Financial Memorandum for Partnerships for Schools

(21 September 2009)

Managing Public Money - http://www.hm-treasury.gov.uk/documents/public_spending_reporting/governance_risk/psr_managingpublicmoney_publication.cfm

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Appendices

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I. INTRODUCTION

1. This financial memorandum, which forms part of the management statement for Partnerships for Schools (PfS), sets out the relationships between the Department for Children, Schools and Families and PfS. It sets out in greater detail certain aspects of the financial framework within which PfS is required to operate.

2. The terms and conditions set out in the financial memorandum, management statement and other 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 PfS.

3. PfS shall satisfy the conditions and requirements set out in these documents, together with such other conditions as the Secretary of State may from time to time impose.

II. PARTNERSHIPS FOR SCHOOLS' BUDGETS

Setting the annual budget

4. Approved annual plans for PfS will take account both of its approved funding provision and of any forecast receipts. It will include a profile of expected expenditure and draw-down of any Departmental funding (GiA) and any other income over the year.

5. Each year, in the light of decisions by the Department on PfS's Business Plan the Department will send to PfS its annual budgetary provision allocated by the Department in the light of competing priorities across the Department and of any forecast income approved by the Department (see example at Appendix A). The Department and PfS will agree a protocol for dealing with the budgetary impact of additional work undertaken by PfS during the year, which was not part of the previous Business Planning and budgetary process.

6. Any grant-in-aid provided by a Department for the year in question will be voted in the Department's Estimate and will be subject to Parliamentary control.

The Departmental Expenditure Limit (DEL)

7. PfS's current and capital expenditure form part of the DCSF's Resource DEL and Capital DEL respectively.

Expenditure not proposed in the budget

8. PfS shall not, without prior written Departmental approval, enter into any undertaking to incur any expenditure falling outside of PfS's

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delegations or not provided for in its annual budget as approved by the Department.

III. BUDGETING PROCEDURES

General conditions for authority to spend

9. Once PfS's budget has been approved by the Department (subject to any restrictions imposed by Statute, the Secretary of State, or this document), PfS shall have authority to incur expenditure approved in the budget without further reference to the Department, on the following conditions:

- PfS shall comply with the delegations set out in Appendix B of this document. These delegations shall not be altered without the prior agreement of the Department;

- PfS shall comply with the conditions set out in paragraph 17 below regarding novel, contentious or repercussive proposals;

- inclusion of any planned and approved expenditure in PfS's budget shall not remove the need to seek formal Departmental approval where any proposed expenditure is outside the delegated limits or is for new schemes not previously agreed;

- PfS shall provide the Department with such information about its operations, performance, individual projects or other expenditure as the Department may reasonably require see para 87 below.

IV. THE NDPB'S EXPENDITURE - GENERAL

Procurement

10. PfS's procurement policies shall reflect guidance from the Office of Government Commerce including Procurement Policy Guidelines. PfS shall also ensure that it complies with any relevant EU or other international procurement rules. Detailed information can be obtained from the Department's Commercial Policy Team.

11. Periodically and wherever practicable PfS's procurement shall be benchmarked against best practice elsewhere and may be contracted out where this would achieve better value for money.

12. For very small purchases, the NDPB can use the Government Procurement Card.

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Competition

13. Contracts shall be placed on a competitive basis and tenders accepted from suppliers who provide best value for money overall. PfS can use existing contracts or framework agreements that are made available to them and where the goods or services required are within the scope of the contract or framework agreement.

14. Given the requirements of para 10, proposals to let non competitive contracts, whether as a single or otherwise restricted tender, should be extremely rare. The NDPB shall send to the Department a quarterly return as at Appendix I. Nil returns are required.

Value for money

15. Procurement by PfS of works, equipment, goods and services shall be based on value for money, ie 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.

Timeliness in paying bills

16. The NDPB shall collect receipts and pay all matured and properly authorised invoices in accordance with the terms of contracts or, wherever possible, within 10 days in line with the Government's commitment in October 2008 set out in A4.6.3 of Annex 4.6 of Managing Public Money. As a minimum the NDPB shall comply with the Late Payment of Commercial Debts (Interest) Act 1998 which allows creditors to claim statutory interest and compensation on late payment of commercial debts. Payments made over 30 days are regarded as late and can lead to payment of interest as set out in A4.6.4 of Annex 4.6.

Novel, contentious or repercussive proposals

17. Unless previously agreed in the Business Plan, PfS shall obtain the approval of the Department before:

- incurring any expenditure for any purpose which is or might be considered novel or contentious, or 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 previously approved by the Department;

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- making any change of policy or practice which has wider financial implications (eg because it might prove repercussive among other public sector bodies) or which may significantly affect the future level of resources required.

Risk management

18. PfS shall ensure that the risks which it faces are dealt with in an appropriate manner, in accordance with relevant aspects of best practice in corporate governance. It shall develop a risk management strategy, in accordance with the HMT guidance *Management of Risk: Principles and Concepts (The Orange Book).*

19. PfS shall adopt and implement policies and practices to safeguard itself against fraud and theft, in line with HMT's guide *Managing the Risk of Fraud.*

20. PfS shall take all reasonable steps to appraise the financial standing of any firm or other body with which it intends to enter into a contract or to give grant.

V. INCOME - GENERAL

Wider markets

21. In accordance with the wider markets policy PfS shall seek to maximise receipts from non-Exchequer sources provided that this is consistent with

- PfS's main functions
- its Business Plan as agreed with the Department.

FORECAST INCOME

Income from sale of goods or services etc

22. Fees or charges for any services supplied by PfS shall be determined in accordance with the Treasury's *Fees and Charges Guide,* and the Freedom of Information Act.

23. Income from the sale of goods and services, including certain licences where there is a significant degree of service to the individual applicant, rent of land and dividends, are classified as negative public expenditure.

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24. Income generated above the forecast level normally provides additional spending power however the Department must be asked to approve, see para 29.

Fines, taxes and other receipts

25. Most fines and most taxes (including levies and some licences) are classified as not "negative public expenditure". These do not provide additional DEL spending power.

26. Such receipts should either be surrendered to the Department or, if retained, will reduce the need for grant-in-aid.

Interest earned

27. 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 and is classified as not negative public expenditure.

28. If this interest is under estimated when determining the annual plan it may lead to commensurate reduction of grant-in-aid or be required to be surrendered to the Consolidated Fund via the Department. If interest is over estimated this may result in a reduction in DEL.

Changes to Forecast income

29. If the income realised or expected to be realised in-year is less than estimated, PfS shall, unless otherwise agreed with the Department, ensure a corresponding reduction in its gross expenditure so that the authorised DEL provision is not exceeded.

30. If the income realised, or expected to be realised in the year, is more than estimated, the Board may apply to the Department to retain the excess income for specified additional expenditure within the current financial year without an offsetting reduction to grant-in-aid. Such applications will be considered by the Department taking account of competing demands for resources. If an application is refused any grant-in-aid shall be commensurately reduced or the excess receipts shall be required to be surrendered to the Exchequer via the Department.

Build-up and draw-down of deposits

31. Any expenditure financed by the draw-down of deposits counts towards DEL. The effect on DEL of the build-up of deposits depends on the type of the receipts.

32. PfS shall ensure that it has the necessary DEL provision for any expenditure financed by draw-down of deposits.

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Proceeds from disposal of assets

33. Disposals of land and buildings are dealt with in Section IX below.

Gifts and bequests received

34. PfS is free to retain any gifts, bequests or similar donations. These shall be treated as receipts. However, before accepting a gift PfS shall consider if there are any consequential associated costs or any conflicts of interests arising.

35. PfS shall keep a written record of any such gifts, bequests and donations, whether given or received, and of their estimated value and whether they are disposed of or retained.

Receipts from the EU

36. Any receipts from the European Union should be matched against related expenditure so resulting in a DEL neutral position. If EU receipts are retained by PfS, these do not provide additional DEL spending power for PfS as they are to be matched to the relevant EU expenditure.

Borrowing

37. PfS shall observe the rules set out in Chapter 5, para 5. 6 of Managing Public Money when undertaking borrowing of any kind.

38. PfS shall seek the approval of the Department to ensure that it has any necessary authority and budgetary cover for any borrowing or the expenditure financed by such borrowing. Any expenditure financed by borrowing counts towards DEL

Reserves

39. PfS shall not use grant or grant-in-aid to set up any reserves other than a Deferred Government Grant reserve. Funds in any reserve may be a factor for consideration when grant-in-aid is determined.

VI. EXPENDITURE ON STAFF

Staff costs

40. Subject to its delegated levels of authority PfS shall ensure that the creation of any additional posts does not incur forward commitments which will exceed its ability to pay for them.

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Pay and conditions of service

41. PfS has responsibility for proposing the terms and conditions of its staff. However, any changes that impact on its paybill, must be agreed with the Department, usually by clearance through the pay remit system. PfS may not breach any Government public sector policy or protocol.

42. Current terms and conditions for staff of PfS are those set out in its Employee Handbook. PfS shall provide the Department with a copy of the Handbook and subsequent amendments.

43. The travel expenses of Board Members shall be tied to the rates allowed to senior staff of PfS. Reasonable actual costs shall be re-imbursed.

44. PfS shall operate a performance-related pay scheme which shall form part of the annual aggregate pay budget approved by the Department. It is expected that this shall be disbursed substantially in the light of strong performance against PfS KPIs and targets.

45. PfS must at all times ensure that their employment practices accord with the relevant legislation.

Pensions

46. PfS's staff shall normally be eligible for a pension provided by its own defined contribution scheme, or membership of the Principal Civil Service Pension Scheme (PCSPS).

47. Staff may opt out of the occupational pension scheme provided by PfS. However, the employer's contribution to any personal pension arrangement, including a stakeholder pension, shall normally be limited to the national insurance rebate level.

48. Any proposal by the NDPB to move from the existing pension arrangements should follow the guidance in the public service pensions Guidance Papers on the Treasury web page, Public Service Pensions at http://www.hm-treasury.gov.uk/tax_pensions_index.htm.

Redundancy/compensation

49. The Department must be consulted in advance on any plans to make changes to the organisation where this results in redundancy or compensation packages.

50. Proposals on **special severance payments** (payments in excess of, or outside of, statutory or contractual entitlements) must comply with *Managing Public Money* A.4.13.9 - 4.13.16, and require the prior approval of the Treasury.

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VII. NON-STAFF EXPENDITURE

Capital expenditure

51. Subject to being above the agreed capitalisation threshold of £2,500, all expenditure on the acquisition or creation of fixed assets shall be capitalised on an accruals basis. Expenditure to be capitalised shall include the

- acquisition, reclamation or laying out of land;
- acquisition, construction, preparation or replacement of buildings and
- acquisition, installation or replacement of movable or fixed plant, machinery, vehicles and vessels.

52. Proposals for large-scale individual capital projects or acquisitions will normally be considered within PfS's Business Planning process. Applications for approval by the Department (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 Board. Regular reports on the progress of projects shall be submitted to the Department.

53. Within its approved overall Capital Resource limit PfS shall, as indicated in the attached Appendix B on delegations, have delegated authority to spend up to 20% of it's own Capital Resource budget on any individual capital project or acquisition (or as otherwise agreed through the Business Plan). Beyond that delegated limit, the Department's prior authority must be obtained before expenditure on an individual project or acquisition is incurred.

Transfer of funds between budgets

54. HMT budgeting rules do not permit transfers from capital to resource budgets. Movement is allowed from Resource DEL to Capital DEL. However, this type of movement of funds will affect the Department's budgets and can have a long term impacts on PfS's Resource budget due to additional Depreciation and Cost of Capital charges resulting from the additional Capital spending. If PfS proposes to take this action it must seek prior approval from the Department.

55. Unless financial provision is subject to specific Departmental or HMT controls (eg, where provision is ring-fenced for specific purposes), transfers between budgets within the total administrative capital budget, or between budgets within the total administrative revenue budget, or between budgets within the total programme revenue budget, do not need Departmental approval. However, this flexibility does not apply to

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programme capital resources (see Appendix B). Programme revenue resources cannot be transferred to the administrative revenue budget.

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

56. PfS shall not, without the Department's prior written consent, 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 Annex 5. 5 of Managing Public Money) whether or not in a legally binding form.

57. Where consent is given by the Department or under the founding Act any financial guarantees and indemnities given by PfS must be adequately covered against undrawn resources.

Grant or loan schemes

58. Unless covered by a delegated authority (see Appendix B), all proposals to make a grant or loan to a third party, whether one-off or under a scheme, shall be subject to prior approval by the Department, together with the terms and conditions under which such grant or loan is made if under a continuing scheme it is likely statutory authority will be required.

59. The terms and conditions shall include a requirement on the receiving organisation to prepare accounts and to ensure that its books and records in relation to the grant or loan are readily available for inspection by the PfS, the Department and the C&AG.

60. See also para 82-85 below under the heading *Recovery of grant-financed assets.*

Gifts; write-offs, losses and other special payments

61. Proposals for making gifts or other special payments (including write-offs) outside the delegated limits set out in Appendix B to this document must have the prior approval of the Department.

62. Gifts to staff, benefits and other non-pay rewards are subject to the requirements of the guidance in Treasury's Handbook *Regularity, Propriety and Value for Money* and Cabinet Office guidance including the 'Pay and Reward Principles' at http://www.cabinetoffice.gov.uk/workforcematters/pay_and_rewards.aspx. Advice should be sought from HMRC on the tax treatment of any benefits in kind and 'Tax on Company cars and other benefits' http://www.hmrc.gov.uk/working/company-cars.htm. The NDPB must take account of para 16 and, additionally, always seek approval from the Department where expenditure would be outside their delegated authorities or there is a possibility that Treasury approval will be required.

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63. Board members and staff may receive the offer of hospitality and gifts from external sources. All Board members and staff should be familiar with the principles set out in *Regularity, Propriety and Value for Money* and the related reading in its *Annex A*.

Leasing

64. Unless previously agreed in the Business Plan, prior Departmental approval must be secured for all property and finance leases. Before entering into any lease (including an operating lease) PfS shall demonstrate that the lease offers better value for money than purchase.

65. PfS must ensure that it has the necessary Capital DEL provision for finance leases and other transactions which are in substance borrowing, prior to entering into any lease. (see paragraphs 37-38 above).

Subsidiary companies and Joint Ventures

66. Unless previously agreed in the Business Plan, PfS shall not establish subsidiary companies or joint ventures without the express approval of the Department. In judging such proposals the Department will have regard to the Department's wider strategic aims, objectives, and current Public Service Agreements.

67. Any subsidiary company or joint venture controlled or owned by PfS 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 the judgment over the level of control is a close one the Department will consult HMT (who may need to consult with the Office of National Statistics over national accounts treatment). Unless specifically agreed with the Department and HMT, such subsidiary companies or joint ventures shall be subject to the controls and requirements set out in this Management Statement and Financial Memorandum, and to the further provisions set out in supporting documentation.

Public/Private Partnerships

68. PfS 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 such agreements lead to the need for increased cash flow or result in the need to increase the delegated spending authority on contracts being breached PfS shall consult the sponsor Department.

69. Any partnership controlled by PfS shall be treated as part of PfS in accordance with UK GAAP and consolidated with it (subject to any particular treatment required by UK GAAP). Where the judgment over

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the level of control is a close one the Department will consult HMT (who may need to consult with the Office of National Statistics over national accounts treatment).

Financial investments

70. Unless previously agreed in the Business Plan, PfS shall not make any investments in traded financial instruments without the prior written approval of the Department, nor shall it aim to build up cash balances or net assets in excess of what is required for operational purposes. Equity shares in ventures which further the objectives of PfS shall equally be subject to Departmental approval unless covered by a specific delegation.

Unconventional financing

71. Unless otherwise agreed with the Department, PfS shall not enter into any unconventional financing arrangement.

Commercial insurance

72. Unless provided for in the Business Plan, PfS shall not take out any insurance without the prior approval of the Department, other than third party insurance required by the Road Traffic Acts and any other insurance which is a statutory obligation or which is permitted in Chapter 4. 4 and Annex 4. 5 of Managing Public Money.

73. PfS should take all reasonable steps to mitigate any risk which could lead to a major loss or third party claims. In the event of a major loss or third party claim which cannot be absorbed by PfS allocated resources, the DCSF and PfS shall consider an appropriate adjustment to the budget out of the Department's funds (subject to those funds being available) and/or an adjustment to PfS's targets.

74. A Certificate of Exemption for Employer's Liability Insurance has been issued to PfS (as attached at Appendix C).

VIII. GRANT-IN-AID

75. Grant-in-aid is the net funding required to enable PfS to meet its agreed resource expenditure. Grant-in-Aid will be paid to PfS in monthly instalments, on the basis of a written application from PfS showing evidence of need. The application (see example at Appendix D) 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 PfS's functions.

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76. PfS should have regard to the guidance enshrined in Annex 5. 1 in Managing Public Money that it should seek grant-in-aid according to need.

77. 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 PfS. The Department considers a level of 2% of annual Grant in Aid to be a suitable guideline level for cash balances.

78. Grant-in-aid not drawn down by the end of the year shall lapse. However, where draw down of funds is delayed to avoid excess cash balances at year end, the Department shall make available in the next financial year – subject to approval by Parliament of the relevant Estimates provision - any such grant-in-aid required to meet the related accrued liabilities at year end, such as creditors.

End-year flexibility[1]

79. PfS will not automatically carry forward any current or capital underspends. The use of end-year flexibility (EYF) by PfS will be discussed at regular performance reviews with the Department.

80. If EYF drawdown is permitted it will be confirmed at a fixed point in the year when accurate expenditure information is available from PfS.

IX. MANAGEMENT AND DISPOSAL OF FIXED ASSETS

Register of assets

81. PfS shall maintain an accurate and up-to-date register of its fixed assets.

Disposal of assets

82. PfS shall dispose of assets which are surplus to its requirements. 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 the Department), and in accordance with Annex 4. 8 in Managing Public Money.

[1] The provision of End Year Flexibility (EYF) allows the department to carry forward unspent resources for use in future years, helping to avoid wasteful end-year spending surges. EYF is determined by the actual spending of the NDPB in resource terms, whether or not this is financed by grant-in-aid. Therefore it is the NDPB's under spending in resource terms (DEL) which generates any EYF which the department may decide to cascade down to the NDPB – not any unused Grant-in-Aid.

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83. PfS may normally retain receipts derived from the sale of assets provided that:

a) the Department and HMT are content for the NDPB to retain these receipts;

b) they are used to finance other capital spending;

c) the Department receives prior notification of individual sales; and

d) total sales in any financial year do not exceed a specified limit (normally 3% of PfS's grant- in-aid (see PES(98)5)).

84. If, notwithstanding the above, PfS 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 PfS's grant-in-aid. If the proposed new investment exceeds PfS's relevant delegated authority the Department's approval will be needed. If the proposed new investment is novel or contentious HMT's approval will be also needed.

85. If the criteria in para 83 above are not met, any receipts shall be dealt with in line with the rules on surplus in-year receipts (see para 29 above).

Recovery of grant-financed assets

86. PfS shall not finance expenditure on capital assets by a third party except as specifically set out in the approved Business Plan.

X. PROVISION OF MONITORING INFORMATION TO THE DEPARTMENT

87. PfS shall provide the Department with, as a minimum, information on a monthly basis which will enable the satisfactory monitoring by the Department of:

- PfS's cash management;
- its draw-down of any grant-in-aid;
- forecast outturn by resource headings;
- other data required for the Government Expenditure Monitoring.

- Appendix E summarises the expected returns.

XI. BANKING

Banking arrangements

88. PfS's Accounting Officer is responsible for ensuring that PfS's banking arrangements are in accordance with the requirements of *Managing Public Money* and the Treasury guidance document *Departmental Banking: a Manual for Government Departments.* In particular he shall ensure that the arrangements safeguard public funds and are carried out efficiently, economically and effectively. The Accounting Officer's roles and responsibilities are set out in his appointment letter (a copy is at Appendix F).

89. He 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 Department's Accounting Officer to enable the latter to satisfy his own responsibilities (Section 3.6 of the Management Statement);

- PfS's banking arrangements shall be kept separate and distinct from those of any other person, NDPB or organisation;

- adequate records are maintained of payments and receipts and adequate facilities are available for the secure storage of cash.

XII. COMPLIANCE WITH INSTRUCTIONS AND GUIDANCE

Relevant documents

90. PfS shall comply with the following general guidance documents:

    - this document (both the management statement and the financial memorandum);

    - Managing Public Money, Chapter on Accounting Officers and the Accounting Officer Memorandum will be issued to the newly appointed Accounting Officers of the NDPB;

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- Consolidated budgeting guidance from 2007-08, (this guidance is available as a PDF download from the HMT website);
- *Non-Departmental Public Bodies - a Guide for Departments* (the "NDPB Guide"), issued by the Cabinet Office;
- *Government Internal Audit Standards*, issued by HMT;
- *Managing the Risk of Fraud*, issued by HMT;
- *Government Financial Reporting Manual (FReM),* issued by HMT;
- the *Fees and Charges Guide,* issued by HMT;
- *Departmental Banking: A Manual for Government Departments,* issued by HMT;
- relevant *Dear Accounting Officer* letters;
- *Regularity and Propriety*, issued by HMT;
- the Consolidation Officer Memorandum, issued by HMT;
- relevant *Dear Consolidation Officer* letters;
- other relevant guidance and instructions issued by HMT in respect of Whole of Government Accounts;
- other relevant instructions and guidance issued by the central Departments;
- specific instructions and guidance issued by the sponsor Department;
- 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 NDPB;
- Procurement Policy Guidelines (the guidance is available from the OGC website);
- Wider Markets Initiative (the guidance is available from the HMT website).

XIII. REVIEW OF FINANCIAL MEMORANDUM

91. This financial memorandum will normally be reviewed at least every five years or following a review of the PfS's functions as provided for in Section 7 of the management statement.

92. HMT will be consulted on any significant variation proposed to this financial memorandum and the associated management statement.

Signature..

Printed Name: Peter Houten

Position: Director of School Formation and Investment Group, DCSF

Date: 24/9/2009

(on behalf of the Secretary of State)

Signature..

Printed Name: Tim Byles

Position: Chief Executive of Partnerships for Schools

Date: 25/9/2009

(on behalf of Partnerships for Schools)

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