

ABERDEEN CITY COUNCIL

LOCAL CODE OF PRACTICE

FUNDING EXTERNAL BODIES AND ‘FOLLOWING THE PUBLIC POUND’

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1. Scope and Background

- 1.1 'Following the Public Pound' means ensuring that there is proper accountability for public funds used in delivering services, irrespective of the means of service delivery.
- 1.2 When agreeing to transfer funds to an external body the Council must be clear about its reasons for doing so and proper consideration should always apply. The prime purpose of involvement with an external body should be the achievement of the Council's objectives in the most effective, efficient and economic manner, not the avoidance of controls or legal restrictions, which are designed to secure probity and regularity in the use of public funds.
- 1.3 It is the responsibility of each Director to ensure there is clear public accountability for public funds that are provided from their Service budgets to external bodies. An individual should be identified as Lead Officer for each body in receipt of funding from the Council.
- 1.4 The concept of 'Following the Public Pound' applies when the Council decides to fund external organisations which deliver services that might otherwise be delivered by the Council itself. In these arrangements, the Council agrees to provide funds and other resources to companies and organisations for the delivery of specified services. The Council has a number of such arrangements, and these companies / charities are collectively defined as being Arms Length External Organisations (ALEO's).
- 1.5 This Code covers all external bodies who receive a grant or financial support from the Council. It does not include payments made under a straightforward contract for goods and services. The glossary¹ provides helpful definitions in relation to what, for example, constitutes an external body and funding.
- 1.6 Governance of public funds does not end when the payment is made, it continues at a number of levels, including risks that may damage the Council's reputation, that statutory obligations are not met and that public funds are misused wasted or lost. The level of assurance that is therefore required about the organisations' ability to deliver the services the Council has funded must reflect the risks that exist. This Code follows the principle that different levels of scrutiny are required depending on the level of risk posed by each, the control exercised over the organisation by the Council and/or the level of funding given to each organisation. This approach is proportionate and will minimise the risks posed by organisations to our reputation, finances and statutory obligations and also ensure that the requirements on small organisations are not too onerous.

¹ For details refer to Section 14

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- 1.7 The risk assessment procedures² will be based on the level of control the Council holds over the organisation, the funding band, and the organisation's performance arrangements.
- 1.8 The Council may provide assistance in kind to external bodies. The true cost of assistance in kind, net of contributions by the external body, will be taken into account in the allocation of funding. In determining the true cost of assistance in kind, note will be taken of the Council's policy of charging for Council services on a full cost recovery basis subject to policy exemptions and in line with statutory requirements.
- 1.9 Potential conflicts of interest that arise when Councillors or officers sit on the boards or committees of external bodies funded by the Council will be removed through the use of funding agreements³. These written agreements will define roles, responsibilities and liabilities and will be used to define clear and unambiguous relationships.
- 1.10 The Council will only seek representation on the board or committee of an external body where
- the body clearly contributes to the achievement of the Council's strategic aims and objectives;
 - the body is considered to be a strategic partner; or
 - it is important for the Council's commitment to be visible.
- 1.11 To determine the checks required, the following will be used:

Risk/Control

- An organisation that is significant in size and over which the Council exercises substantial control i.e. those whose annual results are included in the Council's Group Accounts – Refer to Tier 1
- An organisation over which the Council exercises substantial control but is smaller in operational scale to the above i.e. those defined as part of the Council's Group but whose annual results are not included in the Group Accounts due to materiality – Refer to Tier 2
- An organisation that the Council has an interest in but does not control – Refer to Tier 4

and/or

Funding:

- Cumulative Annual Funding is greater than £7million – Refer to Tier 1

² For details refer to Section 11

³ For details refer to Section 9

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- Cumulative Annual Funding is greater than £300,000 but less than £7million – Refer to Tier 2
- Cumulative Annual Funding is between £75,000 and £300,000– Refer to Tier 3
- Cumulative Annual Funding is between £15,000 and £75,000 – Refer to Tier 4

- 1.12 The level of assurance to be followed will be the highest identified in assessing the above criteria.

Where annual funding is less than £15,000, an officer may still chose to follow the procedures laid down for Tier 4, as although the level of funding does not fall within the following the public pound guidance, the level of risk may be such that it would be prudent to follow these procedures.

For all other situations, officers should, as a minimum, obtain proof of the existence of the organisation, governance arrangements, and a breakdown of the funding. A letter of agreement should be prepared to set out the various responsibilities on both the Council and the organisation.

- 1.13 For all organisations who receive such funding, the Council will identify:

- The budget holder within the service providing the funding;
- The relevant accounting team contact; and
- The location of the relevant budget (financial code)

- 1.15 The Council will manage the risks posed through the delivery of services by external bodies by:

- Identifying and assessing risks for each Tier 1 and Tier 2 body.
- Grading each risk according to the Council's risk management protocols (4x6 matrix).
- Categorising each risk as red, amber or green, according to the assessed level of control assurance.
- Recording the risks in the relevant service risk register.
- Assigning a risk owner of appropriate seniority to manage their risk according to a pre-determined assessment schedule.

The level of control assurance for each risk will be informed by the documented output of the bi-annual Governance Hubs.

- 1.16 For high risks i.e. those categorised as red, the assessment schedule will be at a greater frequency than those at amber or green, reflecting the heightened response required. The management of risk around external bodies at the operational level will inform the assessment of risk in the Strategic Risk Register (SRR), the highest level of the

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Council's risk management structure. The SRR is updated monthly and is a component of the Corporate Dashboard. The frequency of assessment requirements at the operational tier provides an 'early warning' communication channel so that additional risk response actions may be authorised timeously at the strategic tier.

- 1.17 The Council will maintain an up to date central register⁴ of all organisations that receive funding and be able to produce information from across the Council in response to queries and questions.
- 1.18 The Council will maintain an up to date register of interests (representation on external bodies) and periodically review the indemnity arrangements in place for directors and officers, and trustees within external bodies. The master list of appointments will be held by the Head of Service, Office of the Chief Executive⁵.
- 1.19 The Office of the Scottish Charities Regulator (OSCR) undertook a detailed review into those Arm's Length External Organisations (ALEOs) registered as charities in Scotland. Their findings were published on 9th January 2015. A copy of the report can be found here: <http://www.oscr.org.uk/media/1778/2015-01-09-oscr-aleo-report.pdf>.

⁴ For details refer to Section 13

⁵ For details refer to Section 10

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2. TIER 1

2.1 Information Required from the Funded Organisation

2.1.1 The following list determines the minimum information requirements of the Council for the whole organisation and the timescales in which these are required:

- **Financial Plan** - detailed one year plan and summary 3 year plan. This will apply for each period for which funding is being granted;
- **Management Accounts** - to be submitted quarterly and no later than 6 weeks after the period end to which they relate; and
- **Financial Statements** - any registered company seeking funding for the first time must provide annual accounts for the 3 preceding financial years (unless a new body or less than 3 years old), audited or approved in line with Companies Act requirements for a registered company or guidance from the Office of the Scottish Charity Regulator (OSCR), in the case of a charity. Thereafter, an organisation in receipt of Council funding must present an annual set of accounts audited or approved (as required by the Companies Act or OSCR) within nine months of the financial year end.

It is recognised that some organisations will, due to their size be exempt from the audit requirements of the Companies Act, in these circumstances accounts approved by the board / trustees / directors of the organisation and which include a statement setting out their responsibilities, including that of keeping proper books and records will suffice.

- **Objectives** - statement of organisational strategic objectives.
- **Risk Register** – corporate risk register to be supplied for each period for which funding is being granted.
- **Constitution/governance documentation should be held on file**

Failure to comply with the above may result in the withdrawal or suspension of Council funding.

2.1.2 In addition to the minimum requirements as set out above, the Council will have the right to ask for or inspect:

- Details of the performance of the organisation against the organisation's financial plan;
- Copies of (non-confidential) Minutes of the Board of Directors or Trustees meetings; and
- Details of the organisations financial and non-financial transactions, policies and procedures

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2.2 Financial Checks to be completed by the Council

2.2.1 The following list details the financial checks that must be carried out by the Budget Holder, in conjunction their Accounting Team contact, and the timescales for completing these checks.

2.2.2 Checks required every two years:

- Ensure the organisation has adequate policies and procedures in place to govern the way their finances are handled.

2.2.3 Annual checks:

- Check that the projections in the financial plan are realistic and achievable;
- Check that sufficient cash exists to enable the organisation to meet its financial obligations for the foreseeable future (at least 3 months); and
- Check that any other material sources of external funding are secure and assess any risks relevant to the ability of the organisation to continue as a going concern.

2.2.4 Where the organisation does not meet the criteria required to demonstrate its operational or financial capability, further discussions will take place to review its financial plans. Funding will only be approved where an organisation can demonstrate it has the ability to continue to meet the objectives for which Council funding is to be provided as well as its own financial obligations.

2.2.5 The following will be completed on an ongoing basis:-

- The Budget Holder, in conjunction with their Accounting Team contact, will check the six monthly Management Accounts to ensure there is sufficient cash to meet the organisations outgoings for the forthcoming year.

2.3 Approval, Monitoring and Reporting Process

2.3.1 Approval for funding will be given by the relevant Service, through its budget approval process and delegated authority arrangements or Service Committee or Finance, Policy and Resources Committee (if funding is to be approved from the 'Financial Assistance' budget or in the event of the funding being beyond the budgeted contribution, i.e. the budget set for the organisation).

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- 2.3.2 The Monitoring Body will be the relevant Service Committee (or approving Committee if different), where an annual report will be presented by the Budget Holder, based on reports received from the organisation. The report will cover financial performance as well as the aims and objectives of the organisation and how these are being met, whether the standards set by the Council have been met, other performance measures and targets and where applicable future plans.
- 2.3.3 A Service Level Agreement must be put in place covering the approval period.

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3. TIER 2

3.1 Information Required from the Funded Organisation

3.1.1 The following list determines the minimum information requirements of the Council and the timescales in which these are required:

- **Financial Statements** - any registered company seeking funding for the first time must provide annual accounts for the preceding financial year (unless new body or less than one year old), audited or approved in line with Companies Act requirements for a registered company or guidance from the Office of the Scottish Charity Regulator (OSCR), in the case of a charity. Thereafter, an organisation in receipt of Council funding must present an annual set of accounts audited or approved (as required by the Companies Act or OSCR) within nine months of the financial year end.

It is recognised that some organisations will, due to their size, be exempt from the audit requirements of the Companies Act, in these circumstances accounts approved by the board / trustees / directors of the organisation and which include a statement setting out their responsibilities, including that of keeping proper books and records will suffice.

- **Objectives** - statement of organisational strategic objectives.
- **Risk Register** – corporate risk register
- **Constitution/governance documentation should be held on file**

Failure to comply with the above may result in the withdrawal or suspension of Council funding

3.1.2 In addition to the minimum requirements as set out above, the Council will have the right to ask for or inspect:

- Copies of (non-confidential) Minutes of the Board of Directors or Trustees meetings; and
- Details of the organisation's financial and non-financial transactions, policies and procedures

3.2 Financial Checks to be completed by the Council

3.2.1 The following list details the financial checks that must be carried out by the Budget Holder, in conjunction with their Accounting Team contact, and the timescales for completing these checks.

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3.2.2 Annual checks:

- Check that sufficient cash exists to enable the organisation to meet its financial obligations for the foreseeable future (at least 3 months); and
- Check that any other material sources of external funding are secure and assess any risks relevant to the ability of the organisation to continue as a going concern.

3.2.3 Where the organisation does not meet the criteria required to demonstrate its operational or financial capability, further discussions will take place to review its financial plans. Funding will only be approved where an organisation can demonstrate it has the ability to continue to meet the objectives for which Council funding is to be provided as well as its own financial obligations.

3.3 Approval, Monitoring and Reporting Process

3.3.1 Approval for funding will be given by the relevant Service, through its budget approval process and delegated authority arrangements or Service Committee or Finance, Policy and Resources Committee (if funding is to be approved from the 'Financial Assistance' budget or in the event of the funding being beyond the budgeted contribution, i.e. the budget set for the organisation).

3.3.2 The Monitoring Body will be the relevant Council Service, to which an annual report will be supplied by the organisation for the attention of the Budget Holder. This should cover service and financial performance and any significant changes.

3.3.3 Good practice suggests that the Council Service management team should, on an annual basis, consider the objectives that are achieved through funding external bodies and reflect and/or take appropriate action on the annual reports received from the various organisations.

3.3.4 A letter of agreement must be put in place with detailed terms and conditions of funding.

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4. TIER 3

4.1 Information Required from the Funded Organisation

4.1.1 The following list determines the minimum information requirements of the Council and the timescales in which these are required:

- **Financial Statements** – The organisation must provide an annual income and expenditure account and statement of cash balance which has been approved by a person independent of the day to day operational running of the organisation. Such a statement needs to be provided in support of each funding claim and for each period for which Council funding is provided.
- **Constitution/governance documentation should be held on file**

Failure to comply with the above may result in the withdrawal or suspension of Council funding

4.2 Approval, Monitoring and Reporting Process

4.2.1 Approval for funding will be given by the relevant Service, through its budget approval process and delegated authority arrangements or Service Committee or Finance, Policy and Resources Committee (if funding is to be approved from the 'Financial Assistance' budget or in the event of the funding being beyond the budgeted contribution, i.e. the budget set for the organisation).

4.2.2 The Monitoring Body will be the relevant Council Service, to which an annual statement will be supplied by the organisation for the attention of the Budget Holder. This statement should set out how the organisation has met the objectives for which Council funding has been provided.

4.2.3 The annual statement must be reviewed and signed off by the relevant Head of Service.

4.2.4 A written funding letter must be in place which sets out clearly the amount of funding, the period for which it is applicable, as well as any conditions or objectives attached to the funding.

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5. TIER 4

5.1 Information Required from the Funded Organisation

5.1.1 The following list determines the minimum information requirements of the Council and the timescales in which these are required:

- **Financial Statements** – The organisation must provide an annual income and expenditure account and statement of cash balance. Such a statement needs to be provided in support of each funding claim and for each period for which Council funding is provided.
- **Constitution/governance documentation should be held on file.**

Failure to comply with the above may result in the withdrawal or suspension of Council funding

5.2 Approval, Monitoring & Reporting Process

5.2.1 Approval for funding will be given by the relevant Service, through its budget approval process and delegated authority arrangements or Service Committee or Finance, Policy and Resources Committee (if funding is to be approved from the 'Financial Assistance' budget or in the event of the funding being beyond the budgeted contribution, i.e. the budget set for the organisation).

5.2.2 The Monitoring Body will be the relevant Council Service, to which an annual statement will be supplied by the organisation for the attention of the Budget Holder. This statement should set out how the organisation has met the objectives for which Council funding has been provided.

5.2.3 The annual statement must be reviewed and signed off by the relevant Head of Service.

5.2.4 A written funding letter must be in place which sets out clearly the amount of funding, the period for which it is applicable, as well as any conditions or objectives attached to the funding.

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6 Payments

- 6.1 A schedule of payments will be agreed with the receiving organisation, where appropriate, prior to the commencement of the financial year. The payments should be tailored to meet the cash flow requirements. However, as a general condition, payments in excess of £15,000 per annum should be in no fewer than four instalments per financial year and preferably made monthly to minimise the Councils exposure in the event of the organisation encountering financial difficulties.
- 6.2 Payments will **not** be made to the organisation until all required information is submitted and checked and all financial checks have been satisfactorily completed. This will include a check by the Budget Holder that a correctly calculated payment schedule is in place.
- 6.3 In order to confirm that the relevant information has been received and checks completed the Budget Holder should retain, in the organisation's file, a completed copy of the checklist – see Appendix A.

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7. Funding Agreement

- 7.1 All organisations covered within the scope of this procedure must have a Funding Agreement.
- 7.2 The Funding Agreement can take different forms, e.g. Service Level Agreement (SLA) or application form and letter of approval with associated conditions. The length and detail of a Funding Agreement will vary depending upon the nature and size of the funding given. The Funding Agreement should be in place within three months of the date of the decision being taken to provide funding.
- 7.3 In accordance with the procedures above a Service Level Agreement is required for funding that is in excess of £300,000 and a letter of agreement setting out the conditions of the funding is required for funding below £300,000.
- 7.4 This agreement will include non-financial targets and information, but as a minimum the following must be included:
- The purpose of the funding and the expectation of use;
 - The Council policy/strategy the funding is linked to;
 - The value of funding approved by the Council, including payment date information;
 - The period over which the funding applies;
 - Financial reporting requirements;
 - Monitoring and reporting requirements;
 - A statement on the consequences of failure to provide reporting information to the Council, i.e. the discontinuation of further funding;
 - A statement on the ability of the Council to deduct any debts due to the Council prior to making any further awards;
 - A statement on access to the accounting records of the organisation that requires to be given to Council staff, including internal and external audit staff.
 - Details of Council representation of Councillors and Officers.
 - The need for the Council to be acknowledged for its support on all publicity material relating to the project/service; and
 - Clarification of procedures for cancelling the Funding Agreement.
- 7.5 Monitoring officers should periodically review the SLA or other contract between the Council and the organisation. Where it is considered that a change to a provision within the original agreement is necessary, this should be agreed between the Service, Legal & Democratic Services and the organisation.

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8. Termination

8.1 The agreement to provide financial support may be terminated on **written notice** if any of the following arise:

- The organisation fails to perform any substantial obligation on its part; or
- The conditions of the investment, including the provision of information requested are not met; or
- The monitoring/evaluation of the organisation and/or its performance are deemed unsatisfactory by the Lead Officer

The termination shall become effective within 30 days after the receipt of the notice unless the organisation has remedied the identified default within this period or is able to demonstrate, to the satisfaction of the Council, that any issues can be remedied within an agreed timescale.

Under these circumstances, the Council will require the return of all unused monies and retains the right to recover any debts due to the Council incurred prior to the termination date.

8.2 The agreement to provide financial support may be terminated with **immediate effect** where the organisation:

- Is unable, at any time, to satisfy the Council that sufficient cash exists to ensure its cash flow projections can be financed; or
- Passes a resolution for winding up other than for the purposes of solvent amalgamation or reconstruction where the resulting entity assumes all of the obligations of the defaulting organisation; or
- Is deemed insolvent; or
- Makes or proposes to make any arrangement with its creditors; or
- Appoints a liquidator, receiver or administrator over any of the assets of the organisation

Any termination of the agreement shall not affect any rights or liabilities placed upon either party which have accrued prior to the date of termination.

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9. 'Group Accounts' Concept

9.1 Where the Council has entered into a financial arrangement with an external organisation that results in the organisation being treated as a subsidiary in terms of the 'Group Accounts' concept under the Code of Practice on Local Authority Accounting then the following will apply:

- Draft financial statements are required to be provided to the Council in a timescale to be agreed with the Accounting Manager, to enable the proper and timely production of the Council's unaudited annual accounts each year.
- Audited financial statements and a summary of any audit adjustments are to be provided to the Council in a timescale to be agreed, to enable the proper and timely production of the Council's audited annual accounts each year.
- An annual assurance statement on the system of internal controls, including financial controls, is to be sent to the Accounting Manager for review and to inform the production of the Council's Annual Governance Statement.
- Internal Audit should consider in the annual audit planning process the audit of subsidiary organisations and include in its audit plan relevant audits. Internal Audit will report their findings to the Audit, Risk and Scrutiny Committee.

9.2 The Council recognises the importance of its relationships with those organisations that form part of its group. In so doing, the Council has approved a range of requirements to be adhered to by the group entities. These include requirements for the Council to scrutinise group entities, with specific reference to:

- Management assurance;
- Internal and external audit reports;
- Business Planning;
- The system of risk management;
- The roles and responsibilities of the board; and
- The work of the governance hub by meeting regularly to discuss performance and governance matters.

9.3 Governance Hubs have been created to monitor all contracts and performance outcomes for ALEOs. It will take on the formal reporting of ALEO performance; manage contract delivery and monitoring, financial oversight and performance indicators for ACC. It will operate for all ALEOs in the same manner, with clear governance oversight and direct reporting through to the Corporate Management Team (CMT). In addition, minutes of the Governance Hubs will be reported to the Audit, Risk and Scrutiny Committee.

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10. Representation and Participation in External Bodies

- 10.1 In considering the question of representation it is important that the Council is clear about why it wants representation and is transparent in its decision making about which Councillors or officers will be involved and why.
- 10.2 The Council will review its policies with other organisations upon the request of the external organisation.
- 10.3 Where the Council participates as a decision-maker, adviser or observer of an external body the Council must provide advice and guidance to the Councillor and/or Officer involved. This should cover:
- their responsibilities to the Council and to the external body;
 - the potential for conflicts of interest and highlight the need to have regard to the national Code of Conduct for Councillors⁶ on the matter – including declarations of interest;
 - the need to recognise their duties towards the external body differ from their duties to the Council; and
 - the limitations on what they may disclose to the Council where there is a conflict of interest.
- 10.4 Councillors' responsibilities to the Council: Councillors usually represent a political party, but can also be independent. If they are a member of a political party, their priorities while in office are influenced by the priorities of the party. All councillors act as:
- Representatives of a particular ward area, decision makers for the whole council area, policy makers for future activities of the council, auditors of the work of the council, regulators of planning, licensing and other matters required by government and as community leaders.*
- 10.5 Officers' responsibilities to the Council: Officers engage in direct operational management of the Council's services. It is also the responsibility of the Chief Executive and senior officers to help ensure that the policies of the Council are implemented.
- 10.6 Responsibilities to the external body: Councillors will be bound by the rules of conduct of these organisations and their responsibility for any actions taken by them as a member of such an organisation will be to the organisation in question. Councillors must also continue to observe the rules of the Councillors Code of Conduct in carrying out the duties of that body.

⁶ The Councillors Code of Conduct is available at:
<http://www.scotland.gov.uk/Resource/Doc/334603/0109379.pdf>

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If a Councillor becomes a director of a company as a nominee of the Council they will assume personal responsibilities under the Companies Acts. It is possible that a conflict of interest may arise between the company and the Council. In such cases it is the Councillors responsibility to take advice on your responsibilities to the Council and to the company. This will include questions of declarations of interest.

Where a charity trustee is faced with a conflict of interest between the interests of the charity and those of the Council the interests of the charity must come first. The charity trustee must act in the interests of the charity to which they have been appointed, rather than in the interests of the Council. If in relation to a particular issue the conflict is irreconcilable, the then charity trustee in question must make this known to the other charity trustees, and not take part in any further discussion or decision-making on the issue⁷.

- 10.7 Conflicts of Interest: Interests which require to be declared (if known to the Councillor) may be financial or non-financial. They may or may not cover interests which are registrable in terms of the Code of Conduct. Most of the interests to be declared will be personal interests but, on occasion, you will have to consider whether the interests of other persons require you to make a declaration. In specific relation to Following the Public Pound the following applies:

A Councillor may serve on other bodies as a result of express nomination or appointment by the Council or otherwise by virtue of being a councillor. Membership of statutory Joint Boards or Joint Committees which are composed exclusively of councillors does not raise any issue of declaration of interest in regard to Council business.

In relation to service on the boards and management committees of limited liability companies, public bodies, societies, charities, trusts and other organisations, the Councillor must decide, in the particular circumstances surrounding any matter, whether to declare a non-financial interest. Only if they believe that, in the particular circumstances, the nature of the interest is so remote or without significance, should it not be declared. It is vital to always remember the public interest points towards transparency and, in particular, a possible divergence of interest between the Council and another body.

The Councillor Code of Conduct includes specific exclusions in relation to the declaration of interests. These apply to enable the councillor to take part in the consideration and discussion of, and to vote upon, any matter relating to the body in question. The councillor is required to declare his or her interest at all meetings where matters relating to the

⁷ Source: Guidance for Charity Trustees, OSCR, June 2009 & Arm's-length external organisations (ALEOs): are you getting it right? Audit Scotland, June 2011

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body in question are to be discussed. This is always provided the exclusion does not apply in respect of any matter of a quasi-judicial or regulatory nature where the body in question is applying to the local authority for a licence, a consent or an approval, is making an objection or representation or has a material interest concerning such a licence, consent or approval or is the subject of a statutory order of a regulatory nature, made, or proposed to be made, by the local authority.

- 10.8 Limitations on what can and cannot be disclosed: This cannot be easily defined and Councillors and officers are advised to seek advice from, for example, the Council's Monitoring Officer should there be uncertainty about issues of conflict of interest.
- 10.9 It is not possible for the Council to insure Councillors or Officers of the Council in relation to their capacity as trustees, directors or officials, therefore it is for each external organisation to consider their own risks and determine the level of insurance / indemnity cover that's required. There will be circumstances where no indemnity insurance is required and this is acknowledged by the Council.
- 10.10 The Council will periodically check the indemnity arrangements that exist within external bodies where Councillors or Officers participate.
- 10.11 The Head of Legal and Democratic Services will retain a register of representation on external bodies in a format they deem suitable for the purpose. Decisions in relation to representation will be taken by the relevant Council Committee or Sub-Committee⁸ or at the first meeting of the Council⁹.

⁸ Refer to Standing Order 37(6)

⁹ Refer to Standing Order 1(5)(iii)

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11. Financial and Operational Risk Assessment

11.1 Financial Assessment Framework

11.1.1 For funding awards of greater than £7 million an assessment should be made and documented by the relevant Council financial or accounting officer in relation to the financial stability of the organisation and for those which have operated for more than 3 years, 3 years financial statements should be supplied to the Council in the first instance. Where the funding is between £300,000 and £7million this should be looked at on the basis of the preceding year's approved or audited financial statements.

11.1.2 Newly (or recently) formed organisations should be asked to submit detailed financial plans together with cash flow forecasts, and/or business plans, where available.

11.1.3 Services are required to source the relevant documentation. The lead officer should prepare the assessment prior to the award of funding, in conjunction with their accounting team contact.

11.1.4 Where specific issues exist or additional information may be helpful to the assessment of the organisation a credit check may be appropriate and should be discussed with your line manager prior to this being obtained. These can be obtained from the Accounting Team contact.

11.2 Operational Assessment Framework

11.2.1 Matters which should be considered as part of the assessment of the organisational capability for awards of funding in excess of £15,000.

- Does the organisation have a management board to oversee the direction, service delivery and financial stability of the organisation
- Is the organisation a registered charity, and if so have they complied with guidance from OSCR
- Is the organisation a registered company, and if so have they complied with their requirements under Companies Act
- Does the organisation have a clear statement of purpose and organisational objectives
- Is the organisation able to provide evidence or other support to demonstrate achievement of its objectives and purpose

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- Are there any known reasons that would result in a risk to the Council's reputation through association with an external body if financial or service delivery problems emerge

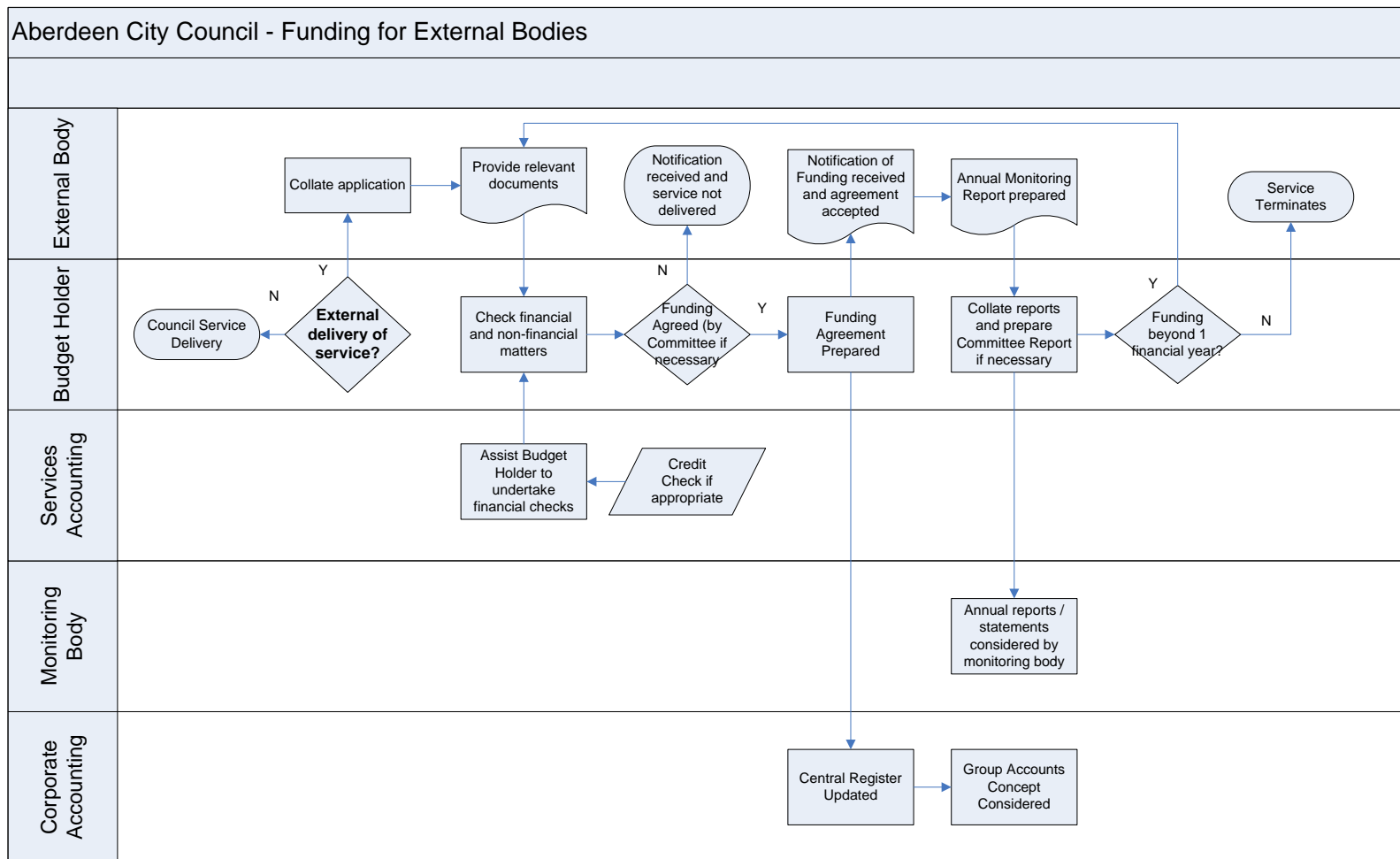
11.2.2 The Budget Holder and/or other people undertaking the operational capability assessment should document their findings (Pro forma – Appendix B), together with their recommendation as to whether the organisation is fit and proper to be considered for funding. Where conditions need to be attached to any Funding Agreement, these should be documented within the assessment pro forma.

11.2.3 Should the lead officer determine that they do not possess the relevant skills/knowledge to undertake this assessment, they should seek advice from their Finance business partner in the first instance.

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12. Flowchart

12.1 In order to present a picture of how the award of funding works the following flowchart has been produced to aid an understanding of the work, decision making and outputs involved.



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12.2 This can be described in the following way

- Application for funding received / Identified need for external body to deliver a service on behalf of the Council
- Determine Level of Funding Required → Indicates information / documentation / agreement type required
- Budget Holder, in conjunction with their Accounting Team contact, undertakes financial and non-financial scrutiny
- Checklists completed – see Appendix A
- Decision taken under Service scheme of delegation, or if calls for it Committee approval
- Funding Agreement put in place by Budget Holder
- Budget Holder informs the Corporate Accounting Team of agreement to update the Central Register
- Corporate Accounting Team consider the wider aspects of the Council's Group Accounts
- Monitoring reporting undertaken by the external body
- Budget Holder provides annual information to Head of Service, Service Management Team or Committee as appropriate
- Budget Holder manages and maintains the organisational relationship with the external body
- Funding extending beyond a single financial year is subject to annual / ongoing financial and non-financial checks

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13. Central Register

- 13.1 The Council will maintain a Central Register of all funding approved that meets the criteria set, which is covered by this Local Code of Practice.
- 13.2 The Register will be managed and maintained by the Corporate Accounting Team, located at Marischal College, and updates will be provided directly from the Budget Holder as funding is awarded.
- 13.3 The Register is a key data source and as such the information and timing of such being supplied is crucial to the robustness of the information that is contained therein. The process described in this document and accompanying flowchart and checklists show when the Register should be updated.
- 13.4 To record an entry in the Register the Funding Agreement should be sent to the Corporate Accounting Team immediately after the award has been made. The format of the register is shown in Appendix C.
- 13.5 If Budget Holders wish to enquire about funding being provided to an organisation from across the Council then the Register will allow this to be carried out, in the first instance contact the Corporate Accounting Team on 52 2562 or 52 3567 for details.

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14. Glossary & Reference Documents

Glossary:

External Body	Includes all arms length external organisations, trusts, registered charities, voluntary organisations and grant aided bodies
Funding	<p>Includes monies, grants, capital grants, guarantees, loans, common good fund contributions, shares, assets and assistance in kind</p> <p>Where assets, such as property are provided, the value of the building will not be included in the value of funding and a committee decision based on a business case for the use of assets in this way will be the overriding factor. This will normally exist where the council wishes the external body to undertake the delivery of existing council services on its behalf</p> <p>Peppercorn (below market rate) rental / lease agreements for property should be taken into account, based on the difference between the payment made and the market value</p>
Assistance in Kind	<p>Includes all staff time and associated costs involved in enabling the external body to carry out its core activities which are essential to its continued existence e.g. administrative support, professional services, advice, accommodation, use of equipment, training, preparation of material for reporting to Council, etc</p> <p>It does NOT include staff time and associated costs involved i) in supporting and developing groups as part of the Councils duty to support community action; ii) in providing advice on setting up the funding and applications to the Council; and iii) incurred in the formal monitoring and review of funding arrangements by the Council</p>
Straightforward Contract	An agreement for the provision of goods and services between the Council and another organisation as a result of a normal commercial process, such as an open tender

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Substantial to the Council	Funding arrangements that are substantial are where the external body is receiving in excess of £7million per annum. This will include revenue or capital, recurring or non-recurring funding
Representation	Means acting as a full member of the board or management committee of an external body, having a decision making capacity with full speaking and voting rights
Participation	Includes acting as a representative, adviser or observer at meetings of external bodies.
Accounting Team Contact	The person within Services Accounting designated to support the Service in these matters by the Finance Partner or Accountant
Budget Holder	The Service representative designated to process the applications from external bodies for funding, and who is responsible for the contact with and relationship between the Council and the external body
Monitoring report	This will consist of a financial and non-financial operational report from the external body that includes confirmation of what has been achieved with the funding that's been provided and costs associated with undertaking this work

Reference Documents:

Arm's-length external organisations (ALEOs): are you getting it right?
Audit Scotland, June 2011

Following the Public Pound: A follow-up report;
Audit Scotland, December 2005

Code of Guidance on Funding External Bodies and Following the Public Pound and
Operational Guidance;
CoSLA & Accounts Commission for Scotland, May 1996

The Councillors' Code of Conduct;
The Standards Commission for Scotland, December 2010

Roles and working relationships: are you getting it right?
Audit Scotland, August 2010

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Checklist

Financial Year: [enter year]**External Body:** [enter name of organisation]**Service:** [enter the Service]**Budget Holder:** [enter name and job title of the designated budget holder]**Completed By:** [enter name and job title of person completing this checklist]

	Requirements for funding of				Value of Funding
	TIER 1	TIER 2	TIER 3	TIER 4	£
Description of Issues and Checklist Questions (these represent minimum requirements)					Confirm Receipt of Information or Checking has been carried out
Prior to the Funding being Awarded On receipt of an application for funding consider whether the applicant meets the criteria for the grant or funding they are applying for. Reference may be made to the contents of the <i>Aberdeen City Council Funding Pack</i> . Has the funding criteria been applied prior to the award?	X	X	X	X	

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Checklist

Information expected from each external body in support of their application					
<ul style="list-style-type: none"> Detailed one year financial plan and summary 3 year plan provided 	X	n/a	n/a	n/a	
<ul style="list-style-type: none"> Any registered company seeking funding for the first time must provide annual accounts for the 3 preceding financial years (unless new body or less than 3 years old), audited or approved in line with Companies Act requirements - It is recognised that some organisations will, due to their size be exempt from the audit requirements of the Companies Act, in these circumstances accounts approved by the board / trustees / directors of the organisation and which include a statement setting out their responsibilities, including that of keeping proper books and records will suffice. 	3 years	1 year	n/a	n/a	
<ul style="list-style-type: none"> The organisation must provide an annual income and expenditure account and statement of cash balance which has been approved by a person independent of the day to day operational running of the organisation 	n/a	n/a	1 year	1 year	
<ul style="list-style-type: none"> In the case of the organisation being recognised as a charity, the organisation will have to follow the guidance from the Office of the Scottish Charity Regulator (OSCR) to check if an audit or an independent examination is required. 	X	X	X	X	
<ul style="list-style-type: none"> A statement of organisational strategic objectives 	X	X	n/a	n/a	
<ul style="list-style-type: none"> Ensure the organisation has adequate policies and procedures in place to govern the way their finances are handled 	X	n/a	n/a	n/a	
<ul style="list-style-type: none"> Check that the projections in the financial plan are realistic and achievable 	X	n/a	n/a	n/a	
<ul style="list-style-type: none"> Check that sufficient cash exists to enable the organisation to meet its financial obligations for the foreseeable future (at least 3 months) 	X	X	n/a	n/a	
<ul style="list-style-type: none"> Check that any other material sources of external funding are secure and assess any risks relevant to the ability of the organisation to continue as a going concern 	X	X	n/a	n/a	

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Checklist

<u>Approval Process</u>					
• Has approval for funding been given by a Committee, if so which one?	X	X	X	X	
• Has approval for funding been given through delegated authority, if so who by?	X	X	X	X	
• What was the date of the approval?	X	X	X	X	
<u>Payments</u>					
• Has schedule of payments been agreed with the organisation, and where appropriate, prior to the beginning of the financial year?	X	X	X	X	
• Are there no fewer than 4 payments in the financial year?	X	X	n/a	n/a	
• Who has checked the schedule of payments for accuracy?	X	X	X	X	
• Have all financial checks have been completed to the satisfaction of Council staff, and all the information submitted as required by the organisation?	X	X	X	X	
• Is everything held in the file?	X	X	X	X	
<u>Funding Agreement</u>					
• A Service Level Agreement is required	X	n/a	n/a	n/a	
• What date was the Service Level Agreement signed?	X	n/a	n/a	n/a	
• Is a letter of agreement in place?	n/a	X	X	X	
• What date was the letter was issued?	n/a	X	X	X	
• Are the minimum requirements as set out in Section 7.4 all covered?	X	X	X	X	
• Is a copy of the Agreement held in the file?	X	X	X	X	
<u>Group Accounts Concept</u>					
Has the issue of Group Accounts been considered by Corporate Accounting?	X	n/a	n/a	n/a	
<u>Central Register</u>					
Has the Funding Agreement been sent to the Corporate Accounting Manager for entry into the central register?	X	X	X	X	

X = this criteria applies to funding being awarded

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Checklist

Financial Year: [enter year]**External body:** [enter name of organisation]**Service:** [enter the Service]**Budget Holder:** [enter name and job title of the designated budget holder]

Description of Issues and Checklist Questions (these represent minimum requirements)	TIER 1	TIER 2	TIER 3	TIER 4	Financial Year 20xx/xx
After the Funding has been Awarded <u>Regular checks for external bodies</u> Every 2 Years <ul style="list-style-type: none"> Ensure the organisation has adequate policies and procedures in place to govern the way their finances are handled Annually <ul style="list-style-type: none"> Check that the projections in the financial plan are realistic and achievable Check that sufficient cash exists to enable the organisation to meet its financial obligations for the foreseeable future (at least 3 months) Check that any other material sources of external funding are secure and assess any risks relevant to the ability of the organisation to continue as a going concern Ongoing <ul style="list-style-type: none"> Check the six monthly Management Accounts to ensure that there is sufficient cash to meet the organisations outgoings for the forthcoming year. 	X	n/a	n/a	n/a	
	X	n/a	n/a	n/a	
	X	X	n/a	n/a	
	X	X	n/a	n/a	
	X	n/a	n/a	n/a	

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Checklist

<u>Council Monitoring</u>					
• What is the relevant Monitoring Body, which Committee or Service?	X	X	X	X	
• Annual report received from the external body?	X	X	X	X	
• Annual report prepared for Committee?	X	n/a	n/a	n/a	
• Date of Committee?	X	n/a	n/a	n/a	
• Annual report prepared for Service Management Team?	n/a	X	n/a	n/a	
• Annual report supplied to Head of Service?	n/a	n/a	X	X	
• Objectives and Outcomes achieved as per Funding Agreement?	X	X	X	X	
• Outcome observations:	X	X	X	X	
Any further action required:					

X = this criteria applies to funding being awarded

**LOCAL CODE OF PRACTICE FOR FUNDING EXTERNAL BODIES AND
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We have considered the following in respect of the above organisation and have summarised our observations and conclusions below:

Matters considered (examples – the questions should be tailored according to the nature and amount of funding being considered)

- Does the organisation have a management board to oversee the direction, service delivery and financial stability of the organisation
- Is the organisation a registered charity, and if so have they complied with guidance from OSCR
- Is the organisation a registered company, and if so have they complied with their requirements under the Companies Act.
- Does the organisation have a clear statement of purpose and organisational objectives
- Is the organisation able to provide evidence or other support to demonstrate achievement of its objectives and purpose
- Are there any known reasons that would result in a risk to the Council's reputation through association with an external body if financial or service delivery problems emerge

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Operational Capability Assessment Template

Record any observations in relation to the above

Recommendation

The organisation has been assessed and our overall recommendation is as follows:

Date completed: [enter date]

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Central Register – Format

Aberdeen City Council
Return of information for setting up a Central Register
of Organisations meeting the criteria of Following the Public Pound
covering the 2015/16 financial year

Service making the return: _____
Person Collating Data & Contact Details: _____

Data Required for Setting up Register

Fund	Name	Designation	DIRECTORATE	SECTION	Location	Phone No.	Contact	Phone No.	Name	Contact	Designation	Address 1	Address 2	Town/ City	Post Code	e-mail	Nature of Funding	Approval Date	Value of Support £	Decision Making Body	Financial Code (s)	Payment Regime	Project

Guidance notes on completion of the return

Lead Officer Please provide name & designation
Contact Details Please provide location & tel. number
Nature of Funding e.g. Grant, guarantee, loan etc.
Decision making body e.g. Committee, CMT
Payment regime e.g. monthly, quarterly, annually etc.