Our objective for 2007/08 is to issue a Grant Determination which also covers pooled funding provided by Defra, DfT and NRF (which comes under the umbrella of CLG).
32. LAA Grant Determinations are made under section 31 of the Local Government Act 2003. The Grant Determination typically includes conditions in relation to:
- allocation of grant funding
 - reporting
 - carryforward
 - audit arrangements
 - accounting arrangements
 - asset management policy
 - breach of grant conditions and recovery of grant
33. The inclusion of these conditions means that the LAA grant is a 'ring-fenced' grant which is given for specific purposes, ie the achievement of the outcomes, targets and indicators in the LAA. The application of conditions reflects the fact that the funds have been provided to areas for certain purposes. The 'Accounting Officers' of Departments participating in LAAs must provide Parliament, via the Statement on Internal Control in their Department's Resource Accounts, with an assurance that the funding provided has been used for the purposes intended.
34. All activities funded by the LAA grant must be related to the outcomes, indicators and targets in the relevant block or blocks of the LAA. Areas should note that in some instances those outcomes will be broad and that, if appropriate, an activity may be related to just an outcome, rather than to a specific target and indicator. Funding cannot be moved between blocks in four block LAAs (single pot areas have greater flexibility). Areas cannot use funding designated for one block in another block, even if the area has

included relevant outcomes, indicators and targets in the other block in the LAA.

Accountable Body

35. The Determination is made in favour of the 'Accountable Body' for the local area. The lead local authority is the Accountable Body for the financial management of the LAA and for ensuring that robust performance management arrangements are in place.
36. Local Authorities have a statutory responsibility to ensure that public money is properly accounted for; that responsibility extends to pooled funding which they receive as the Accountable Body for the LAA. The Determination includes a condition that the Accountable Body shall maintain reliable, accessible and up to date accounting records with an adequate audit trail for all expenditure funded by grant monies under the LAA Determination.
37. The mechanism for recording expenditure is not prescribed in the Grant Determination, reflecting the fact that the Local Authority's Responsible Financial Officer must determine on behalf of the Authority its control systems. However, the strength of an Accountable Body's mechanism for accounting for funding passed to partners is tested in-year through the requirement to produce a Statement of Grant Usage at the mid-year and end-year points. Some areas have established systems which ensure that partners hold the relevant records in respect of their expenditure, rather than the Authority itself.
38. The accounting treatment of the LAA grant in local authority accounts is under consideration by CIPFA, and advice will be issued through their Statement of Recommended Practice for 2007/08.

Grant funding

39. The Accountable Body receives all of the pooled funding for the local area.
40. In two-tier areas, this means that grant funding previously allocated at district-level is now allocated to the County. Examples of such grants include:
 - Neighbourhood Management Pathfinder
 - Neighbourhood Element
 - Cleaner, Safer, Greener
41. Funding is distributed according to the needs of the partners responsible for delivering the outcomes and targets in the LAA. Partners should make clear their funding requirements during the negotiation of the LAA. The final decision on allocation rests with the Accountable Body. However, that does not preclude the Accountable Body taking into account recommendations made to it by their local partnership before it takes the final decision.

42. The 3rd round of LAAs will not be signed until March 2007, with existing agreements being refreshed by February, so the Grant Determinations setting out exactly what areas will receive under the LAA arrangements will not be made until after this. However, we aim to provide each area with their provisional allocations for each of the grants that can be included in LAAs at the same time as the Local Government finance settlement, which should be available, in line with the usual settlement timetable, at the end of November or beginning of December. The current provisional allocations for a number of grants can be found on the CLG website². Local authorities should be aware that these figures are, as stated, provisional and that the figures may differ from those included in the actual grant determination. The Grant Determination is the definitive source of the LAA grant figures.

Capital/Revenue

43. Funding is allocated for both Capital and Revenue expenditure. Maximum levels of each type of expenditure are set in the grant determination; an underspend in the overall capital budget cannot be used for revenue purposes, and vice versa. This is a ringfenced grant with specific limits on capital and revenue and there is no scope to move funding between them. However, we are in discussion with departments about whether we can offer more scope with regard to allowing revenue to be moved to capital and capital to be moved between blocks, whilst maintaining the individual total and splits for capital and revenue.

Payment arrangements

44. Accountable Bodies do not have to submit claim forms to access LAA funding. From 1 April 2006 a large proportion of the centrally pooled LAA funding was paid in a single payment to the Accountable Body. This arrangement covered DfES, HO and CLG pooled funding (with the exception of NRF). The payment is made on a monthly basis and payments are paid in arrears on a profile of 12% in month 1 and 8% in every month thereafter. Payments are made through CLG's LOGASnet system. LOGASnet payments should be made on the 15th calendar day or next working day of the month. We are in the process of setting up dedicated LAA claims administrators in each lead authority, who will receive electronic notification of payments. This arrangement will be effective from 2007/08.
45. NRF was outside this arrangement in 2006/07, but will be included in the payment next year. We are also actively seeking to bring DfT and Defra pooled grants in to this payment arrangement with a view to providing one single payment via LOGASnet from April 2007.

Allocation of grant funding

46. Accountable Bodies are responsible for ensuring that they have appropriate mechanisms in place to distribute and account for funding passed to District Councils and other partners. They should set the terms on which payments

² www.local.communities.gov.uk/finance/0607/078spgrants.xls

are made to partners and ensure that partners also abide by the terms and conditions in the Grant Determination.

47. Accountable Bodies must agree with partners the process for making those payments. As part of these arrangements the Accountable Body should consider the needs of their partners, particularly those who rely on advance and/or sustainable funding, such as the Third Sector. The HMT document *Improving Financial Relationships with the Third Sector: Guidance to Funders and Purchasers* raises four specific issues which Accountable Bodies should consider:
- Stability in the funding relationship: moving from one year funding to longer-term funding arrangements where appropriate.
 - Timing of payments and the balance of risk: recognising that payment in arrears often results in the third sector bearing the upfront costs of borrowing and the risks that this entails;
 - Full cost recovery: ensuring that funding bodies recognise that it is legitimate for third sector organisations to recover the appropriate level of overhead costs associated with the provision of a particular service; and
 - Reducing the burden of bureaucracy: streamlining access and performance management requirements for multiple, and often very small, funding streams.
48. We have discussed with stakeholders and are reviewing whether the current payment profile should be amended to take into account the cashflow requirements of third sector organisations, ie whether the payment profile should be more heavily front loaded as circumstances may require. If this is possible we would expect this to be used to forward fund third sector partners.

Eligible expenditure

49. The Grant Determination provides a definition of eligible expenditure as payments which will contribute to the achievement of the outcomes, targets and indicators in a relevant block of the LAA. See paragraph 34 for more information.
50. At the end of the financial year, we need to be able to reconcile the funds transferred from CLG to the value of the work, financed by grant under the Determination, carried out by the authority. Our intention is that the Statement of Grant Usage should fulfil this function, and can be based upon authorities' accruals accounts, if these are adjusted to allow for timing and non-cash items. We will be working with several authorities on an informal basis about how this can best be achieved.
51. When preparing Statements of Grant, expenditure by partners should be accounted for on the basis of the Accountable Body's normal accounting practice. As such, if the normal practice is to account for the funding to a particular partner as soon as the money has left the authority's accounts (for example if the partner accounts on a cash basis), that policy should be followed for the LAA grant.

52. Top-slicing the grant for administration costs is allowed. However, Accountable Bodies would need to be able to demonstrate how the cost is directly attributable to contributing to the achievement of the LAA outcomes, targets and indicators. Accountable Bodies would need to be mindful of the recommendations of partners on the allocation of grant.

Asset Management

Fixed Assets

53. 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 CLG has the right to recover the amount of grant originally invested.
54. The purpose of this condition is to ensure that resources are not used for unintended purposes, and to prevent others from gaining an undeserved advantage from any proceeds.

Asset Register

55. Authorities must establish and maintain an inventory of all capital assets, acquired, built, or improved wholly or partly using LAA grant, whether owned by Partnership members or third parties. A typical inventory should show the:
- date of purchase;
 - description of asset;
 - price paid net of recoverable VAT;
 - amount of LAA grant paid;
 - location of the title deeds;
 - serial or identification numbers;
 - location of the asset;
 - date of disposal; and
 - sale proceeds net of VAT.
56. For 2006/07 items worth less than £5,000, or involving less than £5,000 LAA grant, or written off during the first year after acquisition, should not be included in the asset inventory. Assets must remain in the inventory until written off in the grant recipient's books. In the case of items such as land and buildings, the asset inventory must be maintained until "written down" in the books (or for the duration of the lease in the case of leases of land and buildings). The disposal of assets must also be recorded. The inventory must be reviewed regularly and available for inspection by the authority's external auditor. Areas should note that we intend to raise the limit to £10,000 for 2007/08.

Sale or change of use

57. You must notify GOs of any proposal to dispose of any capital asset which is, or should be, listed in the asset inventory, by sale, transfer of ownership, a lease in excess of seven years, or by any other means.
58. There is a general presumption that when an asset bought, or part bought, with grant is disposed of, the proceeds, or an appropriate portion of them is

returned to the Department. This is called “clawback” and this ensures that the interests of the taxpayer are properly protected.

59. The clawback of grant is a complex area of financial policy. You should make your Plans on the basis that clawback will be enforced in **all** cases where disposal of an asset occurs, unless specific written consent for clawback to be waived or deferred has been obtained from GOs, in advance. For this reason, we recommend that authorities take a legal charge against all LAA funded assets that are held by external partners.
60. However, if there are good reasons to recycle the proceeds within the area, (i.e. expenditure would meet an immediate LAA need, consistent with the objectives of the LAA and offer value for money), consideration will be given as to whether clawback will apply or not, on the merits of the individual case. Cases should be referred to the GO, but there is a presumption that cases will be approved.

Reporting

61. Accountable Bodies are required to submit reports at three stages of the year:

Mid-Year Statement of Grant Usage & Certificate

62. At mid-year the Accountable Body must provide details of eligible expenditure in the first 6 months of the year. The details are recorded in a Statement of Grant Usage (SoG) which records by block: allocation; spend at the mid-year point; and a forecast outturn.
63. The SoG will:
 - inform the 6-monthly review of performance between the local area and the GO;
 - provide GOs and departments with confirmation that any carryforward from 2005/06 has been spent (where applicable); and
 - provide GOs and departments with an early indication of likely outturn for the year. It also asks for a brief commentary on the issues impacting on local areas ability to spend their allocations.
64. The Statement is accompanied by a Certificate, addressed to CLG’s Accounting Officer, which should be signed by the Authority’s Chief Finance Officer. In signing the Statement the CFO is confirming that the Statement gives a complete and accurate record of the eligible expenditure at the mid-year point. The grant determination states that it should be the Chief Executive that provides this. However, it is more appropriately provided by the CFO and we are content for this to be the case.
65. We will provide LAs with a ‘tailored version’ of the Statement prior to the mid-year (and end-year exercises). Each LA will receive a version of the Statement which reflects their specific allocation. Use of the (tailored) templates is mandatory, due to the need for consistency in reporting. The mid-year Statement must be returned to the GO by 30 November 2006 at the latest. Timescales in subsequent years will be set out in subsequent

Grant Determinations but local areas should work on the premise that the mid-year report will be required in November and will be in a similar format to 06/07.

Forecast Outturn Report

66. Despite the joint move to 'Faster Closing', Local Authorities and Central Government Departments have different timetables for the production of their Accounts. For *new* ringfenced grants such as LAAs, Departments are required to provide details of expenditure in their Resource Accounts which must be laid before Parliament before it goes into Summer Recess (mid-late July). As with Local Authority Accounts, there is an approval process before this can be achieved. This process involves approval of the Accounts by the Department's Audit Committee, signing of the Accounts by the Department's Accounting Officer and finally, approval by the Department's external auditors, the National Audit Office. This means that in practice the spend data in the Accounts must be complete by mid-late June (at the very latest). The process and timescales are similar to those for the production of Local Authority Accounts for 2006/07, which require approval by a resolution of the Authority by 30 June.
67. To ensure we have data for inclusion in the Resource Accounts we have therefore introduced a new condition in the grant determination in 2006/07 for a 'forecast outturn report'. Accountable Bodies are required to submit by 14 March 2007, a report setting out the 'value' of work carried out under the LAA Grant Determination in the period 1 April 2006 to 28 February 2007, together with an estimate of the value of the work to be carried out during March 2007. (Value in this instance is defined in terms of the Authority's accounting policies.) The exact form of this report is under consideration but is likely to request expenditure by block. Local authorities should work from the premise that it will be an on-going requirement.
68. The forecast outturn report will be used to assess carry-forward requirements.

End-Year Statement of Grant Usage & Certificate

69. At year-end Accountable Bodies are required to provide their GO with a SoG setting out details of eligible expenditure for the whole year. The Statements are likely to be in a similar format to the mid-year report, (the precise format will be confirmed once we have assessed the mid-year exercise but it will again be tailored).
70. The Statement is again accompanied by a Certificate from the Chief Finance Officer of the Accountable Body. However, the Determination includes a requirement that the Certificate must confirm whether the section 151³ officer has received an Opinion from the Head of Internal Audit in his/her Local Authority that provides assurance that the end-year Statement is fairly presented and is in accordance with the terms and conditions set out in the Grant Determination. The implications of not providing such a

³ Responsible Financial Officers in a Local Authority have statutory responsibility for ensuring that their Authority has made arrangements for the proper administration of their financial affairs, under section 151 of the Local Government Act 1972.

confirmation, and the role of the lead authority internal audit more generally, is considered in more depth in paragraphs 81-83.

71. The Grant Determination sets the deadline for completed, agreed end-year Statements of Grant as 1 July 2007, (as part of a wider package of performance management information). That date was set with two key considerations in mind:
- in broad terms, the timescale for the production of LA accounts (an acknowledgement that the 2005/06 end year exercise had asked Local Authorities to accelerate their reporting timetable);
 - the time needed for Authorities to collate the associated performance management information
72. However, on reflection that deadline fails to take account of Faster Closing in Local Authorities or adequately address the risks to Departments in the completion of their Accounts. Having discussed this with a sample of Authorities participating in LAAs, **we would ask all Authorities to provide GOs with a draft of their end-year Statement by 1 June 2007 (or earlier where possible), with a view to Authorities and GOs agreeing this Statement by 1 July 2007.** This would give GOs and Authorities a month to reconcile any concerns about the spend data. Experience from Round 1 has shown that such a process can take a considerable period of time.

Additional Reporting Requirements - DfES

73. The Department for Education & Skills has a few additional monitoring arrangements. Areas which have pooled Children's Fund and General Sure Start Grant (which includes Sure Start Local Programmes) must identify spend on preventative services for 5-13 year olds and spend from the LAA grant on Sure Start Local Programmes and children's centres respectively.

Additional Reporting Requirements – Neighbourhood Renewal Fund

74. For 2006/07, CLG needed to be satisfied on a case by case basis that Neighbourhood Renewal outcomes and targets were embedded within an LAA, before NRF could be pooled
75. For areas pooling NRF, the previous performance management regime will be subsumed within the LAA reporting arrangements. However, as NRF is paid under its own Grant Determination there is a legal requirement for the spend to be identified separately within the LAA Statement of Grant. The precise form of the reporting requirement is available from your GO.

Additional Reporting Requirements – Youth Justice Board

76. In the areas where Youth Inclusion Programme funding is being pooled with LAAs, the spend should be reported through the dedicated table in the Statement of Grant Usage template.

Carryforward

77. The LAA Grant Determinations set a limit of 5% on carryforward. This applies across the LAA Grant rather than to individual blocks. The limit was set with regard to Government public expenditure control requirements rather than any previous limit applied to any of the grants now within LAAs. CLG will consider applications for carry-over greater than 5%. However, it will set criteria as to the basis on which it will agree to additional carryforward. Areas should also note that Departments will not know how much carry-over is available to them until June 2007. CLG will not be able to confirm whether an application from an Authority has been successful until then. As such there is an inherent risk to areas seeking carry-over greater than 5%.
78. The NRF Grant, which was paid under a separate Grant Determination and is therefore subject to the conditions in that Grant Determination, did not set a carryforward limit. Initially CLG indicated that areas had the flexibility for up to 5% to be carried forward from one year to another. However, CLG have now decided that in 2006/07 areas may be able to carry forward a higher amount of up to 8% with the agreement of their Government Office, or with the additional agreement of CLG for any amount greater than 8%.
79. The 5% limit does not apply to Pump Priming Grant, which can be used across the three year delivery period.

Control requirements

80. The Grant Determination includes a condition that the Authority must take adequate measures to safeguard against fraud or theft. The Accountable Body must also ensure that the GO is promptly informed of any significant financial control issues raised by its internal auditors which affect the LAA. The GOs will communicate this information to Departments as soon as possible. Departments will review the information with a view to deciding what action is necessary.

Audit arrangements

Audit Opinion

81. In order to provide assurance to Departments that the funding has been used appropriately, the Chief Finance Officer of the Accountable Body must confirm via the end year Statement of Grant Usage whether he/she has received an Opinion from the Head of Internal Audit in the Local Authority that provides assurance that the end-year Statement is fairly presented and is in accordance with the terms and conditions set out in the Grant Determination.
82. This is an unusual requirement for central Government to impose on the lead authority's internal auditors. The reason for this condition is the requirement for CLG and other Government departments to provide an assurance to Parliament that the funding it has provided to LAAs has been used for the purposes intended. (In Parliamentary terms this is known as 'regularity'.) In the absence of an 'external' audit of LAA spend, the opinion from the lead authority internal auditors is an essential part of the framework from which that assurance will be gained.

83. CLG does not intend to prescribe how the Head of the lead authority internal audit should gain the assurance necessary to form his/her view, and we are mindful that the Opinion is given in the context of the CIPFA Code of Practice for Internal Audit and professional standards generally. However, the covering letter to the Grant Determination recommended that the Accountable Body should receive written confirmation, from partners to which it has passed funding, that funding has been used in line with the Grant Determination. This will provide a level of assurance to the local authority internal audit function and will help them in providing their opinion to the Chief Finance Officer.

'External Audit'

84. The Grant Determination includes a right of access by 'external audit'. This actually means audit by CLG or its appointed auditors (on behalf of all departments participating in the pooling arrangement), or, exceptionally, audit by the National Audit Office.

CLG

85. This right of access recognises that there may be instances in which CLG's Accounting Officer will want an assurance on regularity through further work at the Local Authority level. One such instance may be if a section 151 officer is unable to provide confirmation in their end-year Certificate that they have received an assurance from their Head of Internal Audit. We would prefer not to invoke that right. While not a formal requirement, **we would strongly encourage Authorities to submit their Audit Opinion alongside their end-year Statement of Grant to help provide that assurance and mitigate the prospect of such an audit.**

National Audit Office

86. The Comptroller and Auditor General, and through him the NAO have a statutory duty to provide information, assurance and advice to Parliament on the use of public resources. This includes providing an assurance that the resources provided by Parliament to Government departments have been properly applied for the purposes intended. As part of this remit the NAO may have an interest to see that LAA funding has been spent for the purposes intended and whilst they do not as a general rule audit local government spending there may be occasions where they could want to examine documentation, most likely as a financial audit of CLG.

Audit Commission

87. A Local Authority's participation in an LAA could have an impact on the material accuracy of its financial statement. As a consequence the Audit Commission has issued guidance to its auditors to help them assess and respond to potential risks to their audits of bodies participating in LAAs.

Breach of Conditions and Recovery of Grant

88. The Grant Determination includes scope for sanctions should the Accountable Body fail to comply with any of the conditions of the grant. It

provides for the Minister of State to reduce, suspend or withhold grant payments or require the repayment of part or all of the funding paid under the LAA grant. Areas should note that the Minister of State cannot require repayment due to under performance; he may only reduce, suspend or withhold grant payments.

Further Information

89. Areas should contact their Government Office if they require additional information.

FUNDING STREAMS THAT WILL BE POOLED AUTOMATICALLY IN ALL LAAS IN 2007/08

Children and Young People	
<ul style="list-style-type: none"> ➤ Children's Services Grant ➤ Key Stage 3 – Behaviour and Attendance ➤ Key Stage 3 – Central Coordination ➤ Neighbourhood Renewal Fund ➤ Publicising Positive Activities Grant 	<ul style="list-style-type: none"> ➤ Neighbourhood Support Fund ➤ Positive Activities for Young People ➤ Primary Strategy Central Coordination ➤ School Travel Advisers ➤ School Development Grant (Local Authority retained element only)
Healthier Communities and Older People	
<ul style="list-style-type: none"> ➤ Neighbourhood Renewal Fund 	
Safer and Stronger Communities	
<ul style="list-style-type: none"> ➤ Safer and Stronger Communities Fund – including: ➤ Anti-Social Behaviour Grant ➤ Building Safer Communities ➤ Drugs Strategy Partnership Support Grant ➤ Tackling Violent Crime Programme ➤ Neighbourhood Management Pathfinder ➤ Neighbourhood Element ➤ Cleaner, Safer, Greener Element 	<ul style="list-style-type: none"> ➤ ASB Action Area ➤ Aggregates Levy Sustainability Fund ➤ Anti-Social Behaviour Trailblazer ➤ Neighbourhood Renewal Fund ➤ Waste Performance and Efficiency Grant
Economic Development	
<ul style="list-style-type: none"> ➤ Local Enterprise Growth Initiative ➤ 	<ul style="list-style-type: none"> ➤ Neighbourhood Renewal Fund

Changes from Round Three guidance:

Publicising Positive Activities Grant added - From 2007/08 the new Publicising Positive Activities Grant will be included in the Children's Services Grant which will be automatically pooled in all LAAs. Although the Children's Services Grant does not have any mandatory outcomes, targets or indicators associated with it, local authorities will want to be aware that the Publicising Positive Activities Grant has been made available to fund the new duty, under the Education and Inspections Act 2006, to publicise positive activities and to keep this information up to date. This duty is to be fulfilled through developing a new co-ordinated information function as set out in in *Publicising Positive Activities* available from www.everychildmatters.gov.uk/youthmatters/thingstodo. Full statutory guidance on the Education and Inspections Act 2006 provisions will also be published for consultation later in 2006 and will further re-enforce the requirements laid out in *Publicising Positive Activities*. An information bulletin on

the related legislative provisions contained in the Education and Inspections Act 2006 (*10/6 Bulletin on Positive Activities*).

Home Fire Risk Check and Fire Prevention Grant removed - Grant determinations have already been issued to Fire & Rescue Authorities which cover two years, the present financial year and next year, and altering the terms of those determinations - which provide the grants on an unringfenced basis - would require the consent of each FRA. On this basis, the grants will not be automatically centrally pooled. We do however, encourage FRAs to align these grants with the LAA locally for 07/08

Kerbcraft removed - This will no longer exist in 07/08.

New Growth Points Funding moved to "case by case" list - New Growth Points has been publicised as an automatically pooled funding stream for 2007/08. Post 2008 it will be paid to relevant local authorities as part of the single capital pot. As such there is not such a good case to pool in LAAs for only one year and New Growth Points should be removed from the list of automatically pooled funding streams for 2007/08. The mandatory indicators attached to inclusion of New Growth Points would also be dropped. However, if a local partnership remains keen to pool New Growth Points for this one year they should be able to, subject to continued negotiations with Government Offices.

Neighbourhood Road Safety Initiative removed - This will no longer exist in 07/08.

Rural Social and Community Programme - This will now be available on a case by case basis. This funding goes to sub-regional VCS bodies in a number of areas. Funding would need to be disaggregated for individual authorities to automatically pool it and for some cases the disaggregated funding would be very small (less than £100 in one area). Soundings from areas indicate that disaggregated funding would generally be used in the same way as previously agreed to honour the final year of local agreements. As such it makes sense to allow the existing arrangements to continue where that is locally preferable.

FUNDING STREAMS THAT MAY BE POOLED ON A CASE BY CASE BASIS IN 2007/08

Local areas may propose that any or all of the following funding streams be pooled in their LAA.

Children and Young People	
<ul style="list-style-type: none"> ➤ Connexions ➤ Extended Schools (Standards Fund) ➤ Education Health Partnerships 	<ul style="list-style-type: none"> ➤ Children's Fund ➤ School Improvement Partners ➤ Teenage Pregnancy
Healthier Communities and Older People	
<ul style="list-style-type: none"> ➤ Supporting People 	
Safer and Stronger Communities	
<ul style="list-style-type: none"> ➤ Rural Bus Subsidy Grant 	<ul style="list-style-type: none"> ➤ Rural Social and Community Programme
Economic Development	
<ul style="list-style-type: none"> ➤ Housing Market Renewal Grant 	<ul style="list-style-type: none"> ➤ New Growth Points Funding

Changes from Round Three guidance:

Disabled Facilities Grant removed - The current ring fence on DFG means that it can not be brought into LAA pooled funds. A DFG consultation paper will examine the nature of this ring fence in future but is not likely to establish the position until the 2008/09 funding period. A trial to widen the DFG ring fence is planned for 2007/08 for local authorities who want greater flexibility. The ring fence will be maintained, but its scope widened to support any local authority expenditure incurred under the Regulatory Reform (Housing Assistance) (England and Wales) Order 2002. This flexibility would allow the ring fenced money, previously only available for mandatory DFG, to be used for other purposes either to overcome any bureaucracy implicit in the statutory DFG procedures or to pay a moving grant if this was a better value option. It is still possible for DFG to be aligned against LAA outcomes while retaining these separate terms and conditions.

Education Health Partnerships added - this should have been included in the guidance.

New Growth Points added - see previous annex.

Rural Social and Community Programme - see previous annex.

EXAMPLES OF GRANTS THAT MAY BE ALIGNED LOCALLY IN 2007/08

Partners in the LAA may choose to align the following funding streams that they receive. Locally aligned funding retains its existing terms and conditions including reporting arrangements.

<ul style="list-style-type: none"> ➤ 14-19 funding and organisational pilots ➤ Arts Council England Managed Funds ➤ Asylum Seekers Support Grant ➤ Basic Command Unit ➤ Big Lottery Funding ➤ Building Schools for the Future ➤ Capital allocated through the Single Capital Pot ➤ Carbon Trust ➤ Change Up ➤ Child and Adolescent Mental Health Services Funding ➤ Community Champions Fund ➤ Connectivity and Learning Systems ➤ Defective Housing Grant ➤ Direct Schools' Funding ➤ Drug Interventions Programme (Drug testing and workforce elements) ➤ DWP Benefits ➤ Energy Saving Trust (resources) ➤ English Heritage Historic Areas Grant ➤ Environment Agency Funding ➤ European Regional Development Fund ➤ Fire Prevention Grant ➤ Growth Areas Funding ➤ Highways maintenance and bus support (capital) ➤ Home Fire Risk Check ➤ Housing Revenue Account Subsidy ➤ Kickstart/bus challenge projects ➤ LAA Pump Priming Grant ➤ LPSA/LAA Performance Reward Grant ➤ LEA Music Services 	<ul style="list-style-type: none"> ➤ Learning and Skills Council ➤ Local Network Fund ➤ Local Transport - Mainstream Support ➤ Millennium Volunteers ➤ Natural England Confederation funding (currently English Nature, Countryside Agency, Rural Development Service) ➤ New Deal for Communities ➤ NHS Funding ➤ Partnerships for Older Peoples Project (POPP) ➤ Planning Delivery Grant ➤ Playing for Success ➤ Police Funding ➤ Pooled Treatment Budget ➤ RDA single pot ➤ Renaissance in the Regions (Museums Funding) ➤ Rural Pathfinders Funding Sources ➤ School Improvement Partners ➤ School Meals ➤ Sport England/Active England ➤ Targeted Capital Fund ➤ Thames Gateway Funding ➤ Transformation Fund ➤ Warm Front (Eaga Partnership) ➤ Waste Resource and Action Programme ➤ Young Peoples Substance Misuse Partnership Grant ➤ YJB Prevention Funding ➤ Youth Opportunity Fund
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LAA funding

5.45 We recognise that Government can help local partners to deliver the targets in their LAA by providing greater clarity and flexibility around area-based funding streams. As indicated in this year's Budget, we are considering how to include more area-based funding streams in LAAs to further improve the efficiency and delivery of outcomes across public services.

5.46 In deciding which funding streams should be included in LAAs, we will adopt the following principles:

- first, wherever possible, funds will be provided in the form of general, unringfenced grant – either Revenue Support Grant or the Single Capital Pot or other mainstream grants, such as police grant. These general grants provide the maximum local flexibility in deciding how funds should be used;
- second, funding will be provided through the LAA grant. This route will be suitable for most area-based funding streams such as Neighbourhood Renewal Funding and Connexions grants that support outcomes which local authorities must deliver alone or in partnership with others; and
- third, there will be some funding streams that for specific reasons are unsuitable for general grant or LAAs.⁷ For example, this route may be needed for funding intended to support defined activities which may be exceptionally difficult to deliver locally – such as the resettlement of offenders – or for grants supporting some types of very large capital schemes. Any proposals to ring-fence such funding will need to be justified, given the Government's presumption against it. There may also be some short-term needs for grants outside general grant or the LAA framework where new pilot schemes are initiated: in such cases, the expectation would be that funding streams would be included within general grant or LAAs once the scheme was fully established.

5.47 At present funding distributed through most LAAs is divided between the four “blocks” dealing with Children and Young People, Healthier Communities and Older People, Safer and Stronger Communities and Economic Development. This has provided certainty that funding allocated for a particular purpose will be spent on that purpose. However, there are significant disadvantages to restricting the use of funding in this way. For example, it causes problems by preventing local partners from using funding streams more flexibly. Further, there are some issues, such as culture and sport that cut across all four themes.

⁷ The funding streams that are excluded from LAAs will be published each year

⁴ The LGWP can be found at <http://www.communities.gov.uk/index.asp?id=1503999>

5.48 We believe that the advantages arising from the block structure should be retained by continuing to structure LAAs according to four themes. This will give a focus to central/local negotiations and provide a framework to which local thematic partnerships can relate. In addition, local partners might want to organise their Sustainable Community Strategy, their priorities for improvement in the LAA and their thematic delivery partnerships around the four themes.

5.49 However, we do need to remove some of the inflexibilities around funding which the block structure has caused. Since the first LAAs we have been experimenting with “single pots” where funding is not tied to specific blocks. This experience has been positive, and so we will develop and provide this flexibility to all areas.⁸ Alongside the introduction of the new performance framework (April 2009) all funding being distributed through LAAs will be unringfenced – although we will continue to emphasise the importance of the four themes as a way to manage negotiations and give a focus to local partnerships. Central government would expect local partnerships to spend their funding on activities or services related to agreed targets or which closely reflect the original purpose of the grant stream. For example, funds provided in order to deliver services to children should be used by local partnerships on such services and not diverted to substantially different purposes.

5.50 Local partners have suggested that the title of the “Economic Development” block is too narrow a definition. We therefore propose that the fourth “theme” should be “Economic Development and the Environment” and that it should be broadly interpreted to include other issues as appropriate such as transport, culture and sport. We also believe that there is value in local partners coming together to form economic partnerships – as many already do.

5.51 We believe that Local Public Service Agreements and the LAA reward grant have been successful in incentivising greater performance by local areas.⁹ The 2007 Comprehensive Spending Review (CSR07) will consider whether the delivery of targets is best incentivised through a third generation of reward grant. We also believe local partners should come together to use LAAs – and the new duty to co-operate – to drive forward efficiency.