

FINANCIAL MEMORANDUM FOR EXECUTIVE NDPB, THE WESTMINSTER FOUNDATION FOR DEMOCRACY (WFD).

I. INTRODUCTION

1. This financial memorandum, which forms part of the Management Statement signed on 14 July 2004 for the Westminster Foundation for Democracy (hereafter WFD), sets out in greater detail certain aspects of the financial framework within which the WFD is required to operate.
2. The terms and conditions set out in the combined Management Statement and Financial Memorandum may be supplemented by guidelines or directions issued by the Foreign Secretary in respect of the exercise of any individual functions, powers and duties of the WFD.
3. The WFD shall satisfy the conditions and requirements set out in the combined document, together with such other conditions as the Foreign Secretary may from time to time impose.

II. THE WFD'S INCOME AND EXPENDITURE - GENERAL

The Departmental Expenditure Limit (DEL)

4. The WFD's current and capital expenditure form part of the sponsoring department, the Foreign and Commonwealth Office's (FCO), Resource DEL and Capital DEL respectively.

Expenditure not proposed in the budget

5. The WFD shall not, without prior written FCO approval and that of the WFD Board of Governors, enter into any undertaking to incur any expenditure which falls outside the WFD's delegations or which is not provided for in the WFD's annual budget as approved by the FCO and the WFD Board of Governors.

Procurement

6. The WFD's procurement policies shall reflect guidance from the Office of Government Commerce including *Procurement Policy Guidelines*. The WFD shall also ensure that it complies with any relevant EU or other international procurement rules.
7. Periodically and wherever practicable the WFD's procurement 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.

9. Proposals to let single-tender or restricted contracts shall be subject to a specified delegated authority, and the WFD shall send to the FCO after each financial year a report for that year explaining any contracts above £10,000 in which competitive tendering was not employed.

Value for money

10. Procurement by the WFD 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.

Timeliness in paying bills

11. The WFD shall collect receipts and pay all matured and properly authorised invoices in accordance with the terms of contracts or within 30 days, as provided for in Annex 16.2 of *Government Accounting*. The WFD shall comply with the British Standard for Achieving Good Payment Performance in Commercial Transactions (BS 7890), and with the Late Payment of Commercial Debts (Interest) Act 1998 as amended.

Novel, contentious or repercussive proposals

12. The WFD shall obtain the consent of the Board of Governors and the approval of the FCO 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 FCO;
 - making any change of policy or practice which has wider financial implications (e.g. because it might prove repercussive among other public sector bodies) or which might significantly affect the future level of resources required.

Risk management

13. The WFD 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, and shall develop a risk management strategy, in accordance with the Treasury guidance *Management of Risk: A Strategic Overview*.
14. The WFD 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*.

15. The WFD 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 or grant-in-aid.

Wider markets

16. The WFD shall seek, as far as possible, to maximise receipts from sources other than the Exchequer, where this does not interfere with, and is consistent with, its main functions and is in line with its Corporate Plan as agreed with the FCO and Government policy on wider markets. Such sources may include UK or international bodies in the governmental, non-governmental or private sectors and include contributions for programme funding from e. g. DFID the UNDP, EU, etc.

Fees and charges

17. Fees or charges for any services supplied by the WFD shall be determined in accordance with the Treasury's *Fees and Charges Guide*, and with the Freedom of Information Act when brought into effect.

III. THE WFD's INCOME

Grant-in-aid

18. Grant-in-aid will normally be paid to the WFD in monthly instalments, on the basis of a written application from the WFD showing evidence of need. The 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 WFD's functions.
19. The WFD should have regard to the guidance in DAO(GEN)14/01 and to the general principle enshrined in chapter 9 of *Government Accounting* that it should seek grant-in-aid according to need.
20. 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 WFD. Grant-in-aid not drawn down by the end of the year shall lapse. However, where draw-down of grant-in-aid is delayed to avoid excess cash balances at year-end, the FCO will make available in the next financial year - subject to approval by Parliament of the relevant Estimates provision - any such grant-in-aid which is required to meet any liabilities at year end, such as creditors.

End-year flexibility

21. As set out in PES (2000) 25, the FCO will aim to set firm multi-year plans and cascade end-year flexibility (EYF) on budgets where possible. In particular, the FCO will aim to:

- agree, ahead of the year in question, a budget fixed for at least that year;
- decide at that point the WFD's likely entitlement to EYF against the overall FCO position (having regard to any loss of EYF as a result of Departmental Expenditure Limit (DEL) Reserve claims made by the FCO) and Ministerial priorities, on the presumption that at least 80% of any underspend by the WFD that represents slippage (as opposed to eg initial overprovision or abandonment of a project or programme) will normally be available for carryover in the area where it has arisen;
- adjust (if necessary) and confirm the amount of EYF when accurate information is available in the Public Expenditure Outturn White Paper, taking account of outturn and of any DEL Reserve claims which might limit the EYF entitlement of the FCO itself.

Receipts from sale of goods or services

22. Receipts 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 in national accounts and are therefore normally offset against the DEL (i.e., they provide additional DEL spending power).
23. If there is any doubt about the correct classification of a receipt the WFD shall consult the FCO, who will consult the Treasury as necessary.

Other receipts

24. Any interest earned by the WFD on its assets shall be given the same budgeting treatment as the cost of capital charge on the assets. The WFD is allowed to seek programme funding from other UK governmental or international bodies.
25. Under SR2002 budgeting rules (which operate from 2003-04), the cost of capital charge and any interest receipts on most DEL financed assets score as resource DEL.
26. If the receipts are used to finance additional expenditure by the WFD, the FCO will need to ensure it has the necessary DEL cover. 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. The FCO shall consult the Treasury about the budgeting treatment of such receipts.

Unforecast changes in in-year income

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

28. If the negative DEL income realised or expected to be realised in the year is more than estimated, the Board may apply to the FCO to retain the excess income for specified additional expenditure within the current financial year. The FCO shall consult the Treasury about the budgeting treatment of such income.

Build-up and draw-down of deposits

29. The WFD shall comply with the rules that any DEL expenditure financed by the draw-down of deposits counts within DEL and that the build-up of deposits may represent a saving to DEL (if the related receipts are negative DEL in the relevant budgets).
30. The WFD shall ensure that it has the necessary DEL provision for any expenditure financed by drawdown of deposits.

Proceeds from disposal of assets

31. Disposals of land and buildings are dealt with in Section VI below.

Gifts and bequests received

32. The WFD is free to retain any gifts, bequests or similar donations. These shall be treated as receipts (see para.26 above) [NOTE: 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 WFD shall consider if there are any associated costs in doing so or any conflicts of interests arising. The WFD 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.

Borrowing

34. The WFD shall observe the rules set out in Section 29.5 of *Government Accounting* when undertaking borrowing of any kind. The WFD shall seek the approval of the FCO 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*.

Reserves

35. No grant or grant-in-aid shall be paid into any reserve held by the WFD. Funds in any reserve may be a factor for consideration when grant-in-aid is determined.

IV. EXPENDITURE ON STAFF

Staff costs

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

Pay and conditions of service

37. The staff of the WFD, whether on permanent or temporary contract, shall be subject to levels of remuneration and terms and conditions of service (including superannuation) within the general pay structure approved by the FCO and the Treasury. The WFD has no delegated power to amend these terms and conditions. These provisions do not apply to office staff supplied e. g. through an agency to temporarily fill vacant permanent posts.
38. Current terms and conditions for staff of the WFD are those set out in its Employee Handbook. The WFD shall provide the FCO with a copy of the Handbook and subsequent amendments.
39. The travel expenses of Board Members shall be tied to the rates allowed to senior staff of the WFD. Reasonable actual costs shall be re-imbursed.

Pensions; redundancy/compensation

40. The WFD's staff is eligible for a pension provided by *membership* of the Principal Civil Service Pension Scheme (PCSPS).
41. Any proposal by the WFD to move from the existing pension arrangements, or to pay any redundancy or compensation for loss of office, requires the approval of the FCO. Proposals on severance payments must comply with DAO (GEN) 04/02.

V. NON-STAFF EXPENDITURE

Capital expenditure

42. Subject to being above an agreed capitalisation threshold, all expenditure on the acquisition or creation of fixed assets shall be capitalised on an accruals basis. Expenditure to be capitalised shall include the (a) acquisition, reclamation or laying out of land; (b) acquisition, construction, preparation or replacement of buildings and other structures or their associated fixtures and fittings; and (c) acquisition, installation or replacement of movable or fixed plant, machinery, vehicles and vessels.
43. Proposals for large-scale individual capital projects or acquisitions will normally be considered within the WFD's corporate planning process. Applications for approval by the FCO 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 FCO.

44. Within its approved overall resources limit the WFD shall have delegated authority to spend up to £15,000 on any individual capital project or acquisition. Beyond that delegated limit, the FCO's prior authority must be obtained before expenditure on an individual project or acquisition is incurred.

Transfer of funds within budgets

45. Unless financial provision is subject to specific FCO or Treasury controls (eg, where provision is ring-fenced for specific purposes), transfers between budgets within the total capital budget, or between budgets within the total revenue budget, do not need FCO approval. [NOTE: Under SR2002 budgeting rules, which operate from 2003-04, transfers from capital to resource budgets, are not allowed.]

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

46. The WFD shall not, without the FCO'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 chapter 26 of *Government Accounting*), whether or not in a legally binding form.

Grant or loan schemes

47. Unless covered by a delegated authority, 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 FCO, together with the terms and conditions under which such grant or loan is made. If grants or loans are to be made under a continuing scheme statutory authority is likely to be required.
48. 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 WFD, the FCO and the C&AG.
49. See also below under the heading *Recovery of grant-financed assets*.

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

50. Proposals for making gifts or other special payments (including write-offs) must have the prior approval of the FCO and the Board of Governors.
51. Gifts by management to staff are subject to the requirements of DAO (GEN) 13/01 and the associated Cabinet Office guidance on non-pay rewards.

Leasing

52. Prior FCO approval must be secured for all property and finance leases. The WFD must have capital DEL provision for finance leases and other transactions, which are in substance borrowing .
53. Before entering into any lease (including an operating lease) the WFD shall demonstrate that the lease offers better value for money than purchase.

Public/Private Partnerships

54. Where practical, the WFD shall seek opportunities to enter into Public/Private Partnerships where this would be more affordable and offer better vfm than conventional procurement. Where cash flow projections may result in delegated spending authority being breached the WFD shall consult the FCO.
55. Any partnership controlled by the WFD shall be treated as part of the WFD in accordance with UK GAAP and consolidated with it. Where the judgment over the level of control is a close one the FCO will consult the Treasury (who may need to consult with the Office of National Statistics over national accounts treatment).

Subsidiary companies and joint ventures

56. The WFD shall not establish subsidiary companies or joint ventures without the express approval of the FCO. In judging such proposals the FCO will have regard to the FCO's wider strategic objectives and current Public Service Agreements.
57. Any subsidiary company or joint venture controlled or owned by the WFD shall be consolidated with it in accordance with UK GAAP for public expenditure accounts purposes. Where the judgment over the level of control is a close one the FCO will consult the Treasury (who may need to consult with the Office of National Statistics over national accounts treatment). Unless specifically agreed with the FCO and the Treasury, 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.

Financial investments

58. The WFD shall not make any investments in traded financial instruments without the prior written approval of the FCO, 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 the WFD shall equally be subject to FCO approval unless covered by a specific delegation.

Unconventional financing

59. Unless otherwise agreed with the FCO, the WFD shall not enter into any unconventional financing arrangement.

Commercial insurance

60. The WFD shall not take out any insurance without the prior approval of the FCO, 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 paragraph 30.4.2 of *Government Accounting*.

61. The FCO shall have a written agreement with the WFD about the circumstances in which, in the case of a major loss or third-party claim, an appropriate addition to budget out of the FCO's funds and/or adjustment to the WFD's targets shall be considered.

62. A Certificate of Exemption for Employer's Liability Insurance has been issued to the WFD.

VI. MANAGEMENT AND DISPOSAL OF FIXED ASSETS

Register of assets

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

Disposal of assets

64. The WFD shall dispose of assets that 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 FCO, and in accordance with *Government Accounting*, Chapter 24.

65. The WFD may normally retain receipts derived from the sale of assets provided that:

- (i) the FCO and the Treasury are content for the WFD to retain these receipts;
- (ii) they are used to finance other capital spending;
- (iii) the FCO receives prior notification of individual sales; and
- (iii) total sales in any financial year do not exceed a specified limit [normally 3% of the WFD's grant-in-aid (see PES(98)5)].

66. If, notwithstanding the above, the WFD 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 FCO,

which shall then submit an Estimate seeking approval for the receipts to be appropriated in aid by the FCO and for a corresponding increase in the WFD's grant-in-aid. If the proposed new investment exceeds the WFD's relevant delegated authority the FCO's approval will be needed. If the proposed new investment is novel or contentious the Treasury's approval will be also needed.

67. If the criteria in para. 66 above are not met, any receipts shall be dealt with in line with the rules on surplus in-year receipts (paragraph 28 above).

Recovery of grant-financed assets

68. Where the WFD has financed expenditure on capital assets by a third party, the WFD shall make appropriate arrangements to ensure that any such assets above a value of £30,000 are not disposed of by the third party without the WFD's prior consent.

69. The WFD 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 FCO.

70. The WFD shall ensure that if the assets created by grants made by the WFD 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 WFD for surrender to the FCO. The amounts recoverable under the procedures in paragraphs 66-69 above shall be calculated by reference to the best possible value of the asset and in proportion to the Exchequer's original investments in the asset.

VII. BUDGETING PROCEDURES

Setting the annual budget

71. Each year, in the light of decisions by the FCO on the WFD's updated draft corporate plan (Section 4.1 of the Management Statement), the FCO will send to the WFD:

- a formal statement of the annual budgetary provision allocated by the FCO in the light of competing priorities across the FCO and of any forecast income approved by the FCO;

and

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

72. The WFD's approved annual business plan will take account both of its approved funding provision and of any forecast receipts, and will include a budget of estimated payments and receipts together with a profile of expected expenditure and of draw-down of any FCO funding and/or other income over the year. These

elements will form part of the approved business plan for the year in question (Section 4.2 of the Management Statement).

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

General conditions for authority to spend

74. Once the WFD's budget has been approved by the FCO and subject to any restrictions imposed by this document and the Management Statement, the WFD shall have authority to incur expenditure approved in the budget without further reference to the FCO, on the following conditions:

- the WFD shall comply with the conditions set out in paragraph 12 above regarding novel, contentious or repercussive proposals;
- inclusion of any planned and approved expenditure in the WFD's budget shall not remove the need to seek formal FCO approval where any proposed expenditure is outside the delegated limits or is for new schemes not previously agreed;
- the WFD shall provide the FCO with such information about its operations, performance, individual projects or other expenditure as the FCO may reasonably require (paragraph 77 below).

Providing monitoring information to the FCO

75. The WFD shall provide the FCO with information on a regular basis which will enable the satisfactory monitoring by the FCO of:

- the WFD's cash management;
- its draw-down of any grant-in-aid;
- other data required for the Government Expenditure Monitoring Systems.

VIII. BANKING

Banking arrangements

76. The WFD's Accounting Officer is responsible for ensuring that the WFD'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, usually leading to competitive tendering, at least every three to five years;
- sufficient information about banking arrangements is supplied to the FCO's Accounting Officer to enable the latter to satisfy his/her own responsibilities (Section 3.6 of the Management Statement);
- the WFD's banking arrangements shall be kept separate and distinct from those of any other person, NDPBs or organisation;
- adequate records are maintained of payments and receipts and adequate facilities are available for the secure storage of cash.

IX. COMPLIANCE WITH INSTRUCTIONS AND GUIDANCE

Relevant documents

78. The FCO shall ensure that WFD is aware of the latest edition of the following general guidance documents; and WFD shall comply with the guidance set out in them:

- 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 “WFD 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;
- 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 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 WFD.

X. REVIEW OF FINANCIAL MEMORANDUM

79. This financial memorandum will normally be reviewed at least every five years or following a review of the WFD's functions 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.

July 2004