

UNCLASSIFIED

Field Code Changed

Foreign and Commonwealth Office and British Council

Financial Memorandum

July 2013

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Foreign and Commonwealth Office and British Council – Financial Memorandum 2013

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A. INTRODUCTION

1. The British Council is a Non-Departmental Public Body (NDPB) incorporated by Royal Charter. It is registered in England, Wales and Scotland as a charity. It operates globally with its status varying in different jurisdictions. The British Council controls and owns a number of separate legal entities in the UK and overseas. The British Council is classified as a UK public corporation for budgetary and national accounts purposes.
2. The Foreign and Commonwealth Office (the FCO) is the sponsoring department of the British Council.
3. This memorandum sets out the terms and conditions on which the FCO provides grant-in-aid funding to the British Council. It replaces all previous financial memoranda and their amendments between the British Council and the FCO. By accepting this memorandum, the British Council does not relinquish any of the powers and obligations vested in its charter or otherwise by law.
4. 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 British Council to safeguard grant-in-aid funds and proceeds from the sale of grant-funded assets. The British Council will provide assurance through its annual governance statement on the effectiveness of its control systems and identify any significant control weaknesses to be remedied.
5. The terms and conditions set out in this memorandum may be supplemented by guidelines or directions issued¹ by the Secretary of State in respect of the exercise of any individual functions, powers and duties of the British Council, while respecting the British Council's obligations under UK charity law and relevant law in the jurisdictions in which it operates.
6. The British Council must satisfy the conditions and requirements set out in this memorandum and in the management statement, together with such other conditions¹ as the Secretary of State may from time to time impose, in order to continue to be entitled to grant-in-aid.
7. In the British Council's annual report and accounts, the income, expenditure and financing transactions of the British Council's subsidiaries or joint ventures must be consolidated with the British Council's own income, expenditure and financing transactions.

¹ The FCO will inform the British Council of any supplementary guidelines, directions and conditions that apply by writing to the British Council's Head of Governance.

B. BUDGETING PROCEDURES

- Departmental expenditure limit (DEL)** 8. The British Council is classified as a public corporation for national accounts purposes and the budgetary treatment of a public corporation applies. This means that the resource and capital grant-in-aid paid by the FCO to the British Council is treated as its resource and capital budget and form a ring-fenced part of the FCO's resource DEL and capital DEL respectively.
- Spending reviews** 9. The level of grant-in-aid payable to the British Council is determined in periodic spending reviews led by HM Treasury (HMT). Spending reviews set firm grant-in-aid spending budgets over several years for each department.
10. As part of the spending review process, the British Council will provide any reasonable information required by the FCO and HMT to form part of the FCO's submission to the Treasury, and to support subsequent discussions.
11. At the conclusion of each spending review the FCO will write to the British Council setting out:
- a formal statement of the resource and capital limit approved by the Secretary of State and the associated grant-in-aid to finance this expenditure
 - a statement of any change in policies affecting the British Council
 - any targets to be achieved, such as in relation to Official Development Assistance (ODA) spend, or efficiency savings.
- Parliamentary approval** 12. The FCO will obtain parliamentary approval for the payment of grant-in-aid to the British Council through the Parliamentary Supply Estimates process.
- Financial monitoring** 13. To fulfil its financial-monitoring responsibilities, the FCO requires the following monthly financial information from the British Council:
- a copy of the monthly organisational performance report or equivalent as presented to the British Council's Executive Board and/or Management Board
 - a grant-in-aid financial statement in a format agreed with the FCO
 - an analysis of the financial results against expenditure and income plans, together with revised forecasts of spending for the

remaining months, indicating proposed action when necessary

- a forecast of its grant-in-aid cash requirement for the following month
 - 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.
14. In addition to the above monthly reports the Foreign and Commonwealth Office may also ask the British Council to provide other financial information which may be necessary to meet its monitoring responsibilities, including information on country and thematic priorities, and funding which meets ODA criteria.

C. THE BRITISH COUNCIL'S INCOME

- Grant-in-aid** 15. Grant-in-aid will be paid to the British Council in monthly instalments, on the basis of a written application from the British Council showing evidence of need. The British Council 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 grant-in-aid cash balances. Payment of grant-in-aid will take account of unspent grant-in-aid balances held by the British Council.
16. The British Council's application should be signed by the British Council's Chief Financial Officer, or by a person previously notified by him/her to the FCO as authorised to sign on the Chief Financial Officer's behalf.
17. The application should 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 British Council's functions.
- Grant-in-aid cash management** 18. By 1 March each year, the British Council should submit to the FCO a monthly profile for the next financial year of its forecast resource and capital grant-in-aid drawdowns.
19. The profile of expected expenditure and drawdown submitted to the FCO must be updated if it becomes clear that spending or drawdown patterns will be significantly different from the forecast. The FCO may incur penalties under the Treasury's Cash Management Scheme if forecasts of the need for Exchequer funding are materially wrong; these penalties will be passed on to the British Council. In order to

avoid this, where there are any planned variations in drawdown instalments by more than +/-5 per cent, the FCO should be notified as soon as possible in advance. Monthly cash forecasts to the Treasury are made on the tenth working day of the previous month.

20. Cash balances accumulated during the course of the year from grant-in-aid funds shall be kept at the minimum level consistent with the efficient operation of the British Council.
21. The issue by the FCO to the British Council 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 British Council should ensure that it does not draw down grant-in-aid in advance of need.
22. Grant-in-aid not drawn down by the end of the year shall lapse.
23. In setting fees or charges for services supplied, the British Council will take account of the guidance in Chapter 6 of *Managing Public Money* and its appendices, while recognising the British Council's particular obligations as a charity. Disclosures in line with the *Government Financial Reporting Manual* should be provided in relation to any fees or charges raised under legislation, or to fees or charges relating to the provision of statutory services.
24. The British Council may retain receipts generated through activities that are not funded in whole or in part through grant-in-aid for spending which is consistent with the achievement of its charitable objects.
25. Subject to the guidance in *Managing Public Money*, in particular Appendix 7.6, the British Council should seek to optimise income from non-Exchequer sources, provided this is consistent with the British Council's charitable status and the furtherance of its charitable objects, and with its settlement letter as agreed with the FCO. The British Council will maintain and make available a policy which ensures and demonstrates that its use of grant-in-aid complies with legal requirements relating to fair trading.
26. The British Council is free to retain any gifts, bequests or similar donations. These will be treated as income. Before accepting them, the British Council will consider if there are any associated costs in

**Unspent end-year
balances of grant-in-aid**

Fees and charges

**Non-grant-in-aid
income**

Wider markets activity

Gifts received

doing so, or whether acceptance may give rise to any conflicts of interest. In accordance with *Managing Public Money* (Appendix 4.12), the British Council should keep records of gifts offered and received with their estimated value, and whether they were returned, disposed of or retained.

D. THE BRITISH COUNCIL'S EXPENDITURE – GENERAL PRINCIPLES

**Accounting principles
and guidance**

27. The British Council, in consultation with the FCO, will ensure that adequate financial and management arrangements, including internal financial and management information systems, exist for the economic, efficient and effective planning, management and control of all its resources.

These must include:

- compliance with the requirements of HMT's *Government Financial Reporting Manual (FRM)* and with *Accounting and Reporting by Charities: Statement of Recommended Practice* ('the SORP')
- compliance with any relevant HMT practices, procedures or recommendations (including recommendations made by the National Audit Office [NAO] to the Public Accounts Committee and accepted by HM Government) applicable to expenditure of government grant-in-aid²
- observance of all relevant guidance as set out in *Managing Public Money* relevant to the use of government grant-in-aid
- the proper planning and deployment of all resources to ensure that the best value for money is obtained
- systems and controls dealing with income and expenditure relating to the grant-in-aid and to income from other sources
- all reasonable measures to safeguard against fraud and theft of the funds and assets held by the British Council
- observance of the delegated authorities set out in [Appendix A](#) of this financial memorandum.

**Cabinet Office
efficiency actions and
processes**

28. The Foreign and Commonwealth Office will notify the British Council in writing of any government policies regulated by the Cabinet Office that may affect the approval of certain British Council activities and expenditure, where the Cabinet Office requirements extend beyond

² The FCO will inform the British Council of any supplementary guidelines, directions and conditions that apply by writing to the British Council's Head of Governance.

the delegations set out at [Appendix A](#).

Non-grant-in-aid activities

29. The management accounting records of the British Council will be maintained in a way which ensures a strict separation between activities funded in whole or in part from grant-in-aid and non-grant-in-aid-funded activities. The FCO shall have the right of access to any non-grant-in-aid records which concern matters that impinge on grant-in-aid, or could represent a contingent liability on the FCO. The FCO will respect the British Council's right to commercial confidentiality.
30. Financial plans and targets, covering both grant-in-aid and non-grant-in-aid-funded activities, will be agreed in consultation with the FCO, and stated in the British Council's corporate plan.

Reserves

31. The British Council's reserve fund consists of accumulated surpluses from the British Council's income-generating activities and gifts or donations. Unused non-grant-in-aid cash surpluses can be held in an interest-bearing account with the British Council's bankers, or otherwise invested in line with the reserves and treasury and banking policies agreed by the Trustees of the British Council, and FCO and HMT. Any balance in the reserve fund at the end of the financial year may be retained by the British Council and will be disregarded in the calculation of the grant-in-aid. Grant-in-aid funds shall not be allowed to form part of the British Council's reserves covered by this paragraph.

Value for money

32. The British Council 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 consultants' 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. The Comptroller and Auditor General may carry out examinations into economy, efficiency and effectiveness on the use of the British Council's resources.

Procurement

33. The British Council shall take all appropriate and reasonable steps to appraise the financial standing of any firm or other body with which it intends to enter into a contract.
34. Contracts should always be placed on a competitive basis, unless there are convincing reasons to the contrary. When using grant-in-aid funds, tenders should be considered from suppliers who provide best value for money to HM Government overall.
35. The British Council will comply with any legal requirements that may apply, including European Union regulations on public procurement. The tendering procedures will take account of guidance issued by the Cabinet Office and any additional guidance issued by the FCO³.
36. For substantial procurement associated with new non-IT projects and IT procurement projects, funded from grant-in-aid, the Cabinet Office *Best Management Practice Portfolio* process must be followed.
37. Before entering into any operating lease, e.g. for equipment hire, the British Council must establish that it offers better value for money than purchase.

Accommodation decisions

38. Decisions about the acquisition and disposal of property should secure best value for money. In managing its accommodation, the British Council should take account of public sector best practice and initiatives, including the Green Book (*Appraisal and Evaluation in Central Government*, HM Treasury, 2003) and *Managing Public Money*.
39. Decisions regarding overseas properties should be made in the light of the FCO/British Council co-location policy.

Timeliness in paying bills

40. The British Council should make all reasonable endeavours to collect receipts and pay all matured and properly authorised invoices in accordance with the terms of contracts or within 30 days. The British Council shall comply with the British Standard *Achieving Good Payment Performance in Commercial Transactions* (BS 7890), and with the Late Payment of Commercial Debts (Interest) Act 1998, as amended.
41. In October 2008, the government made a commitment to speed up the payments process. Arm's length bodies should aim to pay

³ The FCO will inform the British Council of any supplementary guidelines, directions and conditions that apply by writing to the British Council's Head of Governance.

suppliers wherever possible within ten days.

Combating fraud

42. The British Council 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 any identified by the NAO. If any attempted, suspected or proven fraud occurs, including fraud involving grant-in-aid recipients, the British Council's Principle Fraud Officer must be notified immediately.
43. All cases of attempted, suspected or proven fraud over £20,000 must be reported by the British Council to the FCO's Head of Internal Audit or delegated authority as soon as it is discovered so that any lessons can be quickly shared. Any cases under £20,000 which involve novel, contentious or potential repercussive factors must also be reported to the FCO. Such factors might include the involvement of UK-based employees, the involvement of a large number of staff, a politically sensitive post, a new type of fraud, the identification of a systematic weakness, or the discovery of a similar fraud elsewhere in the near past. The FCO may report any fraud to the Foreign Affairs Committee and/or the NAO.
44. The British Council will be responsible for undertaking a prompt and vigorous investigation of any suspected or actual fraud, and shall inform the FCO'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 fraud is minimised.
45. The British Council Audit Committee agenda papers should be copied to the FCO Head of Internal Audit prior to each meeting.

Novel, contentious or repercussive proposals

46. For grant-in-aid, the British Council shall obtain the approval of the FCO and HMT before:
- incurring any expenditure for any purpose which is or might be considered novel or contentious, or which has or could have significant future cost implications, including on staff benefits
 - making any significant change in the scale of operation or funding of any initiative or particular scheme previously approved by the FCO
 - making any change of policy or practice which has wider financial implications (e.g. because it might prove repercussive among other public-sector bodies) or which might significantly affect the future level of resources required.

Risk Management

47. The British Council shall ensure that the risks which it faces are dealt with in an appropriate manner, in accordance with relevant aspects of best practice in corporate governance, and shall manage risks in accordance with the Treasury's guidance in *The Orange Book Management of Risk – Principles and Concepts*.
48. The British Council shall adopt and implement policies and practices to safeguard itself against fraud and theft, in line with HMT's guide *Managing the Risk of Fraud*.
49. The British Council shall take all reasonable steps to appraise the financial standing of any firm or other body to whom it wishes to give a grant or grant-in-aid as well as any with whom it intends to enter into a contract.

E. EXPENDITURE ON STAFF**Staff costs**

50. Subject to any levels of delegated authority the British Council will ensure that the creation of any additional posts does not incur forward commitments which will exceed its ability to pay for them within the resources that could reasonably be available. Subject to that proviso, the British Council shall determine the numbers and grades of its staff within the approved overall pay remit.

Pay and conditions of service

51. The British Council will determine the terms and conditions of employment of its UK-appointed staff subject to an agreed annual pay negotiating remit, which will be subject to the agreement of FCO ministers and, where required, HM Treasury. Except where previously

authorised by the FCO, pay and grading shall take account of public sector pay policy guidance.

52. The British Council will supply such information relating to the terms and conditions of employment of its staff as the FCO may from time to time require, and consult the FCO in respect of significant changes in policy or approach. About three years after a major pay and grading change, the British Council 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 FCO.
53. The British Council must seek approval from FCO and, where appropriate, HMT, for the pay, terms and conditions of the Chief Executive and the Chair of the Board of Trustees. Additionally, FCO shall approve the pay of officers to whom it is proposed to pay the same as or more than the Chief Executive. Any redundancy or compensation payment for loss of office for all senior managers (i.e. the Chief Executive of the British Council and Executive Board) shall be subject to prior approval by the FCO.
54. In devising non-pay reward schemes for staff, the British Council should pay particular attention to Cabinet Office guidance and the Treasury handbook *Regularity and Propriety*. The proposed expenditure should be considered personally by the Chief Executive and the FCO should be consulted if there is any doubt about the regularity or propriety of any scheme, or whether it might be novel or contentious. Any expenditure of this type should be notified in the British Council's accounts if it is greater than £100,000 or 0.5 per cent of gross expenditure, whichever is the lesser.
55. Current terms and conditions for British Council staff are set out on the Essential HR pages of the British Council intranet. The information is available to the FCO on request, and the British Council will consult the FCO on any significant changes.
56. The reimbursement of travel expenses of members of the Board of Trustees shall be consistent with rates allowed for senior staff of the British Council. The reasonable actual costs of accommodation and meals shall be reimbursed.
57. In the case of locally engaged staff overseas, the terms and conditions of employment should be determined with reference to

in-country employment law and employer practice.

Pensions

58. The British Council's staff, with the exception of locally employed staff overseas, shall normally be eligible for a pension provided by membership of the Principal Civil Service Pension Scheme (PCSPS) or, for locally employed staff, a pension scheme complying with local in-country criteria. Pensions or other terminal benefit arrangements for locally engaged staff are to be determined by reference to in-country employment law and employer practice.
59. The FCO should be consulted about any proposal by the British Council to move from the existing pension and compensation arrangements.
60. The British Council may not contract out or market test the function of administering the Principal Civil Service Pension Scheme (PCSPS) in respect of its employees. Any tendering exercise in respect of the administration function must be conducted by the FCO and the British Council must be party to any resulting contract or service-level agreement.

Redundancy/severance

61. Redundancy schemes (both under the Civil Service Compensation Scheme or other schemes) must be handled according to Cabinet Office rules before they are offered to staff.
62. When staff members leave public-sector employment, any proposed special severance payments will be exceptional. They always require HM Treasury approval as found in *Managing Public Money*. A business case for proposed severance payments will be required in all cases, and should be submitted to FCO Communications Directorate.

F. EXPENDITURE OTHER THAN ON STAFF

Capital expenditure

63. Capital expenditure is defined as expenditure to acquire, construct or enhance tangible or intangible fixed assets (such as land, buildings, plant, property and equipment) with an expected working life of more than one year. The British Council charity capitalises expenditure on fixed assets on an accruals basis and in accordance with the requirements of the SORP and the FREM.
64. Proposals for large-scale individual capital projects, acquisitions or major outsourcing projects will normally be considered within the British Council's corporate planning and investment processes. Applications for approval by the FCO (and if necessary by HMT) in line

with delegated authorities shall be supported by formal notification that the proposed project or purchase has been examined and duly authorised by the Executive Board or Board of Trustees. The FCO's prior authority must be obtained before expenditure on an individual project or acquisition is incurred in excess of the delegations set out at [Appendix A](#).

65. Regular reports on the progress of the capital programme funded from grant-in-aid shall be submitted to the FCO. There should be regular consultation with the FCO in preparing the British Council's estate-management strategy, particularly to identify opportunities for efficiencies and co-operation.

Non-capital expenditure

66. The FCO shall be notified of all other major expenditure or contracts in line with disclosure requirements as set out in delegated authorities.

Option appraisal

67. Where projects will involve expenditure above the British Council's authorised limits, it must conduct an option appraisal and prepare a business case in accordance with HMT guidance set out in *The Green Book – Appraisal and Evaluation in Central Government*. The business case should be incorporated in the submission to the FCO for approval. The British Council should have regard to any other guidance⁴ that is issued from time to time on investment appraisal and public-private partnerships.

68. The British Council should follow appropriate option-appraisal procedures for all grant-in-aid-funded capital expenditure, even when this is below the authorised limit. The thoroughness of the appraisal should be proportionate to the sums and the risks involved. Robust 'benefits baselines' need to be agreed internally and, if applicable, with the FCO before business cases are approved.

69. 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 evaluation of the project, in order to establish if the promised outputs have been delivered within budget and to identify lessons learnt for future projects. A senior responsible officer should be

⁴ The FCO will inform the British Council in writing of any supplementary guidelines, directions and conditions that apply by writing to the British Council's Head of Governance.

formally tasked with the delivery of the benefit. A benefit register should be maintained and regularly reviewed by the Project Board.

Public-private partnerships

70. The British Council should evaluate opportunities to enter into public-private partnerships where this would be more cost effective than conventional procurement.

Borrowing, lending, guarantees, indemnities and contingent liabilities

71. The British Council has been granted authority to grant indemnities under the Art Indemnity Scheme. The scheme's agreement sets out the specific conditions under which an indemnity can be granted and HMT approval is required in certain circumstances.

72. The British Council must seek FCO approval for any grant-in-aid-funded indemnity or guarantee that exceeds the delegated limit for indemnities set out at [Appendix A](#) or which may be considered novel or contentious.

73. The British Council shall not otherwise, without the FCO's approval, offer any grant-funded asset as security, give any guarantee or indemnities (in excess of the delegated limit set out at [Appendix A](#)) or letters of comfort, whether or not in a legally binding form.

74. The British Council shall inform the FCO of significant commitments and contingent liabilities and shall seek approval if they exceed the delegation limits at [Appendix A](#).

Grants or loans schemes

75. Proposals to make a grant or loan to a third party from grant-in-aid funds, whether one-off or under a scheme, shall be subject to prior approval by the FCO (in line with the delegations for new projects, programmes and policy proposals at [Appendix A](#)).

76. The terms and conditions shall include a requirement on the receiving organisation to prepare accounts and to ensure that its books and records in relation to the grant or loan are readily available for inspection by the British Council, the FCO and the Comptroller and Auditor General.

77. Where grant-in-aid has been used, the British Council should ensure that the rules on clawback set out in [Appendix 5.2 of *Managing Public Money*](#) are applied.

78. Loans made to staff under the staff season-ticket loans scheme or similar schemes are excluded from the above provisions.

79. Loans from British Council self-generated income, including between

entities within the British Council group, do not require FCO approval unless there are any aspects that may be novel or contentious.

Losses and special payments

80. The British Council 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 British Council should consult the FCO where cases are novel or contentious or might be repercussive, or exceed delegated authority levels. If the total value of losses or special payments in a financial year exceeds £250,000, the annual accounts should include a statement on losses and/or special payments as appropriate.

Gifts made

81. The British Council may, in accordance with the guidelines contained in *Managing Public Money*, make gifts of equipment and services without prior reference to the FCO, subject to the value of any one gift not exceeding delegated authority limits. Gifts of cash, of whatever value, cannot be made without the prior agreement of the FCO. Gifts to staff are subject to Cabinet Office pay guidance.
82. Where the British Council is contemplating a gift valued at £250,000 or more it will be necessary to inform Parliament 14 days in advance, having first gained approval from the FCO and HMT (see Appendix 4.12 of *Managing Public Money*). The British Council will include in the annual return and the summary for the published accounts, a statement of the total value of gifts made.

Commercial insurance

83. The British Council may use grant-in-aid funds to purchase insurance in the following limited cases:
- where it is a statutory or contractual requirement, e.g. motor insurance
 - where it is necessary to protect staff, e.g. personal accident insurance, employers liability
 - where third-party liability policies are considered necessary
 - where there is an obligation to arrange insurance for shared premises, and/or facilities
 - where there is agreement between the FCO, the British Council and HMT that there should be special arrangements.
84. All other proposals to purchase insurance using grant-in-aid funds require the prior approval of the FCO, and HMT where relevant.

Financial investments

85. The British Council shall not use grant-in-aid to make any speculative

financial investments without the prior written approval of the FCO.

G. ESTABLISHMENT, OPERATION AND FINANCING OF SUBSIDIARY COMPANIES

Establishment of subsidiaries

86. Subject to the necessary legislation the British Council may establish subsidiary companies or participate in joint ventures subject to the express approval of the FCO, and in consultation with HMT as necessary. In judging such proposals the FCO will have regard to the British Council's wider strategic aims and objectives.

87. To avoid the complexity and cost of dual status in certain countries it is permissible for the British Council's grant-in-aid funding to flow into an overseas branch or entity in which it might theoretically be liable to corporate income tax, provided that it is not taxed in practice. If, despite careful planning and controls, corporation tax were to be levied on the grant-in-aid, the costs must be covered by the British Council's self-generated income reserves, and not be a charge to grant-in-aid funds.

Operation of subsidiaries

88. Any subsidiary company or joint venture controlled or owned by the British Council shall be consolidated in the accounts of the British Council group in accordance with the SORP and subject to any particular treatment required by the Treasury's *Financial Reporting Manual*.
89. Unless specifically agreed with the FCO and HMT, such subsidiary companies or joint ventures shall be subject to the controls and requirements set out in the management statement and financial memorandum and to the further provisions set out in supporting documentation.

H. BANKING AND CASH MANAGEMENT

Banking arrangements

90. The British Council's Accounting Officer is responsible for ensuring that its banking arrangements are in accordance with the requirements of *Managing Public Money* (in particular Chapter 5 and Appendix 5.7)⁵, that the banking arrangements safeguard grant-in-aid funds, and that they are carried out efficiently, economically and effectively.

⁵ To the extent that the banking guidelines in *Managing Public Money* do not conflict with the British Council's charity status, group structure, and international operations.

91. He/she should therefore ensure that:

- these arrangements are suitably structured and represent value for money
- sufficient information about banking arrangements is supplied when required to the FCO's Accounting Officer to enable the latter to satisfy his/her own responsibilities
- the British Council's banking arrangements shall be kept separate and distinct from those of any other person, body or organisation
- the British Council's banking policy is reviewed regularly to make sure that it remains appropriate and up to date.

I. ASSET MANAGEMENT

- Fixed-assets register** 92. The British Council shall maintain an accurate and up-to-date fixed-assets register.
- Disposal of assets** 93. The British Council shall at all times use its assets in the most cost-efficient manner and dispose of those assets that 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 FCO.
94. The British Council may normally retain the grant related element of receipts derived from the sale of fixed assets provided that is used to finance other capital spending.
95. The disposal of property is subject to delegated authority limits as set out in Appendix A.

J. COMPLIANCE WITH INSTRUCTIONS AND GUIDANCE

- Relevant documents** 96. The British Council shall comply with the general guidance documents set out in Appendix B. The FCO will inform the British Council of any supplementary guidelines, directions and conditions that apply by writing to the British Council's Head of Governance.

K. AGREEMENT AND REVIEW OF FINANCIAL MEMORANDUM

97. This financial memorandum will normally be reviewed at least every three years or following a review of the British Council's functions as part of the Cabinet Office review cycle for non-departmental public bodies.

98. HM Treasury will be consulted on any significant variation proposed to this financial memorandum and the associated management statement.

99. The arrangements in this memorandum take effect from the date of signature.

For the Foreign and Commonwealth Office

Date



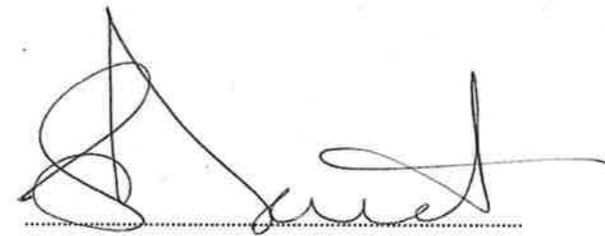
14.07.13

Simon Fraser

Permanent Under-Secretary

For the British Council

Date



15/7/13

Martin Davidson

Chief Executive

APPENDIX A: The British Council's delegated financial limits

These delegations were agreed by HM Treasury on 19 April 2011.

The delegated authority levels differ depending on the source of the funding. The normal delegated limits apply only in respect of those projects and programmes funded in whole or in part through grant-in-aid. Those projects funded from income generated through British Council activities as a public corporation will not need Treasury approval, unless those decisions are novel, contentious or otherwise repercussive for other government bodies. There is, however, a disclosure threshold for British Council projects funded from its own income, so that the FCO and HM Treasury can both be satisfied that rigorous business planning and governance is being exercised.

Notwithstanding these delegations, certain categories of spending proposal override any delegated authority and must be submitted to the Treasury. These are proposals which:

- could create pressures leading to a breach in departmental expenditure limits, administration costs limits, or estimates provision
- would entail contractual commitments to significant levels of spending in future years for which plans have not been set
- could set a potentially expensive precedent
- could cause significant repercussions for others
- require primary legislation
- are novel and contentious
- where Treasury or Cabinet Office consent is a statutory requirement.

In addition, HM Treasury also requires that:

- all new proposed programmes or projects should identify how much of the spending will classify as ODA under the Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) rules
- certain public-private partnership proposals must be approved by them
- they approve spend on a complex or non-standard commercial model (e.g. joint venture) for a service or business process outsourcing that may be considered novel or contentious
- they approve spending on negotiations or legal disputes with government's strategic suppliers that could cause repercussions elsewhere in the public sector.

Further:

- in respect of its grant-in-aid, the British Council will act at all times within the rules of managing public money
- the British Council will abide by any specific agreements reached with Treasury ministers or officials during spending-review discussions or otherwise
- if a project or programme falls under more than one category of delegation, the lower delegated limit applies.

Source of funds	Delegated limit		Disclosure threshold	
	Grant-in-Aid	Self-generated/earned	Grant-in-aid	Self-generated/earned
New projects and programmes with defined lifetime	£15 million	Unlimited	£5 million	£15 million
Policy proposals creating on-going expenditure	£15 million per annum	Unlimited	n/a	n/a
ICT	£5 million	£5 million	£1 million	£1 million
ICT spend on systems that support admin	£1 million	£1 million	n/a	n/a
UK property ⁶	£100,000	£100,000	n/a	n/a
Overseas property	£15 million	Unlimited	£5 million	£15 million
Marketing and advertising	£100,000	£100,000	n/a	n/a
Losses and ex-gratia payments (including HR special payments)	£100,000	£100,000	£25,000	£25,000
Fruitless expenditure	£15 million	£15 million	£5 million	£5 million
Gifts	£250,000	£250,000	n/a	n/a
Gifts to staff and/or cash gifts	£0	£0	n/a	n/a
Indemnities	£100,000	n/a	£25,000	n/a
Subscriptions to new international bodies or discretionary payments to International bodies	£5 million	£5 million	£1 million	£1 million

Notes

- Approval is required if spending falls outside one or more of the applicable delegated limits.
- This includes all new projects and commitments, even when they are part of a larger programme or payment that was provided for as part of a spending review or other Treasury written approval and that are not covered by prior written approval from the Treasury.
- This also includes renewal of existing projects and programmes where significant changes are being proposed, and to any spending announcements with significant spending implications.
- Costs are on current net present value accruals basis.
- The cost is the sum of all payments committed to a body, organisation or individual from a single programme over its lifetime (i.e. costs should not be 'unbundled' to fall below the delegation).

⁶ This category comprises the signing of new leases, renewals of existing leases, the non-exercise of lease-break options, any new property acquisitions (including those made through a Private Finance Initiative provider), new-build developments, sale and leaseback, and any freehold sales as part of national property controls.

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APPENDIX B: Compliance with instructions and guidance

The British Council shall comply with guidance in the documents listed below to the extent that they do not conflict with the British Council's charitable status or other legal requirements.

- Appropriate adaptations of sections of Corporate Governance in Central Government Departments: Code of Good Practice (www.hmtreasury.gov.uk/.../governance_risk/psr_governance_corporate.cfm).
- Managing Public Money (www.hm-treasury.gov.uk/psr_mpm_index.htm).
- Government Internal Audit Standards (www.hmtreasury.gov.uk/...gia_guidance.cfm).
- Management of Risk: Principles and Concepts: (www.hmtreasury.gov.uk/media/3/5/FE66035B-BCDC-D4B3-11057A7707D2521F.pdf).
- Managing the Risk of Fraud (www.hmtreasury.gov.uk/media/C/3/managing_the_risk_fraud_guide_for_managers.pdf).
- Government Financial Reporting Manual (FRM) (www.financial-reporting.gov.uk/).
- Regularity, Propriety and Value for Money (www.hmtreasury.gov.uk/media/A/2/Reg_Prop_and_VfM-November04.pdf).
- The Parliamentary Ombudsman's Principles of Good Administration (www.ombudsman.org.uk/improving_services/good_administration/index.html).

In addition, the British Council shall comply with the following documents where advised of the requirements by the FCO⁷ and to the extent that the requirements do not conflict with the British Council's charitable status or other legal requirements:

- relevant Dear Accounting Officer letters
- Consolidation Officer Memorandum, and relevant DCO letters
- relevant Freedom of Information Act guidance and instructions (Ministry of Justice)
- Model Code for Staff of Executive Non-departmental Public Bodies (Cabinet Office)
- HM Treasury guidance and instructions in respect of Whole of Government Accounts
- specific instructions and guidance issued by the sponsor department
- recommendations made by the Public Accounts Committee, or by other Parliamentary authority, that have been accepted by the government and are relevant to the British Council.

⁷ Written notification should be sent to the British Council's Head of Governance.