

PART TWO

NATIONAL MARITIME MUSEUM FINANCIAL MEMORANDUM

This Financial Memorandum is effective from 1 October 2002.

I. INTRODUCTION	Paragraph(s)	1-4
II. BUDGETING PROCEDURES		
Setting the annual budget		5-7
General conditions for authority to spend (including novel, contentious or repercussive proposals)		8
III. THE NATIONAL MARITIME MUSEUM'S INCOME		
Grant/grant in aid		9-12
Providing monitoring information to the Department		13
Fees and charges		14
Non-grant in aid income		15
Wider markets activities		16
Gifts received		17
IV. THE NATIONAL MARITIME MUSEUM'S EXPENDITURE - GENERAL PRINCIPLES		
Value for money		18
Competition		19-23
Accommodation decisions		24
Timeliness in paying bills		25
Combatting fraud		26-28
V. EXPENDITURE ON STAFF		
Staff costs		29
Pay and conditions of service		30-34
Board member's expenses		35

Pensions; redundancy/compensation	36-37a
VI. EXPENDITURE OTHER THAN ON STAFF	
Capital expenditure	38-39
Option appraisal	40-42
Public/Private Partnerships	43-44
Borrowing, lending, guarantees, indemnities and contingent liabilities	45
Losses and other special payments	46
Gifts given	47
Subsidiary companies	48
Commercial insurance	49-50
Financial investments	51
Unspent end-year balances of grant in aid	52-53
End Year Flexibility	54
VII. BANKING; CASH MANAGEMENT	
Banking arrangements	55-56
VIII. MANAGEMENT OF FIXED ASSETS (including land and buildings)	
Register of assets	57
Disposal of assets	58-60

I. INTRODUCTION

1. This Financial Memorandum must be read in conjunction with the Management Statement. It covers the financial and other management controls to be applied by the National Maritime Museum to safeguard public funds. Public funds include all monies that are in law the property of the National Maritime Museum, not only those derived directly from the Exchequer but also from sources such as fees and charges or asset sales. The National Maritime Museum will provide an assurance through its annual Statement of Internal Control that its control systems have been effectively applied.
2. The terms and conditions set out in this 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 the National Maritime Museum, while respecting the Body's obligations under Charity law .
3. The National Maritime Museum must satisfy the conditions and requirements set out in this Memorandum and in the Management Statement, together with such other conditions as the Secretary of State may from time to time impose, in order to continue to be entitled to grant in aid.
4. If the National Maritime Museum sets up subsidiaries or engages in joint ventures that are treated in national accounts as part of the National Maritime Museum, the income, expenditure and financing transactions of such bodies must be consolidated with the Museum's own income, expenditure and financing transactions (subject to any particular treatment required by UK GAAP).

II. BUDGETING PROCEDURES

Setting the annual budget

5. At the beginning of each three year public expenditure period, and following an assessment by the Department of the National Maritime Museum's own forward projections, the Department will send to the Museum:
 - a formal statement of the resource and capital expenditure limits approved by the Secretary of State in the light of competing priorities across the Department and the associated grant in aid to finance this expenditure;
 - a statement of any change in policies affecting the National Maritime Museum.
6. The notified expenditure limits will form part of the Departmental Expenditure Limit (Resource and Capital). Virement from capital to resource requires Departmental approval but the presumption is that this will not be allowed. The associated financing requirement (i.e. grant in aid) will be subject to annual Parliamentary approval.
7. The National Maritime Museum's business plan will take account of its approved funding provision and any other forecast income and will include a budget of estimated income and expenditure on an accruals basis (resource and capital), together with a profile of expected expenditure by budget heading and of draw-down of any Departmental funding and/or other income over the year. The profile should be sent to the Department before the start of the financial year.

General conditions for authority to spend

8. Once the funding allocation has been approved by the Department and subject to any restrictions imposed by statute and any conditions imposed by the Secretary of State on the grant the National Maritime Museum will have authority to incur expenditure without further reference to the Department, on the following conditions:

-the National Maritime Museum will comply with the delegations set out in Annex A of this document. These delegations may not be altered without the prior agreement of the Department;

- the National Maritime Museum must obtain the approval of the Department before incurring any expenditure for any purpose which is or might be considered novel or contentious;

-the National Maritime Museum will provide the Department with such information about its operations, performance, individual projects or other expenditure as the Department may reasonably require;

-the National Maritime Museum will notify the Department immediately and formally if it becomes apparent at any time that an overspend of resource or capital expenditure limit is likely to occur;

III. THE NATIONAL MARITIME MUSEUM'S INCOME

Grant in aid

9. Grant in aid will be paid to the National Maritime Museum in monthly instalments, on the basis of a written application from the Body showing evidence of need. The National Maritime Museum should have reliable systems for estimating its funding requirement to ensure that it does not draw down in advance of need and build up unacceptably large cash balances. Payment of grant in aid will take account of unspent balances held by the National Maritime Museum.
10. The National Maritime Museum's application should be signed by the Museum's Finance Director, or by a person previously notified by him/her to the Department as authorised to sign on the Finance Director's behalf.
11. The application should certify that the conditions applying to the use of grant in aid have been observed to date and that further grant/grant in aid is now required for purposes appropriate to the National Maritime Museum's functions.
12. The profile of expected expenditure and draw-down submitted to the Department must be updated if it becomes clear that spending or draw-down patterns will be significantly different from the forecast. The Department may incur penalties under the Treasury's Cash Management Scheme if forecasts of the need for Exchequer funding are materially wrong. Such penalties may be passed on to the National Maritime Museum if they reflect unsatisfactory profiling information. In order to avoid this, where there are any planned variations of more than +/- 20% to an individual budget heading or, for a draw-down instalment by more than +/- 10%, or more than +/- £1 million, whichever is the lesser, the Department should be notified as soon as possible in advance.

Providing monitoring information to the Department

13. The National Maritime Museum will provide the Department with:
- a financial statement every month showing for each main budget heading the payments made and any receipts in the previous month, together with the accumulated net payments to date and the balance of cash remaining available to the National Maritime Museum for the year;
 - an indication every month if expenditure and income outturn differs from the forecast by +/- 10%, indicating proposed action when necessary;
 - as soon as possible after the end of the financial year, details of the resource and capital expenditure outturn on an accruals basis for the full financial year for each main budget heading.

Fees and charges

14. Fees or charges for services supplied by the National Maritime Museum should be determined in accordance with the Treasury's *Fees and Charges Guide* and any statutory provisions.

Non-grant in aid income

15. Subject to periodic review and the provisions of paragraph 52-53 below (unspent end-year balances), the National Maritime Museum may retain non-grant in aid income spending in connection with the achievement of Funding Agreement objectives.

Wider markets activities

16. Subject to the *Fees and Charges Guide* and to Government policy on selling into wider markets (*Selling Government Services into Wider Markets, Policy and Guidance Note*, HM Treasury, July 1998) the National Maritime Museum should seek to optimise income from non-Exchequer sources where this is consistent with the Museum's main functions and is in line with its Funding Agreement agreed with the Department.

Gifts received

17. The National Maritime Museum is free to retain any gifts, bequests or similar donations. These will be treated as income. Before accepting them, the Museum will consider if there are any associated costs in doing so, or whether acceptance may give rise to any conflicts of interest. Records of gifts received should be kept with their estimated value (where appropriate), and whether they are disposed of or retained.

IV. THE NATIONAL MARITIME MUSEUM'S EXPENDITURE - GENERAL PRINCIPLES

Value for money

18. The National Maritime Museum has a responsibility to ensure best value for money, which is the optimum combination of whole life cost and quality to meet the user's requirement - it is not the lowest price alone. Therefore activities should be benchmarked, periodically and where practicable, against best practice elsewhere. They should be contracted out where the conclusion is reached that this would provide better value for money. Procurement of works, equipment, goods and services (including consultant's fees) should be based on

value for money, i.e. quality (in terms of fitness for purpose) and delivery against price. Appropriate option appraisal procedures should be carried out before procurement decisions are taken.

Competition

19. Contracts should always be placed on a competitive basis, unless there are convincing reasons to the contrary. Tenders should be accepted from suppliers who provide best value for money overall.
20. The National Maritime Museum will comply with legal requirements, including EC and WTO regulations on public procurement, and take account of the guidance contained in the Treasury's revised Consolidated Guidelines on Public purchasing Policy and in DAO (GEN) 17/96 "Estates and building services procurement: prevention of fraud and irregularity in the award and management of contracts". The tendering procedures will take account of guidance issued by the Office of Government Commerce and any additional guidance issued by the Department.
21. For significant procurement associated with new non-IT projects and IT procurement projects the Office of Government Commerce's *Gateway Process* (www.ogc.gov.uk or Gateway.Helpdesk@ogc.gsi.gov.uk) must be followed.
22. Before entering into any operating lease (e.g. for equipment hire) the National Maritime Museum must establish that it offers better value for money than purchase.
23. The National Maritime Museum shall take all appropriate reasonable steps to appraise the financial standing of any firm or other body with which it intends to enter into a contract.

Accommodation decisions

24. Decisions about the acquisition and disposal of property should secure best value for money. In managing its accommodation, the National Maritime Museum should observe Annexes 23.1 and 24.1 of *Government Accounting*.

Timeliness in paying bills

25. The National Maritime Museum should 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 paragraph 16.3.1-2 and Annex 16.2 of *Government Accounting*.

Combatting fraud

26. The National Maritime Museum must have effective internal controls to prevent and detect fraud and theft. It must have a fraud policy statement to communicate its approach to fraud, and have systems in place (including a fraud response plan) to deal effectively with cases of fraud and theft however they might have been identified (including by the National Audit Office (NAO)). If any attempted, suspected or proven fraud occurs, including those involving grant recipients, the National Maritime Museum's Accounting Officer must be notified immediately.

27. All cases of attempted, suspected or proven fraud, irrespective of the amount involved, must be reported by the National Maritime Museum to the Department as soon as it is discovered so that any lessons can be quickly shared. Any cases which are novel or unusual will be brought to the attention of the Treasury by the Department. The Department will advise the NAO of all frauds reported to it.
28. The National Maritime Museum will be responsible for undertaking a prompt and vigorous investigation of any suspected or actual fraud, and shall inform the Department's Internal Audit, the local police, the Serious Fraud Office and other authorities as appropriate. Legal and/or disciplinary action should be taken in all cases where it can be justified. Appropriate action must be taken to recover public funds and to ensure that the risk of similar frauds is minimised.

V. EXPENDITURE ON STAFF

Staff costs

29. Subject to any levels of delegated authority the National Maritime Museum will ensure that the creation of any additional posts does not incur forward commitments which will exceed its ability to pay for them. Subject to that proviso, the National Maritime Museum shall determine the numbers and grades of its staff within the approved overall pay remit.

Pay and conditions of service

30. The National Maritime Museum will determine the terms and conditions of employment of its staff subject to an agreed annual pay negotiating remit, which will be subject to the agreement of DCMS Ministers and, where required, HM Treasury. Except where previously authorised by the Department, pay and grading shall take account of public sector pay policy guidance.
31. The National Maritime Museum will supply information relating to the terms and conditions of employment of its staff, as Department may from time to time require, and consult Department in respect of significant changes in policy or approach. About three years after a major pay and grading change, the National Maritime Museum should carry out an evaluation of its pay arrangements comparing the intentions of the original business case with the outcome, and should copy the evaluation to the Department.
32. The National Maritime Museum must seek approval from Department and, where appropriate, HM Treasury, for the pay, terms and conditions of the Director. Additionally, Department shall approve the pay of officers to whom it is proposed to pay the same as or more than the Director. Any redundancy or compensation payment for loss of office for all senior managers shall be subject to prior approval by the Department.
33. In devising non pay reward schemes for staff, the National Maritime Museum should pay particular attention to DAO (Gen) 13/01 and the Treasury handbook on *Regularity and Propriety*. The proposed expenditure should be considered personally by the Director and the Department should be consulted if there is any doubt about the regularity or propriety of any scheme, or whether it might be novel or contentious (*ie substantively outside normal practice*). Any expenditure of this type should be notified in the Museum's accounts if it is greater than £100,000 or 0.5% of gross expenditure, whichever is the lesser.

34. Current terms and conditions for staff of the National Maritime Museum are those set out in its Employee Handbook. The Museum will provide the Department with a copy of the Handbook and subsequent amendments on request.

Board members' expenses

35. The travel expenses of Board Members which are reimbursed shall be consistent with rates allowed for senior staff of the National Maritime Museum, and shall not include a profit element. The reasonable actual costs of accommodation and meals shall be reimbursed, subject to the requirement that due regard shall be paid to value for money.

Pensions; redundancy/compensation

36. The National Maritime Museum's staff will normally be eligible for a grouped personal pension plan. A residual number of staff remain eligible for a pension provided by membership of the Principal Civil Service Pension Scheme (PCSPS). Staff are free to take out personal pensions but the employer's contribution will normally be limited to the national insurance rebate level.
37. The Department should be consulted about any proposal by the National Maritime Museum to move from the existing pension and compensation arrangements.

For Schedule 1 Superannuation Act 1972 Bodies belonging to PCSPS only:

- 37a. The National Maritime Museum may not contract out or market test the function of administering the PCSPS scheme in respect of its employees. Any tendering exercise in respect of the administration function must be conducted by the Department and it not the National Maritime Museum must be party to any resulting contract or service level agreement.

VI. EXPENDITURE OTHER THAN ON STAFF

Capital expenditure

38. Capital expenditure is defined as expenditure on new construction, land, extensions of, and alterations to existing buildings and the purchase of any other fixed assets (e.g. machinery, plant, and vehicles) with an expected working life of more than one year.
39. The National Maritime Museum's delegations for capital expenditure are at Annex A. Above that level, prior approval must be obtained from the Department before expenditure (including that financed by non-Exchequer funds) is incurred, and Treasury approval may also be needed. (See also paragraphs 43 and 44 below on Public/Private Partnerships.)

Option appraisal

40. Where capital projects will involve expenditure above the National Maritime Museum's authorised limit, it must conduct an option appraisal and prepare a business case in accordance with the guidance set out in *Appraisal and Evaluation in Central Government* (HMSO), *Option Appraisal of Expenditure Decisions: A Guide for the Department for Culture, Media and Sport and its Sponsored Bodies* (DCMS), and *Private Opportunity, Public Benefit: progressing the Private Finance Initiative* (HM Treasury/Private Finance Panel). The business case should be incorporated in the submission to the Department for

approval. The Museum should have regard to any other guidance that is issued from time to time on investment appraisal and public/private partnerships.

41. The National Maritime Museum should follow appropriate option appraisal procedures for all capital expenditure, even when this is below the authorised limit. The thoroughness of the appraisal should be proportionate to the sums involved.
42. An option appraisal should include how the implementation of the preferred option will be managed. Areas to be covered include a project management structure; roles and responsibilities and accountabilities of parties in the project management structure; an appropriate monitoring and reporting framework; the process for ex-post evaluation of the project, to establish if the promised outputs have been delivered within budget and to identify lessons learnt for future projects.

Public/Private Partnerships

43. The National Maritime Museum should seek opportunities to enter into Public Private Partnerships where this would be more cost effective than conventional procurement. Where cash flow projections may result in delegated spending authority being exceeded the Museum should consult the Department. Guidance is available from the Office of Government Commerce (www.ogc.gov.uk) or UK Partnerships (www.partnershipsuk.org.uk).
44. Any partnership controlled by the National Maritime Museum should be treated as part of the Museum and consolidated with it subject to any particular treatment required by UK GAAP (see paragraph 4 above).

Borrowing, lending, guarantees, indemnities and contingent liabilities (including letters of comfort)

45. The National Maritime Museum shall not, without the Department's prior written consent, borrow (including temporarily, such as through prearranged overdraft facilities), lend money, charge any asset or security. Similarly, subject to any agreed delegated authorities, it should not, without prior approval give guarantees or indemnities or letters of comfort or knowingly incur any other contingent liability (as defined in chapter 26 of *Government Accounting*), whether or not in a legally binding form.

Losses and special payments

46. Subject to any delegation, the National Maritime Museum should only write off losses or make special payments when satisfied that there is no feasible alternative. A record of losses should be maintained. The Museum should consult the Department where cases are novel and contentious or might be repercussive. If the total of losses or special payments in the year exceeds £100,000, the annual accounts of the Museum should include a statement on losses and/or special payments as appropriate. Individual losses and special payments exceeding £100,000 in each case should be specifically identified in the losses statement.

Gifts given

47. Proposals for making gifts outside the delegated limits set out in the Annex to this document must have the prior written approval of the Department. Gifts to staff are subject to DAO(GEN)13/01. The National Maritime Museum must keep a record of gifts given. Details of gifts should be noted in the Museum's accounts if, individually or collectively, they exceed £1,000.

Subsidiary companies

48. Subject to the necessary legislative authority the National Maritime Museum may establish subsidiary companies or participate in joint ventures subject to the express approval of the Department (see also paragraph 4 above) in consultation with the Treasury.

Commercial insurance

49. The National Maritime Museum shall not take out any insurance without the prior approval of the Department, other than third party insurance required by the Road Traffic Acts and any other insurance which is a statutory obligation or which is permitted in paragraph 30.4.2 of *Government Accounting*.
50. A certificate of exemption for Employers' Liability (Compulsory Insurance) (Amendment) Regulations 1974 was issued to the National Maritime Museum on 16 September 2002.

Financial investments

51. The National Maritime Museum shall not use grant in aid to make any speculative financial investments without the prior written approval of the Department.

Unspent end-year balances of grant in aid (carry forward)

52. The issue by the Department to the National Maritime Museum of the final monthly grant in aid payment for the financial year will be in accordance with need for the period and will take account of any balance of unspent grant in aid held by it at that stage. The Museum has responsibilities under paragraph 9, particularly to ensure that it does not draw down grant in aid in advance of need and build up unacceptably large cash balances.
53. In addition to any sums carried forward under the provisions in paragraph 54, the National Maritime Museum may, carry over any unexpended balance of the income from trading and other activities for the year as notified to the Department.

End Year Flexibility

54. Within the three year funding arrangements agreed with the Treasury, there is scope for carrying forward underspends on resource and capital provision from one year to the next. The extent to which the National Maritime Museum is able, within the envelope of a three year settlement, to roll forward underspend in one year to the next is a matter for the Secretary of State. As soon as possible in each year the Department will confirm what the relevant end-year flexibility arrangements are. Late changes to accrual outturn data which emerge in final audited accounts will be used to adjust End Year Flexibility entitlement but will be deferred to the following year.

VII. BANKING; CASH MANAGEMENT

Banking arrangements

55. The National Maritime Museum's Accounting Officer is responsible for ensuring that its banking arrangements are in accordance with the requirements of *Government Accounting* and the guidance in the Treasury document *Departmental Banking: a Manual for Government Departments* - in particular that the banking arrangements safeguard public funds, and are carried out efficiently, economically and effectively.
56. He/she should therefore ensure that:
- these arrangements are suitably structured and represent value-for-money;
 - these arrangements are reviewed at least every five years, to ensure that they represent value for money;
 - sufficient information about banking arrangements is supplied when required to the Department's Accounting Officer to enable the latter to satisfy his own responsibilities;
 - the Museum's banking arrangements shall be kept separate and distinct from those of any other person, or organisation.

VIII. MANAGEMENT OF FIXED ASSETS (including land and buildings)

Register of assets

57. The National Maritime Museum shall maintain an accurate and up-to-date register of its assets.

Disposal of assets

58. The National Maritime Museum shall at all times use its assets in the most cost efficient manner, and dispose of those assets which are surplus to its requirements. Assets will be sold for the best price, taking into account any costs of sale. High value assets should generally be sold by auction or competitive tender unless otherwise agreed by the Department.
59. The National Maritime Museum may normally retain receipts derived from the sale of assets provided that (i) they are used to finance other capital spending (ii) the Department receives prior notification of sales of items worth £1m or over and (iii) total sales in any financial year do not exceed a specified limit, currently that the total value of sales in a financial year does not exceed 3 per cent of the Museum's grant in aid allocation or that the value of an individual sale does not exceed £100 million (see PES(98)5 as extended by Spending Review 2000).
60. Notwithstanding the above, where the National Maritime Museum 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 is needed for the receipts to be reinvested. The receipts should therefore be surrendered to the Department which should then submit an Estimate seeking approval for the receipts to be appropriated in aid by the Department and a corresponding increase in the Museum's grant in aid.

ANNEX A: THE NATIONAL MARITIME MUSEUM'S DELEGATED FINANCIAL LIMITS

ALL DELEGATIONS ARE SUBJECT TO THE REQUIREMENT THAT SPENDING PROPOSALS FALLING WITHIN GOVERNMENT ACCOUNTING 2.4.7 SHOULD BE REFERRED TO THE DEPARTMENT.

Unlimited (unless otherwise specified)

1. CAPITAL EXPENDITURE (Para. 38-39)

Expenditure on new construction, land, extensions of, and alterations to, existing buildings and the purchase of any other fixed assets (e.g. machinery, plant, and vehicles) with an expected working life of more than one year. Also includes exchanges of fixed assets.	<u>Up to £6m</u>
---	------------------

2. GIFTS (paras. 17 & 47)

Gifts to staff are subject to DAO (Gen) 13/01.

1. in a financial year, any one gift or total of gifts to one person/organisation	<u>Up to £1000</u>
2. gifts received by the National Maritime Museum	Unltd

3. NON-STATUTORY CONTINGENT LIABILITIES (Para. 45)

Up to £100,000

4. LOSSES AND SPECIAL PAYMENTS (Para. 46)

The write-off of losses or approval of special payments should only be carried out by staff authorised to do so by and on behalf of the National Maritime Museum's Accounting Officer.

Classification of losses and special payments

Type	Description	Delegation (£s)
A	Losses	
i.	Cash losses. Physical losses of cash and equivalents (e.g. banknotes, postal orders, stamps) by any cause.	100,000
ii.	Bookkeeping losses: because of unvouched or incompletely vouched payments, including cases where vouchers are missing; because of changes to estimates or other accounts to clear inexplicable or erroneous balances.	100,000 100,000
iii.	Exchange rate fluctuations. Losses due to fluctuations in exchange rates or revaluations of currencies.	100,000

iv.	Losses of pay allowances and superannuation benefits:	
	overpayments due to miscalculation, misinterpretation of acts, regulations or scheme rules or the full facts not being known;	100,000
	unauthorised issues, e.g. payments not admissible under the acts, regulations or scheme rules;	100,000
	losses arising from other causes, e.g. non-disclosure of full facts by the beneficiary, short of proven fraud.	100,000
v.	Losses arising from overpayments of grants, etc. arising from miscalculation, misinterpretation of acts regulations or scheme rules, or the full facts not being known.	100,000
vi.	Losses arising from failure to make adequate charges for the use of public property or services.	100,000
B	Losses of accountable stores:	
i.	because of fraud, whether or not it has been possible to charge anyone with an offence, or proven or suspected theft, arson or sabotage, or any other deliberate act (including repairable damage caused maliciously to buildings, stores; etc. which is not the subject of an identifiable legal claim against some person); wherever possible recovery must be effected and prosecution mounted;	100,000
ii.	losses arising from other causes.	100,000
C	Fruitless payments and constructive losses	100,000
D	Claims waived or abandoned	100,000
E	Special payments:	
i.	extra-contractual and <i>ex gratia</i> payments to contractors;	100,000
ii.	other <i>ex gratia</i> payments;	100,000
iii.	compensation payments;	100,000
iv.	extra-statutory and extra-regulatory payments.	100,000

DISPOSAL OF ASSETS (Paras. 58-60)

500,000

ANNEX B :**LIST OF MANAGEMENT DOCUMENTS AND TIMETABLE**

<u>Document</u>	<u>Timetable</u> - to be sent to the Department
Annual expenditure and grant in aid draw down profile	By 31 March for following financial year
Financial statement and analysis	Monthly
Resource and capital expenditure outturn details	As soon as possible after the end of the financial year
New or revised Funding Agreement	As agreed with DCMS
Review of last full year of Funding Agreement	As agreed with DCMS
Monthly visitor profile reports	As agreed with DCMS
Draft Annual Report and Accounts	By 20 June
Final Annual Report and Accounts	By 20 July
Schedule V analysis	As agreed with DCMS
Internal audit plan for the following year	By 1 March
Frauds or attempted fraud	As soon as they occur
Performance Indicator Return	As agreed with DCMS