

THE LEASEHOLD ADVISORY SERVICE (LEASE)
MANAGEMENT STATEMENT AND FINANCIAL MEMORANDUM
PART B — FINANCIAL MEMORANDUM
ISSUED BY THE DEPARTMENT FOR COMMUNITIES & LOCAL
GOVERNMENT: MAY 2006

GLOSSARY OF TERMS

| INTRODUCTION | PARAGRAPHS | 1 |
|----------------------------------------------------------------------|-------------------|----------|
| 2 LEASES INCOME AND EXPENDITURE GENERAL | | |
| The Departmental Expenditure Limits (DEL) | | 2.1 |
| Expenditure not proposed in the budget | | 2.2 |
| Procurement | | 2.3 |
| Competition | | 2.4 |
| Value for money | | 2.5 |
| Timeliness in paying bills | | 2.6 |
| Novel, contentious or repercussive proposals | | 2.7 |
| Risk management | | 2.8 |
| Wider markets | | 2.9 |
| Fees and charges | | 2.10 |
| LEASE'S INCOME | | |
| Grant-in-aid | | 3.1 |
| Other Receipts (from sale of goods or services, and earned interest) | | 3.2 |
| Un-forecast changes in in-year income | | 3.3 |
| Build-up and draw-down of deposits | | 3.4 |
| Gifts and bequests received | | 3.5 |
| Borrowing | | 3.6 |
| Reserves | | 3.7 |
| 4 EXPENDITURE ON STAFF | | |
| Payments to Chairman and Members of LEASE Board | | 4.1 |
| Staff costs | | 4.2 |
| Pay and conditions of service | | 4.3 |
| Pensions; redundancy/compensation | | 4.4 |

| | | |
|----------------|---------------------------------------------------------------------------------|------|
| 5 | NON-STAFF EXPENDITURE | |
| | Transfer of funds within budgets | 5.1 |
| | Lending, guarantees, indemnities; contingent liabilities; Letters of comfort | 5.2 |
| | Gifts made, write-offs, losses and other special payments | 5.3 |
| | Leasing | 5.4 |
| | Public/Private Partnerships | 5.5 |
| | Subsidiary companies and joint ventures | 5.6 |
| | Financial investments | 5.7 |
| | Unconventional financing | 5.8 |
| | Commercial insurance | 5.9 |
| 6 | MANAGEMENT AND DISPOSAL OF FIXED ASSETS | |
| | Register of assets | 6.1 |
| | Disposal of assets | 6.2 |
| 7 | BUDGETING PROCEDURES | |
| | Setting the annual budget | 7.1 |
| | General conditions for authority to spend | 7.2 |
| | End-year flexibility | 7.3 |
| | Providing monitoring information to the Department | 7.4 |
| | Financial Reporting | 7.5 |
| | BANKING | |
| | Banking arrangements | 8.1 |
| 9 | REGULATORY COMPLIANCE REPORT | 9.1 |
| 10 | COMPLIANCE WITH INSTRUCTIONS AND GUIDANCE | |
| | Relevant documents | 10.1 |
| 11 | REVIEW OF FINANCIAL MEMORANDUM | |
| Annex A | Financial Delegations | |
| Annex B | Expenditure on Administration | |
| Annex C | End of Year Reports | |
| Annex D | Claiming Grant | |
| Annex E | Losses, Special Payments and Gifts | |
| Annex F | Resource Accounting and Budgeting | |
| Annex G | Regulation Compliance Report | |
| Annex H | Management Letter | |

Amended by agreement as per Charlotte Sewell's, of CLG, letter of 19 March 2008 to Anthony Essien of LEASE.

Glossary of Terms

In this Memorandum:

| | |
|---------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <i>The Department</i> | Means the Department for Communities and Local Government, including the Secretary of the State and those acting under his authority |
| <i>LEASE</i> | Means Leasehold Advisory Service |
| <i>The Board</i> | Means the Board of LEASE |
| <i>The Chief Executive</i> | Means the Chief Executive of LEASE |
| <i>The Management Statement</i> | Means the document setting out the roles and responsibilities of LEASE and its relationship with the Department. The current version was issued to LEASE on May 2006 (The Financial Memorandum forms part of the Management Statement) |
| <i>The year</i> | Means the financial year running from 1 April to 31 March |

I INTRODUCTION

1.1 This Financial Memorandum, which is issued by the Department forms part of the Management Statement for LEASE and sets out in greater detail certain aspects of the financial framework within which LEASE is required to operate.

1.2 The terms and conditions set out in the combined Management Statement and Financial Memorandum may be supplemented by guidelines or directions issued by the Secretary of State in respect of the exercise of any individual functions, powers and duties of LEASE.

1.3 LEASE shall satisfy the conditions and requirements set out in the combined document, together with such other conditions as the Secretary of State may from time to time impose.

2. LEASE'S INCOME AND EXPENDITURE GENERAL

2.1 The Departmental Expenditure limits (DEL)

2.1.1 LEASE's expenditure forms part of the Department's DEL. Prior to each financial year LEASE will receive firm budget allocations for Resource (administrative expenditure); and Capital (spending and receipts in respect of LEASE assets). Annex F provides detail on accounting for expenditure within Resource Accounting and Budgeting rules, with which LEASE must comply.

2.2 Expenditure not proposed in the budget

2.2.1 LEASE shall not, without prior written approval from the Department, enter into any undertaking to incur any expenditure which falls outside LEASE's delegations from the Department or which is not provided for in LEASE's annual budget as approved by the Department.

2.3 Procurement

2.3.1 LEASE's procurement policies shall reflect guidance from the Office of Government Commerce including *Procurement Policy Guidelines*. LEASE shall also ensure that it complies with any relevant EU or other international procurement rules as they apply to the administration of LEASE.

2.3.2 Periodically and wherever practicable LEASE's procurement shall be benchmarked against best practice elsewhere and be subject to competition where this would achieve better value for money.

2.4 Competition

2.4.1 Contracts shall be placed on a competitive basis and tenders accepted from suppliers who provide best value for money overall. All contracts should be let in accordance with thresholds set out in the latest version of the Department's procurement manual.

2.4.2 Procurement projects managed by LEASE are subject to Gateway Reviews, carried out by the Office of Government Commerce (OGC) at key milestones in the procurement process. The requirement applies to projects, which procure services, construction/property, IT enabled business change and procurements utilising framework contracts. LEASE shall involve OGC in the procurement process whenever appropriate. For delegated limits Annex A refers.

2.4.3 Proposals to let single-tender or restricted contracts shall be subject to a specified delegated authority. LEASE shall send to the Department after each financial year a report for that year detailing any contracts below £25,000 excluding VAT in which competitive tendering was not employed. A copy of the report shall be placed on the agenda of LEASE's Audit and Risk Committee. All single tender action above £25,000 must have prior approval of the Department. Annex A refers.

2.5 Value for money

2.5.1 Procurement by LEASE 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 assessing 'whole life costs' shall be carried out before procurement decisions are taken. Including taking all reasonable steps to appraise the financial standing of any firm or body with which it intends to enter into a contract.

2.6 Timeliness in paying bills

2.6.1 LEASE 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. LEASE 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. The latter allows creditors to claim statutory interest and compensation on late payment of commercial debts.

2.7 Novel, contentious or repercussive proposals

2.7.1 LEASE 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 might significantly affect the future level of resources required.

2.8 Risk management

2.8.1 LEASE's responsibilities for risk management are outlined in the Management Statement at paragraph 52.

2.8.2 LEASE shall adopt and implement policies and practices to safeguard itself against fraud and theft, in line with Treasury's Guide to Managing Fraud.

2.8.3 LEASE 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.

2.9 Wider markets

2.9.1 In accordance with the wider markets policy LEASE shall seek to maximise receipts from non-Exchequer sources provided that this is consistent with (a) LEASE's main functions (b) its corporate plan as agreed with the Department, and (c) resource accounting and budgeting rules.

2.10 Fees and charges

2.10.1 Fees or charges for any services supplied by LEASE shall be determined in accordance with the Treasury's *Fees and Charges Guide*, and with the Freedom of Information Act from January 2005.

3. LEASE'S INCOME

3.1 Grant-in-aid

3.1.1 Grant-in-aid will be paid to LEASE in instalments, as agreed on the basis of a written application from LEASE 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 LEASE's functions.

3.1.2 LEASE should have regard to the guidance in chapter 9 of *Government Accounting*, in particular to the general principle that it should seek grant-in-aid according to need, and to paragraph 9.4.2 Government Accounting on guidance on any unspent balance.

3.1.3 Cash balances from grant-in-aid or other Exchequer funds shall be kept at the minimum level consistent with the efficient operation of LEASE, including the requirement to make contractual prepayments. Grant-in aid not drawn down by the Department 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 Department 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.

3.2 Other Receipts (from sale of goods or services, and earned interest)

3.2.1 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).

3.2.2 Any interest earned by LEASE on its assets shall be given the same budgeting treatment as the cost of capital charge on the assets, and accordingly treated as negative public expenditure. Capital charges and earned interest will respectively score as resource expenditure and income within the Resource DEL budget.

3.2.3 If the receipts are used to finance additional expenditure by LEASE, the Department will need to ensure it has the necessary DEL cover.

3.2.4 Any interest earned on cash balances arising from grant-in-aid or other Exchequer funds shall be treated as a receipt from an Exchequer source. Depending on the budgeting treatment of this receipt, there would either be an impact on LEASE's cash requirements with a commensurate reduction of grant-in-aid, or the interest would be treated as negative expenditure to offset capital charges on any deposits held.

3.2.5 If there is any doubt about the correct classification of a receipt LEASE shall consult the Department, who will consult the Treasury as necessary.

3.3 Un-forecast changes in in-year income

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

3.3.2 If the negative DEL income realised or expected to be realised in the year is more than estimated, LEASE 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. The Department shall consider such applications, 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. (These arrangements are subject to the provisions set out under the heading *Disposal of assets* below. Disposals of land and buildings are dealt with in Section 6 below.)

3.4 Build-up and draw-down of deposits

3.4.1 LEASE shall not hold deposits other than in respect of Grant in Aid provided in accordance with cash expenditure needs.

3.5 Gifts and bequests received

3.5.1 LEASE is free to retain any gifts, bequests or similar donations. These shall be treated as receipts. 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.

3.5.2 Before proceeding in this way LEASE shall consider if there are any associated costs in doing so or any conflicts of interests arising. LEASE 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.

3.6 Borrowing

3.6.1 LEASE shall observe the rules set out in Section 29.5 of *Government Accounting* when undertaking borrowing of any kind, which would only be through the Department and the National Loans Fund. LEASE 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. Medium or long term private sector or foreign borrowing is subject to the value for money test in *Government Accounting*.

3.6.2 LEASE has no authority to borrow from the private sector. Any requirement for short-term working capital facilities shall be permitted only with

Departmental and Treasury approval. Borrowing from the Department will impact on the Department's capital DEL.

3.7 Reserves

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

4. EXPENDITURE ON STAFF

4.1 Payments to Chairman and Members of LEASE Board

4.1.1 The Chairman, Deputy Chairman and members of LEASE Board are appointed by the Secretary of State, who may determine the levels of any remuneration, allowances and pensions payable in respect of the performance of their duties. Board members' reasonable expenses, including those incurred on travel and subsistence shall be reimbursed by LEASE.

4.2 Staff costs

4.2.1 As stated in the Management Statement paragraph 68, LEASE shall ensure that the level and structure of its staffing, including gradings, pay and numbers of staff, is appropriate to its functions and the requirements of efficiency, effectiveness and economy.

4.2.2 LEASE shall ensure that staff costs can be accommodated from within resources available and that the creation of any additional posts does not incur forward commitments which will exceed its ability to pay for them.

4.2.3 LEASE shall inform the Department of any changes in the number and grade of posts at Director level or above and seek the prior approval of the Department to any increases.

4.3 Pay and conditions of service

4.3.1 Departmental approval is required for major structural changes to pay and grading systems and any proposals must be supported by a fully costed business case. The Department will in turn consult Treasury, which has a strategic interest in public sector pay policy generally and in the control of public expenditure.

4.3.2 LEASE is required to provide the Department with details of its proposals for annual pay negotiations. Departmental and Treasury consent is required to ensure that the proposals comply with the Government's public sector pay policy.

LEASE will subsequently notify the Department of the outcome of negotiations and provide other pay bill information as required.

4.3.3 The prior approval of the Department will be required for the appointment, pay, terms and conditions of the Chief Executive, and for the pay, terms and conditions of other senior staff at [or the equivalent of] Department Grade 3 level or above;

4.3.4 LEASE will determine its own pay and non pay related terms and conditions [e.g. leave arrangements and fringe benefits]. These shall conform to any relevant rules or principles notified to LEASE by the Department and must comply with the following general principles:

- all forms of pay related benefit shall be clearly identified as part of the remuneration package, and costed in money terms as part of the pay bill;
- the use of non pay benefits shall be justified on a value for money basis;
- effective systems shall be maintained to ensure abuse of benefits does not take place and that pressure is not placed on costs.

4.3.5 Current terms and conditions for staff of LEASE are those set out in its Conditions of Service. LEASE shall provide the Department with a copy of the Conditions and subsequent amendments.

4.3.6 LEASE shall comply with all relevant EU directives on workers' rights.

4.4 Pensions; redundancy/compensation

4.4.1 LEASE's staff will be eligible for LEASE's stakeholder scheme and will be eligible for membership of S2P, the state second pension (prior to 6 April 2002 known as the state earnings related pension scheme (SERPS))

4.4.2 Any proposal by LEASE to move from the existing pension arrangements requires the approval of the Department

4.4.3 Proposals on severance payments must comply with DAO (GEN) 04/02.

5. NON-STAFF EXPENDITURE

5.1 Transfer of funds within budgets

5.1.1 Unless financial provision is subject to specific Department 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 that allocated for administration expenditure within resource do not need the

Department's approval. All other transfers require the Department's approval. Transfers from capital to any resource budgets are not allowed.

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

5.2.1 LEASE shall not, without the Department's prior written consent, make grant payments, 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.

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

5.3.1 The Chief Executive has authority, for any single event falling within the categories shown in *Annex A*, to write off losses and make special payments to the value shown. Proposals for making gifts or other special payments (including write-offs) outside the delegated limits set out in Annex A to this document must have the prior approval of the Department.

5.3.2 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.

5.3.3 The Chief Executive may formally delegate authority to write off losses and make special payments, within specific limits, to officers at appropriate levels. These delegations should be kept under review.

5.3.4 LEASE shall maintain a record of all losses written off and special payments made, detailing the circumstances of the event and stating the action taken to prevent a recurrence. This record shall be available to the Department on request and a copy formally provided annually. It shall also be submitted each year for the scrutiny of the external auditors. The timing and format for the report is set out in Annex E.

5.3.5 LEASE shall notify the Department of any case in which a compensatory or consolatory payment is recommended by the Parliamentary and Health Services Commissioner.

5.4 Leasing

5.4.1 Prior Departmental approval must be secured for all property and finance leases. Operating leases do not need prior approval. LEASE must have capital DEL provision for finance leases and other transactions which are in substance borrowing (paragraphs 2.2.1 above).

5.4.2 Before entering into any lease (including an operating lease) LEASE shall demonstrate that the lease offers better value for money than purchase by undertaking a full option appraisal.

5.5 Public Private Partnerships

5.5.1 LEASE shall seek opportunities to enter into Public/Private Partnerships where this would be more affordable and offer better value for money than conventional procurement. Where cash flow projections may result in delegated spending authority being breached LEASE shall consult the Department.

5.5.2 Any partnership controlled by LEASE shall be treated as part of LEASE in accordance with UK GAAP and consolidated with it subject to any particular treatment required by UK GAAP. Where judgement over the level of control is a close one the Department will consult the Treasury.

5.6 Subsidiary companies and joint ventures

5.6.1 LEASE 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 wider strategic aim[s], objective and current Public Service Agreement.

5.6.2 Any subsidiary company or joint venture controlled or owned by LEASE shall be consolidated with it in accordance with UK GAAP for public expenditure accounts purposes, subject to any particular treatment required by UK GAAP. Where the judgment over the level of control is a close one the Department will consult 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.

5.7 Financial investments

5.7.1 LEASE 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 that further the objectives of LEASE shall equally be subject to Department approval unless covered by a specific delegation.

5.8 Unconventional financing

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

5.9 Commercial insurance

5.9.1 LEASE 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 annex 30.4.2 of *Government Accounting*. Guidance on the circumstances in which Non-Department Public Bodies (NDPBs) should or should not insure is provided in paragraph 30.3 of *Government Accounting*.

5.9.2 The Department shall have a written agreement with LEASE 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 LEASE's targets shall be considered.

6. MANAGEMENT AND DISPOSAL OF FIXED ASSETS

6.1 Register of assets

6.1.1 LEASE shall maintain an accurate and up-to-date register of its fixed assets.

6.2 Disposal of assets

6.2.1 LEASE 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.

6.2.2 LEASE may normally retain receipts derived from the sale of assets provided that:

- (i) the Department is content for LEASE to retain these receipts;
- (ii) they are used to finance other capital spending, and Department is content for LEASE to use the extra DEL spending cover that has been realised;
- (iii) the Department receives prior notification of individual sales if the sums are in excess of E100k;

- (iv) total sales in any financial year do not exceed a specified limit (normally 3% of LEASE's grant-in-aid (see PES(98)5)); and

6.2.3 If, notwithstanding the above, LEASE 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, who shall then submit an Estimate seeking approval for the receipts to be appropriated in aid by the Department and for a corresponding increase in LEASE's grant-in-aid, and DEL budgetary cover.

6.2.4 If the proposed new investment exceeds LEASE'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.

6.2.5 If the criteria in paragraph 6.2.3 above are not met, any receipts shall be dealt with in fine with the rules on surplus in-year receipts (paragraph 3.4.2 above).

7. BUDGETING PROCEDURES

7.1 Setting the annual budget

7.1.1 Each year, in the light of decisions by the Department on LEASE's updated draft corporate plan (paragraph 41 of the Management Statement), the Department will send to LEASE:

- o a formal statement of the annual budgetary provision allocated to LEASE with fixed amounts for the immediate year and indicative amounts for at least one further year, and
- o a statement of any planned change in policies affecting LEASE

7.1.2 LEASE's approved annual business plan will take account both of its approved funding provision (where this applies) 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 Department funding and/or other income over the year. These elements will form part of the approved business plan for the year in question (paragraph 46 of the Management Statement.)

7.1.3 Any grant-in-aid provided by the Department for the year in question will be included in the Department's Request for Resources and will be subject to Parliamentary control.

7.2 General conditions for authority to spend

7.2.1 Once LEASE's budget has been approved by the Department and subject to any restrictions imposed by Statute/the Secretary of State/this document, LEASE shall have authority to incur expenditure approved in the budget without further reference to the Department, on the following conditions:

- LEASE shall comply with the delegations set out in Annex A of this document. These delegations shall not be altered without the prior agreement of the Department;
- LEASE shall comply with the conditions set out in paragraph 13 above regarding novel, contentious or repercussive proposals;
- inclusion of any planned and approved expenditure in LEASE's budget shall not remove the need to seek formal Department approval where any proposed expenditure is outside the delegated limits or is for new schemes not previously agreed;
- LEASE shall provide the Department with such information about its operations, performance or other expenditure as the Department may reasonably require see (paragraphs 7.4 below and Management Statement paragraphs 48 - 51.

7.3 End-year flexibility

7.3.1 As set out in PES (2000)25, the Department will aim to set firm multi-year plans, and cascade end-year flexibility (EYF) on capital and resource budgets where possible. In particular, Department will agree, ahead of the year in question, budgets fixed for at least the first year, and with indicative amounts for at least one further year.

7.3.2 Where LEASE has under spent against its allocated budgets for a financial year, it may apply for EYF in the following year. The Department will consider such a request against LEASE's expenditure future needs, and the overall budgetary position of the Department.

7.3.3 The Department will confirm the amount of EYF that can be added to resource and/or capital budgets when accurate information is available in the Public Expenditure Out-turn White Paper, taking account of outturn and any DEL Reserve claims which might limit the EYF entitlement of the Department itself.

7.3.4 The Department's policy on EYF is determined by its Board and Ministers. Any changes to current policy will be communicated to LEASE no later than the end of April of the financial year for which EYF might be used.

7.4 Providing monitoring information to the Department

7.4,1 Monitoring information will be provided in accordance with the Management Statement paragraphs 48 - 51. It has been agreed that LEASE shall provide the Department with, the following information on a regular basis and in the format prescribed by the Department:

- quarterly extract of agreed range of data held on the IMS system;
- actual expenditure, forecast profiles by month and end year outturn by resource and capital budget headings;
- cash management and draw-down of grant-in-aid;

7.5 Financial Reporting

7.5.1 To fulfil its financial monitoring responsibilities, the Department requires the following monthly financial information from LEASE:

- reports on expenditure to date on resource and capital budgets together with forecasts and trajectories
- a forecast of its cash grant-in-aid requirement for the following month.

7.5.2 The format and timing of these reports will be specified by the Department.

7.5.3 In addition to the above monthly reports the Department may also ask LEASE to provide other financial information that may be necessary to meet its monitoring responsibilities.

7.5.4 To help meet the information requirements above, as well as to satisfy the need of its Accounting Officer to secure the effective control of expenditure, LEASE shall:

- establish and maintain adequate systems for timely, reliable and consistent recording and forecasting of expenditure and commitments
- ensure that forecasts are as accurate as circumstances permit. To this end, key assumptions should be reviewed regularly and, where appropriate, discussed with the Department.

8. BANKING

8.1 Banking arrangements

8.1.1 LEASE's Accounting Officer is responsible for ensuring that LEASE'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 the Accounting Officer shall ensure that the arrangements safeguard public funds and are carried out efficiently, economically and effectively, and that.

- these arrangements are suitably structured and represent value for money, and are reviewed at least every two years, with a comprehensive review, usually leading to competitive tendering, at least every three to five years;
- sufficient information about banking arrangements is supplied to the Department's Accounting Officer to enable the latter to satisfy his/her own responsibilities (paragraph 16 of the Management Statement);
- LEASE's banking arrangements shall be kept separate and distinct from those of any other person, corporation or organisation;

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

9. REGULATORY COMPLIANCE REPORT

9.1 The Regulatory Compliance Report should be addressed to the Department's Accounting Officer and placed on the agenda of LEASE's Audit and Risk Committee for their consideration.

10. COMPLIANCE WITH INSTRUCTIONS AND GUIDANCE

10.1 Relevant documents

10.1.1 LEASE 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 4 of *Government Accounting*);

- *Non-Departmental Public Bodies - a Guide for Departments* (the NDPB "Guide"), issued by the Cabinet Office;
- Resource Accounting Manual
- *The Management of Risk — A Strategic Overview* (Orange Book) issued by HM Treasury
- NDPB Accounting Guidance
- *Government Internal Audit Standards*, issued by the Treasury;
- *Managing the Risk of Fraud*, issued by the Treasury;
- *Executive Non Departmental Public Bodies - 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 LEASE.

11. REVIEW OF FINANCIAL MEMORANDUM

11.1 This financial memorandum will normally be reviewed at least every five years or following a review of LEASE's functions as provided for in paragraph 71 of the management statement.

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

FINANCIAL DELEGATIONS

LEASE's Chief Executive has delegated authority for all expenditure in accordance with budgets allocated and in line with Corporate and investment approved by Ministers.

LEASE's Chief Executive has delegated authority to write off losses and make special payments to the levels specified below:

1 *In relation to Administrative expenditure:*

- **Cash losses**, including overpayments of salaries, wages, pensions and allowances - **£25,000** per event
- **Losses of accountable stores £25,000**
- **Constructive losses** including stores delivered, or services provided which prove not to be needed - **£25,000**
- **Claims waived or abandoned** including legal claims not pursued - **£25,000**
- **Compensation payments** including personal injuries or loss or damage to personal property in course of official activities - **£25,000**
- **Special payments** including ex-gratis payments - **£25,000**
- **Gifts** including transactions, such as permanent loans, which are effectively gifts - **£500**

2. LEASE has delegated authority to let contracts up to the value of £25,000 by single tender action, providing there is no reasonable alternative. The contract should not imply any further commitment to expenditure and a record of the reasons for selecting the preferred contractor to provide a clear audit trail. All other contracts to be let other than by competitive tender require the prior consent of the Department.

Annex B

LEASE'S EXPENDITURE

1. LEASE's expenditure on resource is financed by grant-in-aid from the Department. LEASE's budgets for resource and capital expenditure are agreed as part of the three year Spending Review settlements within the Departments overall resource DEL, and capital DEL limits.
2. The prior approval of the Department is required if LEASE wishes to:
 - Ⓒ exceed either budget;

alter the balance between the capital and resource elements of the budget; or

vire grant in aid or receipts relating to administration to any other programme or vice versa.
3. There are no further restrictions on the expenditure items covered by the resource budget set out in the table below
4. LEASE shall set out information on outturn expenditure, forecast expenditure, proposed expenditure and estimated outputs under the subheadings shown in the Table below.
7. LEASE shall also provide the Department with a forecast of its cash drawdown requirements in line with the timetable notified by the Department. LEASE shall also provide any other financial reporting information required by the Department. In particular LEASE should keep the Department informed each month of any changes to the forecast split of annual expenditure of its administration budget between administration capital and administration resource expenditure.
7. In June each year LEASE will send to the Department an administration end of financial year report in a form agreed by the Department and LEASE (see Annex C).

Resource (Administration): main expenditure headings

| | Sub- heading | Description |
|---|----------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| A | Staff Costs | <ol style="list-style-type: none"> 1. Salaries, superannuation and national insurance (net of receipts from secondments etc); temporary staff costs, redundancy costs 2. Travel and subsistence, corporation car expenses (net of receipts from insurance claims etc; members' expenses; welfare and catering; relocation expenses; and other staff costs |
| B | Office costs | <ol style="list-style-type: none"> 1. Rents, rates, service charges: repairs and maintenance; lighting and heating; cleaning and other accommodation costs 2. Other office running costs (including postage, telephone, computer running costs, hire, repair and maintenance of equipment) |
| C | Operational costs | <ol style="list-style-type: none"> 1. Professional fees (audit, dv, legal, external consultancy), outsourcing costs, bank charges and other fees; 2. Recruitment, training and promotion (including publications, publicity, entertainment and conferences) net of receipts from fees, sales of publications, etc |
| D | Research | Payments to contractors for research and development work to assist LEASE in carrying out its policy responsibilities |
| E | Expenditure on fixed assets and on all land and property | Expenditure on fixed assets includes fixtures and fittings, furniture and equipment, office machines, development costs, computer equipment and software and motor cars — and, net of receipts from the replacement, etc, of such items |
| F | Receipts | <p>Receipts (other than those already offset within subheadings a to e above) to be offset against gross administrative expenditure — including:</p> <ul style="list-style-type: none"> Receipts from Office subletting Interest on short-term deposits And fees received for services provided under agency agreements with government departments or other public bodies. |

END OF YEAR REPORTS

LEASE will produce a detailed end of year report, demonstrating how it has exercised its financial responsibilities:

The reporting process is as follows:

March: If appropriate, the Department will notify LEASE of any specific subject areas to be addressed by the reports.

April: The Department may meet LEASE officials to ensure clear understanding on the format of the report

June: LEASE shall provide the Department with a completed annual report addressing the issues specified below.

July: Subject to the information contained in LEASE's reports, Department officials may contribute to a composite report on programme expenditure for the Department's Accounting Officer.

3 The report shall:

- analyse outturn for the previous year - in terms of expenditure (in both cash and resource terms), outputs and value for money arising on each sub-heading of the area concerned - in relation, where appropriate, to the objectives set out in the previous Corporate Planning process, the agreed policy framework established at the beginning of each year;
- include an annex reporting the breakdown of expenditure and output in resource terms, to allow transparency in relation to LEASE's published accounts
- discuss the operation of any changes made during the year to LEASE's systems for the control, monitoring and forecasting of expenditure or proposals for future changes due to problems or opportunities for improving efficiency;
- give details of any regularity or propriety issues which arose during the year;
- identify any implications for the current and future years of events and experience in that year;
- provide budget management details, including analysis of grant in aid spend and outturn against original provision, and, if applicable, details of any additional funding and/or virements approved during the year.

In addition the report should specifically include:

- summary of corporate and business plan targets and whether achieved
- efficiency achievements including any on staffing and pay
- future efficiency plans
- audit issues
- details of losses and special payments
- information systems development
- research projects

CLAIMING GRANT FROM THE DEPARTMENT

This annex sets out the arrangements for LEASE to claim grant from the Department.

1 Applications for grant in aid:

- should be submitted in a form agreed with the Department as being most appropriate for the category of expenditure concerned
- should normally be submitted at the times agreed in advance between LEASE and the Department
- shall be signed either by the Chief Executive, Deputy Chief Executive, the Head of Finance or the Financial Accountant of LEASE or their authorised signatories

Shall certify that:

- the amounts requested (individually and in total), are needed, in the period covered by the application, for the proper conduct of LEASE's functions
- the application is consistent with the conditions laid down in the Financial Memorandum
- the conditions laid down in the Financial Memorandum have been duly observed in respect of expenditure in the year to date.

2 When calculating the amounts of grant in aid needed, LEASE shall have regard to its total financial position, including any actual or potential balances where grant in aid received exceeds grants and payments made, Such balances will be taken into account by the Department in settling the amounts of grant in aid claimed.

3. LEASE shall also provide to the Department each month details of its bank balance (according to its accounting records, not its bank statement).

LOSSES, SPECIAL PAYMENTS AND GIFTS

This sets out the arrangements for LEASE to report any losses, special payments or gifts.

1. Reporting arrangements

LEASE shall provide the Department with an annual information return, in May of each year, containing the following information

For **losses and special payments** (as defined in *Annex A* and *Government Accounting*)

- Details of each loss incurred or special payment made, showing in each case
- the amount involved
- a brief description of circumstances
- action taken to prevent a recurrence (where appropriate)

For **Gifts** (as defined in *Annex A* and *Government Accounting*)

- Details of each gift, showing in each case
- the value
- to whom it was made
- the date on which it was made
- why it was made

2. Requests for approval to write off losses make special payments or gifts in excess of delegated limits

To **write off losses** *in excess of delegated limits* (see *Annex A*), the Chief Executive of LEASE should write to the Department for prior approval providing the following information as appropriate

- the amount of the loss
- how and when it occurred

- who was primarily responsible
- was it caused by negligence
- is there a suspicion of fraud
- have the police been informed
- is criminal prosecution or are civil proceedings proposed
- what other steps can be taken to recover the loss
- what steps are necessary to prevent a recurrence
- conclusions and recommendations

For **special payments and** gifts above LEASE's delegated limits (see *Annex A*) the Chief Executive of LEASE should write to the Department for prior approval, addressing the following points

- nature and value
- frequency: is this a single payment or likely to be regular
- what will these achieve for LEASE
- do they represent value for money?

Requests for approval should be made sufficiently in advance to allow time for consideration by the Department.

Annex F

DEPARTMENT RESOURCE ACCOUNTING AND BUDGETING

Resource Accounting and Budgeting applies throughout the Public Expenditure System, In respect of LEASE's expenditure the control limits for expenditure incurred is through budgets within Departmental Expenditure Limit (DEL) Grant in aid is non budget voted expenditure approved by Parliament through the Department's Request for Resources (RfR). The following principles apply:

- Expenditure within DEL needs to be tightly controlled by departments, and departmental DEL limits may not be exceeded.
- Non-budget items are usually cash items within the amount that Parliament has voted a department, but which are not included in DEL because to do so would mean double counting. An example is the grant in aid to NDPBs, where the grant in aid is non-budget, because the total expenditure of the NDPB is in DEL.

Within DEL there are separate controls over resource and capital expenditure. In DEL separate DEL elements represent:

- **resource DEL** is current expenditure and income;
- **capital DEL**, is capital expenditure by a department and its NDPBs, and capital grants to local authorities, the private and voluntary sectors and to public corporations, and transactions in land held as stock.

The Department will provide LEASE with DEL resource and DEL capital, following spending reviews which cover a three year period. LEASE's budgets will be divided into the following categories:

Table 1: DEPARTMENTAL EXPENDITURE LIMIT (DEL)

| RESOURCE DEL | CAPITAL DEL |
|----------------------------------------|-------------------------------------------------------------------------------|
| Staff costs (A15) | Formation of tangible and intangible capital assets (E15) |
| Payments for goods and services (B35) | Sales of tangible capital (book value) (E16) |
| Current grants to private sector (D10) | Net lending to the private sector: persons and non-profit making bodies (H20) |

| | |
|-------------------------------------------------------------------------------------------------------------|--|
| Income from sales of services (B35) | |
| [Bad debts in connection with loans, grants and transfers (B86)] | |
| Depreciation (B90) | |
| Impairment (B95) <i>if needed</i> | |
| Cost of capital charge (B99) | |
| Change in provisions relating to bad debts on loans (L30) | |
| Release of provisions relating to bad debts on loans (L31) | |
| Payments of interest to and receipts of interest from the private sector (S10) | |
| Central government's payments of interest to and receipts of interest from public corporations A S 2 0) | |

| |
|-----------------------------------------------------------------------------------------------------------|
| Non Budget Items |
| Corporation Tax (S40) |
| Public sector occupational pension schemes: pensions in payments/receipts of pensions contributions (D40) |
| Provisions for pension costs (L46) |
| Grant-in-aid (W15) |

LEASE may not alter the balance between DEL and AME, or DEL resource and DEL capital, without prior agreement of the Department. There are no further restrictions on expenditure under the various categories.

Unforeseen Expenditure

[NOTE: for example, if LEASE is allocated £100 resource DEL provision by the Department and expects to receive £10 of negative DEL resource income, it may plan to spend a total of £110. If income (on an accruals basis) turns out to be only £5 LEASE will need to reduce its expenditure to £105 to avoid breaching its budget. if LEASE still spends £110 the Department will need to find £5 of savings from elsewhere within its total resource DEL to offset this overspend.]

Regulatory Compliance Report

The external auditors should be asked to report whether, in their opinion, and in all significant respects that LEASE has complied throughout the year with the following:

- (a) relevant principles set out in Government Accounting;
- (b) the Financial Memorandum and Operating Guidelines issued to LEASE for its own operations;
- (c) other financial guidance supplied by the Department in the form of guidebooks and letters that you have ascertained from enquiry of LEASE; and
- (d) the Government Internal Audit Manual and the Government Information Systems Audit Manual.

The external auditors should also report on the following, having carried out specifically designed tests or other work:

- (a) occasions when LEASE incurred expenditure or sold assets without following appropriate procedures for pre- and post project appraisal, competitive tendering, financial viability assessments and monitoring progress or compliance;
- (b) significant losses (as defined in Government Accounting);
- (c) significant expenditure they believe may have been extravagant or wasteful;
- (d) instances of possible fraud, theft or corruption not reported to the Department; and
- (e) occasions when an interest was not declared during a Board meeting, or occasions when, in their opinion, proper procedures were not allowed after an interest was declared.

The external auditors are also required to report if they find:

- (a) any occasion when, in their opinion, Board members or senior employees fell short of the high standards of financial integrity expected of those responsible for the management of public assets; or

- (b) any matter of public interest that they believe should be brought to the Departments attention; or
- (c) grant-in-aid was received in the year in excess, or in advance, of requirements (i.e. otherwise than as funding of last resort).

Management Letter

The external auditors should be asked to include, inter alia in their management letter, specific comments on:

- a) the effectiveness of LEASE's internal control system throughout the year, including control procedures to ensure adherence to the framework for financial regulation;
- b) the scope, nature and effectiveness of the work carried out by LEASE's internal auditors during the year;
- c) significant weaknesses in internal control and significant regulatory failures reported by LEASE's internal auditors during the year;
- d) possible improvements to the way in which LEASE operates, that the external auditors have identified in the course of their work that might help LEASE maintain a high standard of performance;
- e) specific areas the external auditors believe should be studied in more detail or closely monitored in order to achieve the best value for money;
- f) progress with matters identified in previous years' management letters.