

FINANCIAL MEMORANDUM

AGREED BETWEEN

THE DEPARTMENT OF TRADE AND INDUSTRY

AND

THE TECHNOLOGY STRATEGY BOARD

JUNE 2007

CONTENTS

| | |
|---|----------|
| I. INTRODUCTION..... | 3 |
| II. THE BOARD’S INCOME AND EXPENDITURE – GENERAL..... | 3 |
| The Departmental Expenditure Limit (DEL)..... | 3 |
| Expenditure not proposed in the budget..... | 3 |
| Procurement..... | 4 |
| Competition..... | 4 |
| Value for money..... | 4 |
| Timeliness in paying bills..... | 4 |
| Novel, contentious or repercussive proposals..... | 4 |
| Risk management..... | 5 |
| Wider markets..... | 5 |
| Fees and charges..... | 6 |
| III. THE BOARD’S INCOME..... | 6 |
| Grant-in-aid..... | 6 |
| End-year flexibility (EYF)..... | 6 |
| Interest earned..... | 7 |
| Unforecast changes in in-year income..... | 7 |
| Gifts and bequests received..... | 7 |
| Income / Receipts from the EC..... | 8 |
| Borrowing..... | 8 |
| Reserves..... | 8 |
| IV. EXPENDITURE..... | 8 |
| Capital expenditure..... | 8 |
| Resource expenditure..... | 9 |
| Administration expenditure..... | 9 |
| Transfer of funds within budgets..... | 10 |
| Lending, guarantees, indemnities; contingent liabilities; letters of comfort..... | 10 |
| Grant and loan schemes..... | 11 |
| Gifts made, write-offs, losses and other special payments..... | 11 |
| Leasing..... | 11 |
| Public Private Partnerships..... | 11 |
| Subsidiary companies and joint ventures..... | 12 |

| | |
|--|-----------|
| Financial investments | 12 |
| Unconventional financing..... | 12 |
| Commercial insurance..... | 12 |
| V. MANAGEMENT AND DISPOSAL OF FIXED ASSETS | 13 |
| Register of assets | 13 |
| Disposal of assets..... | 13 |
| Recovery of grant-financed assets..... | 14 |
| VI. BUDGETING PROCEDURE..... | 14 |
| Setting the annual budget..... | 14 |
| General conditions for authority to spend..... | 15 |
| Providing financial monitoring information to the Department | 15 |
| VII. BANKING | 16 |
| Banking arrangements | 16 |
| VIII. COMPLIANCE WITH INSTRUCTIONS AND GUIDANCE | 16 |
| Relevant documents..... | 16 |
| IX. REVIEW OF FINANCIAL MEMORANDUM..... | 17 |
| X. SIGNATORIES | 18 |
| APPENDIX A - Financial Authority Delegated to the Board | 19 |
| APPENDIX B - Equivalent of insurance operated by the Department ... | 21 |
| APPENDIX C - The Board's Estate | 23 |

I. INTRODUCTION

1. This Financial Memorandum is an agreement between the Secretary of State for Trade and Industry (“Secretary of State”) and the Technology Strategy Board (TSB) (“the Board”). It should be read in conjunction with the associated document, the Management Statement agreed between the Secretary of State and the Board. “The Department” is the Department of Trade and Industry. The Secretary of State has overall responsibility for the affairs of the Department. Responsibility for the Board’s activities rests with the members of the governing body including the Chief Executive in his/her role as accounting officer. This document sets out in greater detail certain aspects of the financial framework within which the Board is required to operate. The Memorandum applies from the date of its signature by both parties (see “Signatories” section at page 18).
2. The Board shall satisfy the conditions and requirements set out in this Financial Memorandum and the associated Management Statement, together with such other conditions as the Secretary of State may from time to time impose. The terms and conditions set out in these documents may be supplemented by guidelines or directions issued by the Secretary of State in respect of the exercise of any individual functions, powers and duties of the Board. In addition, the Board shall comply with the current edition of Government Accounting¹, and other relevant instructions and guidance.

II. THE BOARD’S INCOME AND EXPENDITURE – GENERAL

The Departmental Expenditure Limit (DEL)

3. The Board’s resource and capital expenditure forms part of the DTI’s non-Science Budget Resource DEL and Capital DEL respectively. The Department allocates budgets to the Board as part of the Spending Review process. The Department also agrees longer-term commitments with the Board, where appropriate.

Expenditure not proposed in the budget

4. The Board shall not, without prior written approval from the Department, enter into any undertaking to incur any expenditure that falls outside the Board’s delegations set out in Annex A or which is not provided for in the Board’s Resource DEL or Capital DEL as approved by the Department, or other written agreements with the Department.

¹ As at 1 January 2007, Government Accounting 2000 amendment 4/05. All references to “Government Accounting” in this document shall be construed as being to that version or, when a subsequent edition is issued, to that version.

Procurement

5. The Board's procurement policies shall comply with the guidance from the Office of Government Commerce (see also paragraph 81) and in Government Accounting. The Board shall also ensure that it complies with any relevant EU or other international procurement rules.
6. Periodically and wherever practicable, the Board's procurement function, and/or the Research Councils' Procurement Organisation (RCPO) where the function is integrated into the RCPO in whole or in part, shall be benchmarked against best practice elsewhere and contracted out where this would achieve better value for money.

Competition

7. Contracts shall be placed on a competitive basis and tenders accepted from suppliers who provide best value for money overall, unless there are compelling reasons to the contrary.
8. The Board shall have appropriate control systems in place to authorise single tender action, which shall be approved by the Board's Accounting Officer. Proposals to let single-tender or restricted contracts external to the Board shall be subject to a delegated authority limit of Euro 200,000 (£134,000). All cases above that limit must be agreed with the DTI beforehand. Where there are agreements between the Research Councils and the Board arranged by the RCPO, these shall be subject to the same approval, by application of the RCPO to the Department. The Board shall provide the Department with a report with a summary list and brief details of all such contracts within the £50,000 to £134,000 range.

Value for money

9. Procurement by the Board of works, equipment, goods and services shall be based on value for money, i.e. quality (in terms of fitness for purpose) and delivery against price. Where appropriate, a full option appraisal shall be carried out before procurement decisions are taken. Where the Board participates in an activity with one or more of the Research Councils, one Council or the Board shall be nominated to take the lead in carrying out the option appraisal.

Timeliness in paying bills

10. The Board shall seek to pay all matured and properly authorised invoices in accordance with the terms of contracts or within 30 days, as provided for in Government Accounting. The Board shall comply with the Late Payment of Commercial Debts (Interest) Act 1998 as amended.

Novel, contentious or repercussive proposals

11. The Board shall obtain the approval of the Department before:

- incurring any expenditure for any purpose which is or might be considered novel or contentious (Government Accounting, chapter 2.4.7), and which has or could have significant future cost implications, including on staff benefits;
- making any significant change in the scale of operation or funding of any initiative or scheme previously included in either Resource DEL or Capital DEL allocations (significant change being defined as a change in budget of 10% or more where the original total budget exceeds £2 million);
- making any change of policy or practice which has wider financial implications (e.g. because it might prove repercussive (Government Accounting, chapter 32.4.7) among other public sector bodies) or which might significantly affect the future level of resources required (the Delivery Plan discussions would be one possible method of seeking such approval).

Risk management

(see also paragraphs 28-32 and annex 4 of the Management Statement)

12. The Board shall ensure that the risks it faces are dealt with in an appropriate manner, in accordance with relevant aspects of best practice in corporate governance. The Board shall develop and maintain a risk management strategy, in accordance with the Treasury guidance: "Management of Risk: A Strategic Overview, and Government Accounting" (see 'Risk' at index). It shall also have regard to any guidance issued by the Department.
13. The Board shall review their risks on a regular basis, and prepare a Statement of Internal Control signed off by the Chief Executive of the Board (the Accounting Officer) for insertion into their Annual Accounts.
14. The Board shall adopt and implement policies and practices to safeguard itself against fraud and theft, in line with Treasury's guide - Managing the Risk of Fraud. (See also paragraph 28, 32, 68 and annex 4 of the Management Statement).
15. The Board shall take all reasonable steps to appraise the financial standing of any external organisation with which it intends to enter into a contract, having regard to the risks in each case.
16. Payments should not normally be made in advance to contractors, before equivalent value has been received in return. Any proposals to make advance payments should be considered against the advice provided in Government Accounting.

Wider markets

17. In accordance with the wider markets policy, the Board shall seek to maximise value to the UK economy. To this end, but at the same time ensuring that any wider markets activity is consistent with (a) the Board's main functions, and (b) its Strategic and Delivery plans as agreed with the Department, the Board shall seek to optimise the

commercial potential and consequently the non-Exchequer receipts from its activities.

Fees and charges

18. Fees or charges for any services supplied by the Board shall be determined in accordance with the Treasury's 'Fees and Charges Guide', and with the regulations made under the Freedom of Information Act 2000.

III. THE BOARD'S INCOME

Grant-in-aid

19. Grant-in-aid, driven by resource and capital DEL, will be paid to the Board in monthly instalments, on the basis of an annual profile provided by the Board (updated as agreed with the Department), based on a reconciliation to the use of resource and capital budgets. Each application shall certify that the conditions applying to the use of grant-in-aid have been observed to date, and that further grant-in-aid is now required for purposes appropriate to the Board's functions.
20. The Board should have regard to the guidance in chapter 9 of Government Accounting, that it should seek grant-in-aid according to need.
21. Cash balances accumulated during the course of the year from grant-in-aid or other Exchequer funds shall be kept at the minimum level consistent with the efficient operation of the Board. The Board should aim not to build up cash balances or net assets in excess of what is required for operational purposes. Annual grant-in-aid not drawn down by the end of the year shall lapse but DEL entitlement remains (see paragraph 22). Subject to approval by Parliament of the relevant Estimates provision, driven by DEL allocations, the Board will be entitled in the subsequent year to any such grant-in-aid which is required to meet any liabilities at year end, such as creditors, and in respect of cash needs resulting from end-year flexibility (EYF) entitlement.

End-year flexibility (EYF)

22. The Department will set firm multi-year DEL allocations as part of the Spending Review process, consisting of resource (comprising near-cash and non-cash resource) and capital (comprising pure capital and capital grants). Any end year underspend generated by the Board, whether resource or capital, may be carried forward by the Board from one year to the next subject only to the Department's overriding need to manage its budgets effectively and the Treasury regime applying at the time. The flexible use of any underspend is intended to facilitate the Board's effective use of resources with a view to maximising the benefit to the UK economy. Such arrangements may be subject to the application of any ring-fence set for specific purposes. The Board

should have a clear strategy for the use of EYF which is consistent with: its overall financial strategy, the nature of its business and its perceived risks, and which ensures that EYF is not accumulated to levels which would call into question the Board's or the Department's effective financial management.

23. The Department will:

- agree ahead of the first year in question, a three-year DEL allocation following the Spending Review settlement;
- confirm the amount of EYF available to the Board when accurate information is available from HM Treasury, taking account of any reserve claims which might limit the EYF availability, subject to ministerial priorities; and
- agree, after the amount of EYF is known, the allocation to the Board.

Interest earned

24. Any interest earned by the Board on its assets shall be given the same budgeting treatment as the cost of capital charge on assets. The practical impact is that interest earned is not negative DEL and cannot be spent, and needs to be surrendered to the Department.

25. The cost of capital charge on most DEL financed assets and any income from interest score as resource DEL. Any interest earned on cash balances arising from grant-in-aid or other Exchequer funds shall be treated as a receipt from an Exchequer source. Depending on the budgeting treatment of this receipt, and its impact on the Board's cash requirement, it will lead to commensurate reduction of grant-in-aid.

Unforecast changes in in-year income

26. If the negative DEL income received or receivable in-year is less than estimated, the Board shall reduce expenditure so that the authorised budget is not exceeded.

27. If the negative DEL income received or receivable in the year is greater than estimated, the Board may apply to the Department to retain the excess income for specified additional expenditure within the current financial year without an offsetting reduction to the resource budget. The Department shall consider such applications, taking account of competing demands for resources, and will normally accept them. If an application is refused the resource budget and grant-in-aid shall be commensurately reduced, or the excess income shall be required to be surrendered to the Exchequer via the Department. These arrangements are subject to the provisions set out in paragraphs 71 - 75 under the heading Disposal of assets.

Gifts and bequests received

28. The Board is free to retain any gifts, bequests or similar donations. These shall be treated as income. Donated assets do not attract a

cost of capital charge, and a release from the donated assets reserve should offset depreciation in the Income and Expenditure statement.

29. Before proceeding in this way the Board shall consider if there are any associated costs in doing so or actual or potential conflicts of interests. The Board shall keep a written record of any such gifts, bequests and donations and of their estimated value and whether they are disposed of or retained.

Income / Receipts from the EC

30. Income from the European Union (technically the European Community), obtained by the Board, is to be treated as third-party income.

Borrowing

31. The Board shall observe the rules set out in Section 29.5 of Government Accounting 2000 when undertaking borrowing of any kind.
32. The Board shall seek the prior written 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.
33. Any expenditure by the Board financed by borrowing counts in DEL.

Reserves

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

IV. EXPENDITURE

Capital expenditure

35. Having regard to its asset base, the Board must produce a draft Capital Investment strategy by January in each year, or at such other interval as may be agreed with the Department, with a final strategy completed by March (see also the need to incorporate the requirements at paragraph 71). The strategy will include the contribution from any partnerships and strategic alliances. It also needs to comply with the overall DTI Estates Management Framework (see Appendix C).
36. The strategy will contain a detailed investment plan for the following two years. A Capital investment report update, included as part of the Delivery Report, showing progress against the strategy, shall be issued every June.
37. Within its approved overall resource limit, and subject to paragraph 54, the Board shall, as indicated in the attached Appendix A on

delegations, have delegated authority to spend up to £25 million on any individual capital project or acquisition.

Resource expenditure

38. Within its approved overall resource limit, subject to any restrictions imposed by the Science and Technology Act 1965, the Charter or this Memorandum (see in particular paragraph 39 below) the Board has delegated authority to spend up to £10 million on any individual resource project.
39. The Board shall make available to the Department such information about any projects or expenditure as the Department requires. Inclusion of any planned expenditure in the Delivery Plan does not obviate the need to seek formal, written approval where this expenditure is outside the financial approval limits, as set out in Annex A.

Administration expenditure

40. The Board will set out staffing levels and Board structure in its Delivery Plan. The Board may not exceed the administration budget endorsed by the Department in the Delivery Plan, without approval from the Department, beyond 5%. The Department will consider sympathetically cases where increased spending can be linked to longer-term efficiencies and underspends from previous years.
41. Subject to its delegated levels of authority the Board shall ensure that the creation of any additional posts does not incur forward commitments which will exceed its ability to pay for them.
42. The staff of the Board, whether on permanent or temporary contract, shall be subject to levels of remuneration and terms and conditions of service (including superannuation) approved by the Secretary of State. The Secretary of State may delegate to the Board authority over levels of remuneration and terms and conditions of service.
43. The Board shall operate a performance-related pay scheme, which shall form part of the general pay structure approved by the Secretary of State and the Treasury.
44. Current terms and conditions for staff of the Board are those set out in its Employee Handbook. The Board shall provide the Department with a copy of the Handbook and subsequent amendments.
45. The Board shall comply with the EU directive on contract workers.

46. The travel expenses of Board members shall be tied to the rates allowed to senior staff of the Board. Reasonable actual costs shall be reimbursed.
47. The Board's staff shall normally be eligible for a pension provided by:
- the Research Council's Pensions Scheme (RCPS) which operates by analogy to the PCSPS (Principal Civil Service Pension Scheme) or another "by analogy" scheme. The Board shall pay an actuarially assessed employer's contribution to the scheme based on its current payroll. Employees may also pay a contribution. The balance of funding shall be provided by DTI grant-in-aid; or
 - a Partnership Pension Account which is also available to new staff based on the portable Stakeholder pension. This is a defined contribution scheme.
48. Staff may opt out of the occupational pension scheme provided by the Board. However, the employer's contribution to any personal pension arrangement, including a stakeholder pension, shall normally be limited to the national insurance rebate level.
49. The Board's staff are also eligible for redundancy/compensation. These shall be on terms determined by the Board with the approval of the Department. Proposed severance payments must comply with DAO(GEN) 11/05. Redundancy and injury benefits are outside the scope of the RCPS and are provided under separate staff agreements funded and accounted for by the Board.
50. Any proposal by the Board to move from the existing pension, redundancy and compensation arrangements requires the approval of the Department and the consent of the Treasury and the Cabinet Office.

Transfer of funds within budgets

51. Unless financial provision is subject to specific Departmental or Treasury controls (including where provision is ring-fenced for specific purposes), transfers between budgets within the total capital budget do not need DTI approval. Transfers from non-cash to near-cash budgets need the approval of the Department and the Treasury but are unlikely to be approved. With the exception of Public Private Partnerships (PPP) and Private Finance Initiatives (PFI), transfers from capital to resource budgets are not permitted.

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

52. The Board shall not, without prior written consent from the Department, lend money, charge any asset or security, give any guarantee or indemnities or letters of comfort, or incur any other contingent liability (as defined in chapter 26 of Government Accounting), whether or not in a legally binding form, otherwise than in the terms of guarantees,

indemnities etc. which can be regarded as of a type given in the course of normal commercial business dealings.

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

Grant and loan schemes

54. The Board is empowered to give grants under the Science and Technology Act 1965 and its Royal Charter for the support of projects within the scope of the objects at Article 2 of the Charter.
55. The Board shall not make loans without the prior approval of the Department. All proposals to make a loan to a third party, whether one-off or under a scheme, shall be subject to prior approval from the Department, together with the terms and conditions under which such a loan is made. If loans are to be made on a continuing basis, statutory authority may first be required and the Department must be notified in sufficient time for this to be obtained.
56. The terms and conditions for grants and loans shall include a requirement on the receiving organisation to maintain appropriate financial records, and to ensure that its books and records in relation to the grant or loan are readily available for inspection by the Board and the Comptroller and Auditor General (C&AG).

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

57. Proposals for making gifts or other special payments (including write-offs) outside the delegated limits set out in Appendix A to this document must have prior approval from the Department.
58. Gifts to staff are subject to the requirements of DAO(GEN)13/01 and the associated Cabinet Office guidance on non-pay rewards. A record shall be kept of all gifts that are valued at £50 and above.

Leasing

59. Prior DTI approval must be secured for **all** finance leases, and for all operating leases above £100,000. The Board must have capital DEL provision for finance leases, and other transactions that are in substance borrowing (paragraphs 31-32 above).
60. Before entering into any lease (including an operating lease) the Board shall carry out an investment appraisal in order to demonstrate that the lease offers better value for money than purchase.

Public Private Partnerships

61. The Board shall seek opportunities to enter into Public Private Partnerships where this would be more affordable and offer better value for money than conventional procurement. Where cash flow

projections may result in delegated spending authority being breached the Board shall consult the Department.

62. Any partnership in which the Board participates shall be accounted for in accordance with UK GAAP. Where there are linked concerns over the degree of control exercised by the Board, the Department will consult with HM Treasury (who may need to consult with the Office for National Statistics over national accounts treatment).

Subsidiary companies and joint ventures

63. The Board shall not establish subsidiary companies (either share or limited by guarantee) or joint ventures, without the express approval from the Department. In judging such proposals, the Department will have regard to the Department's wider strategic aims, objectives and current Public Service Agreement, any guidance on research exploitation activities, and any other existing related activity supported by public funds. Paragraph 14 of the Management Statement sets out a requirement for a document setting out the arrangements between it and the Board.
64. Any subsidiary company controlled, or joint venture owned, by the Board shall be consolidated with it in accordance with UK GAAP for public expenditure accounts purposes, subject to any particular treatment required by UK GAAP. Where there are linked concerns over the degree of control exercised by the Board, the Department will consult with HM Treasury (who may need to consult with the Office for National Statistics over national accounts treatment). Unless specifically agreed with the Department and the Treasury, such subsidiary companies or joint ventures shall be subject to the same controls and requirements as are set out for the Board itself in this Financial Memorandum and the related Management Statement, and to the further provisions and guidance set out in supporting documentation.

Financial investments

65. The Board shall not make any investments in traded financial instruments without prior written approval from the Department. Equity shares in ventures that further the objectives of the Board shall equally be subject to DTI approval unless covered by a prior approval.

Unconventional financing

66. Unless otherwise agreed with the Department, the Board shall not enter into any novel or unconventional financing arrangement.

Commercial insurance

67. The Board shall not take out any insurance without the prior approval from the Department, other than third party insurance required by the Road Traffic Acts and any other insurance which is a statutory obligation, except Employers Liability (see paragraph 69), or which is

permitted in paragraph 30.3.2 of Government Accounting, reproduced in Appendix B.

68. In respect of any major loss or third-party claim not covered by commercial insurance, the Department shall have a written agreement as set out in Appendix B with the Board about the circumstances in which an appropriate addition to its budget can be made available. An adjustment to the Board's targets shall be considered in such an eventuality. The Department compensation is subject to demonstration of adequate risk management, as set out in Appendix B. The Board shall cover losses and claims in each case up to the level stated in Appendix B.

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

V. MANAGEMENT AND DISPOSAL OF FIXED ASSETS

Register of assets

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

Disposal of assets

71. The Board 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.

72. The Board may normally retain receipts derived from the sale of assets provided that:

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

73. If, notwithstanding the above, the Board 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 shall

then submit an Estimate seeking approval for the receipts to be appropriated in aid by the Department and for a corresponding increase in the Board's grant-in-aid. If the proposed new investment exceeds the Board'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.

74. If the criteria in paragraph 72 above are not met, any receipts shall be dealt with in line with the rules on surplus in-year receipts (paragraph 27 above).

Recovery of grant-financed assets

75. Where the Board has financed expenditure on capital assets by a third party, the Board shall make appropriate arrangements to ensure that any such assets above a value of £100,000 are not disposed of by the third party without the Board's prior consent.

76. The Board shall therefore ensure that such conditions are sufficient to secure the repayment of the Exchequer's due share of the proceeds of the sale, in order that funds may be surrendered to the Department.

77. The Board shall ensure that if the assets created by grants made by the Board cease to be used by the recipient of the grant for the intended purpose, a proper proportion of the value of the asset shall be repaid to the Board for surrender to the Department. The amounts recoverable under the procedures in paragraphs 72-74 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.

VI. BUDGETING PROCEDURE

Setting the annual budget

78. Following a Spending Review the Department makes three-year allocations to the Board. These are published together with the Framework Letter (see section I of the Management Statement). Each year, these will need to be adjusted for End Year Flexibility and other agreed factors. Each year, in the light of the Board's Delivery Plan (paragraphs 52 - 55) of the Management Statement), the Department will send to the Board before 1 April:

- a formal updated statement of the annual Resource and Capital Budgets provision allocated by the Department. Ring-fenced or specific allocations will be notified as such by the Department;
- and a statement of any planned change in policies affecting the Board.

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

79. The Board's approved Delivery Plan will take account both of its approved funding provisions and of any forecast income, and will include a budget of estimated expenditure and income. In parallel, the Department and the Board shall agree a profile of expected expenditure and of drawdown of any the Department funding and/or other income over the year. These elements will form part of the approved Delivery Plan for the year in question (paragraphs 52 to 57 of the Management Statement).

80. 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.

General conditions for authority to spend

81. Once the Board's budget has been approved by the Department, the Board shall have authority to incur expenditure without further reference to the Department, on the following conditions:

- the Board shall comply with the delegations set out in Appendix A of this document. These delegations shall not be altered without the prior agreement of the Department;
- the Board shall comply with the conditions set out in paragraph 11 above regarding novel, contentious or repercussive proposals (Government Accounting, chapter 2.4.7);
- the Board will apply the Office of Government Commerce Gateway procedure to all relevant projects whether funded from capital or resource, in particular those of a non-routine nature;
- the Board shall provide the Department with such information about its operations, performance, individual projects or other expenditure as the Department may reasonably require.

Providing financial monitoring information to the Department

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

- the Board's expenditure to date against resource and capital profiled budgets at the level of detail to be specified in advance by the Department;
- forecast outturn by resource and capital;
- cash management; and
- other data required for monitoring purposes – as defined by the Department and the Treasury.

83. Regular information about the Board's administration expenditure during the financial year is to be provided on the following basis:

- the Board's annual administration budget will be determined during the Delivery Planning Process. The Board will set out in its Delivery Plan its annual estimated budget for Administration for each year of the

Delivery Plan period, sub-divided between Pay, Non-Pay Administration Costs (Current) and Non-Pay Administration Costs (Capital);

- the Board shall submit every quarter, as part of its quarterly resource budgeting workbook, financial information on the progress of the Administration budget divided between the three sub-headings – Pay, Non-Pay Administration Costs (Current) and Non-Pay Administration Costs (Capital). Any virement between these sub-headings must comply with the rules governing the Pay Remit, and must not alter the capital/current ratio of the Agency's budget as a whole;

VII. BANKING

Banking arrangements

84. The Board's Accounting Officer, is responsible for ensuring that the Board'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.

85. He/she shall therefore ensure that:

- these arrangements are suitably structured, represent value-for-money, and are reviewed at least every two years, with a comprehensive review, at least every three to five years;
- sufficient information about banking arrangements is supplied to the Principal Accounting Officer of the Department to enable the latter to satisfy his/her own responsibilities (section III of the Management Statement);
- the Board's banking arrangements shall be kept separate and distinct from those of any other person, Board or organisation; and
- adequate records are maintained of the Board's Bank Accounts, and adequate facilities are available for the secure storage of cash.

VIII. COMPLIANCE WITH INSTRUCTIONS AND GUIDANCE

Relevant documents

86. The Board shall comply with the following general guidance documents:

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

- Government Accounting, including in particular the Accounting Officer Memorandum for NDPBs (reproduced in chapter 8 of Government Accounting);
- Non-Departmental Public Bodies - a Guide for Departments (the 'NDPB Guide'), issued by the Cabinet Office;
- Government Internal Audit Standards, issued by the Treasury;
- 'Managing the Risk of Fraud', issued by the Treasury;
- 'Executive NDPBs - Annual Reports and Accounts Guidance', issued by the Treasury (and the Cabinet Office and HMSO guidance on annual reporting specified in paragraph 71 of the Management Statement);
- the 'Fees and Charges Guide', issued by the Treasury;
- 'Departmental Banking: A Manual for Government Departments', issued by the Treasury;
- relevant 'Dear Accounting Officer' letters;
- 'Regularity and Propriety', issued by the Treasury;
- the 'Consolidation Officer Memorandum', issued by the Treasury
- relevant 'Dear Consolidation Officer' letters;
- other relevant guidance and instructions issued by the Treasury in respect of Whole of Government Accounts;
- other relevant instructions and guidance issued by the central Departments;
- specific instructions and guidance issued by the Department, including 'Resource Management Arrangements (RMA)' – DES/Treasury Memorandum 1989, concerning the use of capital receipts; and
- recommendations made by the Public Accounts Committee, or by other Parliamentary authority, which have been accepted by the Government and which are relevant to the Board.

IX. REVIEW OF FINANCIAL MEMORANDUM

87. This Financial Memorandum shall be periodically reviewed by the Department with regard to the overall review programme for NDPBs as provided for in section VII of the Management Statement.

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

X. SIGNATORIES

Signature

Date

ALISTAIR DARLING

26 JUNE 2007

.....

ALISTAIR DARLING

Secretary of State for Trade and Industry

Signature

Date

DAVID EVANS

27 JUNE 2007

.....

DAVID EVANS

Interim Chief Executive, Technology Strategy Board (on behalf of the Board's Governing Body and as Accounting Officer).

APPENDIX A - Financial Authority Delegated to the Board

(Paragraph 81 refers)

| Description | Delegated authority |
|--|------------------------------------|
| Capital investment projects | £25,000,000 |
| Resource expenditure on an individual project ¹ | £10,000,000 |
| Gifts of obsolete ² stores and equipment to educational establishments | £25,000 (per item) ³ |
| Gifts of equipment purchased from Technology Strategy Board support, ownership of which remained vested in the Board. | £15,000 |
| Gifts to employees (per employee) | £300 |
| Gifts to outside bodies (per item) | £1,000 |
| Employers' liability claims as a result of a court award, or where, on legal advice, it is apparent that a court would probably make such an award | £10,000 |
| Employers' liability in all other circumstances | £2,000 |
| Cash losses | £10,000 |
| Asset loss / theft | £25,000 |
| Claims waived or abandoned | £15,000 |
| Special payments | |
| - Extra-contractual payments and ex gratia payments to contractors | £10,000 |
| - Other ex gratia payments | £10,000 |
| Disposal of: (i) obsolete equipment | £25,000 |
| (ii) other assets (see paragraph 72) | £500,000 |

¹ A project is defined for the purposes of this Memorandum, as a unique set of coordinated activities with definite starting and finishing points undertaken by an individual or team, to meet specific objectives with defined time, cost and performance parameters.

² Refers to the asset's lack of continuing use to the Board

³ Refers to written down book value at the date the gift/disposal is to take place, with calculation of part-years' depreciation if appropriate

Acquiring property (Appendix C)

1000 m² or 5% of the
total estate whichever
is the lower

Notes:

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

APPENDIX B - Equivalent of insurance operated by the Department

(Paragraphs 67-69 refer)

1. The Board shall meet from its own allocation the first £750,000 of any major loss or third party claim arising from the activities of the Board, where the policy of not taking out commercial insurance is in force (see paragraphs 67 and 68 of this Financial Memorandum). Above the threshold of £750,000, the Board shall provide the Department with a written report of the circumstances in which the major loss or third party claim occurred.
2. the Department will consider the circumstances, including demonstration of adequate risk management, and where appropriate, consider making available to the Board an addition to their allocation from its Budget contingency to meet the part or the whole of the balance of the loss or claim. In deciding what level of compensation to make available, the Department will have regard to the other calls on its budgets, and specifically on its budgetary reserve. In principle, the Treasury role is insurer of last resort but this cannot be relied on as a source of compensation.
3. Government Accounting at chapter 30 sets out guidance on insurance (summarised below). The Board should apply this guidance but should discuss the approach to novel or marginal cases with the Department. Specifically, any proposal to insure activities financed by the Board's Budget where the insurance is not a statutory requirement should be cleared with the Department.
4. In deciding whether an NDPB should insure, the underlying criterion should be cost-effectiveness subject to the following provisos:
 - Where there is a legal requirement to insure commercially, an NDPB must do so; for example, if it is required to insure to comply with the Road Traffic Acts.
 - Where an NDPB's costs are not entirely covered by a combination of Exchequer grants and receipts from fees and charges, the sponsor department should consider whether non-insurance would mean that the Exchequer might have to bear a disproportionately large share of the costs in the event of a loss or a claim from a third party (to which the other sponsor or sponsors might not be in a position to contribute). As a general rule of thumb, where the Exchequer contributes less than half of the non-fee income, an NDPB should insure commercially. (For example, if fees and charges account for 25 per cent of a body's income, with the Exchequer contributing 35 per cent and another sponsor contributing 40 per cent, the body should insure).
 - Where a body engages in an income-generation scheme to supplement the approved level of public funding, commercial insurance should be taken out to cover the risks to which the income generation activities would give rise, to the extent that the cost of any losses could not be met out of the income generated by those activities. The rationale for this requirement is that it would be wrong, as a matter of

policy, for the Exchequer to shoulder the risks associated with activities designed to supplement the level of public financing.

- Where an NDPB undertakes an operation of a mainly commercial nature and where commercial insurance would not impose an extra cost on the Exchequer or result in public money being used to purchase non-cost-effective commercial insurance at the expense of policy objectives, and an NDPB considers there is a clear case for insuring commercially, insurance should be considered. The Treasury will be prepared to consider proposals for commercial insurance in such cases, in consultation with the sponsor department. Any such types of insurance which it is agreed an NDPB may undertake should be listed in the NDPB's financial memorandum.

APPENDIX C - The Board's Estate

1. The Board must have an Estates strategy. This should follow Office of Government Commerce guidance and include a section justifying value for money derived from those properties retained for occupational purposes, properties held for investment purposes and the management process for both. This should be reviewed annually. A copy of the Board's Estate strategy must be sent to the Department following each annual review.
2. Unless otherwise agreed with the Department prior departmental approval must be secured for all proposals to acquire property exceeding the lower of 1000sqm or 5% of the Board's total estate. Special restrictions apply to any proposed property purchase or development in the south-east of England.
3. The delegation applies to new properties; lease renewals/extensions and the exercising of break clauses. Unless otherwise agreed all property leases outside the above delegation limits must be approved by DTI. Proposals must be supported by a business case and in relevant circumstances, a Gateway Review. Before entering into any lease the Board shall demonstrate that the lease offers better value for money than purchase.
4. All property disposals, rent reviews, lease renewals and acquisitions must be carried out in co-ordination with the Office of Government Commerce guidance.
5. The estate should be managed in accordance with all good Government practice.
6. The Board should record all property assets on the Government Property database e-PIMS, as per the instruction contained in the Dear Accounting Officer letter 08/05, and keep the property database up to date as per the service level agreement signed with OGC.