



Arts & Humanities
Research Council



Department of Trade and Industry

FINANCIAL MEMORANDUM

AGREED BETWEEN

THE OFFICE OF SCIENCE AND

TECHNOLOGY IN THE

DEPARTMENT OF TRADE AND

INDUSTRY AND THE ARTS AND

HUMANITIES RESEARCH COUNCIL

APRIL 2005

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I. INTRODUCTION

1. This Financial Memorandum accompanies the Management Statement for the Arts and Humanities Research Council (“the Council”), classified as an executive Non-departmental Public Body, and sets out in greater detail certain aspects of the financial framework within which the Council is required to operate. The Memorandum applies from the date of signature by both the Council and OST.
2. The Council shall satisfy the conditions and requirements set out in this Financial Memorandum and the associated Management Statement, together with such other conditions as the Secretary of State may from time to time impose. The terms and conditions set out in these documents may be supplemented by guidelines or directions issued by the Secretary of State in respect of the exercise of any individual functions, powers and duties of the Council. In addition, the Council shall comply with the current edition of Government Accounting¹, and other relevant instructions and guidance.

II. THE COUNCIL’S INCOME AND EXPENDITURE - GENERAL

The Departmental Expenditure Limit (DEL)

3. The Council’s resource and capital expenditure forms part of the DTI’s Science Budget Resource DEL and Capital DEL respectively. The OST allocates agreed budgets to the Council as part of the Spending Review process, and agrees budgets for third-party income and related expenditure (as set out at paragraphs 25 and 26). The OST also agrees longer-term commitments with the Council, where appropriate.

Expenditure not proposed in the budget

4. The Council shall not, without prior written approval from OST, enter into any undertaking to incur any expenditure that falls outside the Council’s delegations or which is not provided for in the Council’s budget as approved by OST, or other written agreements with the OST.

¹ As at 1 April 2005, Government Accounting 2000 amendment 3/03. All references to “Government Accounting” in this document shall be construed as being to that version or, when a subsequent edition is issued, to that version.

Procurement.

5. The Council's procurement policies shall comply with the guidance from the Office of Government Commerce (see also paragraph 42) and that in chapter 22 of the current edition of Government Accounting. The Council shall also ensure that it complies with any relevant EU or other international procurement rules.
6. Periodically and wherever practicable, the Council's procurement function, and/or the Research Councils' Procurement Organisation (RCPO) where the function is integrated into the RCPO in whole or in part, shall be benchmarked against best practice elsewhere and contracted out where this would achieve better value for money.

Competition

7. Contracts shall be placed on a competitive basis and tenders accepted from suppliers who provide best value for money overall, unless there are compelling reasons to the contrary.
8. The Council shall have appropriate control systems in place to authorise single tender action which shall be approved by the Council's Accounting Officer. Proposals to let single-tender or restricted contracts external to the Council shall be subject to a specified delegated authority limit of £100,000. All cases above that limit must be agreed with the DTI beforehand. Where there are Inter-Council agreements arranged by the RCPO, they shall be subject to the same approval, by application of the RCPO to OST. The Council shall provide OST with a report with a summary list and brief details of all such contracts within the £50,000 to £100,000 range.

Value for money

9. Procurement by the Council of works, equipment, goods and services shall be based on value for money, i.e. quality (in terms of fitness for purpose) and delivery against price. Where appropriate, a full option appraisal shall be carried out before procurement decisions are taken. Where the Council participates in a multi - Council activity, one Council shall be nominated to take the lead in carrying out the option appraisal.

Timeliness in paying bills

10. The Council shall seek to pay all matured and properly authorised invoices in accordance with the terms of contracts or within 30 days, as provided for in chapter 16. of Government Accounting. The Council shall comply with the Late Payment of Commercial Debts (Interest) Act 1998 as amended.

Novel, contentious or repercussive proposals

11. The Council shall obtain the approval of OST before:
- incurring any expenditure for any purpose which is or might be considered novel or contentious (Government Accounting, chapter 2.4.7), and which has or could have significant future cost implications, including on staff benefits;
 - making any significant change in the scale of operation or funding of any initiative or particular scheme which under existing delegations previously approved by OST (significant change being defined as a change in budget of 10% or more with a de minimis of £ 2 millions total cost);
 - making any change of policy or practice which has wider financial implications (e.g. because it might prove repercussive (Government Accounting, chapter 32.4.7) among other public sector bodies) or which might significantly affect the future level of resources required (the Delivery Plan discussions would be one possible method of seeking such approval).

Risk management (see also paragraphs 36, 74 and annex 7 of the Management Statement)

12. The Council shall ensure that the risks it faces, are dealt with in an appropriate manner, in accordance with relevant aspects of best practice in corporate governance. The Council shall develop and maintain a risk management strategy, in accordance with the Treasury guidance: “Management of Risk: A Strategic Overview, and Government Accounting” (see ‘Risk’ at index). It shall also have regard to any guidance issued by OST.
13. The Council shall maintain and review their Risk Register on a regular basis, and prepare a Statement of Internal Control signed off by the Chief Executive of the Council (the Accounting Officer) for insertion into their Annual Accounts.
14. The Council shall adopt and implement policies and practices to safeguard itself against fraud and theft, in line with Treasury's guide - Managing the Risk of Fraud. (See also paragraph 36 and annex 7 of the Management Statement.)
15. The Council shall: in respect of bodies other than Higher Education Institutions (HEIs), make suitable enquiries as to their financial standing; and, in respect of HEIs where it has cause for concern, seek assurance from the HEI, the relevant Higher Education Funding Council and/or any other appropriate body or source.
16. Additionally, the Council shall take all reasonable steps to appraise the financial standing of any external organisation other than a HEI with which it intends to enter into a contract, having regard to the risks in each case.

17. Payments should not normally be made in advance to contractors, before equivalent value has been received in return. Any proposals to make advance payments should be considered against the advice provided in annex 16.1 to chapter 16 of Government Accounting.

Wider markets

18. In accordance with the wider markets policy and the Baker Report², the Council shall seek to maximise value to the UK economy. To this end, but at the same time ensuring that any wider markets activity is consistent with (a) the Council's main functions, and (b) its Strategic and Delivery plans as agreed with OST, the Council shall seek to optimise the commercial potential and consequently the non-Exchequer receipts from its research and other outputs.

Fees and charges

19. Fees or charges for any services supplied by the Council shall be determined in accordance with the Treasury's 'Fees and Charges Guide', and with the regulations made under the Freedom of Information Act 2000; and any additional OST requirements, including those flowing from policy on sustainability of research facilities.

III. THE COUNCIL'S INCOME

Grant-in-aid

20. Grant-in-aid, driven by resource and capital DEL, will be paid to the Council in monthly installments, on the basis of an annual profile provided by the Council (updated as agreed with OST), based on a reconciliation to the use of resource and capital budgets. Each application shall certify that the conditions applying to the use of grant-in-aid have been observed to date, and that further grant-in-aid is now required for purposes appropriate to the Council's functions.
21. The Council should have regard to the guidance in chapter 9 of Government Accounting, that it should seek grant-in-aid according to need.
22. Cash balances accumulated during the course of the year from grant-in-aid or other Exchequer funds shall be kept at the minimum level consistent with the efficient operation of the Council. The Council should aim not to build up cash balances or net assets in excess of what is required for operational purposes. Grant-in-aid not drawn down by the end of the year shall lapse. Subject to approval by Parliament of the relevant Estimates provision, the Council will be entitled in the subsequent year to any such grant-in-aid which

² 'Creating Knowledge Creating Wealth', a report by John Baker to the Minister for Science and the Financial Secretary to the Treasury, August 1999.

is required to meet any liabilities at year end, such as creditors, and in respect of cash needs resulting from EYF entitlement.

End-year flexibility (EYF)

23. OST will set firm multi-year DEL allocations as part of the Spending Review process. Any end year underspend generated by the Council, whether resource or capital, may be carried forward by the Council from one year to the next subject only to the OST's overriding need to manage the Science Budget effectively. The flexible use of any underspend is intended to facilitate the Council's effective use of resources with a view to maximising the benefit to the research base from the Science Budget. Such arrangements may be subject to the application of any ring-fence set for specific purposes. The council should have a clear strategy for the use of EYF which is consistent with: its overall financial strategy, the nature of its business and its perceived risks, and which ensures that EYF is not accumulated to levels which would call into question the Council's or OST's effective financial management.
24. OST Will:
- Agree ahead of the first year in question, a three-year DEL allocation following the Spending Review settlement;
 - Confirm the amount of EYF within the Science Budget, when accurate information is available from HM Treasury, taking account of any reserve claims which might limit the EYF entitlement within the Science Budget as a whole, and subject to ministerial priorities; and
 - Agree, after the amount of EYF is known, the allocation to the Council.

Third party income

25. Third party income, defined as that income from sources other than the Science Budget, has the effect of being additional spending power. The requirement is that the budgets (and outturn data) for both non-science income and expenditure should be scored on the PES Database or any successor expenditure monitoring system that HM Treasury may introduce. This third party income is normally offset against the DEL.
26. If there is any doubt about the correct classification of income, the Council shall consult OST, who will consult the Treasury as necessary.

Interest earned

27. Any interest earned by the Council on its assets shall be given the same budgeting treatment as the cost of capital charge on assets. The practical impact is that interest earned is not negative DEL and cannot be spent, and

needs to be surrendered to OST. The exception to this rule is non-DEL cash and non - grant-in-aid interest.

28. The cost of capital charge on most DEL financed assets and any income from interest score as resource DEL.
29. The Council will need to obtain OST agreement to, and DEL cover for, the use of exempted interest income (defined as above) to finance additional expenditure by the Council. Any interest earned on cash balances arising from grant-in-aid or other Exchequer funds shall be treated as a receipt from an Exchequer source. Depending on the budgeting treatment of this receipt, and its impact on the Council's cash requirement, it will lead to commensurate reduction of grant-in-aid or be required to be surrendered to the Consolidated Fund via the OST.

Unforecast changes in in-year income

30. If the negative DEL income received or receivable in-year is less than estimated (classified as negative DEL), the Council shall, reduce expenditure so that the authorised budget is not exceeded.
31. If the negative DEL income received or receivable in the year is greater than estimated, the Council may apply to OST to retain the excess income for specified additional expenditure within the current financial year without an offsetting reduction to the resource budget. OST shall consider such applications, taking account of competing demands for resources, and will normally accept them. If an application is refused the resource budget and grant-in-aid shall be commensurately reduced, or the excess income shall be required to be surrendered to the Exchequer via OST. These arrangements are subject to the provisions set out in paragraphs 66-69 under the heading Disposal of assets.

Gifts and bequests received

32. The Council is free to retain any gifts, bequests or similar donations. These shall be treated as income. Donated assets do not attract a cost of capital charge, and a release from the donated assets reserve should offset depreciation in the operating cost statement.
33. Before proceeding in this way the Council shall consider if there are any associated costs in doing so or any conflicts of interests arising. The Council shall keep a written record of any such gifts, bequests and donations and of their estimated value and whether they are disposed of or retained.

Income / Receipts from the EC

34. Income from the European Union (technically the European Community), obtained by the Council, does not automatically provide additional DEL

spending power for the Council, and public expenditure controls apply. Details are provided in HM Treasury paper PES (2003) 03 dated 20 March 2003.

Borrowing

35. The Council shall observe the rules set out in Section 29.5 of Government Accounting 2000 when undertaking borrowing of any kind.
36. The Council shall seek the prior written approval of OST to ensure that it has any necessary authority and budgetary cover for any borrowing or the expenditure financed by such borrowing. Medium or long term private sector or foreign borrowing is subject to the value for money test in Government Accounting.
37. Any expenditure by the Council financed by borrowing counts in DEL.

IV. PROGRAMME AND NON-STAFF EXPENDITURE

Capital expenditure

38. Having regard to its asset base, the Council must produce a draft Capital Investment strategy by January in each year, or at such other interval as may be agreed with OST, with a final strategy completed by March (see also the need to incorporate the requirements at paragraph 65). The strategy will provide details of the asset management strategy linked to science priorities and will include the contribution from any partnerships and strategic alliances. It also needs to take account of the Council's estate management strategy (see appendix C).
39. The strategy will contain a detailed investment plan for the following two years. A Capital investment report update showing progress against the strategy shall be issued every June.
40. Within its approved overall resource limit, and subject to paragraph 51, the Council shall, as indicated in the attached appendix A on delegations, have delegated authority to spend up to £10 million on any individual capital project or acquisition.
41. The Council may apply to OST for additional funding to support the construction of new large facilities. Any application must conform to the current guidance issued by OST. Proposals for large-scale individual capital projects or acquisitions (see paragraph 43 and 44 below) shall be considered for funding by OST and shall then be considered within the Council's delivery planning process.
42. The Council shall use the Large Facility procedures laid down by OST, in consultation with Research Councils UK (RCUK) and its members.

43. Applications for approval by OST, and if necessary the Treasury, shall be supported by formal notification that the proposed project or purchase has been examined and duly authorised by the Council's governing body.
44. Any funding granted will be subject to terms and conditions made by OST after discussion with the Council. The Council shall use the Office of Government Commerce's Gateway process to help procure large-scale individual capital projects or acquisitions and large scientific facilities. Regular reports on the progress of projects shall be available to OST.

Transfer of funds within budgets

45. Unless financial provision is subject to specific Departmental, OST or Treasury controls (including where provision is ring-fenced for specific purposes), transfers between budgets within the total capital budget, or between budgets within the total resource budget, do not need OST approval. With the exception of Public Private Partnerships (PPP) and Private Finance Initiatives (PFI), transfers from capital to resource budgets are not permitted. Capital grants budgets are ring-fenced within resource.

Lending, guarantees, indemnities; contingent liabilities; letters of comfort

46. The Council shall not, without prior written consent from OST, lend money, charge any asset or security, give any guarantee or indemnities or letters of comfort, or incur any other contingent liability (as defined in chapter 26 of Government Accounting), whether or not in a legally binding form, otherwise than in the terms of guarantees, indemnities etc. which can be regarded as of a type given in the course of normal commercial business dealings.
47. Any financial guarantees and indemnities given by the Council must be adequately covered by existing agreed Resource and Capital budgets.

Grant, loan schemes and international subscriptions

48. The Council is empowered to give grants under the Higher Education Act 2004 and its Royal Charter for the support of projects within the scope of the objects at article 2 of the Charter. The OST must be consulted before grants are made to other than the following:-
 - Higher Education Institutions (HEI)
 - Research Council Institutes
 - Public Sector Research Establishments
 - UK not for profit organisations
 - Business organisations through the LINK scheme, and through contracts to undertake work for the development of technology and other knowledge transfer.

- Other organisations for the ‘science and society’ purposes of article 2 (c) of the Charter
 - Maintenance grants to individuals studying at HEIs
49. The Council shall not make loans without the prior approval of OST. All proposals to make a loan to a third party, whether one-off or under a scheme, shall be subject to prior approval from OST, together with the terms and conditions under which such a loan is made. If loans are to be made on a continuing basis, statutory authority may first be required and OST must be notified in sufficient time for this to be obtained.
50. The terms and conditions for grants and loans shall include a requirement on the receiving organisation to maintain appropriate financial records, and to ensure that its books and records in relation to the grant or loan are readily available for inspection by the Council and the Comptroller and Auditor General (C&AG).
51. The Council is empowered to make international subscriptions related to its research domain as set out in article 2 of its Charter. Resource and capital grants elements within the subscription should be agreed with OST.

Gifts made, write-offs, losses and other special payments

52. Proposals for making gifts or other special payments (including write-offs) outside the delegated limits set out in Appendix A to this document must have prior approval from OST.
53. Gifts to staff are subject to the requirements of DAO(GEN)13/01 and the associated Cabinet Office guidance on non-pay rewards. A record shall be kept of all gifts that are valued at £50 and above.

Leasing

54. Prior OST approval must be secured for **all** finance leases, and for all operating leases above £100,000. The Council must have capital DEL provision for finance leases, and other transactions that are in substance borrowing (paragraphs 35-37 above).
55. Before entering into any lease (including an operating lease) the Council shall carry out an investment appraisal in order to demonstrate that the lease offers better value for money than purchase.

Public Private Partnerships

56. The Council shall seek opportunities to enter into Public Private Partnerships where this would be more affordable and offer better value for money than conventional procurement. Where cash flow projections may result in delegated spending authority being breached the Council shall consult OST.
57. Any partnership, in which the Council participates, shall be accounted for in accordance with UK GAAP. Where there are linked concerns over the degree of control exercised by the Council, the Department will consult with HM Treasury (who may need to consult with the Office for National Statistics over national accounts treatment).

Subsidiary companies and joint ventures

58. The Council shall not establish subsidiary companies (either share or limited by guarantee) or joint ventures, without the express approval from OST. In judging such proposals, OST will have regard to the Department's wider strategic aims, objectives and current Public Service Agreement, the Baker Report, any other guidance on research exploitation activities, and any other existing related activity supported by public funds. Paragraph 14 of the Management Statement sets out a requirement for a document setting out the arrangements between it and the Council.
59. Any subsidiary company controlled, or joint venture owned, by the Council shall be consolidated with it in accordance with UK GAAP for public expenditure accounts purposes, subject to any particular treatment required by UK GAAP. Where there are linked concerns over the degree of control exercised by the Council, the Department will consult with HM Treasury (who may need to consult with the Office for National Statistics over national accounts treatment). Unless specifically agreed with the Department and the Treasury, such subsidiary companies or joint ventures shall be subject to the same controls and requirements as are set out for the Council itself in this Financial Memorandum and the related Management Statement, and to the further provisions and guidance set out in supporting documentation.

Financial investments

60. The Council shall not make any investments in traded financial instruments without prior written approval from OST. Equity shares in ventures that further the objectives of the Council shall equally be subject to OST approval unless covered by a prior approval.

Unconventional financing

61. Unless otherwise agreed with OST, the Council shall not enter into any novel or unconventional financing arrangement.

Commercial insurance

62. The Council shall not take out any insurance without the prior approval from OST, other than third party insurance required by the Road Traffic Acts and any other insurance which is a statutory obligation, except Employers Liability (see paragraph 64), or which is permitted in paragraph 30.3.2 of Government Accounting , reproduced in appendix B.
63. In respect of any major loss or third-party claim not covered by commercial insurance, OST shall have a written agreement as set out in appendix B with the Council about the circumstances in which an appropriate addition to budget from the Science Budget contingency reserve can be made available. An adjustment to the Council's targets shall be considered in such an eventuality. OST compensation is subject to demonstration of adequate risk management, as set out in appendix B. The Council shall cover losses and claims in each case up to the level stated in appendix B.
64. A Certificate of Exemption for Employer's Liability Insurance has been issued to the Council.

V. MANAGEMENT AND DISPOSAL OF FIXED ASSETS

Register of assets

65. The Council shall maintain an accurate and up-to-date register of its fixed assets.

Disposal of assets

66. The Council shall dispose of assets that are surplus to its requirements, with due regard to paragraph 52. Marketable Assets shall be sold for best price, taking into account any costs of sale. High-value assets shall be sold by auction or competitive tender, unless otherwise agreed by OST, and in accordance with Government Accounting , chapter 24.
67. The Resource Management Arrangements (RMA) – DES/Treasury Memorandum 1989 sets out that, subject to a satisfactory internal Science and Business Case, the Council is permitted to plan the disposal of capital assets with full retention of the proceeds without any reduction to the Council's Capital Budget, without seeking case-by-case approval from OST. However,

Parliamentary approval is required for larger cases, see paragraph 68. Within this framework, the proceeds should be applied to capital expenditure (subject to the accounting for the disposal of capital assets, including any surplus). The Council shall show such transactions and proposed re-investment, where appropriate, in its Delivery Plan. OST shall receive prior notification of individual sales above £500,000. The Council should seek OST approval for retention of disposal proceeds in those individual cases that fall outside these guidelines.

68. If the Council disposes of assets which have been purchased, improved or developed with Exchequer funds and the receipts amount to more than £1 million, or where the disposal has unusual features of which Parliament should be aware, Parliamentary approval shall be secured for the receipts to be reinvested. The receipts shall therefore be surrendered to the Department which will then submit an Estimate seeking approval for the receipts to be appropriated in aid by the Department and for a corresponding increase in the Council's grant-in-aid. If the proposed new investment exceeds the Council's relevant delegated authority the Department's approval will be needed.
69. If the criteria in paragraph 67 above are not met, any income shall be dealt with in line with the rules on surplus in-year income (paragraph 31 above).

Disposal of grant-financed assets

70. Where the Council has financed expenditure on capital assets by an HEI or other third party, the Council shall make appropriate arrangements to ensure that any such assets above a net book value of £100,000 are not disposed of by the third party without the Council's prior consent.
71. The Council shall therefore ensure that such conditions are sufficient to secure the repayment of the Exchequer's due share of the proceeds of the sale, in order that funds may be surrendered to the Department, or employed otherwise for science funding as agreed.
72. The Council shall ensure that if the assets created by grants made by the Council cease to be used by the recipient of the grant for the intended purpose, a proper proportion of the value of the asset shall be repaid to the Council for surrender to the Department. The amounts recoverable under the procedures in paragraphs 70-71 above shall be calculated by reference to the best possible value of the asset and in proportion to the Exchequer's original investment(s) in the asset.

VI. BUDGETING PROCEDURES

Setting the annual budget

73. Following a Spending Review OST makes three-year allocations to the Council. These are published in the Science Budget allocations booklet. Each year, these will need to be adjusted for EYF and other agreed factors. Each year, in the light of the Council's Delivery Plan (paragraphs 59 to 64 of the Management Statement), OST will send to the Council before 1 April:
- a formal updated statement of the annual Resource and Capital Budgets provision allocated by OST from the Science Budget. Ring-fenced or specific allocations will be notified as such by OST; and
 - a statement of any planned change in policies affecting the Council.

If there is a delay in this process, OST will issue an interim approval. OST will provide details of EYF amounts as soon as possible within the financial year.

74. The Council's approved Delivery Plan will take account both of its approved funding provisions and of any forecast income, and will include a budget of estimated expenditure and income. In parallel, OST and the Council shall agree a profile of expected expenditure and of drawdown of any OST funding and/or other income over the year. These elements will form part of the approved Delivery Plan for the year in question (paragraphs 59 to 64 of the Management Statement).

General conditions for authority to spend

75. Once the Council's budget has been approved by OST, the Council shall have authority to incur expenditure without further reference to OST, on the following conditions:
- the Council shall comply with the delegations set out in Appendix A of this document. These delegations shall not be altered without the prior agreement of OST;
 - the Council shall comply with the conditions set out in paragraph 11 above regarding novel, contentious or repercussive proposals (Government Accounting, chapter 2.4.7);
 - the Council will apply the Office of Government Commerce Gateway procedure to all relevant projects whether funded from capital or resource, in particular those of a non-routine nature;

the Council shall provide OST with such information about its operations, performance, individual projects or other expenditure as OST may reasonably require.

Providing financial monitoring information to OST

76. The Council shall provide OST with, as a minimum, information on a monthly basis which will enable the satisfactory monitoring by OST of:
- the Council's expenditure to date against resource and capital profiled budgets at the level of detail to be specified in advance by OST;
 - forecast outturn by resource (showing capital grants expenditure separately) and capital;
 - cash management;
 - other data required for the Government Expenditure Monitoring Systems –as defined by OST, DTI FRM and the Treasury.

VII. BANKING

Banking arrangements

77. The Chief Executive of the Council, who is the Council's Accounting Officer, is responsible for ensuring that the Council's banking arrangements are in accordance with the requirements of Government Accounting and the Treasury guidance document Departmental Banking: a Manual for Government Departments. In particular he/she shall ensure that the arrangements safeguard public funds and are carried out efficiently, economically and effectively.
78. He/she shall therefore ensure that:
- these arrangements are suitably structured and represent value-for-money, and are reviewed at least every two years, with a comprehensive review, usually leading to competitive tendering, at least every three to five years;
 - sufficient information about banking arrangements is supplied to the Principal Accounting Officer of the Department to enable the latter to satisfy his/her own responsibilities (section III of the Management Statement);
 - the Council's banking arrangements shall be kept separate and distinct from those of any other person, Council or organisation;
 - adequate records are maintained of the Council's Bank Accounts, and adequate facilities are available for the secure storage of cash.

VIII COMPLIANCE WITH INSTRUCTIONS AND GUIDANCE

Relevant documents

79. The Council shall comply with the following general guidance documents:

- this document (both the Management Statement and the Financial Memorandum);
- Government Accounting, including in particular the Accounting Officer Memorandum for NDPBs (reproduced in chapter 8 of Government Accounting);
- Non-Departmental Public Bodies - a Guide for Departments (the “NDPB Guide”), issued by the Cabinet Office;
- Government Internal Audit Standards, issued by the Treasury;
- Managing the Risk of Fraud, issued by the Treasury;
- Executive NDPBs - Annual Reports and Accounts Guidance, issued by the Treasury (and the Cabinet Office and HMSO guidance on annual reporting specified in paragraph 79 of the Management Statement);
- the Fees and Charges Guide, issued by the Treasury;
- Departmental Banking: A Manual for Government Departments, issued by the Treasury;
- relevant Dear Accounting Officer letters;
- Regularity and Propriety, issued by the Treasury;
- the Consolidation Officer Memorandum, issued by the Treasury
- relevant Dear Consolidation Officer letters;
- other relevant guidance and instructions issued by the Treasury in respect of Whole of Government Accounts;
- other relevant instructions and guidance issued by the central Departments;
- specific instructions and guidance issued by OST, including ‘Resource Management Arrangements (RMA)’ – DES/Treasury Memorandum 1989, concerning the use of capital receipts;
- recommendations made by the Public Accounts Committee, or by other Parliamentary authority, which have been accepted by the Government and which are relevant to the Council.

IX. REVIEW OF FINANCIAL MEMORANDUM

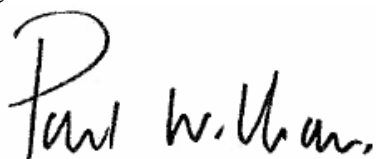
80. This Financial Memorandum shall be periodically reviewed by the Department with regard to the overall review programme for NDPBs as provided for in section 7 of the Management Statement.
81. The Treasury will be consulted on any significant variation proposed to this Financial Memorandum and the associated Management Statement.

SIGNATORIES

Signature

Date

30th March 2005



.....
PAUL WILLIAMS

Director, Research Councils, Science and Engineering Base Group, Office of Science and Technology (on behalf of the Secretary of State).

1st April 2005



.....
FRANCES MARSDEN

INTERIM CHIEF EXECUTIVE OF THE ARTS AND HUMANITIES RESEARCH COUNCIL (on behalf of the Council's Governing Body and as Accounting Officer).

APPENDIX A

FINANCIAL AUTHORITY DELEGATED TO THE COUNCIL (Paragraph 75 refers)

Description	Delegated authority
Capital investment projects	£10,000,000
Gifts of obsolete ¹ stores and equipment to educational establishments	£25,000 (per item) ²
Gifts of equipment purchased from research grants, ownership of which remained vested in the Research Council.	£15,000
Gifts to employees (per employee)	£300
Gifts to outside bodies (per item)	£1,000
Employers' liability claims as a result of a court award, or where, on legal advice, it is apparent that a court would probably make such an award	£10,000
Employers' liability in all other circumstances	£2,000
Cash losses	£10,000
Asset loss / theft	£25,000
Claims waived or abandoned	£15,000
Special payments	
- Extra contractual payments and ex gratia payments to contractors	£10,000
- Other ex gratia payments	£10,000
Disposal of obsolete ¹ equipment	£25,000 ²
Aquiring property (appendix C)	1000 sqm or 5% of the total estate which ever is the lower

Notes:

General: Government Accounting, chapter 18 covers losses and special payments, and provides detailed guidance. The Council should discuss any unusual cases with OST.

¹ refers to the asset's lack of continuing use to the Council

² refers to written down book value at the date the gift/disposal is to take place, with calculation of part-years' depreciation if appropriate

APPENDIX B

EQUIVALENT OF INSURANCE OPERATED BY OST

(Paragraphs 62-64 refer)

1. The Council shall meet from its own allocation the first £750,000 of any major loss or third party claim arising from the activities of the Council (including Institutes), where the policy of not taking out commercial insurance is in force (see paragraphs 62 and 63 of the Financial Memorandum).
2. Above the threshold of £750,000, the Council shall provide OST with a written report of the circumstances in which the major loss or third party claim occurred.
3. OST will consider the circumstances, including demonstration of adequate risk management, and where appropriate, consider making available to the Council an addition to their allocation from the Science Budget contingency to meet the part or the whole of the balance of the loss or claim. In deciding what level of compensation to make available, OST will have regard to the other calls on its budgets, and specifically on its budgetary reserve. In principle, the Treasury role is insurer of last resort but this cannot be relied on as a source of compensation.
4. Government Accounting at chapter 30. sets out guidance on insurance (summarised below). The Council should apply this guidance but should discuss the approach to novel or marginal cases with OST. Specifically, any proposal to insure activities financed by the Science Budget where the insurance is not a statutory requirement should be cleared with OST.
5. In deciding whether an NDPB should insure, the underlying criterion should be cost-effectiveness subject to the following provisos:
 - Where there is a legal requirement to insure commercially, an NDPB must do so; for example, if it is required to insure to comply with the Road Traffic Acts.
 - Where an NDPB's costs are not entirely covered by a combination of Exchequer grants and receipts from fees and charges, the sponsor department should consider whether non-insurance would mean that the Exchequer might have to bear a disproportionately large share of the costs in the event of a loss or a claim from a third party (to which the other sponsor or sponsors might not be in a position to contribute). As a general rule of thumb, where the Exchequer contributes less than half of the non-fee income, an NDPB should insure commercially. (For example, if fees and charges account for 25 per cent of a body's income, with the Exchequer contributing 35 per cent and another sponsor contributing 40 per cent, the body should insure).
 - Where a body engages in an income-generation scheme to supplement the approved level of public funding, commercial insurance should be

taken out to cover the risks to which the income generation activities would give rise, to the extent that the cost of any losses could not be met out of the income generated by those activities. The rationale for this requirement is that it would be wrong, as a matter of policy, for the Exchequer to shoulder the risks associated with activities designed to supplement the level of public financing.

- Where an NDPB undertakes an operation of a mainly commercial nature and where commercial insurance would not impose an extra cost on the Exchequer or result in public money being used to purchase non-cost-effective commercial insurance at the expense of policy objectives, and an NDPB considers there is a clear case for insuring commercially, insurance should be considered. The Treasury will be prepared to consider proposals for commercial insurance in such cases, in consultation with the sponsor department. Any such types of insurance which it is agreed an NDPB may undertake should be listed in the NDPB's financial memorandum.

APPENDIX C

THE COUNCIL'S ESTATE

1. The Council must have an Estates strategy. The strategy should follow Office of Government Commerce guidance and include a section justifying value for money derived from those properties retained for occupational purposes, properties held for investment purposes and the management process for both. This should be reviewed annually. A copy of the Council's Estate strategy must be sent to the OST following each annual review.
2. Unless otherwise agreed with the Department prior departmental approval must be secured for all proposals to acquire property that exceed the lower of 1000sqm or 5% of the Council's total estate.
3. The delegation applies to new properties; lease renewals/extensions and the exercising of break clauses. Unless otherwise agreed all property leases outside the above delegation must be approved by DTI. Proposals must be supported by a business case and in relevant circumstances, a Gateway Review. Before entering into any lease the Council shall demonstrate that the lease offers better value for money than purchase.
4. All property disposals, rent reviews, lease renewals and acquisitions must be carried out in co-ordination with the Office of Government Commerce guidance.
5. The estate should be managed in accordance with all good Government practice.