

Financial Memorandum

**Between the DfES
and
HEFCE**

June 2006

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I. INTRODUCTION

1. This financial memorandum, which forms part of the combined management statement/financial memorandum for HEFCE, sets out the relationships between the Department for Education and Skills and HEFCE. It sets out in greater detail certain aspects of the financial framework within which HEFCE is required to operate.
2. The terms and conditions set out in 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 HEFCE.
3. HEFCE 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. HEFCE'S BUDGETS

Setting the annual budget

4. HEFCE's annual budget 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 the Department will send to HEFCE:
 - a formal statement of the annual budgetary provision allocated in the Grant Letter by the Department in the light of competing priorities across the Department and of any forecast income approved by the Department [see Appendix A for an example];
 - and
 - a statement of any planned change in policies affecting HEFCE.
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. HEFCE's current and capital expenditure form part of the sponsoring Department's Resource DEL and Capital DEL respectively.

Expenditure not proposed in the budget

8. HEFCE shall not, without prior written Departmental approval, enter into any undertaking to incur any expenditure falling outside HEFCE's delegations (Appendix B) or not provided for in its annual budget other than in the normal course of allocating annual academic year funding.

III. BUDGETING PROCEDURES

General conditions for authority to spend

9. Once HEFCE's budget has been approved by the HEFCE Board and subject to any restrictions imposed by Statute, HEFCE shall have authority to incur expenditure approved in the budget without further reference to the Department, on the following conditions:
 - HEFCE 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;
 - HEFCE shall comply with the conditions set out in paragraph 16 below regarding novel, contentious or repercussive proposals;
 - inclusion of any planned and approved expenditure in HEFCE'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;
 - HEFCE shall provide the Department with such information about its operations, performance, individual projects or other expenditure as the Department may reasonably require see Section XI below.

IV. HEFCE'S EXPENDITURE - GENERAL

Procurement

10. HEFCE's procurement policies shall reflect guidance from the Office of Government Commerce including *Procurement Policy Guidelines*. HEFCE shall also ensure that it complies with any relevant EU or other international procurement rules and with the

policies and procedures set out in the HEFCE Procurement Guide.

11. Periodically and wherever practicable HEFCE's procurement shall be benchmarked against best practice elsewhere and may be contracted out where this would achieve better value for money.
12. Contracts shall be placed on a competitive basis and tenders accepted from suppliers who provide best value for money overall.
13. HEFCE shall send to the Department after each financial year a report for that year explaining any contracts above the delegation threshold (see Appendix B) in which competitive tendering was not employed.
14. Procurement by HEFCE 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

15. HEFCE 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. HEFCE 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.

[NOTE: the 1998 Act allows creditors to claim statutory interest and compensation on late payment of commercial debts.]

Novel, contentious or repercussive proposals

16. HEFCE 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;

- 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 may significantly affect the future level of resources required.

Risk management

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

20. In accordance with the wider markets policy HEFCE shall seek to maximise receipts from non-Exchequer sources provided that this is consistent with :
 - HEFCE's main functions,
 - its strategic plan.

FORECAST INCOME

Income from sale of goods or services etc

21. Fees or charges for any services supplied by HEFCE shall be determined in accordance with the Treasury's *Fees and Charges Guide*, and the Freedom of Information Act.
22. Income from the sale of goods and services, including certain licenses where there is a significant degree of service to the individual applicant, rent of land and dividends are classified as negative public expenditure.

23. Income generated above the forecast level normally provides additional spending power, however, the Department must be asked to approve, see paragraph 29. New activities outside the HEFCE's main functions which will generate material levels of income will need to be agreed with the Department beforehand.

Fines, taxes and other receipts

24. Most fines and most taxes (including levies and some licenses) are not classified as negative public expenditure. These do not provide additional DEL spending power.
25. Such receipts should either be surrendered to the Department or, if retained, will reduce the need for grant-in-aid.

Interest earned

26. 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.
27. If this interest is under estimated when determining the annual budget 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

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

30. 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.

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

Proceeds from disposal of assets

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

Gifts and bequests received

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

35. 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 HEFCE, these do not provide additional DEL spending power for HEFCE as they are to be matched to the relevant EU expenditure.

Borrowing

36. HEFCE shall observe the rules set out in Section 29.5 of *Government Accounting* when undertaking borrowing of any kind.
37. HEFCE 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

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

VI. EXPENDITURE ON STAFF

Staff costs

39. HEFCE 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

40. The staff of HEFCE, whether on permanent or temporary contract, shall be subject to levels of remuneration and terms and conditions of service (including superannuation) consistent with the Pay Remit as agreed from time to time by the Department. HEFCE has no delegated power to amend these terms and conditions.
41. Current terms and conditions for staff of HEFCE are those set out in its staff guide. HEFCE shall provide the Department with a copy of the staff guide and subsequent amendments.
42. HEFCE shall operate a performance-related pay scheme which is consistent with approved pay remits.
43. The travel expenses of Board Members shall be consistent with HEFCE rates.
44. HEFCE must at all times ensure that their employment practices accord with the relevant legislation.

Pensions

45. HEFCE's staff shall normally be eligible for a pension provided by membership of the Principal Civil Service Pension Scheme (PCSPS). However staff transferring from higher education institutions can opt to remain in the Universities Superannuation Scheme (USS) or Teachers Pension Scheme (TPS).
46. Staff may opt out of the occupational pension scheme provided by HEFCE. However, the employer's contribution to any personal pension arrangement, including a stakeholder pension, shall normally be limited to the national insurance rebate level. [NOTE: The exception is for HEFCE staff covered by the PCSPS Partnership arrangement, and for HEFCE staff with PCSPS by-analogy versions, where a contribution regime has been agreed. HEFCE staff with other pension arrangements who are considering contributing to a stakeholder-type arrangement where staff opt out

must consult HM Treasury with a formal proposal based on actuarial advice.]

47. Any proposal by HEFCE to move from the existing pension arrangements should follow the guidance in DAO (GEN) 10/04.

Redundancy/compensation

48. Any proposal to pay any redundancy or compensation for loss of office requires the approval of the Department.
49. Proposals on special severance payments (payments in excess of, or outside of, statutory or contractual entitlements) must comply with DAO (GEN) 11/05. This requires that the Department and Treasury are consulted in advance where a special severance payment is under consideration.

VII. NON-STAFF EXPENDITURE

Capital expenditure

50. Subject to the capitalisation threshold as detailed in HEFCE's Accounting Policies and in line with Government Accounting, 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 other structures or their associated fixtures and fittings; and
 - acquisition, installation or replacement of movable or fixed plant, machinery, vehicles and vessels.
51. Proposals for large-scale individual capital projects or acquisitions will normally be considered within HEFCE's strategic 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.
52. Within its approved overall Capital Resource limit HEFCE shall, as indicated in the attached Appendix B on delegations, have delegated authority to spend up to the limit stated in the HEFCE Procurement Guide on any individual capital project or acquisition.

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

53. Transfers from capital to resource budgets are not allowed. Movement is allowed from Resource DEL to Capital DEL however this has a double impact on the Resource budget. There is a commensurate reduction in the Resource DEL and additional charges to the Depreciation and Cost of Capital in future years resulting from the additional Capital spend.
54. Unless financial provision is subject to specific Departmental or Treasury controls (e.g., 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 Departmental approval.

Commissioning of Studies

55. The Council may, use grant to commission studies, and to disseminate the outcomes of those studies relating to one or more of the institutions it funds.
56. Lending, guarantees, indemnities; contingent liabilities; letters of comfort HEFCE 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 chapter 26 of *Government Accounting*) whether or not in a legally binding form, other than in the normal course of business. The provision of repayable grants to institutions is classed as within the normal course of business.
57. Where consent is given by the Department or under the founding Act any financial guarantees and indemnities given by HEFCE 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 HEFCE, the Department and the C&AG.
60. See also para 95-97 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 are subject to the requirements of DAO (GEN) 13/01 and the associated Cabinet Office guidance on non-pay rewards.

Leasing

63. Prior Departmental approval must be secured for all property and finance leases over the de minimis value as set out in Appendix B. Before entering into any lease (including an operating lease) HEFCE shall demonstrate that the lease offers better value for money than purchase.
64. HEFCE 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 36-37 above).

Subsidiary companies and Joint Ventures

65. HEFCE 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 aim[s] objective and current Public Service Agreement.
66. Any subsidiary company or joint venture controlled or owned by HEFCE shall be consolidated with it in accordance with UK GAAP for public expenditure accounts purposes subject to materiality and any particular treatment required by UK GAAP (FRS 2&9). Where the judgment over the level of control is a close one the Department will consult the Treasury (who may need to consult with the Office of 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 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

67. HEFCE shall seek opportunities to enter into Public/Private Partnerships where this would 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 HEFCE shall consult the sponsor Department.
68. Any partnership controlled by HEFCE shall be treated as part of HEFCE in accordance with UK GAAP and consolidated with it [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 the Treasury (who may need to consult with the Office of National Statistics over national accounts treatment).

Financial investments

69. HEFCE 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 HEFCE shall equally be subject to Departmental approval unless covered by a specific delegation.

Unconventional financing

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

Commercial insurance

71. HEFCE 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 paragraph 30.4.2 of *Government Accounting*.
72. The Department shall have a written agreement with HEFCE about the circumstances in which, in the case of a major loss or third-party claim, an appropriate addition to budget out of the Department's funds and/or adjustment to HEFCE's targets shall be considered.

73. A Certificate of Exemption for Employer's Liability Insurance has been issued to HEFCE and is attached as Appendix C.

VIII. RELATIONS WITH INSTITUTIONS

Financial memoranda

74. The Council shall make a financial memorandum with each institution it funds for the purposes of regulating its relationship on financial and related matters, setting out the terms and conditions on which grant will be made by the Council to the institution. Such memoranda shall be based on a model memorandum between the Council and institutions; this model memorandum shall be in accordance with the responsibilities of the Council under the Act and this Memorandum and shall be agreed with the Secretary of State. The council shall prepare the provisions of the model memorandum in the light of the consultation required by section 66 (1) of The Act. A copy of the model memorandum shall be supplied to the Secretary of State on request.

Control of Core Funding for Teaching and Research

75. The council shall make payments of core funding for teaching and research to institutions in monthly instalments in accordance with a sector profile of net monthly expenditure for the whole financial year. In determining the funding profile, the Council shall make appropriate adjustments to reflect the incidence of the income which institutions receive from local education authorities or other sources. In addition, the Council may make weekly payments on receipt of institutions' claims. The Council shall take account of the likely incidence of such weekly payments and the sums involved in preparing profiles of net monthly expenditure to institutions.
76. The Council may also make exceptional or ad hoc payments between monthly instalments. However, such payments shall be made only after considering a written application from the institution concerned and shall not be made in advance of need.
77. The Council shall monitor the financial health and risk of the institutions and be aware of the potential impact of any subsidiary or associated undertakings. This duty shall be exercised in a manner consistent with Section 66(2) of the Act which requires the Council to have regard to the desirability of not discouraging any institution from maintaining or developing its funding from other sources; and section 65(4) requires the Council not to impose terms and conditions relating to the application by institutions of any sums derived otherwise than from the Council.
78. The Council shall promote good value for money through its grants to institutions and associated guidance. Guidance will cover the

effective and efficient use of resources and assets.

Payments to Institutions within the Further Education Sector

79. Where the Council pays grant for the provision of prescribed courses of higher education within the further education sector pursuant to section 65(2)(c) of the Act, the Council shall make payments in monthly instalments. The Council may attach such terms and conditions as it sees fit to such payments and shall seek to ensure that any such grant is used for the purposes in respect of which the payment is made in accordance with demonstrated need.
80. Where under section 133 of the Education Reform Act 1988, as amended by Section 67 of the Act and section 18 of the Education Act 1994, the Council makes payments to local education authorities and the governing bodies of FE corporations or the governing body of any institutions designed under section 28 of the Act, it shall only make such payments on the basis of a written claim and shall seek to ensure that the funds are used for the purposes prescribed by section 133 of the Education Reform Act 1998, in particular, by requiring a certificate from the auditors of the local authority or other body concerned.

Control of Capital Funding

81. The HEFCE may support specific capital projects at its discretion, making payments in accordance with demonstrated need and/or profiled budgets. The Council has unlimited delegated authority in respect of capital projects funding provided this is within the allocated Capital budget. Capital projects whose funding is above £5m may be subject to monitoring by the Department and Treasury. The Council shall establish systems for assessing the Value for Money justification, and monitor the progress, of projects. Where the Council is considering funding capital projects, the Council shall ensure that a range of procurement options are considered.

Accounts and Financial Management

82. The HEFCE shall require institutions to provide it with audited financial statements in respect of each of their financial years by a specified date, and shall make such requirements as it thinks fit from time to time as to the information to be contained in the accounts, the manner in which they are presented, and the methods and principals according to which they are to be prepared. The Council's direction shall require that institutions' financial statements comply with the relevant Financial Reporting Standards (FRSs), relevant Statements of Accounting Practice (SSAPs) and relevant International Accounting Standards (IASs) adopted by the

Accounting Standards Board.

83. The HEFCE shall, in consultation with institutions draw up a Code or Codes of Practice governing institutions' internal and external audit. This shall set out clearly such requirements as the Council may have concerning institutions' external auditors, the terms of reference and scope of the internal audit, the circulation of reports and the establishment of audit committees.
84. The Council's requirements of institutions under the preceding two paragraphs shall, in the case of institutions which are conducted by companies limited by guarantee, be subject to the requirements laid on those institutions by the Companies Act(s) in force at the time, together with the relevant auditing and financial reporting standards. In such cases the Council may also require from institutions it funds any additional information needed for the satisfactory discharge of the Council's functions.

IX. GRANT-IN-AID

Grant in Aid

85. Grant-in-aid is the net funding required to enable HEFCE to meet its agreed resource expenditure. Grant-in-Aid will be paid to HEFCE in monthly instalments, on the basis of a written application from HEFCE showing evidence of need. The application (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 HEFCE's functions.
86. HEFCE should have regard to the guidance enshrined in Chapter 9 of *Government Accounting* that it should seek grant-in-aid according to need.
87. 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 HEFCE. The Department considers a level of 2% of annual Grant in Aid to be a suitable guideline level for cash balances.
88. 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 or ongoing payment of grant to the sector.

End-year flexibility

89. HEFCE will automatically carry forward any current or capital under spends in full except where:

- The under spend is essential to meeting other departmental PSA targets which would not otherwise be met and HEFCE has sufficient resource to meet its own targets.
- There is, exceptionally, an unavoidable overspend elsewhere in the Department that has to be funded and we cannot find the resources from elsewhere to cover this.
- The Treasury is obliged to withdraw or limit departmental EYF.

The use of end-year flexibility by HEFCE will be discussed at regular performance reviews with the Department.

The amount of EYF will be confirmed at a fixed point in the year when accurate expenditure information is available from HEFCE.

Note: EYF is determined by the actual spending of HEFCE in resource terms, whether or not this is financed by grant-in-aid. Therefore it is HEFCE's under spending in resource terms (DEL) which generates any EYF which the department will aim to cascade down to HEFCE – not any unused Grant-in-Aid.

X. MANAGEMENT AND DISPOSAL OF FIXED ASSETS

Register of assets

90. HEFCE shall maintain an accurate and up-to-date register of its fixed assets.

Disposal of assets

91. HEFCE 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 *Government Accounting*, Chapter 24.

92. HEFCE may normally retain receipts up to a value of £50,000 derived from the sale of assets provided that:

- they are used to finance other capital spending.

93. If, notwithstanding the above, HEFCE 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 HEFCE's grant-in-aid. If the proposed new investment exceeds HEFCE's relevant delegated authority the Department's approval will be needed. If the proposed new investment is novel or contentious the Treasury's approval will be also needed.
94. If the criteria in para 91 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

95. Where HEFCE has financed expenditure on capital assets by a third party, HEFCE shall make appropriate arrangements to ensure that any such assets above a value of £1,000 are not disposed of by the third party without HEFCE's prior consent, subject to the HEFCE's consultation on Exchequer Funded assets
96. HEFCE shall therefore ensure that such repayment 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.
97. HEFCE shall ensure that if the assets created by grants made by HEFCE 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 HEFCE for surrender to the Department. The amounts recoverable under the procedures in paragraphs 81-82 above shall be calculated by reference to the best possible value of the asset and in proportion to the Exchequer's original investment(s) in the asset.

XI. PROVISION OF MONITORING INFORMATION TO THE DEPARTMENT

98. HEFCE shall provide the Department with, information on a monthly basis which will enable satisfactory monitoring by the Department. The required information is detailed in Appendix E.

XII. BANKING

Banking arrangements

99. HEFCE's Accounting Officer is responsible for ensuring that HEFCE'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. The Accounting Officer appointment letter is attached as Appendix F.
100. He/she shall therefore ensure that:
- these arrangements are suitably structured and represent value-for money.
 - sufficient information about banking arrangements is supplied to the Department's Accounting Officer to enable the latter to satisfy his/her own responsibilities (Section 3.6 of the Management Statement);
 - HEFCE's banking arrangements shall be kept separate and distinct from those of any other person, HEFCE or organisation;
 - adequate records are maintained of payments and receipts and adequate facilities are available for the secure storage of cash.

XIII. COMPLIANCE WITH INSTRUCTIONS AND GUIDANCE

Relevant documents

101. HEFCE shall comply with the following general guidance documents:
- this document (both the management statement and the financial memorandum);
 - *Government Accounting*, including in particular the Accounting Officer Memorandum for NDPBs (reproduced in Chapter 8 of *Government Accounting*);
 - *Non-Departmental Public Bodies - a Guide for Departments* (the "NDPB Guide"), issued by the Cabinet Office;
 - *Government Internal Audit Standards*, issued by the Treasury;
 - *Managing the Risk of Fraud*, issued by the Treasury;
 - *Government Financial Reporting Manual (FReM)*, 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 NDPBs.

XIV. REVIEW OF FINANCIAL MEMORANDUM

102. This financial memorandum will normally be reviewed at least every five years or following a review of HEFCE’s functions as provided for in Section 7 of the management statement.
103. The Treasury will be consulted on any significant variation proposed to this financial memorandum and the associated management statement.
104. This combined Management Statement and Financial Memorandum are signed and dated below on behalf of the Secretary of State for the Department of Education and Skills, and by the Chairman of HEFCE.

Signature.....

Printed Name.....

Position.....

Date.....

(on behalf of the Secretary of State)

Signature.....

Printed Name.....

Position.....

Date.....

(on behalf of HEFCE)

**ADD IN THE 2005 GRANT LETTER TABLE
ANNUAL RESOURCE ALLOCATION LETTER**

'For the Financial Year 2006/07 the agreed resource budget for the HEFCE is £x,xxx,xxx, details are shown in the attached. The Department will provide a net funding requirement as Grant in Aid up to a limit of £y,yyy,yyy'.

Table

Pay	}	£a,aaa,aaa
Non Pay	}	
Recurrent Programme spend		£c,ccc,ccc
Income (Net of GiA)		£(d,ddd,ddd)
Own Capital		£e,eee,eee
Programme Capital		£f,fff,fff
Depreciation		£g.ggg.ggg
Cost of Capital		£h,hhh,hhh
Total		£x,xxx,xxx

Net Funding Requirement (Grant in Aid limit) £y,yyy,yyy'

Reconciliation

Grant in Aid can be reconciled to the Resource Budget as follows:-

Total net Resource Budget x = (a+ +c+e+f+g+h) – d

Grant in Aid y = x-(g+h) or (a+b+c+e+f)

Gross funding requirement (the amount the NDPB will have available to fund its Resource Expenditure) = y + d

LIST OF DELEGATED LIMITS

1. Any contracts to be let other than by competitive tender require the prior consent of the Department, except for the following categories:

- a. **De Minimis:** formal competitive tenders are not required for contracts worth less than the limit specified in the HEFCE Procurement Guide. HEFCE shall nevertheless ensure that it can show that appropriate steps were taken to establish that best value for money is achieved where formal tenders are dispensed with.
- b. **Single Tender:** where there is no reasonable alternative (for example, for certain specialist or fixed price services) or in cases of extreme urgency (for example, to remove a risk to public safety) contracts may be let by single tender action subject to the rules of the EU procurement directives. For contracts up to the limit stated in the HEFCE Procurement Guide, the HEFCE, with the approval of their Board, is authorised to determine whether the single tender process is appropriate.
- c. **Higher or Further Education institutions in HEFCE's normal course of business** shall be deemed to be "Preferred Suppliers" and the financial limits indicated in paragraph b above shall not apply.

The minimum number of tenders to be sought for different contract values is as follows:

Estimated Contract Value (inclusive of VAT)	Minimum Number of Invitations to Tender
Up to £5,000	2 (written quotes will suffice)
£5,000 to £10,000	3 (written quotes will suffice)
£ 10,000 to £20,000	3
£20,001 to £50,000	3-5
over £50,000	Open tender rules apply
Above £93,738 (ex VAT)*	EU rules apply - see Annex D

*The £93,738 figure is the one we use for sole trader approval limit as well.

Single grant or Loan to third party (excluding HE and FE institutions and related bodies) £100,000

Gifts and Special payments see below

Limits that the Secretary of State has specified to the Body's authority to write-off losses, make or sanction special payments and give gifts

2. The Chief Executive shall have the personal authority to write off losses, up to a limit of £10,000 (reduced to £1,000 if fraud is suspected) for an individual claim, within a total ceiling for write-offs in any one financial year of £20,000 as follows:

a. Cash losses

- i. losses by theft, fraud, arson or gross carelessness (the Chief Executive must make every effort to secure full recovery, resorting to prosecution in appropriate cases);
- ii. physical losses of cash, for example by fire;
- iii. loss of cash equivalents, for example stamps;
- iv. unvouched and incompletely vouched payments;
- v. irrecoverable losses due to overpayments of pay, allowances and pensions due to miscalculation, misinterpretation of regulations or the full facts not being available; and
- vi. unauthorised issues of cash in the form of wages or allowances.

b. Store losses

- i. losses by theft, fraud, arson, sabotage or gross carelessness;
- ii. losses by fire, weather, accident, deterioration and natural causes.

c. Constructive losses and fruitless payments

- i. Constructive losses are stores or services that are ordered and later found to be unnecessary;
- ii. Fruitless payments are payments for which the Council ought not to have incurred liability.

d. Small debts, and other miscellaneous write-offs

e. Special payments under insurance arrangements

See appendix C

3. The Chief Executive shall also have the personal authority to make special payments up to a limit of £1,000 for each case within a total limit of £20,000 in any one financial year as follows:

- a) Extra-contractual payments which, although not legally due under a contract, appear to be obligations which the courts might uphold;
- b) Ex gratia payments which, although not legally due under a contract, are payments reasonably expected under a contract and without which personal hardship would result;
- c) Ex gratia payments made to avoid personal hardship which might otherwise result from official failure and inadequacy.

4. The HEFCE may agree to give assets bought for a proper purpose but which are no longer needed for the conduct of its business to a registered charity, provided that no member or senior employee of the Body has any interest in or connection with the charity and provided that neither the written down value nor the market value of the asset exceeds £250.

5. HEFCE may make gifts of up to the value of £150. Any gifts to staff are subject to the requirements of DAO 13/01.

INSURANCE ARRANGEMENTS

1. The Government does not normally insure its risks. This is because, given the profit an insurer would expect to make, it is almost always cheaper for the Government not to insure and to bear any loss itself. The HEFCE will be expected to observe the non-insurance rule where the cost of meeting premium payments would otherwise fall to be met from grant income. It may be necessary or desirable that the HEFCE obtain commercial insurance for certain risks which are mentioned below.

Overall responsibility for covering claims

2. Assistance from the Department for Education and Skills for uninsured loss or damage will not be automatic. The availability of supplementary grant towards the replacement or repair of property will depend first on the continued need for the asset or facility and second on the approval of Parliament.

3. The HEFCE will normally be expected to make good the loss from its existing budget. If it wishes to seek financial assistance from the Department, it will need to demonstrate that it cannot meet the claim from within existing resources. Any assistance from the Department will be subject to negotiation. The Department will not normally give assistance where the obligation relates to non-grant aided property and activities.

Claims arising under a Departmental certificate

4. The HEFCE has been issued with a certificate under the Employers Liability (Compulsory Insurance) Act 1969 and is entitled, without reference to the Department, to:

a) make special (not compensation) payments from within existing resources at their discretion up to a limit of £1000. Such payments would generally be made as a matter of equity or because of hardship and must be made without any admission of liability. Claims beyond the £1000 limit must be referred to the Body's solicitors for legal advice as to the liability and the size of the payment; and

b) meet claims involving amounts up to £20,000 from within existing resources on the award of a Court, or in a settlement out of Court, on the considered opinion of its legal adviser.

Any claim involving amounts greater than £20,000 and arising in other circumstances should be referred to the Secretary of State.

5. The HEFCE is indemnified against bodily injury and disease sustained by staff in the course of their employment by the Certificate of Exemption from

the Employers' Liability (Compulsory Insurance) Act 1969. This applies equally to staff on official duty away from their normal place of work either at home or abroad, so long as there is no negligence by the individual. Should a member of staff on an official visit decide to stay away for longer than the official period specified, he/she will continue to be covered for the homeward journey but not the intervening days.

Commercial Insurance

6. **Compulsory Insurance.** If HEFCE operates motor vehicles it is required by the Road Traffic Act to insure against certain risks, and should obtain the insurance required. It should not obtain optional insurance without the Department's agreement.

7. **Grant aided assets and activities.** If HEFCE wishes to take out optional insurance, it will need to provide the Department with a detailed appraisal of the cost effectiveness of commercial insurance as compared to the Government's policy of non-insurance. The Department would then need to seek approval from HM Treasury.

8. **Non-grant aided activities.** The HEFCE is free to take out optional commercial insurance for non-grant aided property and activities from its own private funds, provided such property and activities are separate and distinct from grant aided property and activities. Such insurance must not normally be purchased with grant monies, however, it is accepted that commercial Insurance necessary for the HEFCE to carry out its statutory duties (for example, overseas travel insurance) can be purchased from the HEFCE running cost funding.

Responsibilities of the HEFCE

9. **Personal Property:** There is no obligation on the HEFCE as an employer to prevent theft of an employee's property. However payments may be made at the employer's discretion providing that the employee has not been negligent and the loss or damage is not covered by insurance or any provision for free replacement. Compensation may similarly be paid for any articles lost or damaged through the negligence of a colleague.

10. The personal property of staff on official duty away from their normal place of work (home or abroad) is covered by the same terms and conditions. Staff on short-term visits would not be covered for loss of money or luxury items not essential to the official visit. These would be a matter for personal insurance.

11. **Equipment:** The principle of non-insurance extends to theft of or damage to equipment housed in premises occupied by grant-aided providers. In such cases claims should be dealt with along the lines set out in paragraphs 2-3 above. Should damage arise as a result of negligence on the part of a third party, a claim should be made against that party's insurers.

12. Health and Safety at Work Act 1974: Duties of Staff: In accordance with Section 7 of the Health and Safety at Work Act 1974 it is the duty of every employee while at work:

- a) to take reasonable care for the health and safety of him or herself and of other persons who may be affected by his/her acts or omissions at work; and
- b) as regards any duty or requirement imposed on his/her employer or any other person or under any relevant statutory provision, to co-operate fully with the employer so far as is necessary to enable that duty to be performed or complied with.

13. Accidents - Visitors: The principle of non-insurance extends to visitors to office premises occupied by grant-aided providers. Any claim arising from an accident to a visitor on the office premises should be dealt with along the lines set out in paragraphs 2-3 above. Should an accident arise as a result of negligence on the part of a third party, a claim should be made against that party's insurers.

Certification of Exemption from Employer's Liability Insurance

Department for Education and Skills

EMPLOYER LIABILITY (COMPULSORY INSURANCE) REGULATIONS 1998

In accordance with the provisions of paragraph 1 of Schedule 2 of the Employers' Liability (Compulsory Insurance) Regulations 1998, (SI 1998/2573), the Secretary of State for Education and Skills hereby certifies that any claim established against the (specify Body) in respect of any liability to (specify the employees involved e.g. directly employed staff of the Body) of the kind mentioned in section 1(1) of the Employers' Liability (Compulsory Insurance) Act 1969 will, to any extent to which it is otherwise incapable of being satisfied by the aforementioned employer, be satisfied out of monies provided by Parliament.

Date

Signed

Name

The Higher Education Funding Council for England

GRANT IN AID CLAIM - STATEMENT OF CASH NEED

PMG ACCOUNT NO.

This form should be sent to:
HE NDPB Sponsorship and Governance
team
DFES, 1E
Sanctuary Buildings
Great Smith Street
LONDON
SW1P 3BT

MONTH OF CLAIM **FINANCIAL YEAR**

NOTE: "Month of claim" is month for which grant is being sought

- a) Estimated payments in month of claim
- b) Estimated receipts in month of claim
- c) Grant in aid for month (a-b)
- d) Actual cash balance at close of previous month
- e) Approved budget
- f) Allowed cash balance (2% of approved budget)

NOTES:

Where the actual cash balance at close of previous month (line d) exceeds the maximum allowed in the Financial Memorandum an explanatory note must be appended to this form

"previous" month is month prior to the month in which this claim is actually submitted
(i.e. the latest month end cash balance known)

I certify that:
the requirements of the Financial Memorandum have been complied with in making this claim;
the grant in aid received and spent has been used to meet expenditure in accordance with the conditions of grant in aid;

the grant in aid being claimed will be spent to meet expenditure in accordance with the conditions of grant in aid;

Signed

Name (capitals)

INFORMATION TO BE PROVIDED TO THE DEPARTMENT

Profile of Resource Budget	By mid April
Profile of Grant in Aid drawdown	By Mid April
Forecast of End Year position	By Mid February
Information for Whole of Government Accounts	To meet notified deadlines
Annual Accounts	By mid July
Mid Year Review (Normally based on August out-turn)	Response by October
Management information – Performance against targets	Quarterly
Monthly expenditure against Resource Budgets (GEMS returns)	By 6 th working day in month
Treasury Management of Cash figures	By 6 th working day of month

ACCOUNTING OFFICER APPOINTMENT LETTER [EXAMPLE]

Name
Chief Executive
XXXXXX
XXXXXX
XXXXXX
XXXXXX

Date 2001

[NAME OF BODY] – DESIGNATION AS ACCOUNTING OFFICER

I am writing in my capacity as Principal Accounting Officer to designate you the Accounting Officer of the [Name of Body] (the Authority), with effect from xx xxx 2001.

Chapter 8 Annex 8.2 of Government Accounting, the NDPB Accounting Officer Memorandum, sets out the responsibilities of an NDPB Accounting Officer. This includes the relationship between my responsibilities, as the Department's Principal Accounting Officer, and your own.

In essence, you will be responsible for all of the public funds entrusted to you and will sign the year end Report and accounts. You will be responsible for the proper management of the (Authority's) resources and staff, for ensuring high standards of corporate governance in accordance with guidance issued from time to time, and for ensuring that Government guidance on regularity, propriety and value for money is complied with. In more detailed terms, you should:-

- (a) advise the Board of the (Authority) on the proper discharge of its responsibilities in accordance with statute and its Financial Memorandum;
- (b) ensure the efficient, economic and effective management of the (Authority's) resources, including cash, liquid assets, capital assets and equipment, and personnel;
- (c) ensure that financial considerations are taken into account at all stages in reaching decisions and in their implementation;
- (d) ensure the (Authority) keeps proper accounts and other records in relation to the accounts; and
- (e) sign the financial statement of accounts and send copies of the statement to the Secretary of State and the Comptroller and

Auditor General no later than the end of the month of September next following the financial year to which the statement relates;

- (f) observe the guidance in “Government Accounting: A Guide on Accounting and Financial Procedures for the Use of Government Departments” and all other guidance on the responsibilities of Accounting Officers that the Treasury or Cabinet Office may issue.

You will wish to note, in addition, the circumstances set out in paragraphs 14 to 18 of the Accounting Officer Memorandum in which, were you to be overruled by your Board on a matter of propriety, regularity or value for money, you should inform me and/or the Comptroller and Auditor General of the National Audit office.

As Principal Accounting Officer of the DfES, I remain responsible and accountable to Parliament for the actions of the Department in paying grant-in-aid to the (Authority); for satisfying myself that the sums paid are within the ambit and the amounts of the Estimate for which parliamentary authority has been sought and obtained; for assuring myself that the (Authority) has the necessary financial and other management systems and controls to enable it to handle those funds in accordance with the requirements of propriety and good financial management; and for ensuring that there is an adequate statement of the financial relationship between the Department and the (Authority) (e.g. a Financial Memorandum).

As Principal Accounting Officer for the (Authority’s) grant-in-aid, I am obliged to demonstrate to the Public Accounts Committee (PAC) that I am satisfied that the (Authority) has the financial management systems and organisation to enable it properly to administer its grant-in-aid. This underlies much of the Financial Memorandum between the Department and the (Authority) relating to the grant-in-aid, and there needs to be regular contact between the (Authority’s) officers and officials in the Department. In addition, my internal auditors may review and report on the (Authority’s) internal controls and financial management arrangements, and may recommend improvements. This is, of course, distinct from the work of the (Authority’s) own Internal Audit service.

A standing arrangement exists for dealing with enquiries addressed by the Comptroller and Auditor General to the [Name of NDPB]. A copy of such an enquiry will always be sent to the Department and it is practice to consult before a reply is sent. If the PAC wish to discuss any matter affecting the [Name of NDPB], the assumption is that they will follow their usual custom of examining jointly the Principal Accounting Officer of the Department and the accounting officer responsible for the grant-in-aid. You should comply with any commitments which the Government makes in response to recommendations from the PAC or other Parliamentary bodies.

You should hold copies of “Government Accounting” and the joint Cabinet Office and Treasury publication, “NDPBs: A Guide for Departments”. You will

also receive copies of the letters that the Treasury circulates to Accounting Officers from time to time and I will keep you informed of any other matters relating to your responsibilities for the (Authority's) expenditure. I attach a list of other important guidance. If you have any difficulty locating any of these documents, your usual Departmental contacts will be able to advise on their availability.

It is a fundamental condition of your employment as Chief Executive that you carry out the duties of Accounting Officer for [Name of Body] in accordance with the memorandum " The Responsibilities of an NDPB Accounting Officer" set out in Government Accounting. If in the reasonable opinion of your Board or of myself you are no longer a fit person to carry out the responsibilities of an Accounting Officer, or it is otherwise in the public interest to do so, your designation as Accounting Officer will be withdrawn and your employment will normally terminate. In such a case the procedures that will apply will be the Board's disciplinary procedures or the procedures relating to the withdrawal of Accounting Officer status from Chief Executives of NDPBs which are determined from time to time by the Head of the Home Civil Service.

I consider it essential that each new Accounting Officer, as part of the induction process, attends the Civil Service College Course "An Introduction to Public Accountability for Chief Executives". This is specifically designed for newly appointed Chief Executives. Other courses are available, arranged through their Corporate Development and Training Directorate. The college can be contacted direct on 01344 634628, or we can provide further information. In addition, you will need to have a general discussion with staff in the National Audit Office to obtain a proper understanding of their role. This will augment the training given at the Civil Service College. Besides this, my staff are always ready to help advise on particular issues or organise additional training.

Ruth Thompson, the Department's Director of Finance, will be in touch to have a meeting with you to discuss your Accounting Officer duties. I myself am always ready to discuss any matters which you feel need my personal attention.

I am copying this letter, without enclosure, to the Chairman-designate of [Name of Body], the Comptroller and Auditor General, the Clerk to the PAC and the Treasury Officer of Accounts.

DAVID NORMINGTON

Extract From ANNEX 8.2 NDPB Accounting Officer Memorandum

The responsibilities of an NDPB Accounting Officer

1. The senior official (usually the Chief Executive or equivalent) of a non-departmental public body (NDPB) is normally designated as Accounting Officer by the departmental Accounting Officer of the sponsor department. An Accounting Officer has the personal duty of signing the body's accounts. If the body is a Companies Act company, the accounts should be signed by both a director and the Accounting Officer of the body (unless the latter is also a director, in which case he or she may act as sole signatory). By virtue of this duty, the Accounting Officer has the further duty of being a witness before the **Committee of Public Accounts (PAC)** to deal with questions arising from those accounts or, more commonly, from reports made to Parliament by the Comptroller and Auditor General (C&AG) under the National Audit Act 1983.
2. Associated with these duties are the further responsibilities which are the subject of this memorandum. It is incumbent on the officials who serve as Accounting Officers to combine these duties with their duties to the board of the NDPB (or, where there is no board, to the senior appointee to the body), which they should inform of their designation. More detailed guidance for the Accounting Officer and the staff of the NDPB is contained in the Treasury manual *Government Accounting* (hard copies of which are available from TSO). *Government Accounting* can be accessed electronically on www.government-accounting.gov.uk.
3. NDPBs are financed in a variety of ways, e.g. by grant in aid, grant, income from fees and charges or private sector funds. An Accounting Officer is designated in the case of NDPBs which are financed by a large grant or grant in aid or where the accounts of the body are to be laid before Parliament. Where it is in the interests of public accountability, a department will also designate an Accounting Officer for an NDPB which receives its primary funding from other sources. It is an important principle that, regardless of the source of the funding, Accounting Officers are responsible to Parliament for the resources under their control.
4. This memorandum is directed at those who are formally designated as Accounting Officers. Its contents, however, are applicable to the senior official of an NDPB for which there is no designated Accounting Officer. This memorandum does not apply to those NDPBs (such as tribunals and advisory committees) which are funded directly by a department through an Estimate (as opposed to via grant or grant in aid) and for which the departmental Accounting Officer is therefore accountable.
5. Paragraph 6 below describes the responsibilities of a departmental Accounting Officer in relation to NDPBs. Paragraph 7 describes the general responsibilities of an Accounting Officer of an NDPB. Paragraphs 8–18 set out

the responsibilities of Accounting Officers in respect of the funds for which they are responsible. Paragraphs 19–24 deal with the Accounting Officer's duties and responsibilities in respect of the National Audit Office and Public Accounts Committee. Paragraphs 25–7 describe the arrangements for covering the absence of an Accounting Officer.

Responsibilities of a departmental Accounting Officer

6. In relation to NDPBs, it is the responsibility of a departmental Accounting Officer to be satisfied that:
- a. the financial and other management controls applied by the department are appropriate and sufficient to safeguard public funds and, more generally, that those being applied by the NDPB conform with the requirements both of propriety and of good financial management;
 - b. there is an adequate statement of the financial relationship between the department and the NDPB (in a management statement/financial memorandum or similar document) and that this statement is regularly reviewed; and
 - c. the conditions attached to grants conform with the terms of the Estimate and that the sponsor department monitors compliance with those conditions.

The general responsibilities of an NDPB Accounting Officer

7. The designation as Accounting Officer reflects the fact that under the board (whether or not he or she is a member of the board) the Accounting Officer has responsibility, which only he or she is in a position to discharge, for the overall organisation, management and staffing of the NDPB and for its procedures in financial and other matters. The Accounting Officer must ensure that there is a high standard of financial management in the NDPB as a whole; that financial systems and procedures promote the efficient and economical conduct of business and safeguard financial propriety and regularity throughout the NDPB; and that financial considerations are fully taken into account in decisions on NDPB policy proposals.

The specific responsibilities of the NDPB Accounting Officer

8. The essence of Accounting Officer's role is a personal responsibility for the propriety and regularity of the public finances for which he or she is answerable; for the keeping of proper accounts; for prudent and economical administration; for the avoidance of waste and extravagance; and for the efficient and effective use of all the resources in their charge.

9. As Accounting Officer you must:
- a. personally sign the accounts (subject to the point in paragraph 1 about Companies Act companies), and in doing so accept personal

- responsibility for their proper presentation as prescribed in legislation or by ministers;
- b. conform with the requirements of any financial memoranda and ensure that accounts are drawn up in accordance with any conditions set out in legislation, the accounts direction and relevant Treasury guidance;
 - c. ensure that proper financial procedures are followed and that accounting records are maintained in a form suited to the requirements of management as well as in the form prescribed for published accounts;
 - d. ensure that the resources for which you are responsible as Accounting Officer are properly and well managed (see paragraph 10 below) and safeguarded, with independent and effective checks of cash balances in the hands of any official;
 - e. ensure that assets for which you are responsible, such as land, buildings or other property, including stores and equipment, are controlled and safeguarded with similar care, and with checks as appropriate;
 - f. ensure that conflicts of interest are avoided, whether in the proceedings of the board or in the actions or advice of its staff, including yourself; and
 - g. ensure that, in the consideration of policy proposals relating to the expenditure for which you are responsible as Accounting Officer, all relevant financial considerations, including any issues of propriety, regularity or value for money, are taken into account, and brought to the attention of the board.

10. An Accounting Officer should ensure that effective management systems appropriate for the achievement of the NDPB's objectives, including financial monitoring and control systems have been put in place. An Accounting Officer should also ensure that managers at all levels:

- a. have a clear view of their objectives, and the means to assess and, wherever possible, measure outputs or performance in relation to those objectives;
- b. are assigned well-defined responsibilities for making the best use of resources (both those consumed by their own commands, and any made available to organisations or individuals outside the NDPB), including a critical scrutiny of output and value for money; and
- c. have the information (particularly about costs), training and access to the expert advice which they need to exercise their responsibilities effectively.

11. Accounting Officers must make sure that their arrangements for delegation promote good management and that they are supported by the necessary staff with an appropriate balance of skills. Arrangements for internal audit should accord with the objectives, standards and practices set out in the Treasury *Government Internal Audit Manual*.

Regularity and propriety of expenditure

12. In respect of funds voted by Parliament, Accounting Officers have a particular responsibility for ensuring compliance with parliamentary requirements in the control of expenditure and any requirements imposed by the sponsor department. A fundamental requirement is that the funds for which they are responsible should be applied only to the extent and for the purposes authorised by Parliament. You must also comply with any conditions which ministers may attach to the grant or grant in aid. You must ensure that Parliament's attention is drawn to losses or special payments, by appropriate notation of the relevant account.

13. An Accounting Officer is responsible for ensuring that specific approval for expenditure has been obtained from the sponsor department in all cases where it is required, including cases involving pay, pensions and conditions of service. This will include any expenditure not covered by any authorities delegated by the department to the NDPB. As in the case of delegations from the Treasury to departments, delegated authority does not remove the obligation to submit to its sponsor department proposals which are novel or contentious. The Accounting Officer is also responsible for ensuring that adequate machinery exists for the collection and bringing to account in due form of all receipts of any kind connected with the accounts of the NDPB.

Advice to the board

14. An Accounting Officer has particular responsibility to see that appropriate advice is tendered to the board on all matters of financial propriety and regularity and, more broadly, as to all considerations of prudent and economical administration, efficiency and effectiveness. Accounting Officers will need to determine how and in what terms such advice should be tendered, and whether in a particular case to make specific reference to their own duty as Accounting Officer to justify, to the Public Accounts Committee, transactions for which they are accountable.

15. The board of an NDPB should act in accordance with the requirements of propriety or regularity (including the provisions of the NDPB's management statement/financial memorandum, or other documents setting out the financial duties of the NDPB, or any Government Accounting or other rules governing the conduct of the NDPB). If the board or the chairperson is contemplating a course of action involving a transaction which you as Accounting Officer consider would infringe these requirements, however, you should set out in writing your objection to the proposal, the reasons for this objection, and your duty to notify the C&AG should your advice be overruled. If the board decides none the less to proceed, you should seek a written instruction to take the action in question. You should also inform your sponsor department's Accounting Officer of the position, if possible before the board takes its decision or in any event before the decision is implemented, so that the department, if it considers it appropriate, can intervene with the board and inform the Treasury. If the outcome is that you are overruled, the board's instruction must be complied with, but your request for the instruction and the instruction itself should be communicated without undue delay to the NDPB's external auditors, and to the C&AG. Provided that this procedure has been

followed, the PAC can be expected to recognise that the Accounting Officer bears no personal responsibility for the transaction.

16. If a course of action is contemplated which raises an issue not of formal propriety or regularity but relating to your wider responsibilities for economy, efficiency and effectiveness, it is your duty to draw the relevant factors to the attention of the board and to advise them in whatever way you deem appropriate. If your advice is overruled, and the proposal is one which as Accounting Officer you would not feel able to defend to the Public Accounts Committee as representing value for money, you should seek a written instruction before proceeding. The departmental Accounting Officer should be informed of such an instruction, if possible before the decision is implemented. It will then be for the departmental Accounting Officer to consider the matter, and decide whether or not to intervene. If the outcome is that the difference between yourself and the board nevertheless remains unresolved, the Treasury should be informed and your request for the instruction and the instruction itself should be communicated to the C&AG without undue delay, as in cases of propriety or regularity (paragraph 15 above).

17. If, because of the extreme urgency of the situation, there is no time to submit advice in writing to the board in either of the eventualities referred to in paragraphs 15 and 16 before the board takes a decision, you must ensure that, if the board overrules the advice, both the advice and the board's instructions are recorded in writing immediately afterwards.

18. If an Accounting Officer is also the chairman or a member of the board, he or she should ensure that the responsibilities as Accounting Officer do not conflict with those as a board member. For example, if the board proposes action which, as Accounting Officer, you could not endorse, and would therefore advise against, you should, as a board member, vote against such action, or ensure that your opposition as a board member as well as the Accounting Officer is clearly recorded if no formal vote is taken. In serious cases, it will not be sufficient to protect your position as a board member merely to abstain from a decision which cannot be supported.

Appearance before the Public Accounts Committee

19. Where the C&AG is the auditor of the NDPB or has rights of inspection (either by statute or by agreement) then the C&AG may also, under the National Audit Act 1983, carry out examinations into the economy, efficiency and effectiveness with which the NDPB has used its resources in discharging its functions. An Accounting Officer may expect to be called upon to appear before the Committee from time to time, normally with the Accounting Officer from the sponsor department, to give evidence on the reports arising from these examinations or reports following the annual certification audit, and to answer the Committee's questions concerning expenditure and receipts for which he or she is Accounting Officer. An Accounting Officer may be supported by one or two other senior officials who may, if necessary, assist in giving evidence.

20. Treasury officials attend Committee hearings, and may be asked to comment on the evidence. The Treasury has the formal responsibility for presenting Estimates to Parliament, for prescribing the form of accounts and the rules of *Government Accounting* and for promoting good financial management in departments. This goes with the Treasury's central responsibility for the operation of public expenditure control. Parliament has traditionally regarded the Treasury as an ally in controlling expenditure.

21. An Accounting Officer will be expected to furnish the Committee with explanations of any indications of weakness in the matters covered by paragraphs 8–13 above, to which their attention has been drawn by the C&AG or about which they may wish to question the Accounting Officer.

22. In practice, an Accounting Officer will normally have delegated authority to others, but cannot on that account disclaim responsibility or dilute his or her accountability. Nor, by convention, does the incumbent Accounting Officer decline to answer questions where the events took place before taking up appointment: the Committee may be expected not to press the incumbent's personal responsibility in such circumstances.

23. The Committee has emphasised the importance it attaches to accuracy of evidence, and the responsibility of witnesses to ensure this, in order to ensure that relevant lines of enquiry may be pursued at its hearings. The Accounting Officer should ensure that he or she is adequately and accurately briefed on matters which are likely to arise at the hearing. The Accounting Officer may, however, ask the Committee for leave to supply information not within his or her immediate knowledge by means of a later note. Should it be discovered subsequently that the evidence provided to the Committee has contained errors, these should be made known to the Committee at the earliest possible moment.

24. In general, the rules and conventions governing appearances of officials before parliamentary committees apply to the Public Accounts Committee, including the general convention that officials do not disclose the advice given to the board. Nevertheless, in a case where the procedure described in paragraph 15 was used concerning a matter of propriety or regularity, the Accounting Officer's advice, and its overruling by the board, would be disclosed to the Committee. In a case covered by paragraph 16, where the advice of an Accounting Officer has been overruled in a matter not of propriety or regularity but of prudent and economical administration, efficiency or effectiveness, the C&AG will have made clear in the report to the Committee that the Accounting Officer was overruled. The Accounting Officer should seek to avoid disclosing the advice given to the board, though subject to their agreement the Accounting Officer should be ready to explain the reasons for their decision.

Absence of an Accounting Officer

25. An Accounting Officer should ensure that he or she is generally available for consultation, and that in any temporary period of unavailability due to

illness or other cause, or during the normal period of annual leave, there will be a senior officer in the NDPB who can act on his or her behalf if required.

26. If it becomes clear to the board that an Accounting Officer is so incapacitated that he or she will be unable to discharge these responsibilities over a period of four weeks or more, the sponsor department should be notified so that an acting Accounting Officer can be formally designated, pending the Accounting Officer's return. The same applies if, exceptionally, the Accounting Officer plans an absence of more than four weeks during which he or she cannot be contacted.

27. The Public Accounts Committee may be expected to postpone a hearing if the relevant Accounting Officer is temporarily indisposed. Where the Accounting Officer is unable by reason of incapacity or absence to sign the accounts in time to submit them to the minister, the NDPB may submit unsigned copies pending the Accounting Officer's return. If the Accounting Officer is unable to sign the accounts in time for printing, the acting Accounting Officer should sign instead.

RESOURCE BUDGETING – OUTLINE (following SR2004)

The Department for Education and Skills agrees a 3 year budget with Treasury following a Spending Review. The overall budget which the Department secures is controlled via the Departmental Expenditure Limits (DEL).

There are 2 elements to DEL, Resource DEL and Capital DEL. Separate budgets are allocated to each.

3 year budgets are agreed with individual NDPBs who are subject to the same control regime and aggregates as the Department.

Movement is not allowed from Capital DEL to Resource DEL.

Movement is allowed from Resource DEL to Capital DEL. However this has a double impact on the Resource budget. When Capital DEL is increased there is a commensurate reduction in the Resource DEL plus additional charges to the Depreciation and Cost of Capital resulting from the additional Capital spend.

Within each DEL the budget will be a split between Administration and Programme costs. Within each of these splits a further breakdown may be required –see example table below.

The Department normally funds its NDPBs via Grant in Aid. This is a transfer of cash between the Department and the NDPB. The Grant in Aid provides the net funding requirement to match the income of the NDPB with its expenditure.

It is the expenditure undertaken by the NDPBs which counts towards the DEL aggregates. This underlying expenditure counts towards the Departments DEL.

Therefore it is important that the NDPB's income and expenditure are reported quickly and accurately to the Department. Equally it is important that forecasts of income and expenditure by the NDPBs are robust and accurate if the aggregate limits are not to be breached. Similarly, NDPBs who are contemplating movement from Resource to Capital DEL must consult the DfES to ensure that DfES will have the overall DEL cover necessary to meet the higher Depreciation and Cost of Capital charges.

Full details of Resource Budgeting can be obtained from http://www.hm-treasury.gsi.gov.uk/psd/rab/Consolidated_guidance/rb0cont.htm

Resource DEL	Capital DEL

Admin – Pay		Own Capital
Admin – Non Pay		
Depreciation		
Cost of Capital		
Recurrent Programme		Programme Capital
Provision utilised		
Revaluation of Provision		
Forecast Receipts		

ACCOUNTS DIRECTION

The Higher Education Funding Council for England (HEFCE)

ACCOUNTS DIRECTION GIVEN BY THE SECRETARY OF STATE FOR EDUCATION AND SKILLS, WITH THE APPROVAL OF THE TREASURY, IN ACCORDANCE WITH THE FURTHER AND HIGHER EDUCATION ACT 1992, AND THE 1988 EDUCATION ACT, AND AS AMENDED IN SUBSEQUENT LEGISLATION.

The annual accounts shall give a true and fair view of the income and expenditure and cash flows for the financial year, and the state of affairs as at the year end. Subject to this requirement the Higher Education Funding Council for England shall prepare accounts for each financial year ending 31st March in accordance with

- a. Government Financial Reporting Manual (FreM);
- b. other guidance which the Treasury may issue from time to time in respect of accounts which are required to give a true and fair view;
- c. any other specific disclosures required by the Secretary of State;

except where agreed otherwise with the Treasury, in which case the exception shall be described in the notes to the accounts.

Signed by authority of the Secretary of State for Education and Skills

Dated2006

Ruth Thompson

Director, Higher Education Strategy and Implementation Group

TERMS OF REFERENCE

For the purpose of this Financial Memorandum and the Management Statement:

'**HEFCE**' means the Higher Education Funding Council for England;

'**the DfES**' means the Department of Education and Skills;

'**financial year**' means the twelve months from 1 April to the 31 March;

'**institution**' means any institution in receipt of funds from the Council;

'**month**' means the calendar month;

'**the Secretary of State**' means the Secretary of State for the Department of Education and Skills;

"**Government Accounting**" means the Treasury guide on the Principles of Government accounting published by HMSO;

SOME SPECIFIC EXPLANATIONS:

Novel, Contentious or Repercussive

'**Novel**' expenditure is that which is outside of the normal run of HEFCE's business.

'**Contentious**' expenditure is spent in areas which are likely to be controversial.

'**Repercussive**' refers to any proposed changes which will adversely impact, financially, other bodies or parts of Govt and/or which will commit expenditure beyond the period covered by the Spending Review.

Wider Markets initiative

This initiative encourages public sector bodies to sell or commercialise any spare capacity in their core asset base.

Single Tender contracts

Value for Money (VfM) is an important driver in the public sector. Competitive tendering for contracts is a proven method of establishing good VfM where there is a market for those goods or services and tendering is encouraged by OGC.

Where no market exists there can be no tendering so VfM may be difficult to establish. In cases of extreme urgency (for example, to remove a risk to public safety) tendering would not be appropriate.

HEFCE has its own procurement policies and procedures which will enshrine the VfM principle. However the Department is required to set a delegated limit for single tender or restricted contracts. Any contracts let above this delegated limit must be reported and explained to the Dept.