



Office of the
Deputy Prime Minister

Creating sustainable communities

Local Area Agreements

Advice Note 3: Payment Systems

June 2005

Office of the Deputy Prime Minister: London

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Introduction

1. This advice note sets out in detail the arrangements relating to the payment of funding included in Local Area Agreements (LAAs). It covers the payment model, accountability, powers, terms and conditions, and other relevant issues. It has been written in consultation with Government Departments, GOs, pilot local authorities and the LGA.
2. In a note circulated to LAA pilots by Government Offices in December, we set out the principles behind the payment of funding included in LAAs. These are:
 - Any new system will simplify the current arrangements;
 - Local authorities will be the Accountable Body for funds included in the LAA. This will be the County Council in two-tier areas;
 - Areas will receive a reduced number of separate payments as a result of local area agreements;
 - Any new system should provide an opportunity to consider whether it would be possible to make efficiency savings.
3. This advice note sets out what will be put in place for the first year of piloting LAAs and some additional measures we intend to take for the second year to further simplify and refine the process. We will monitor the situation during the first year to ensure that the plans for year two are still appropriate.
4. This Advice Note is intended to cover the operation of as many funding streams as possible. However, as negotiations are continuing and agreements have yet to be completed, exceptions may yet arise. These will be discussed during negotiations.

Payment Model

5. In the first year the vast majority of payments made from central government will be authorised by GOs and paid directly to the accountable body by departments. This has the advantage that the negotiation of the agreements and payment decisions are both located in the GOs. It may not be possible to make all payments in this way as negotiations are still on-going and the list of funding streams to be included in LAAs has not been concluded.
6. Government Departments will each pool the funding centrally and Government Offices will authorise payments on behalf of departments. All necessary changes will be made by Departments to terms and conditions of individual funding streams to ensure that pilot areas can pool funding within blocks (and across blocks in the case of the single pot pilot) in the first year of pilots. Departments will also ensure that there is legal cover for such payments to be pooled.
7. Local Authorities as the accountable bodies should therefore receive one funding stream per department per month. Where agreed locally, current arrangements that are different to this can remain. It is for the Local Authority as accountable body to decide with its partners on the appropriate frequency and timing of payments to partners. GOs will set out at the start of the year local areas allocations

by pooled funding stream and by block. The LAA will specify which block each component of funding is in. Local authorities will need to ensure that the funding can be accounted for by block as set out in the LAA.

8. This process will be reviewed during year one and we will consider how it can be refined for year two.

Governance

9. Local authorities are responsible for ensuring that they have appropriate mechanisms in place to distribute and account for funding passed to other partners. It is for pilot areas to put in place appropriate governance arrangements if they are not already in place. Central Government does not intend to prescribe what the governance arrangements should be. However, there is an expectation that they will be fit for the purpose of supporting the significant increase in responsibilities now being devolved within the LAA, and will provide clarity to partners. The governance arrangements should therefore address the following:
 - How decisions are to be reached on the application of funds to deliver the LAA outcomes;
 - Financial rules and controls;
 - The terms on which payments are to be made to partners and the arrangements for this.
10. Government Offices and the accountable bodies in the area will need to be satisfied that the arrangements are sufficiently robust and will satisfy audit scrutiny. Local Authorities as the accountable body will need to consider the needs of their partners, particularly those who may rely on advance funding.

Powers

11. The range of funding streams included in LAAs are currently paid under a variety of powers. Where the powers do not interfere with the principle that funding can be spent on anything within the relevant block the powers will remain the same in year 1. Where there were limitations imposed by existing powers we will use different powers to make payments.

Terms and Conditions

12. It is the terms and conditions attached to funding streams that often put requirements on grant recipients. Terms and conditions can affect a number of issues, for example performance management, financial monitoring, or audit.
13. For year one, where necessary, the current Terms and Conditions will be changed in two important ways. First the purpose of the grants have been changed to enable funding to be pooled and to be used to address any of the outcomes in the relevant block or blocks. Secondly, changes will be made to make monitoring and reporting requirements compatible with what has been specified in advice note 2.

Some departments will achieve this by replacing their existing separate terms and conditions with a new set (or sets) covering LAAs. For certain funding streams there may be additional Terms and Conditions included in the LAA itself as agreed by GOs and pilots.

14. Where decisions on the inclusion of funding streams are made late or where issues involving Terms and Conditions come to light subsequently departments may recall and amend existing grant offer letters for funds included in the LAA to facilitate these arrangements.
15. For year two we will consider whether it is appropriate to develop a single set of terms and conditions for funding streams that go into the LAA across all departments. These will keep requirements to the minimum that will satisfy Central Government.
16. The details on a number of issues covered by Terms and Conditions are set out below. As mentioned in the introduction to this note there may be a limited number of exceptions to the approaches set out below due to the late identification of funding streams.

Performance Monitoring and Management

17. The key underlying principle detailed in Advice Note 2 is a significant reduction in the amount of monitoring and reporting required from local areas in relation to the funding streams included in their LAA. In the first year of LAAs we expect a rationalisation of central government's monitoring and reporting requirements, however, it will not be possible to remove all existing requirements. Where there are reductions in monitoring and reporting requirements this will be reflected in the terms and conditions of the relevant funding streams.

Purpose of Grant

18. As indicated above where the purpose of the grant is not already sufficiently flexible the purpose will specify that the funding stream must be used in line with the outcomes, targets and indicators in a specific block (e.g. Children and Young People's block) of the Local Area Agreement. Where the fund could be used in more than one block the purpose will state the blocks it could be used in.

Financial Monitoring Requirements

19. Local authorities will only need to report on their spend by each funding block, not individual funding streams. As stated in Advice Note 2, within the CYP block, areas pooling the Children's Fund will need to identify preventative spend on 5-13 year olds and those pooling Sure Start will need to identify spend on Sure Start Local Programmes and spend on children's centres. Financial monitoring will be at 6 monthly intervals. This could be increased, for example to include a nine month monitoring report, either as part of the agreement or in year if GOs, pilots or accountable bodies are concerned about any underspend or other relevant issues.

Assurance arrangements

20. The chief executive or chief finance officer of the accountable body will gain assurance from grant recipients that funding has been used in line with the terms and conditions in the LAA and will certify that the performance and financial monitoring returns are correct. The local authority can seek additional assurance from its own internal auditors or appointed representative(s). Local authorities' chief executive or chief finance officer will be required to pass GOs an annual audit statement certifying that the expenditure claimed has been fairly stated and is in accordance with the grant terms and conditions. Local authorities' chief executive or chief finance officer should ensure that GOs are promptly informed of any significant control issues raised by their internal or external audit.
21. This would represent a substantial simplification of the current audit arrangements. However, where these processes do not provide sufficient assurance or meet external audit requirements further assurance may be required. Where appropriate this would be through external validation, which should be carried out by an appropriately qualified independent auditor.

Payment

22. The payment of funding included in LAAs will be streamlined into one payment stream per department. In year one payment will be made monthly in arrears, unless agreed locally that current arrangements that are different to this can remain.

Underspend and End year flexibility

23. Where areas are able to deliver the agreed outcomes more efficiently they are expected to invest any savings in delivering the objectives of the LAA. Generally moderate levels of underspend are acceptable and could be carried over to the following year. This will be discussed as part of Government Office monitoring. Where there are very significant concerns about the level of underspend GOs could delay payments until the spend level is back at an appropriate level. Where pilots are underspending this should be discussed with GOs as early as possible.

Aligning/Pooling

24. The arrangements set out in this note relate to those funding streams centrally pooled as part of a LAA. Other funding will also be used towards the achievement of LAA outcomes. For clarity, set out below are definitions of the different ways funding streams can be pooled and aligned.
25. Centrally Pooled: This refers to those funding streams, paid by Government Departments, that are pooled by those Departments before being paid to the local authority, as the accountable body.

26. **Locally Pooled:** This refers to the funding local or regional partners contribute towards the achievement of LAA outcomes that is transferred locally to the local authority as the accountable body.
27. **Aligned funding:** There are two different ways funding can be aligned. The first is funding that it is not possible to pool either because Government Departments are not yet in a position to pool the funding or because local partners are not in a position to pay the funding to the local authority as the accountable body but that is still being used towards the achievement of outcomes negotiated as part of the agreement.
28. The second is funding streams that Departments would be happy to pool as part of the agreement but, to reflect local circumstances, areas prefer to align. These funding streams will continue to be paid as now, but providing the LAA contains outcomes, indicators and targets for the use of these funding streams and there is a commitment to pool funding from 2006/07, the arrangements set out in this note apply to these funding streams.

Other Issues

Delayed signing and funding streams added in year

29. If an agreement is not signed, or a funding stream is not agreed, by the start of the financial year payments would continue on current Terms and Conditions. Government Offices and the accountable authority in conjunction with partners will need to agree how best to manage the transition to the LAA arrangements in these cases.

Stronger and Safer Communities Fund

30. Where appropriate funding streams have already been combined to form the SSCF their Terms and Conditions will be altered to allow pooling as part of LAAs.

Neighbourhood Renewal Fund

31. The NRF will continue to be paid alongside the Revenue Support Grant system in 2005/06 and will not be pooled centrally. It can, however, be aligned. The current performance and financial monitoring arrangements will remain in place for 2005/06.

County and District arrangements

32. In two tier areas most of the funding will be paid to the county council who will distribute funding as agreed locally. We would anticipate that savings produced by the reduction in associated bureaucracy would help fund administration costs. Counties will not be allowed to top slice funding for administrative costs.