



Children's Fund

Financial Guidance

April 05

**This Guidance Supersedes Previous Versions
of the Children's Fund Financial Guidance**

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GLOSSARY OF TERMS

Annual Allocation – The amount of funding available to the Partnership for the year. NB. Partnerships were given a 3 year allocation for 2005-08 with the flexibility of setting the amount they would draw down for each of the three years, subject to a minimum and maximum. The profiles submitted with the 3-year plan will set the allocation for each of the 3 years in question.

Approved Budget – The annual allocation plus any funds carried over from the previous year. NB. There is a possibility that this may change during the year (for example if the Partnerships chooses to surrender funds at mid year review).

Capital Expenditure – Expenditure on a tangible, productive asset, whose value exceeds £2,500 (Capital expenditure should not exceed 2.5% of a Partnership's overall allocation).

Carry over (sometimes referred to as carry forward) – That element of underspend which is approved by the Regional Team to be carried over to the following financial year. NB. Any balance of under spend which remains must be surrendered to DfES

Certification of Expenditure – A comparison of the Partnership's actual quarterly expenditure against its profile and the resulting variance. The Certificate of expenditure is completed on the Appendix 4 form.

CF – Children's Fund.

CYPFD – Children, Young People and Families Directorate.

DfES – Department for Education and Skills.

FY – Financial Year.

Management Costs – Expenditure which is central to the management of the programme eg. costs for salaries, travel and subsistence, staff training, premises etc. NB. expenditure such as development workers, participation workers and capacity building workers should not be included as management costs but recorded as Strategic Service Work.

Monitoring & Evaluation costs - costs of local evaluation, costs of a monitoring officer, or any costs which you occur in the monitoring and evaluation process.

MYR – Mid Year Review. This is the process which takes place between October and November which looks at expenditure against profile for the first six months of the current financial year and profiled expenditure for the remaining six months of the current financial year to ensure that there are realistic plans for utilising any under-spend.

NAO – National Audit Office

On Track – A DfES managed initiative under the Home Office Crime Reduction programme aimed at children aged between 4 and 12 who are at risk of getting involved in crime and anti-social behaviour. Its long-term goal is to improve inter-agency co-operation and develop services so that such children are identified early and they and their families provided with consistent support through the period of the child's development.

Profile - A breakdown of the Partnership's anticipated expenditure over the course of the financial year, broken down into quarters. The profile is completed on the Appendix 8 form.

SGE - Statement of Grant Expenditure - signed by the finance manager and external auditor at the end of the financial year confirming income and expenditure for that year.

SLA – Service Level Agreement

Strategic Service Work - This is intended to capture those activities which are neither direct management nor service delivery. The costs of development workers, participation workers, capacity building and any other strategy work should be included here. The amount of resource included in this section should be appropriate to the local context. The Strategic Service work section should also be used to apportion the time spent by programme managers/assistant programme managers on the strategic and developmental aspects of the programme. For example many programmes do not have development workers and it is the programme managers/assistant programme managers themselves who carry out this type of work. (NB. There is no percentage limit applied to this section of the budget).

Under spend – The difference between the Partnership’s approved annual budget and its actual incurred expenditure for the year.

YOT – Youth Offending Team.

SECTION 1 - INTRODUCTION

1.1 The purpose of this Financial Guidance is to help Partnerships and accountable bodies meet the financial requirements of their Children's Fund grant agreement with the Department for Education & Skills (DfES) (which is referred to in this document as 'the Grant Conditions') and to maintain sound financial control systems. The overall objective of having such systems is to enable Partnerships to operate with a view to regularity, propriety and value for money, with a set of controls tailored to the size and complexity of the Partnership, its funding level and responsibilities. Where Partnerships have queries relating to this guidance they should approach their Children's Fund Regional Team.

1.2 Throughout this guidance where 'The Partnership' is referred to, this means the member organisations identified on the application for grant funding submitted to the DfES and such other organisations as may join the Partnership subsequent to the initial application. The use of the term 'Partnership' includes the Accountable Body.

1.3 The requirements set out in this guidance are setting a standard which must be complied with. However, the DfES recognises that Partnerships are diverse in their size and structure and that they may wish to negotiate with the Regional Team other ways of meeting these standards. This is acceptable providing that any alternative arrangements give the same levels of assurance around regularity, propriety and value for money. However, failure to comply with these standards may result in funding being withheld (and may result in accountable bodies having to repay funds previously received).

1.4 Where the accountable body is also subject to other requirements (eg. district auditor requirements) and a conflict arises, it should approach the Regional Team to agree a way forward.

1.5 Each Partnership, and its accountable body, is required to sign a Grant Conditions document before it can receive any Children's Fund grant from DfES. This sets out the terms and conditions of the grant, including the purpose for which it must be used. The Grant Conditions document is a standard document for all Partnerships and the grant will be payable only for the delivery of Children's Fund activities set out in the business plan in agreement with the Regional Team.

1.6 Payment will be made according to grant claims submitted on a quarterly basis throughout the year. There is no definitive list of what would be considered eligible costs to be met from the grant. However, all claims for payment must relate to the delivery of the activities as set out and agreed in the delivery plan.

Summary of Requirements

In summary, the Partnership must:-

- have in place a corporate structure agreed with DfES which has at least one legal entity to receive and be accountable for the grant funds from DfES ('the accountable body')
- sign the Grant Conditions document before the Children's Fund grant can be received
- use the grant only for eligible purposes which have been specified and agreed for the delivery of Children's Fund activities and operate sound systems of financial control and seek value for money in the use of its resources
- retain documentary evidence at its premises to support all expenditure it has incurred
- ensure that its service providers maintain sound systems of financial control
- allow access to the various audit bodies including DfES auditors, NAO, external auditors and the Audit Commission, as required
- submit a payment profile at the start of the year, revising this as appropriate during the year
- submit quarterly grant claims throughout the year by the 25th of the first month of the quarter
- submit quarterly certification returns to the Regional Team by the 25th of the month following the end of the quarter and by 9th May 2006 for the 2005-06 end-year return
- have in place systems for recording and monitoring the purchase of capital assets, particularly those with a value exceeding £2,500
- submit an annual audit certificate of Statement of Grant Expenditure to the Regional Team no later than 6 months after the year end in accordance with the format provided
- submit full annual accounts to the Regional Team no later than 6 months after the year end in a format which conforms to relevant statutory regulations (eg. the Companies Act, LA SORP etc.) and which separately identify the Children's Fund grant

SECTION 2 - ACCOUNTABILITIES

2.1 The Grant Conditions document requires the name of the body that will receive the grant to be clearly specified in the agreement. The DfES will only make a grant agreement with an entity which has demonstrated a capability to deliver the Children's Fund service or with a declared 'accountable body' on its behalf. The legal entity will be accountable for the grant under the terms of the Children's Fund Grant Conditions document.

2.2 Partnerships should decide which of their member organisations should act as the accountable body in relation to the Children's Fund. The accountable body need not be the same organisation that is taking the lead responsibility for programme management. The accountable body must be financially viable and will be responsible on behalf of the Partnership for the prudent administration of the Partnership's finances. Its accountability as a recipient for public funds must be clearly established and understood as it will be accountable to the DfES for the spending of the Children's Fund grant.

2.3 Where there is a change in the accountable body the Partnership must seek its own advice with regard to the legal implications of this. Any proposals to re-organise or transfer staff could have important employment law implications so advice should be obtained as early as possible in the process. Partnerships will be responsible for the consequences of any failure to take advice or to comply with their employment law obligations.

On Track

2.4 Areas with On Track projects have the choice of appointing separate accountable bodies for these projects and for other Children's Fund activities, or appointing one accountable body for both strands. Where two accountable bodies exist for one area, each body will be separately accountable for their area of responsibility and will be required to individually submit information and claims for their programmes. Where one accountable body exists for On Track, and other Children's Fund developments, then the body will be responsible for providing information and accounting for both programmes.

2.5 The accountable body must be able to work to the direction of the Partnership through a written agreement between the Partnership and the accountable body that states their roles and relationships, making it clear that the Partnership directs strategy, operations and the Partnership's resource allocation. The DfES should have access to this agreement.

2.6 The accountable body should, in consultation with the Partnership, appoint a suitably senior individual to the role of finance manager, to act as the lead officer on Children's Fund monetary issues. (This may be a temporary nominee pending the appointment of a permanent officer). The finance manager will be responsible for ensuring that proper financial procedures are followed, proper records maintained and that requirements on regularity and propriety are complied with. He/she will be authorised to sign payment claim forms, quarterly notification forms, and to certify that monies paid have been properly claimed and used (all duties being subject to segregation of responsibilities as appropriate) and must have appropriate training and expertise. A letter of appointment should detail the full extent of the finance manager's duties and should be copied to the Regional Team. The finance manager will be the main point of contact for any questions the DfES has about the Partnership's finances. DfES should be provided with an up-to-date record of the name and contact details of the nominated finance manager and should be notified of any intention by the accountable body to change the manager. [See Grant Conditions document paragraph 1.1]

2.7 The accountable body should nominate up to three senior 'deputies' to the finance manager (i.e. to sign documents in his or her absence, or to act as co-signatories where more than one signature is needed on a document, not to act as replacement finance officers). Accountable bodies need to establish and record transparent arrangements that explain the finance manager's role, responsibility and the limits of his or her authority. Specimen signatures for the finance manager, up to three officers of the accountable body or Partnership to deputise for the finance manager, and/or any other staff who will be signing documents must be returned to DfES using Appendix 2 to this guidance. Where any changes occur, Appendix 2 must be re-submitted containing the new details.

2.8 The accountable body will be liable to repay any funding not used for its intended purpose and in accordance with DfES guidance. This includes funding misused by service providers within its charge. DfES will require evidence of appropriate systems in place to minimise the possibility of service providers misusing funding. Where the accountable body can prove that every action had been taken to ensure that funding was used as intended, DfES may not require repayment. Such decisions will be based on the circumstances of individual cases.

SECTION 3 - SYSTEMS OF FINANCIAL CONTROL

3.1 Accountable bodies are responsible for putting in place robust systems for ensuring that Children's Fund money is spent properly, effectively and in a way that will achieve value for money. Proper consideration must be paid to the normal principles of financial control, including – but not limited to – separation of responsibilities, safeguards against fraud and loss, and verification that activities paid for have actually taken place. It will be for accountable bodies to apply their expertise to tailoring existing or devising new programme control systems in respect of the Children's Fund.

3.2 Partnerships should ensure that they pay service providers according to need and not just by payment in advance. Reporting mechanisms must be in place to identify service provider under spends as soon as they come to light and appropriate action should then be taken. Where underspends are identified, amounts should be clawed back where the service provider has not provided a business case for their use. Such business cases should include details of the level of under-spend, the reason it occurred and the specific activities to which it would be applied.

3.3 Para 3.7 provides guidelines that characterise a sound financial system in delivering the Children's Fund. They are not intended to be fully comprehensive or to prescribe a particular system of controls. This will depend on individual circumstances. However, they reflect those areas that are of major concern to the DfES and the Department needs to gain an assurance that there are clear and transparent controls across the fund. The overall objective is to ensure that there is regularity, propriety and value for money, with a system of controls that is tailored to the size and complexity of the organisation and Regional Managers will want to assure themselves that this objective is being met.

3.4 Partnerships also have a responsibility for ensuring that their service providers maintain sound systems of control since they will be held accountable if funds are not properly spent at the point of delivery. Partnerships should monitor the financial viability of their service providers and ensure that their grant agreements with them require service providers to follow appropriate procedures.

3.5 Paragraph 5.3 of the Grant Conditions document requires the accountable body to provide a set of full annual accounts. Where the external auditor has produced a management letter on any weaknesses found this should also be provided to the Department to help provide assurance on the adequacy and effectiveness of the body's financial controls.

3.6 Paragraph 5.2 of the Grant Conditions document provides for access by DfES's auditors. Partnerships and accountable bodies may be subject to financial appraisals by the DfES to assess the soundness of financial systems and to provide an assurance to the DfES's Accounting Officer that there is proper accountability of public funds, and that Partnerships are meeting the requirements of their Grant Conditions and delivery plans. They may also be subject to other forms of audit including external auditors, Audit Commission, and the NAO.

Guidelines for sound financial systems

3.7 The guidelines for sound financial systems fall into four main categories:

- i) organisation and responsibilities: concerning the overall environment of control within which the accountable body should operate and the delegation of financial responsibilities;
- ii) internal financial control systems: concerning the detailed procedures through which financial transactions are approved, processed and recorded; also the system of internal controls necessary to ensure the accountable body's activities are accurately recorded, correctly classified and summarised in its accounting records;
- iii) financial management: concerning the financial planning and monitoring of the accountable body's activities; and
- iv) compliance with reporting requirements: set out in statutory regulations and/or the Grant Conditions document.

3.7 i) Organisation and responsibilities

Structure

The roles, responsibilities and accountabilities of members of the Partnership's board and officers should be established and given to them before, or shortly after, appointment. The finance manager should take overall responsibility for the prudent and economical administration of the body. This includes ensuring that proper financial procedures are followed, proper records maintained and requirements on regularity and propriety complied with. The full extent of their duties should be set out in a letter of appointment.

There should be a clearly defined and diagrammed organisational structure for the accountable body regarding the Children's Fund. There should be written delegated authorities for the Chair, the finance manager, the programme managers and other senior staff. The structure should ensure co-operation between the non-financial, e.g. operational, and financial functions, thereby ensuring that financial resources are best used to achieve the Partnership's aims and objectives.

There should be a clearly accepted division of responsibilities at the head of the Partnership, which will ensure a balance of power and authority such that no one individual has unfettered powers of decision. It is also essential that there should be a strong and independent element on the Partnership board.

Financial functions

The accountable body should ensure strong financial control and should maintain:

- a clear delegation of responsibilities with particular regard to proper segregation of duties (eg. an individual, not managed by the finance manager, should conduct sample checks on work completed by the finance manager and at least two people should be involved in raising any payment made by the Partnership);
- an adequate level of staffing by personnel who are competent, suitably qualified and trained to perform their duties;
- a clearly defined and properly used channel of reporting to the Partnership board, (including attendance at Partnership meetings where appropriate) the audit committee and any other financial committees; and
- a comprehensive accounting system, capable of producing timely management accounts, year-end accounts, and other management information

3.7 ii) Internal Financial Control Systems

The internal financial control system of the accountable body can be described as:

- the procedures through which it approves, processes and records transactions;
- the controls over these transactions; and
- the management accounting information, which should be used to manage properly its financial affairs and ensure that resources are best used to achieve main objectives.

These procedures ensure that the accountable body's activities are accurately recorded, correctly classified and summarised in the accounting records. The accountable body will need to set standards for its payments to service providers, e.g. that they must be under a grant agreement and paid within a certain length of time.

Transaction Approval

The accountable body should ensure that:

- orders are placed within agreed budgetary provision;
- appropriate authorisation is obtained before disposing of assets;

- written procedures for staff recruitment are maintained by the lead agency or the appropriate body that recruits and employs the staff;
- procedures for determining grant need on an annual basis are adequately documented;
- there is prompt collection of the major categories of income; and
- the opening and operating of bank accounts is undertaken properly and only by authorised personnel.

Transaction Processing

The accountable body should ensure that:

- goods and services received are checked against orders placed;
- invoices are approved before payment;
- there is adequate segregation of duties; and
- that detailed accounting records are maintained as necessary;

Transaction Recording

The Partnership should ensure that:

- cash payments and amounts due are classified, summarised and recorded;
- there is no double counting when invoices are received if the accountable body has already recorded the expenditure as having been incurred in its most recent certification of expenditure;
- supplier statements are reconciled to accounting records;
- a documented chart of accounts (account codes and code headings) is operated; and
- variances between actuals and budgets are analysed, and bank statements are regularly reconciled with accounts.

The accountable body should retain at its premises documentary evidence to support all of its expenditure for audit purposes, e.g. correctly certified invoices, or a formal record of payment where payment has occurred, or a signed confirmation of goods received by an appropriate representative of the body, or an authorised delivery note where invoices have not yet been presented. Evidence relating to the expenditure of service providers does not need to be held at the premises of the accountable body providing the accountable body has efficient means of access and an assurance of secure storage.

Physical Safeguards

The accountable body should ensure that access to cheques, blank orders, payroll records, other critical forms and cash is restricted to authorised

personnel and that access provisions are documented. Stores and equipment should be physically secured.

Accounting records and reporting

The accountable body should:

- maintain a written chart of accounts that should contain the detailed classifications necessary to meet its and the Partnership's various reporting and management requirements;
- establish procedures for checking reported information to source documentation;
- operate procedures for verifying clerical accuracy, which should be performed by personnel who have not actively participated in inputting data. This should include regular comparisons of actual recorded balances with those anticipated, and an investigation of significant variances;
- maintain separate accounting records for those activities for which the DfES provides continuing grant; and
- maintain a clear and documented statement of the accounting policies used in reporting financial information.

3.7 iii) Financial management

Financial management can be defined as the use of the financial information to ensure that financial resources are best used to achieve a body's objectives. Information may be used for planning, monitoring and decision making purposes. It covers, among other areas, budgetary control, management reporting of cash and working capital, and value for money studies.

Budgetary control

To provide a sound basis for budget preparation, the accountable body should have a formal process and timetable to ensure that all relevant financial and non-financial factors are considered and that information from each area is received on a timely basis.

To aid budget preparation, the Partnership should

- have systems in place which, over a period of time, convert both financial and non-financial (e.g. staff numbers) data into useful information;
- have controls to ensure that the information is accurate;
- tailor the budget to enable managers at different levels of authority to manage their area efficiently; and
- among other things, maintain records which enable actual expenditure to be monitored against budget, including expenditure that has been committed but not incurred.

Management reporting

The accountable body should produce regular management reports covering cash, working capital and value for money (vfm).

a. Cash

the accountable body should

- ideally operate separate bank accounts for private and public monies;
- keep balances on current accounts to a minimum;
- where possible make arrangements for any surplus amounts to earn interest (see para 4.21);
- not normally incur an overdraft as it is able to draw on grant;
- where possible separately identify interest earned on public and private funds. Any interest earned on the Children's Fund grant must be used to support the delivery of the Children's Fund programme.

b. Working capital

The accountable body will receive the Children's Fund grant up to two months in advance and this should ensure that it has adequate cash flow cover to meet its operating requirements. It should also develop and implement procedures to ensure

- prompt collection of its major categories of income;
- that payments are only made in respect of liabilities which have properly matured and been billed; and
- unless otherwise agreed, payments are made within one month of the invoice date. Payments should only be made in advance where there is a demonstrable need for this.

c. Value for money (vfm)

Partnerships must pursue vfm policies. They are expected to seek economy, efficiency and effectiveness in their use of resources. Unit costs are key indicators that should be used to appraise the Partnership's success in pursuing vfm.

3.7 iv) Compliance with Reporting Requirements

Partnerships must comply with the reporting requirements set out in statutory regulations as well as paragraphs 5.3 to 5.7 of the Grant Conditions document.

SECTION 4 – PAYMENT PROCEDURES

4.1 The following paragraphs clarify the procedures for the payment of Children's Fund monies to the accountable body. They explain the requirements to submit payment profiles before the start of the year (and as appropriate throughout the year), and quarterly grant claims and certification forms throughout the year. Specific details are provided about year end requirements including the rules around carry-over and some guidance is given about the mid-year review process. These procedures are not intended to impose unnecessary administrative burdens on programmes, but are to be regarded as safeguards that will protect the Partnership's interests as well as ensuring the proper use of public funds. Any failure to comply with the procedures may result in payment to the Partnership being withheld or reclaimed by the DfES with the further possibility of legal action depending on the circumstances of the non-compliance.

4.2 Children's Fund payments to accountable bodies, on behalf of the Partnership are based on agreed terms and conditions specified in the Grant Conditions document. The money must therefore be used only for those activities approved by Regional Team for each financial year. Any major changes to existing services (approved in the plan at the start of the year), for example a change in service provider, a significant change in budget or the funding of any new or additional services must be approved in writing by the Regional Team.

4.3 All payments will be made to the accountable body of the Partnership through the Bank Automated Clearing System (BACS) into an account nominated by the Accountable body. Bank details must be provided using Appendix 1.

Profiling

4.4 Partnerships have been awarded a 3 year allocation for the period 2005-08 and given the flexibility to determine how much of this they will draw down in each of the 3 years, subject to a given minimum and maximum. The 3 year profile submitted with the Partnership's 3-year plan (in December 2004) will contain a profile for each of these years that reflects the delivery of its business plan and its estimate of the likely receipt and payment flows during each year. **These profiles will set the amounts which will be required in each of the 3 years** and will help the Department to plan for the timing of requests for grant funds so as to allow for the efficient management of its own expenditure. Each year, thereafter, before the start of the year, the Partnership will be required to provide a profile (see Appendix 8) for the coming year based on these same total amounts, but revised where the expected pattern of spend within the year has changed from the original profile submitted. The Partnership will be given the opportunity to revise its in year profiles throughout the year in agreement with the Regional Team.

4.5 Partnerships will be paid on the basis of the profile and payment will be triggered through the submission of a quarterly grant claim form. Partnerships must profile up to their approved budget for the year and should note that where they profile for a lesser amount, the difference will be considered a surrender of funding and will no longer be available to the Partnership. [nb. the approved budget may not be known until June/July when final carry-over is approved. Partnerships should therefore profile up to their annual allocation until this point].

4.6 It is important that the payment profile is as accurate as possible, so that grant receipts closely match actual incurred expenditure to avoid significant over/underpayments of grant. The following good practice may be helpful:

- the profile should reflect needs generated by expected business activity;
- only if payments are expected to be constant throughout the year should straight-line profiling be used;
- for salaries, the expected number and grading of staff in post during each month should be realistically assessed;
- for payments made on an ad hoc basis, (e.g. travel and subsistence) the previous year's pattern of spend is a useful guide, amended for any known changes in plans; and
- Partnerships should record the assumptions on which the expenditure forecasts are based. This helps in the approval process with the Regional Team and makes it easier to explain variances.

Regional Teams will monitor the accuracy of profiles as part of the quarterly certification process (see below).

4.7 Where under spends occur within year, partnerships have the authority to vire those underspends between 75% and 25% services in agreement with the YOT manager.

4.8 The Payment Profile must be agreed with the Regional Team. The form must be certified by an authorised officer of the Partnership and sent to the Regional Team (who will then copy it to the Central Team) by an agreed date, which will be before the start of the financial year. Failure to do this could result in a delay in the first grant payment being made.

Quarterly claims for payment

4.9 Once the payment profile has been approved by the Regional Team, a quarterly claim form (see Appendix 3) must be submitted before payment can be received.

4.10 The amount claimed should be the amount of expenditure expected to be incurred during the quarter in question. This must match the amount identified in the payment profile (Appendix 8). Where the profile does not reflect expected expenditure then the Regional Team should be contacted immediately to request a re-profile.

4.11 Claims for payment must be submitted by the 25th of the first month of the quarter to which the claim relates. Late receipt of claims by DfES may result in payment being delayed to the following quarter. DfES will aim to pay claims made by the 25th within 2 weeks of receipt (see para 4.27 for a summary of the payment process). Claims must be accurate and Partnerships may find it good practice to verify the information internally before forwarding it to the Regional Team to prevent any delay in payment.

Quarterly certification process

4.12 At the end of each of the first three quarters of the year, Partnerships are required to carry out a reconciliation between the Children's Fund grant received for the quarter and actual expenditure incurred in the quarter, using a certification of expenditure form (see Appendix 4) e.g. the reconciliation for quarter ending June (due in to the Regional Team by 25th July) will be between grant payments received at the end of April and expenditure incurred (see para 4.15 for a definition of expenditure incurred) during the period April to June.

4.13 The Certification form must be certified by an authorised member of the body and sent to the Regional Team by the 25th of the month following the quarter to which it relates. If the total variance is greater than +/- 5% a Variance Report must be provided to explain the reason(s) for variance and the proposed remedial action including the submission of a revised profile. This information is an essential part of the financial and programme monitoring arrangements for the Children's Fund and must be provided to the DfES otherwise the next claim for payment will be delayed. **Partnerships that continuously fail to meet the required deadlines may suffer suspension of payments or financial penalties** (see Grant Conditions document introduction).

4.14 Where the actual quarterly expenditure is less than the profiled or amount received, the difference will need to be noted on the next grant claim and will automatically be deducted from the next quarterly payment. (NB. Partnerships will not "lose" the unspent amount - they will simply be required to re-profile to show how these funds will be utilised during the remainder of the year). If the quarterly expenditure exceeds the profile and claim, the actual expenditure should be certified and the difference will be added to the next quarterly payment so long as this does not result in an exceeding of the approved annual budget (and the amount is re-profiled accordingly). NB, if a quarterly overspend is added to a subsequent quarterly payment, this expenditure has already been certified and should not be certified again at the

end of the next quarter. As part of their internal budget monitoring procedures, Partnerships must have systems in place to prevent overspending of the annual budget in a given year (See para 4.19 for year end procedures).

4.15 Expenditure incurred refers to the costs relating to the period in question which may or may not have been invoiced or paid for yet. It relates to the expenditure by the Partnership and will include: -

invoices that have been paid during the period to which the grant claim relates;

invoices that have been received during the period to which the grant claim relates, but have not yet been paid (providing the goods or services they relate to have been received); and

expenditure on goods or services that have been received during the period to which the grant claim relates, but which have not yet been invoiced for by the supplier.

It does not include any predicted expenditure or expenditure for services that were planned for the quarter but were subsequently delayed. Expenditure for delayed services should be re-profiled for later in the year, according to the revised timetable for delivery of the service. All requests to re-profile should be put to the Regional Team.]

4.16 The accountable body should retain at its premises documentary evidence of its expenditure (eg. a correctly processed and certified invoice or a formal record of payment where payment has occurred, or a signed confirmation of goods received by an appropriate representative of the body or an authorised delivery note where invoices have not yet been presented) for audit purposes.

Mid Year Review

4.17 The Regional Team will conduct a mid-year review with the Partnerships six months into each financial year as part of the budget management process. The review will look at expenditure against profile for the first six months and profiled expenditure for the remaining six months and the Partnerships will be required to complete the Mid Year Review Reporting Template (see Appendix 10). The Regional Team will discuss with the Partnership its performance against its profile including spending plans for the remainder of the year and whether any remedial action needs to be taken. This could mean reducing existing funds to enable them to be reallocated either locally or nationally within the programme or to other areas, or restricting, deferring or stopping certain activities. Any changes to the overall budget will only be made following a thorough consultation with the Partnership and Regional Teams will provide explanations of the basis for any decisions. In such cases the Regional Team will also provide written notice of the change. Partnerships should note that they may be required to produce evidence, including contracts and SLAs, to support

their spending plans. The Regional Team will provide adequate notice of a Mid Year Review around September.

4.18 The Information required from Partnerships at MYR will include details about their agreed budget, their profiled spend for the period April to September, their actual spend for this same period and details of their plans for utilising any resulting under-spend or surrendering funds where the Partnership feels that it is an unrealistic expectation to be able to spend them.

4.19 Partnerships should not wait for the Mid-Year Review to alert the Regional Team to potential over or under spends if these are identified at other times during the year.

End-year reconciliation of grant received and grant allocation

4.20 In addition to the three quarterly certifications, an end-year reconciliation must be completed (See Appendix 5). A properly certified Reconciliation form for year-ending March 2005 should be sent to the Regional Team by 9th May 2005 and that for year-ending March 2006 by 9th May 2006. Partnerships should reconcile the total Children's Fund grant received (which should be the same as the approved budget) for the financial year with incurred expenditure for the financial year, including any payments made after 31 March which relate to goods/services delivered in the previous financial year. Partnerships must show how any variance is accounted for, i.e. through carry-over, and repay any remaining surplus by cheque made payable to the Department for Education and Skills. The end-year reconciliation is a final document (pending audit) and any underspend identified after this form is submitted will need to be repaid to DfES. Where an end-year reconciliation is not submitted by the due date, the DfES may withhold payment of any claims until it is submitted.

Interest earned on Children's Fund grant funds

4.21 Partnerships should note that it is no longer a requirement to account for interest earned on the Children's Fund grant on the CYPFD finance forms. Wherever possible, partnerships should have systems in place to identify any interest earned on the Children's Fund grant and that interest should then be reapplied to be used to support the delivery of the Children's Fund programme.

Re-profiling

4.22 Financial forecasts and profiles may change and in such circumstances accountable bodies should make a request to their Regional Team to vary the detail of the in year payment profile. Where there is an under/over spend within

a quarter, Partnerships will be required to submit a re-profile in agreement with the Regional Team. Please note: **following a re-profile or should a re-profile not be submitted, if the total forecast expenditure is less than the approved budget, this will be considered a surrender of funding and the difference between the total of the revised profile and the approved budget will no longer be available to the Partnership.** Note also that any portion of funding not used for its agreed purpose against the Partnership's budget profile and delivery plan may not be retained or committed to alternative services without the Regional Team's permission.

Carry-over of under-spend

4.23 Under spend may be calculated by subtracting the actual incurred expenditure for the year from the approved annual budget. NB it is possible that the approved annual budget may have changed during the year (particularly after mid-year review) so Partnerships will need to ensure that the figure used relates to the latest budget profile agreed with their Regional Team. NB. **Partnerships must have effective arrangements in place to ensure that they do not overspend on their annual budget.** Overspends in the final quarter will indicate poor financial management and the cost of these will not be met by the Children's Fund grant.

4.24 Following the end of the financial Year, when the accountable body has closed off its accounts, it may request to carry-over any under spend to the following financial year where this is supported by a realistic plan of expenditure. Any balance remaining after this process will be surrendered to DfES for recycling within the fund either regionally or nationally. Where a body wishes to carry-over an under-spend and/or commit the money to services not approved at the beginning of the financial year, it should submit a brief business case to the Regional Team as soon as the amount is identified. The business case should provide details of:-

- the level of under spend;
- the reason the under-spend occurred; and
- the specific activities to which the under-spend will be applied in the following financial year, including how these activities fit into the local Children's Fund strategy. [NB. Under spends carried forward should not be used as substitute funding for planned activities in the subsequent financial year but should be used to fund additional activities to those already planned].

4.25 The Regional Team will consider requests, taking into account both local circumstances and the overall financial position of the Group, and will aim to advise the body of the outcome within 15 working days. **Partnerships must not commit or spend under spend or deviate from the services approved at**

the beginning of the year unless they have received their Regional Team's approval to do so.

4.26 At the business planning stage Partnerships should not include in their payment profiles any estimate of their carry-over requirement from the previous year. They may however wish to front-load their profiles to take account of their anticipated carry-over. Following the end-year reconciliation, which must be completed by 9th of May 2006, Partnerships should revise their Payment Profile to include the actual agreed amount of carry-over. This should be undertaken at the same time as the quarterly certification for quarter ended June, by which time Partnerships will have been informed by the Regional Team whether approval has been granted.

Summary of the payment process

4.27 A summary of the payment process is as follows:-

- a. each quarter the finance manager (or other authorised signatory) should submit a completed claim form to their Regional Team - the target date for this is the 25th of the first month of the quarter to which the claim relates. (eg. For quarter 2 the claim will be due by the 25th July) Any delay in returning the claim will affect the promptness of payment;
- b. The completed claim form can be emailed to the Regional Team, but the signed hardcopy should subsequently and immediately follow. Payment will be made following receipt of the original and signed claim;
- c. On receipt of the claim, the Regional Team will make some checks and compare it to the profile (Appendix 8). If the claim is in order, it will be authorised for payment;

4.28 DfES expects to complete the checking and authorisation of the claim and to process the payment within 10 to 12 working days of receipt. If there is anything needed to be discussed, the Regional Team will contact the Finance Manager or the co-signatory if the manager is not available. Payments will be made directly into the nominated bank account using BACS. Where claims have been received by the 25th of the month DfES will aim to make payment within two weeks.

4.29 There may be some instances where payments are delayed, withheld or where recovery of a previous payment is sought. The following list provides examples of the types of circumstances which may give rise to this:

- **Failure by an accountable body to provide the required quarterly certification;**

- A Partnership's performance falling beneath the delivery standards agreed with DfES in line with the objectives of the Children's Fund and the conditions of grant;
- Misuse of Children's Fund money;
- Information in the claim form being incorrect or materially incomplete (e.g. forms not signed, claim not matching profile, annual profile exceeding approved annual budget);
- The Partnership becoming operationally ineffective;
- Evidence of poor control systems.

4.30 Before deciding to delay or suspend payment DfES will give full consideration to the likely implications for organisations supported by the Children's Fund, and will ensure that the Regional Team has been in contact with the Partnership to discuss these issues.

SECTION 5 – PURCHASE OF CAPITAL ASSETS

5.1 Capital expenditure is expenditure on the acquisition of tangible, productive assets which will give continuous service beyond the financial year in which they are purchased. Partnerships may spend up to **2%** of their total allocation on capital expenditure (the 2% includes capital expenditure by the Partnership as well as the amount it pays to service providers to cover capital expenditure). It is for each Partnership to decide how they spread their capital expenditure, for example, it may decide to utilise it all on one service or spread it more evenly across a number of services. The Partnership will need to identify the amount that it proposes to spend on capital investment within its delivery plan and, where agreed by the Regional Team, this expenditure will be built into the Partnership's payment profile. Capital investment should relate to the infrastructure required to deliver the business plan and should not be for unrelated purposes.

5.2 A threshold of £2,500 (excluding recoverable VAT) should normally be applied for capitalising assets and anything below this limit should not be classed as capital expenditure but written off as purchased. Where a Partnership wishes to capitalise at a lower threshold than £2,500 this is acceptable providing that assets with a market value exceeding £2,500 can be identified separately within the fixed assets register and accounting records. Partnerships should not, under any circumstances, operate a threshold that is higher than £2,500.

5.3 Multiple purchases of items individually costing less than £2,500 (but more than £1000) must be treated as capital in some instances. For example, where a number of PCs are purchased to become a system or to form part of an existing system of networked computers then the purchase should be classed as capital if the individual cost of each PC is more than £1000 and the aggregate cost of the PCs will be more than £2,500. If the aggregate cost of the PCs will be less than £2,500 then the purchase will be classed as revenue.

5.4 Where different capitalisation requirements apply (for example, under the Local Government Act 1989 for Local Authorities), Partnerships will need to ensure that separate records are kept of all assets funded by Children's Fund grant with a value of £2,500 or greater.

5.5 The Partnership must be able to demonstrate that it has mechanisms in place for recording and monitoring the purchase of capital assets and DfES retains an interest in their value. The Partnership must maintain fixed asset registers (which are readily accessible for audit purposes) and where possible items should be individually marked with a serial number as a Partnership's property and regularly inspected.

5.6 All capital items purchased with Children's Fund resources are ultimately the property of DfES and Partnerships will have to repay money expended on a capital item if it cannot be shown that it was purchased and used for authorised purposes. Where capital assets purchased with Children's Fund grant are subsequently sold and the proceeds are not re-applied to the objectives of the Children's Fund, then the proceeds should be returned to the DfES (net of the cost of disposing of the assets). Capital assets must not be disposed of, sold or used for a different purpose for which it was originally funded without the written consent of the Regional Team. [See paragraphs 11 of the Grant Conditions document which sets out the requirements relating to capital assets].

5.7 The Partnership will need to ensure that any assets purchased by service providers with Children's Fund grant are not disposed of or put to a different purpose without its agreement. The Partnership will also need to ensure that the terms of its grant agreements with service providers require such assets to be adequately recorded and require that all proceeds from the disposal of assets acquired with the funds from the Partnership are returned to the Partnership unless otherwise agreed.

5.8 Where a Partnership ceases funding to a particular service provider and the service provider has purchased capital assets with Children's Fund grant the Partnership should ensure that such assets are either transferred directly to continuing Children's Fund services or, where they are surplus to requirements, sold off and proceeds re-applied to Children's Fund activities with the agreement of the Regional Team. In instances where the service provider wishes to continue to use the assets for the purpose for which they were originally funded they will need to form a written agreement with the Partnership to ensure that:-

- a) the asset(s) will not be sold, disposed of or put to a different use without the prior agreement of the Partnership; and**
- b) where asset(s) are sold, disposed of or put to a different use the proceeds (or an amount equivalent to) will be returned to the Partnership.**

5.9 On expiry or termination of the Grant Agreement with the Partnership, the Partnership must return to the DfES any property or assets remaining which have been funded by the grant.

SECTION 6 - EXPENDITURE LIMITS AND EFFICIENCY GAINS

Management Costs

6.1 Management costs are the running costs of the team responsible for the management and administration of the Children's Fund programme. Those costs can include: salaries and salary on costs of the Programme Manager, Assistant Programme Manager, Admin Support Staff and Finance Officer/Support staff and their costs of travel and subsistence, staff training, accommodation and recruitment. Management costs should also include costs of publicity, volunteer costs and the lead body's own management costs.

6.2 The key to the costs to be included as the management cost part of the budget is that the expenditure incurred is central to the management of the programme. It is on this basis that such expenditure as development workers, participation workers, capacity building workers, etc are not to be included as management costs. From 2005/06 these costs should be put into the Strategic Service work section (see para 6.6 for further details of Strategic Service Work).

6.3 Partnerships have been allowed to spend up to 12.5% of their total allocation on management costs. Margaret Hodge indicated that she was minded to ask Partnerships to aim to achieve 2.5% annual efficiency gains across the period and for this to be reflected in plans. She is however aware that managing the changes associated with migration to local co-operation arrangements may carry a cost, and that for some Partnerships (particularly the small ones) further cost reductions may not be achievable.

6.4 In order to achieve the 2.5% efficiency gains referred to above Partnerships have the option of either:-

i) reducing their management costs by 2.5% of the allocation each year and redeploying these to front line services. This would mean that in 2005/06 partnerships should spend no more than 10% of their allocation on management costs, in 2006/07 partnerships should spend no more than 7.5% of their total allocation on management costs and in 2007/08 partnerships should spend no more than 5% of their total allocation on management costs.

ii) achieving a net annual increase of 2.5% in the number of children and young people receiving regular support from the Children's Fund whilst ensuring the quality standards achieved in 2004-05 are at least maintained.

6.5 The Partnership will be required to set out in its plan, or in discussions with the Regional Team which of these options it will take and how the efficiency gains will be achieved. This should include details of the baseline (ie. the

current level of management costs or current number of children and young people supported), the Partnership's targets for the following 3 years and an explanation of how the Partnership's financial, monitoring and evaluation systems will provide an audit trail to demonstrate achievement of the efficiency gains. In addition the Partnership will need to provide details of how it will review/revise the targets as necessary at the start of each financial year

Strategic Service Work

6.6 This is intended to capture those activities which are neither direct management nor service delivery. The costs of development workers, participation workers, capacity building and any other strategy work should be included here. The amount of resource included in this section should be appropriate to the local context. The Strategic Service work section should also be used to apportion the time spent by programme managers/assistant programme managers on the strategic and developmental aspects of the programme. For example where the programme does not have a development worker, it may be the programme manager or assistant programme manager who carries out this type of work.

6.7 Where the time of programme managers/assistant programme managers is being apportioned, the exercise should be kept as straightforward as possible. The Partnership is not expected to spend time on long complex calculations to obtain the figure as the apportionment of time will always be fairly subjective and will change from day to day. One approach might be for the programme manager to make an approximation of the time they spent on strategic or developmental work in 2004/05 and apply this percentage in 2005/06 to arrive at a justifiable percentage for allocating costs. NB There is no percentage limit applied to the Strategic Service work section of the budget.

Local Evaluation Costs

6.8 The Department recognises that evaluation is a very positive tool that is being used to help Children's Fund programmes develop and mainstream locally. However, in line with the overall aim of devoting maximum funding to the front line, Partnerships who choose to commission or continue with local evaluation should not use more than 3% of the total allocation on evaluation costs.

25% Expenditure relating to Youth Offending Teams (YOTs)

6.9 As part of the 2002 spending review settlement and in line with the government's priorities on the prevention of youth crime and anti-social behaviour, a requirement was placed on the Children's Fund - with effect from

April 2003 - to earmark 25% of its resources on programmes agreed jointly with Youth Offending Teams.

6.10 In 2004-05, Partnerships have had some flexibility around the activities that formed the crime prevention requirement. This flexibility will continue.

6.11 The 25% YOT element is part of Children's Fund and should be claimed together with the main (75%) element of Children's Fund grant. Relevant appendices split the "Grants / Disbursements" box to show separately what is spent on (or profiled to be spent on) the 25% element and what is spent on (or profiled to be spent on) the 75% element. Partnerships are not required to divide their central costs between the 25% and 75% elements.

6.12 Where there are programme under spends against the 25% element of the budget profile during the year, the YOTs will have first call on these to reprofile on 25% expenditure, following partnership collaboration with them. At the end of the financial year, any such underspends will not be separately distinguished from the 75% element of the budget and decisions relating to the use of underspend will rest between the Partnership and the regional team (see para 4.22 for further information relating to requests to carry over underspend at the end of the financial year).

SECTION 7 – MONITORING AND EVALUATION

7.1 The quarterly certifications of expenditure which Partnerships are required to submit (see Appendix 4) will be used by DfES for monitoring and basic evaluation and will also assist in meeting DfES's wider public accountabilities such as reporting to Government and Parliament and providing answers to enquiries from members of the public about the Fund. The same use will be made of the non-financial data returns which Partnerships are required to submit. Figures supplied on Appendix 4 must correspond with information provided through the quarterly Children's Fund service monitoring returns. Financial and Monitoring returns that do not correspond will be challenged and this may ultimately lead to the suspension of payments.

7.2 The setting up of systems to ensure the smooth return of monitoring and evaluation data to the DfES may be time consuming. However, the resulting information should be useful to Partnerships in the management of the Fund and should help in the assessment of day-to-day programme activity. DfES will keep these requirements under review with the aim of reducing administrative burdens wherever possible.

7.3 Failure to provide monitoring and evaluation information will not immediately affect a claim for payment but will trigger a reminder that the information is due. Repeated failure to provide the information, particularly where a Partnership has not given advance warning of problems, may result in payments being withheld insofar as the failure puts the Partnership in breach of the Grant Conditions.

7.4 There is a continued need to monitor the number of children and young people benefiting from Children's Fund services and the number and type of services provided. Partnerships should therefore make timely and accurate returns on the web-based monitoring system that are backed up by evidence that can be inspected by the Children's Fund Regional manager if required.

SECTION 8 – FINANCIAL REPORTING AND AUDIT ARRANGEMENTS

Submission of Annual Accounts

8.1 The accountable body should submit a copy of its full annual accounts to the Department which clearly identify the Children's Fund payment received by the accountable body on behalf of the Partnership. The annual accounts should follow the policies set out in the relevant statutory regulations and Grant Conditions document. The accounts should be prepared on a basis consistent with the certifications that are submitted by the accountable body, and should include an audit report where this is required under the Companies Acts and/or the Charities Acts. [See Grant Conditions document paragraph 5.3]

Submission of Annual External Audit Certificate of Statement Of Grant Expenditure (SGE)

8.2 Paragraph 5.7 of the Grant Conditions document requires the accountable body to complete a SGE each year ended 31 March. This must be certified by its finance manager and the external auditor (i.e. the auditor who normally reviews the organisation's annual accounts), and given to the external auditor no later than 30 June. After audit certification, the auditor should send it directly to the Regional Team by 30 September of the same year. Certification is dependent on adequate financial systems. If the auditor cannot certify this form, DfES will cease to pay the grant and will expect all funding for the un-audited period to be repaid. The external auditor must be independent and properly qualified:

- for local authorities and health authorities, this audit will be carried out by auditors appointed by the Audit Commission (AC). The AC will issue guidance to its auditors relating to the issues that will need to be addressed;
- for other bodies not audited by the AC (mainly voluntary organisations or charities), the auditor must be a person allowed by legislation to sign off their annual accounts.

8.3 DfES will issue each Partnership with a blank SGE form to complete at the end of each financial year.

Overpayments

8.4 The audit certification process may result in the identification of overpayments of grant. Where overpayments are identified in this way, or where the Partnership itself identifies overpayments through its own monitoring procedures, the Regional Team should be notified immediately. DfES will

recover the overpaid amount either by reducing future Children's Fund payments or by arranging for the accountable body to repay the sum in question. Partnerships will be required to work closely with Regional Teams to deal quickly with any issues giving rise to a qualified audit opinion. **NB Failure to meet the required deadlines in providing audit certificates may lead to delay or suspension of payments.**

Other Audit Arrangements

8.5 In addition to the reliance it places on the external audit certificates and the annual accounts, DfES and/or its agents may also wish to undertake periodic financial appraisal assessments of the accountable body, Partnership's and service provider's systems and financial statements, for which it must be given access. This is to satisfy the Department's Accounting Officer and Audit Committee that there is proper accountability of public funds and to ensure that the body is meeting the financial requirements of its grant agreement and delivery plan. Whatever the circumstances are that lead to an audit, the Regional Team and/or the agents of DfES will make the necessary arrangements for the audit to take place through the established management routes of the accountable body.

8.6 The National Audit Office (NAO) has a general responsibility for auditing expenditure of the Children's Fund. Accordingly, Partnership accounts and all other information must, on request, be made available to the NAO.

Retention of Documents

8.7 Paragraph 5.1 of the Grant Conditions document requires that all documents relating to the Children's Fund, including invoices, contracts, etc, must be retained for 6 years. This is an NAO requirement as well as being for legal purposes (statute of limitation). Where the programme ceases, the Partnership must return to the Department all documents and data relating to the Children's Fund.

SECTION 9 – GRANTS TO SERVICE PROVIDERS

9.1 Partnerships may offer grants to service providers in cases where the organisations are unable to process contracts and the Partnership must have in place from the outset a monitoring and evaluation process to ensure that funds allocated in this way are spent appropriately, that value for money is achieved and that agreed outcomes are delivered. Partnerships may wish to develop their own grant agreements with service providers but a model grant agreement is contained at Appendix 9 which Partnerships may find useful in this process.

9.2 Partnerships must not use any of its funds or assets or allow any of its service providers to use any Children's Fund grant to support any organisations/activities that are likely to bring the Secretary of State or the accountable body into disrepute.

9.3 The Partnership's quarterly certification of expenditure will include the amounts which the Partnership has awarded in grants to service providers as well as the Partnership's central costs. Partnerships will need to ensure that they and their service providers have effective programme management procedures in place. Records should be maintained to evidence how items of spend claimed by service providers have been determined and records should substantiate that Partnerships have verified provider claims against grant agreements and that payments have been subject to appropriate authorisation procedures. Partnerships should also ensure that arrangements are in place for monitoring and reviewing both the service provider's financial systems and agreed delivery/outcomes.

9.4 Partnerships should have regard to the efficiency of their own cash management in the way that they fund their service providers. They should therefore pay service providers according to need and payments should only be made in advance where providers have demonstrated that this is necessary.

9.5 Service Providers should retain evidence of all their incurred expenditure and Partnerships should conduct random checks to ensure that there are systems which ensure that all expenditure has been properly incurred and provides good value for money.

BANK DETAILS: CHILDREN'S FUND GRANT

Name of Accountable Body:.....

Name of Partnership:.....

Bank Details:

Bank name _____

Bank address _____

Sort Code - -

Account Number

Account Title _____

Account Type _____

Reference Numbers/ Codes For Internal Identification: (Optional) _____

Authorised by _____

Name _____

Position _____

Signature _____

Date _____

Tel _____

Name & Address of Accountable Body

Name.....

Address.....

.....

Post Code.....

Remittance advice to be sent to:

Name.....

Address.....

.....

Post Code:

Tel:.....

PLEASE NOTE: NOTIFICATION OF CHANGES TO BANK DETAILS SHOULD BE SENT ON HEADED PAPER AND AUTHORISED BY THE FINANCE MANAGER

Specimen signatures (1 Finance Manager and 3 other senior members of the Partnership)

Name of Accountable Body:

Name of Partnership:

1. **Name (block capitals)** _____

Position _____

Sample signature _____

2. **Name (block capitals)** _____

Position _____

Sample signature _____

3. **Name (block capitals)** _____

Position _____

Sample signature _____

4. **Name (block capitals)** _____

Position _____

Sample signature _____

I confirm that these signatures are the true signatures of the people named above.

Signed for and on behalf of the accountable body. (To be signed by a senior member of the accountable body whose specimen signature is not provided above).

Signature_____

Name_____ **Date**_____

Position_____