FINANCIAL MEMORANDUM
AGREED BETWEEN
THE OFFICE OF SCIENCE AND
INNOVATION IN THE
DEPARTMENT OF TRADE AND
INDUSTRY
AND THE
SCIENCE AND TECHNOLOGY
FACILITIES COUNCIL

APRIL 2007
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I. INTRODUCTION

1. This Financial Memorandum is an agreement between the Office of Science and Innovation of the Department of Trade and Industry (OSI) and the Science and Technology Facilities Council (STFC) ("the Council"). It should be read in conjunction with the associated document, the Management Statement agreed between OSI and the Council. The Council is classified as an executive Non-Departmental Public Body. This document 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 its signature by both the Council and OSI (see "Signatories" section at page 19).

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 FUNDING, INCOME AND EXPENDITURE – GENERAL

3. In its dual role as both a provider of a range of large-scale facilities and technical expertise, and as an adviser to HM Government on UK policy and strategy for scientific access to such facilities, both nationally and internationally, much of the Council’s income comes from non-Direct Vote sources. However, all such income is accommodated within the Resource Accounting regime and, as such, is treated as negative DEL. Financial arrangements are within allocated budgets (see following paragraph).

The Departmental Expenditure Limit (DEL)

4. The Council’s resource and capital expenditure forms part of the DTT’s Science Budget Resource DEL and Capital DEL respectively. The OSI allocates 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

¹ As at 1 January 2007, Government Accounting 2000 amendment 4:05. 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.
paragraphs 26 and 27). The OSI also agrees longer-term commitments with the Council, where appropriate.

**Expenditure not proposed in the budget**

5. The Council shall not, without prior written approval from OSI, 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 Resource DEL or Capital DEL as approved by OSI, or other written agreements with the OSI.

**Procurement.**

6. The Council’s procurement policies shall comply with the guidance from the Office of Government Commerce (see also paragraph 43) and in Government Accounting. The Council shall also ensure that it complies with any relevant EU or other international procurement rules.

7. 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**

8. 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.

9. 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 shall be subject to the same approval, by application of the RCPO to OSI. The Council shall provide OSI 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**

10. 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

11. 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 Government Accounting. The Council shall comply with the Late Payment of Commercial Debts (Interest) Act 1998 as amended.

Novel, contentious or repercussive proposals

12. The Council shall obtain the approval of OSI 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 project, initiative or scheme in the pre-commitment phase or previously included in either Resource DEL or Capital DEL allocations (significant change being defined as a change in budget of 10% or more where the original total project budget exceeds £2 million);

- 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)

13. 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 OSI.

14. The Council shall review their risks 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.

15. The Council shall, in respect of Higher Education Institutions (HEIs) where it has cause for concern as to their financial standing, seek assurance from the
HEI, the relevant Higher Education Funding Council and/or any other appropriate body or source.

16. 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, 76 and annex 7 of the Management Statement.)

17. The Council shall take all reasonable steps to appraise the financial standing of any external organisation with which it intends to enter into a contract, having regard to the risks in each case.

18. 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 Government Accounting.

Wider markets

19. In accordance with the wider markets policy and the Baker Report, 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 OSI, the Council shall seek to optimise the commercial potential and consequently the non-Exchequer receipts from its research and other outputs.

Fees and charges

20. 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 OSI requirements, including those flowing from policy on sustainability of research facilities.

III. THE COUNCIL’S FUNDING AND INCOME

Grant-in-aid

21. Grant-in-aid, driven by resource and capital DEL, will be paid to the Council in monthly instalments, on the basis of an annual profile provided by the Council (updated as agreed with OSI), based on a reconciliation to the use of resource and capital budgets. Each application shall certify that the conditions

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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.

22. The Council should have regard to the guidance in chapter 9 of Government Accounting, that it should seek grant-in-aid according to need.

23. 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. Annual Grant-in-aid not drawn down by the end of the year shall lapse but DEL entitlement remains (see paragraph 24). Subject to approval by Parliament of the relevant Estimates provision, driven by DEL allocations, the Council will be entitled in the subsequent year to any such grant-in-aid which 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)

24. OSI will set firm multi-year DEL allocations as part of the Spending Review process, consisting of resource (comprising near-cash and non-cash resource) and capital (comprising pure capital and capital grants). 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 OSI’s overriding need to manage the Science Budget effectively and the Treasury regime applying at the time. 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 OSI’s effective financial management.

25. OSI 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

26. 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 COINS Database or any successor expenditure monitoring system that HM Treasury may introduce. This third party income is normally offset against the DEL.

27. If there is any doubt about the correct classification of income, the Council shall consult OSI, who will consult the Treasury as necessary.

Interest earned

28. 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 OSI.

29. The cost of capital charge on most DEL financed assets and any income from interest score as resource DEL.

30. 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.

Unforecast changes in in-year income

31. 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.

32. If the negative DEL income received or receivable in the year is greater than estimated, the Council may apply to OSI to retain the excess income for specified additional expenditure within the current financial year without an offsetting reduction to the resource budget. OSI 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 OSI. These arrangements are subject to the provisions set out in paragraphs 66-69 under the heading Disposal of assets.
Gifts and bequests received

33. 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 Income and Expenditure statement.

34. 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

35. Income from the European Union (technically the European Community), obtained by the Council, is to be treated as third-party income. Details of the latest arrangements are set out in the OSI letter of 20 February 2006 “Income from the EC: impact on the Science budget of the Treasury’s Consolidated budgeting guidance for 2006-07”

Borrowing

36. The Council shall observe the rules set out in Section 29.5 of Government Accounting 2000 when undertaking borrowing of any kind.

37. The Council shall seek the prior written approval of OSI 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.

38. Any expenditure by the Council financed by borrowing counts in DEL.

IV. PROGRAMME AND NON-STAFF EXPENDITURE

Capital expenditure

39. 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 OSI, 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 comply with the overall DTI Estates Management Framework (see appendix C).

40. The strategy will contain a detailed investment plan for the following two years. A Capital investment report update, included as part of the Delivery Report, showing progress against the strategy, shall be issued every June.

41. 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 £25 million on any individual capital project or acquisition.

42. The Council may apply to OSI for additional funding to support the construction of new large facilities. Any application must conform to the current guidance issued by OSI. Proposals for large-scale individual capital projects or acquisitions (see paragraph 44 and 45 below) shall be considered for funding by OSI and shall then be considered within the Council’s delivery planning process.

43. The Council shall use the Large Facility procedures laid down by OSI, in consultation with Research Councils UK (RCUK) and its members.

44. Applications for approval by OSI, 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.

45. Any funding granted will be subject to terms and conditions made by OSI 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 OSI.

Transfer of funds within budgets

46. Unless financial provision is subject to specific Departmental, OSI 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 near-cash resource budget, do not need OSI approval. Transfers from non-cash to near-cash budgets are unlikely to be approved, and need the approval of OSI and the Treasury. With the exception of Public Private Partnerships (PPP) and Private Finance Initiatives (PFI), transfers from capital to resource budgets are not permitted.

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

47. The Council shall not, without prior written consent from OSI, 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.

48. Any financial guarantees and indemnities given by the Council, after appropriate risk evaluation, must be adequately covered either by existing agreed Resource and Capital budgets, or written support by OSI.

Grant, loan schemes and international subscriptions

49. The Council is empowered to give grants under the Science and Technology Act 1965 and its Royal Charter for the support of projects within the scope of the objects at article 2 of the Charter. The OSI 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

50. The Council shall not make loans without the prior approval of OSI. All proposals to make a loan to a third party, whether one-off or under a scheme, shall be subject to prior approval from OSI, 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 OSI must be notified in sufficient time for this to be obtained.

51. 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). 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 OSI.
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 OSI.

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 OSI 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 36-37 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 OSI.

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 OSI. In judging such proposals, OSI 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 OSI. Equity shares in ventures that further the objectives of the Council shall equally be subject to OSI approval unless covered by a prior approval.

Unconventional financing

61. Unless otherwise agreed with OSI, 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 OSI, 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, OSI 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. OSI 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 OSI, 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 OSI. 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. OSI shall receive prior notification of individual sales above £500,000. The Council should seek OSI 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 during the lifetime of the grant concerned 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.

VI. BUDGETING PROCEDURES

Setting the annual budget

72. Following a Spending Review OSI 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, OSI will send to the Council before 1 April:

- a formal updated statement of the annual Resource and Capital Budgets provision allocated by OSI from the Science Budget. Ring-fenced or specific allocations will be notified as such by OSI; and

- a statement of any planned change in policies affecting the Council.

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

73. 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, OSI and the Council shall agree a profile of expected expenditure and of drawdown of any OSI 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

74. Once the Council’s budget has been approved by OSI, the Council shall have authority to incur expenditure without further reference to OSI, 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 OSI;

the Council shall comply with the conditions set out in paragraph 12 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 OSI with such information about its operations, performance, individual projects or other expenditure as OSI may reasonably require.

Providing financial monitoring information to OSI

75. The Council shall provide OSI with, as a minimum, information on a monthly basis which will enable the satisfactory monitoring by OSI of:

- the Council’s expenditure to date against resource and capital profiled budgets at the level of detail to be specified in advance by OSI;

- forecast outturn by resource and capital;

- cash management;

- other data required for monitoring purposes – as defined by OSI, DTI FRM and the Treasury.
VII. BANKING

Banking arrangements

76. 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.

77. 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 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

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

- this document (both the Management Statement and the Financial Memorandum);
- all relevant Acts of Parliament, and other Statutory Requirements;
- 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 OSI, 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

79. 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.

80. The Treasury will be consulted on any significant variation proposed to this Financial Memorandum and the associated Management Statement.
SIGNATORIES

Signature Date

JOHN NEILSON
Director, Research Base Group, Office of Science and Innovation (on behalf of the Secretary of State).

Signature Date

KEITH MASON
Chief Executive, Science and Technology Facilities Council (on behalf of the Council’s Governing Body and as Accounting Officer).
APPENDIX A - FINANCIAL AUTHORITY DELEGATED TO THE COUNCIL

(Paragraph 75 refers)

<table>
<thead>
<tr>
<th>Description</th>
<th>Delegated authority</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital investment projects</td>
<td>£25,000,000</td>
</tr>
<tr>
<td>Gifts of obsolete(^1) stores and equipment to educational establishments</td>
<td>£25,000 (per item)(^2)</td>
</tr>
<tr>
<td>Gifts of equipment purchased from research grants, ownership of which remained vested in the Research Council.</td>
<td>£15,000</td>
</tr>
<tr>
<td>Gifts to employees (per employee)</td>
<td>£300</td>
</tr>
<tr>
<td>Gifts to outside bodies (per item)</td>
<td>£1,000</td>
</tr>
<tr>
<td>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</td>
<td>£10,000</td>
</tr>
<tr>
<td>Employers' liability in all other circumstances</td>
<td>£2,000</td>
</tr>
<tr>
<td>Cash losses</td>
<td>£10,000</td>
</tr>
<tr>
<td>Asset loss / theft</td>
<td>£25,000</td>
</tr>
<tr>
<td>Claims waived or abandoned</td>
<td>£15,000</td>
</tr>
<tr>
<td>Special payments</td>
<td></td>
</tr>
<tr>
<td>- Extra contractual payments and ex gratia payments to contractors</td>
<td>£10,000</td>
</tr>
<tr>
<td>- Other ex gratia payments</td>
<td>£10,000</td>
</tr>
<tr>
<td>Disposal of: (i) obsolete(^1) equipment</td>
<td>£25,000(^2)</td>
</tr>
<tr>
<td>(ii) other assets (see paragraph 67.)</td>
<td>£500,000</td>
</tr>
<tr>
<td>Acquiring property (appendix C)</td>
<td>1000 sqm or 5% of the total estate which ever is the lower</td>
</tr>
</tbody>
</table>

Notes:

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

\(^1\) 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 OSI

(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 this Financial Memorandum).

2. Above the threshold of £750,000, the Council shall provide OSI with a written report of the circumstances in which the major loss or third party claim occurred.

3. OSI 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, OSI 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 OSI. Specifically, any proposal to insure activities financed by the Science Budget where the insurance is not a statutory requirement should be cleared with OSI.

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. This 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 OSI following each annual review.

2. Unless otherwise agreed with the Department prior departmental approval must be secured for all proposals to acquire property exceeding the lower of 1000sqm or 5% of the Council’s total estate. Special restrictions apply to any proposed property purchase or development in the south-east of England.

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 limits 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.

6. The Council should record all UK property assets on the Government Property database e-PIMS, as per the instruction contained in the Dear Accounting Officer letter 08/05, and keep the property database up to date as per the service level agreement signed with OGC.