

# **FRAMEWORK DOCUMENT**

**Between**

**The Pensions Ombudsman and Pension  
Protection Fund Ombudsman**

**&**

**The Department for Work and Pensions**

**DWP**

Department for  
Work and Pensions



**ppfo**

pensions ombudsman

pension protection fund ombudsman

**Effective from 1 October 2009**

# Contents

<b>MANAGEMENT STATEMENT</b>	<b>2</b>
1. Introduction	2
2. Responsibilities and Accountabilities	5
3. Planning, Budgeting and Control	10
4. Staff management	15
5. Reviewing the role of the PO/PPFO	15
<b>FINANCIAL MEMORANDUM</b>	<b>16</b>
1. Introduction to the Financial Memorandum	16
2. The PO/PPFO's Income and Expenditure – general	17
3. Accounting and Budget Considerations	21
4. Review of Framework Document	27
Signatures of the PO/PPFO & DWP Steward	28
Annex 1 - Compliance with instructions and guidance	29
Annex 2 - Calendar of Key Financial Events	30
Annex 3 - Delegated Authorities	31
Annex 4 - The Pension Protection Fund Ombudsman	32

# Management Statement

## 1. Introduction

### Overview

- 1.1 This framework document has been drawn up by the Department for Work and Pensions (DWP) in consultation with the Pensions Ombudsman (PO) a tribunal Non-Departmental Public Body (NDPB). The arrangements set out in this document in respect of the PO should be read as applying to him in his role as Pension Protection Fund Ombudsman (PPFO).
- 1.2 Subject to the legislation noted below, the framework document sets out the broad framework within which the PO will operate, in particular:
  - a. the PO's overall aims, objectives and targets in support of the Department's wider strategic aims and Public Service Agreement (PSA);
  - b. the rules and guidelines relevant to the exercise of the PO's functions;
  - c. the relationship between the Department and the PO;
  - d. the conditions under which any public funds are paid to the PO;
  - e. how the PO is to be held to account for its performance.
- 1.3 However, the framework document does not convey any legal powers or responsibilities.
- 1.4 The Financial Memorandum sets out in greater detail certain aspects of the financial provisions which the PO shall observe.
- 1.5 The document shall be periodically reviewed by the Department in accordance with the provisions referred to in paragraph 4.1 of the Financial Memorandum.
- 1.6 The PO or the Department may propose amendments to this document at any time. Any such proposals by the PO shall be considered in the light of evolving departmental policy aims, operational factors and the track record of the PO. The guiding principle shall be that the extent of flexibility and freedom given to the PO shall reflect both the quality of his internal controls and his operational needs. The Secretary of State shall determine what changes, if any, are to be incorporated in the document. Legislative provisions shall take precedence over any part of the document. Significant variations to the document shall be cleared with the Treasury or Cabinet Office as appropriate with the definition of "significant" determined by the Department in consultation with HM Treasury.
- 1.7 Any question regarding the interpretation of the document shall be resolved by the Department after consultation with the PO and, as necessary, with the Treasury and/or the Cabinet Office.
- 1.8 Copies of this document and any subsequent substantive amendments shall be placed in the libraries of both Houses of Parliament. Copies shall also be made available to members of the public on the PO's website.

## **Founding legislation - status**

1.9 The statutory authority for the PO is Part X of the Pension Schemes Act 1993. The legislation in the Pension Schemes Act 1993 has subsequently been amended by Part IV of the Pensions Act 1995, Chapter II of Part II of the Child Support Pensions and Social Security Act 2000 and by Part V of the Pensions Act 2004. The PO is an independent statutory body of the DWP, operating at arm's length from the Department.

## **The functions of the PO**

1.10 The PO's statutory duties are set out in the legislation described in paragraph 1.9. He is responsible for investigating and determining:-

- a) specified authorised complaints about maladministration by trustees, managers and employers involved with occupational and personal pension schemes;
- b) disputes of fact or law between specified authorised complainants and trustees, managers and employers involved with occupational and personal pension schemes;
- c) any question about carrying out trustee duties when it is referred to him by a trustee who is the sole trustee of the scheme.

1.11 A Deputy Pensions Ombudsman (DPO) was appointed on 4 April 2005, in accordance with section 274 of the Pensions Act 2004, with powers to investigate and determine complaints and disputes as described in paragraph 1.10. All references to the PO within this document, except those concerning his role as Accounting Officer and as Principal Officer for handling cases involving the Parliamentary Ombudsman, should be taken to include the DPO.

1.12 The role of the PO is to provide an impartial, efficient and effective method of resolving complaints and disputes concerning pension arrangements referred to him under the governing legislation.

1.13 The PO is responsible for providing effective leadership to his office in the formulation and implementation of its strategies, and will take the lead in relations with Ministers and in representing his office in public.

1.14 The PO will meet with the Minister from time to time to discuss priorities and high level objectives and certain key operational targets.

1.15 When appropriate, the PO will give early warning to the Department on pensions issues of concern.

## **Classification**

1.16 For policy/administrative purposes, the PO is classified as a tribunal non-departmental public body.

1.17 For national accounts purposes, the PO is classified to the central government sector.

### **Funding Arrangements**

- 1.18 Under the powers contained in the Pension Schemes Act 1993 the PO's cash requirement will be met by the Department through grant in aid. The annual grant in aid required by the PO will be included in the Department's Request for Resources. As such the PO's grant in aid requirements are specifically approved by Parliament via the Parliamentary Vote process. Any subsequent change to the in-year cash requirements will need to be highlighted to Parliament via the winter or spring supplementary estimates following approval by the Department.
- 1.19 The PO's ongoing administrative costs will be recovered via the General Levy charged to all UK tax-registered or tax-approved occupational and personal pension schemes with two or more members. The Secretary of State, through legislation, will set the General Levy rate.
- 1.20 It is essential that the PO ensures all operational costs involved in the effective discharge of the PO's functions represent value for money and that the PO's business is delivered in a cost effective manner. This will ensure that levies charged to pension schemes are justified. The funding arrangements in respect of the PPFO are set out in Annex 4.

### **Aims, Objectives and Targets**

- 1.21 The Department agrees the PO's performance framework in the light of the Department's wider strategic aims and PSA. The PO's business objectives and key targets shall be agreed within the corporate and business planning process.

## **2. Responsibilities and Accountabilities**

### **The Secretary of State**

- 2.1 The Secretary of State is accountable to Parliament for the activities and performance of the PO. His responsibilities include:
- a. Appointing the PO and DPO
  - b. Determining terms and conditions of the PO and DPO
  - c. approving the PO's strategic objectives and the policy and performance framework within which it will operate (as set out in this framework document and associated documents);
  - d. providing information to Parliament as required;
  - e. approving the amount of grant-in-aid to be paid to the PO, and securing Parliamentary approval;
  - f. carrying out responsibilities specified in the founding legislation, including arranging for the PO's annual report to be published;
  - g. setting and reviewing the rate of the general levy through which the PO's running costs are funded.

### **The Department's Principal Accounting Officer**

- 2.2 The Permanent Secretary, as the Department's Principal Accounting Officer, is responsible for the overall organisation, management and staffing of the sponsor department and for ensuring that there is a high standard of financial management in the Department as a whole. The Principal Accounting Officer is accountable to Parliament for the issue of any grant in aid to the PO. The Principal Accounting Officer designates the PO as the body's Accounting Officer, and may withdraw the accounting officer designation if he believes that the incumbent is no longer suitable for the role.
- 2.3 In particular, the Principal Accounting Officer of the Department shall ensure that:
- a. The PO's strategic aims and objectives support the Department's wider strategic aims and current PSA;
  - b. the financial and other management controls applied by the Department to the PO are appropriate and sufficient to safeguard public funds and for ensuring that the PO's compliance with those controls is effectively monitored;
  - c. the internal controls applied by the PO conform to the requirements of regularity, propriety and good financial management;
  - d. any grant in aid to the PO is within the Vote Ambit and the amount of the Request for Resources and that Parliamentary authority has been sought and given.
  - e. he is satisfied that the internal controls applied by the PO conform to the requirements of regularity, propriety and good governance.
  - f. an adequate flow of information is supplied by the PO to the Department on matters of performance, budgeting, control and risk management.
- 2.4. The responsibilities of a departmental Accounting Officer are set out in more detail in Chapter 3 of Managing Public Money. The Department will fulfil its responsibilities largely by following the principles in the framework document, and by using a business and

financial planning and monitoring framework.

### **The Steward**

- 2.5 The Departmental Steward ("the Steward") is the senior official designated by the Secretary of State for Work and Pensions as being responsible for the stewardship of the PO. The Steward, in consultation as necessary with the relevant Departmental Accounting Officer, is the primary source of advice to the Secretary of State on the discharge of his responsibilities in respect of the PO, and the primary point of contact for the PO in dealing with the Department.
- 2.6 The Steward shall advise the Secretary of State on an appropriate framework of objectives and targets for the PO in the light of the Department's wider strategic aims and current PSA. The Steward shall:
- a. ensure that an appropriate budget is set for the PO in the light of the Department's overall public expenditure priorities;
  - b. monitor how well the PO is achieving his strategic objectives and whether he is delivering value for money.
- 2.7 In support of the Departmental Accounting Officer, the Steward shall:

#### **On performance and risk management:**

- a. monitor the PO's activities on a continuing basis through an adequate and timely flow of information from the PO on performance, budgeting, control and risk management, including early sight of the PO's Statement on Internal Control (SIC);
- b. address in a timely manner any significant problems arising in the PO's office, whether financial or otherwise, making such interventions in its affairs as the Department judges necessary;
- c. periodically carry out a risk assessment of the PO's activities to inform the department's oversight of the PO; strengthen these arrangements if necessary; and amend the management statement accordingly. The risk assessment shall take into account the nature of the PO's activities; the public monies at stake; its financial performance; internal and external auditors' reports, the openness of communications between the body and the department; and any other relevant matters.

#### **On communication with the PO:**

- d. inform the PO of relevant Government policy in a timely manner; advise on the interpretation and implementation of that policy; and issue specific guidance to the PO as necessary.

### **Pensions Client Directorate**

- 2.8 The Pensions Client Directorate (PCD) will provide the stewardship arrangements for the PO. Stewardship will consult the PO when dealing with policy matters that affect the powers, duties, responsibilities and operational procedures of the PO and those concerned with the legal framework within which the PO exists. Such consultation will be ongoing during the process of policy formulation, including early involvement prior

to the matter being either put to Ministers or made subject of a consultation exercise.

- 2.9 PCD will provide a reasonable period of time for the PO to consider papers and proposals.
- 2.10 PCD will provide background information on the policy intent behind the legislation under which the PO has to operate.
- 2.11 PCD will ensure that Ministers are informed of matters which the PO consider require Ministerial attention and that Ministers' decisions on any such matter are passed back to the PO.
- 2.12 Unless a breach of confidence is involved, PCD will advise the PO if they know of any adverse comment made by a third party about the performance of the PO in any of its functions. PCD will provide background information on the policy intent behind the legislation which the PO has to enforce when this is requested.

### **Departmental Finance Teams**

- 2.13 In conjunction with the Stewardship team, the Departmental finance team will review the forecast expenditure and monitor actual expenditure of the PO against these forecasts throughout the year, alerting the Departmental Steward to any significant and/or material financial issues. The Departmental finance team will also ensure the forecasts of the PO are reflected in the Departmental Estimates and for the timely and controlled payment of grant in aid.

### **Departmental Human Resources**

- 2.14 The Department's Human Resources team will advise on pay and conditions of service matters if and when support is requested.

### **The PO's role as Accounting Officer**

- 2.15 The PO will be designated by the principal Accounting Officer as the Accounting Officer for his office. He is responsible for safeguarding the public funds for which he has charge; for ensuring propriety and regularity in the handling of those public funds and the day-to-day operations and management of his office. The PO will be liable to appear together with the principal Accounting Officer on matters relating to the expenditure of his office that may arise before the Committee of Public Accounts or such other Parliamentary Committees as may be appointed.
- 2.16 As Accounting Officer the PO shall exercise the following responsibilities:

#### **On planning and monitoring:**

- a. establish, in agreement with the Department, the PO's Corporate and Business Plans in the light of the Department's wider strategic aims and current PSA;
- b. inform the Department of his progress in helping to achieve the PO's objectives and in demonstrating how resources are being used to achieve those objectives;
- c. ensure that timely forecasts and monitoring information on performance and

finance are provided to the Department; that the Department is notified promptly if overspends or underspends are likely and that corrective action is taken; and that any significant problems, whether financial or otherwise, and whether detected by internal audit or by other means, are notified to the Department in a timely fashion.

**On managing risk and resources:**

- d. ensure that a system of risk management is maintained to inform decisions on financial and operational planning and to assist in achieving objectives and targets;
- e. ensure that an effective system of programme and project management and contract management is maintained;
- f. ensure that all public funds made available to the PO are used for the purpose intended by Parliament, and that such moneys, together with the PO's assets, equipment and staff, are used economically, efficiently and effectively;
- g. ensure that the PO maintains adequate internal management and financial controls, including effective measures against fraud and theft;
- h. maintain a comprehensive system of internal delegated authorities which are notified to all staff, together with a system for regularly reviewing compliance with these delegations;
- i. ensure that effective personnel management policies are maintained;
- j. ensure that adequate controls for collection and recording of receipts and payments, including levy receipts, fees and penalties, debt and write-offs are introduced and maintained; and
- k. ensure that conflicts of interest are avoided, whether in the proceedings of the PO or in the actions or conduct of its staff;
- l. ensure that assets of the PO such as investments, land, buildings or other property, including stores and equipment, are controlled and safeguarded with similar care, and with checks as appropriate;
- m. conduct an annual review of the effectiveness of the system of internal controls. A statement of internal control is to be included in the annual report and accounts. This should cover all controls including financial, operational, compliance and risk management. The effectiveness of the internal audit function must be reviewed on an annual basis;
- n. ensure that the resources for which the Accounting Officer is responsible are properly and well managed and safeguarded, with independent and effective checks of cash balances in the hands of any official, including effective measures against fraud and theft.

**On accounting for the PO's activities:**

- o. sign the accounts and be responsible for ensuring that proper records are kept relating to the accounts and that the accounts are properly prepared and presented in accordance with any directions issued by the Secretary of State;
- p. be responsible for ensuring that the quarterly request for resource funding (Grant in Aid ) is made on a need basis and is expended in accordance with the PO's business and management plans;
- q. sign a Statement of Accounting Officer's responsibilities, for inclusion in the

## Annual Report and Accounts;

- r. sign a Statement on Internal Control regarding the system of internal control, for inclusion in the Annual Report and Accounts;
- s. ensure that effective procedures for handling complaints about the PO are maintained and made widely known within the PO;
- t. act in accordance with the terms of this document and with the instructions and guidance in *Managing Public Money* and other instructions and guidance issued from time to time by the department, the Treasury and the Cabinet Office – in particular, the Treasury documents *The Responsibilities of an NDPB Accounting Officer and Regularity and Propriety*;
- u. give evidence, normally with the Accounting Officer of the DWP, when summoned before the Committee of Public Accounts on the use and stewardship of public funds by the PO.

### **Delegation of duties**

- 2.17 The PO may delegate the day-to-day administration of his Accounting Officer responsibilities to other employees in his office. However, he shall not assign absolutely to any other person any of the responsibilities set out in this document.

### **The PO's role as Principal Officer for Ombudsman cases**

- 2.18 The PO is the Principal Officer for handling cases involving the Parliamentary Ombudsman. As Principal Officer, he shall inform the Permanent Secretary of the DWP of any complaints about the PO accepted by the Parliamentary Ombudsman for investigation, and about the PO's proposed response to any subsequent recommendations from the Parliamentary Ombudsman.

### **3. Planning, Budgeting and Control**

#### **The Corporate Plan**

- 3.1 The Public Spending Review (SR) cycle provides the means for Government to decide what policies and priorities it wants to pursue in the three years ahead, and how much money can be afforded for each Departmental programme. The PO shall submit annually to the department a draft of its updated corporate plan covering three years ahead. The PO shall have agreed with the Department the issues to be addressed in the plan and the timetable for its preparation.
- 3.2 HM Treasury guidance requires that a Strategic Plan, covering three years ahead and a Business Plan, covering the first year ahead are produced and updated on an annual basis. The PO will produce a combined document (called the Corporate Plan) which includes both of these plans. The Corporate Plan will show the Strategic and Business plans as separate parts of the combined document.
- 3.3 The PO shall submit annually to the Department a draft Corporate Plan covering three years ahead. The PO shall have agreed with the Department the issues to be addressed in the plan and the timetable for its preparation.
- 3.4 The Steward must approve the Corporate Plan, including the PO's objectives and key performance targets. The main elements of the plan shall take account of the Department's decisions on policy and resources taken in the context of the Government's wider public expenditure plans and decisions. The Steward and Departmental finance teams should see the plan in draft form, to offer comment on it before submission to the Steward for sign-off.
- 3.5 The plan shall reflect the PO's statutory duties and, within those duties, the priorities set from time to time by the Secretary of State. In particular, the plan shall include the aims and objectives of the PO.
- 3.6 The corporate plan shall set out:
  - a. the PO's key objectives and associated key performance targets for the three forward years, and its strategy for achieving those objectives;
  - b. key non-financial performance targets;
  - c. a review of the PO's performance in the preceding financial year, and an estimate of performance in the current year;
  - d. alternative scenarios to take account of factors which may significantly affect the execution of the plan, but which cannot be accurately forecast;
  - e. other matters as agreed between the Department and the PO.
- 3.7 The main elements of the plan, including the key performance targets, shall be agreed between the Department and the PO in the light of the Department's decisions on policy and resources taken in the context of the Government's wider public expenditure plans and decisions.
- 3.8 The draft corporate plan should be submitted to the Department for consideration by the Steward by the 31 December.

## **The Business Plan**

- 3.9 The first year of the corporate plan, amplified as necessary, shall form the Business Plan. The Business Plan shall be updated to include key targets and milestones for the year immediately ahead and shall be linked to budgeting information so that resources allocated to achieve specific objectives can readily be identified by the Department.
- 3.10 The Business Plan will cover:
- a. workload assumptions;
  - b. anticipated resource requirements, including an explanation of how workloads translate into resource requirement;
  - c. performance measurement, including previous and current outputs and proposed clearance rates/targets;
  - d. business improvement and efficiency plans; and
  - e. shall be available for discussion with the Department within the agreed timescale each year.

## **Publication of plans**

- 3.11 Subject to any commercial considerations, the corporate and business plans shall be made available on the Internet. A summary version shall be made available to staff.

## **Reporting performance to the Department**

- 3.12 The PO shall operate management information and accounting systems which enable it to review in a timely and effective manner its financial and non-financial performance against the budgets and targets set out in its agreed corporate and business plans. It shall provide a quarterly performance return setting out progress against performance targets.
- 3.13 The PO shall take the initiative in informing the Department of changes in external conditions which make the achievement of objectives more or less difficult, or which may require a change to the budget or objectives set out in the corporate or business plans.
- 3.14 The PO's performance in helping to deliver its aims, including the achievement of key objectives, shall be reported to the department on a quarterly basis. Performance will be formally reviewed quarterly by officials of the department.
- 3.15 The PO's performance against key targets shall be reported in its annual report and accounts.

## **Internal audit**

- 3.16 The PO shall:
- a. establish and maintain arrangements for internal audit in accordance with the Treasury's Government Internal Audit Standards (GIAS);
  - b. consult with the Department to ensure it is satisfied with the competence and qualifications of the Head of Internal Audit and the requirements for approving

- appointments in accordance with GIAS 5.2;
- c. set up an audit committee of its board in accordance with the Cabinet Office's Guidance on Code of Practice for Public Bodies and the Audit Committee Handbook;
  - d. forward the audit strategy, periodic audit plans and annual audit report, including the PO's Head of Internal Audit opinion on risk management, control and governance as soon as possible to the Department.
- 3.17 In addition, the PO shall forward to the Department an annual report on fraud and theft suffered by the PO and notify any unusual or major incidents as soon as possible.

### **Risk management**

- 3.18 The PO 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, and shall develop a risk management strategy, in accordance with the Treasury guidance *Management of Risk: A Strategic Overview*.
- 3.19 The PO shall adopt and implement policies and practices to safeguard itself against fraud and theft, in line with the Treasury's guide *Managing the Risk of Fraud*.
- 3.20 The PO shall take all reasonable steps to appraise the financial standing of any firm or other body with which it intends to enter into a contract or to give grants.

### **Information Security**

- 3.21 There are clear HM Government standards for the safe-handling of personal customer and other sensitive information. The DWP Permanent Secretary, as Accounting Officer, expects that the PO shall meet these standards in the handling, process, storing and transferring of personal / sensitive information (regardless of the media used).
- 3.22 In cases where services are outsourced to other agencies, either permanently or temporarily, the information gathered and shared under these arrangements remains the responsibility of the PO.
- 3.23 Information Systems that process, store or transmit personal or sensitive information must be assessed to provide assurance that the system meets acceptable security standards and does not present an unacceptable level of risk. Information systems should meet recognised HM Government & International security standards (e.g. ISO / IEC 27001).
- 3.24 DWP must be alerted immediately if a serious breach of information security by the PO or anyone working on behalf of the PO occurs so that appropriate briefing can be prepared and shared.
- 3.25 A documented risk-based approach shall be put in place within the PO's office to ensure that all information receives appropriate levels of protection. The Risk Management framework for the PO shall include reference to all elements of information security.

Senior managers will be appointed to specific mandatory roles (Senior Information Risk Owner, Information Asset Owners) with regular status reports being delivered to the audit committee.

### **Business Continuity**

- 3.26 The PO shall develop robust and tested Business Continuity and Disaster Recovery Plans to ensure that disruption to the delivery of services and operations are minimised. Regular reports shall be delivered to senior management and the audit committee.

### **External accountability**

#### **The Annual Report and Accounts**

- 3.27 After the end of each financial year, the PO shall publish an annual report of its activities together with its audited annual accounts. The PO shall provide the Department with its finalised accounts by 30 June each year.
- 3.28 The report and accounts shall outline the PO's main activities and performance during the previous financial year and set out in summary form its forward plans. Information on performance against key financial targets shall be included in the notes to the accounts, and shall therefore be within the scope of the audit.
- 3.29 The report and accounts shall be laid in Parliament and made available on the PO's website. A draft of the report should be submitted to the Department 3 weeks before the proposed publication date. The accounts should be prepared in accordance with the relevant statutes and specific accounts direction issued by the Department as well as the FreM.

### **External audit**

- 3.30 The Comptroller & Auditor General (C&AG) audits the PO's annual accounts.

The C&AG:

- will consult the department and the PO on whom – the NAO or a commercial auditor – shall undertake the audit(s) on his behalf, though the final decision rests with the C&AG;
- has a statutory right of access to relevant documents, including by virtue of section 25(8) of the Government Resources and Accounts Act 2000, held by another party in receipt of payments or grants from the PO;
- will share with the Department information identified during the audit process and the audit report (together with any other outputs) at the end of the audit, in particular on issues impacting on the Department's responsibilities in relation to financial systems within the PO;
- will, where asked, provide departments and other relevant bodies with

Regulatory Compliance Reports and other similar reports which departments may request at the commencement of the audit and which are compatible with the independent auditor's role.

### **Value-for-money (VFM) examinations**

- 3.31 The C&AG may carry out examinations into the economy, efficiency and effectiveness with which the PO has used its resources in discharging his functions. For the purpose of these examinations, the C&AG has statutory access to documents as provided for under section 8 of the National Audit Act 1983. In addition, the PO shall provide, conditions to grants and contracts, for the C&AG to exercise such access to documents held by grant recipients and contractors and sub-contractors as may be required for these examinations; and shall use its best endeavours to secure access for the C&AG to any other documents required by the C&AG which are held by other bodies.

## **4. Staff management**

- 4.1 Within the arrangements approved by the Secretary of State and the Treasury, the PO shall have responsibility for the recruitment, retention and motivation of his staff. To this end, the PO shall ensure that:
- a. his office's rules for the recruitment and management of staff create an inclusive culture in which diversity is fully valued; where appointment and advancement is based on merit; and where there is no discrimination on grounds of gender, marital status, sexual orientation, race, colour, ethnic or national origin, religion, disability, community background or age;
  - b. the level and structure of his office's staffing, including gradings and numbers of staff, is appropriate to its functions and the requirements of efficiency, effectiveness and economy;
  - c. the performance of his office's staff at all levels is satisfactorily appraised and its performance measurement systems are reviewed from time to time;
  - d. his office's staff are encouraged to acquire the appropriate professional, management and other expertise necessary to achieve its objectives;
  - e. proper consultation with staff takes place on key issues affecting them;
  - f. adequate grievance and disciplinary procedures are in place;
  - g. whistleblowing procedures consistent with the Public Interest Disclosure Act 1998 are in place;
  - h. a code of conduct for staff is in place based on the Cabinet Office document, *Model Code for Staff of Executive Non-Departmental Public Bodies*.
- 4.2 The PO has been given delegated pay bargaining powers. Any changes will need to take account of HM Treasury Guidelines for the Strategic Framework of NDPBs Pay Systems, including sign off of pay awards by the Secretary of State and be consistent with the approved corporate and business plans.

## **5. Reviewing the role of the PO**

- 5.1 The PO's office shall be reviewed periodically, in accordance with the Cabinet Office guidance on "lighter touch" reviews - review dates will be agreed between DWP and the PO.

# Financial Memorandum

## 1. Introduction to the Financial Memorandum

- 1.1 This financial memorandum, which forms part of the framework document for the PO, sets out in greater detail certain aspects of the financial framework within which the PO is required to operate.
- 1.2 The terms and conditions set out in the framework document may be supplemented by guidelines or directions issued by the Secretary of State in respect of the exercise of any individual functions of the PO.
- 1.3 The PO shall satisfy the conditions and requirements set out in the framework document, together with such other conditions as the Secretary of State may from time to time impose.

## **2. The PO's Income and Expenditure – General**

### **The Departmental Expenditure Limit (DEL)**

- 2.1 The PO's current and capital expenditure form part of the Department's resource DEL and capital DEL respectively. The Department's resource DEL position is neutral. This is because the PO's resource expenditure will be matched by an allocation from the General Levy appropriated in aid by the Department.

### **Expenditure not proposed in the budget**

- 2.2 The PO will:
- a. not without prior written Departmental approval, enter into any undertaking to incur any expenditure which falls outside its delegations or which is not provided for in its annual budget as approved by the Department;
  - b. not incur expenditure unless it has the power to do so and should follow the principles, rules, guidance and advice in *Managing Public Money*; and
  - c. be expected to comply with the Resource Accounting and Budgeting rules and to comply with Departmental financial reporting processes.

### **Procurement**

- 2.3 The PO's procurement policies shall reflect guidance from the Office of Government Commerce, including *Procurement Policy Guidelines and Annex 4.4 of Managing Public Money*. The PO shall also ensure that he complies with any relevant EU or other international procurement rules.
- 2.4 Periodically and wherever practicable the PO's procurement shall be benchmarked against best practice elsewhere and contracted out where this would achieve better value for money.
- 2.5 Procurement by the PO 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.

### **Competition**

- 2.6 Contracts shall be placed on a competitive basis and tenders accepted from suppliers who provide best value for money overall.
- 2.7 Proposals to let single-tender or restricted contracts shall be subject to a specified delegated authority, and the PO shall send to the Department after each financial year a report for that year explaining any contracts above £10,000 in which competitive tendering was not employed.

### **Timeliness in paying bills**

- 2.8 The PO shall collect receipts and pay all matured and properly authorised invoices in accordance with the terms of contracts or within 10 days, as provided for in Annex 4.6 of *Managing Public Money*. The PO shall comply with the British Standard for Achieving Good Payment Performance in Commercial Transactions (BS 7890), and with the Late Payment of Commercial Debts (Interest) Act 1998 as amended. [The 1998 Act allows creditors to claim statutory interest and compensation on late payment of commercial debts].

### **Novel, contentious or repercussive proposals**

- 2.9 The PO shall obtain the approval of the Department before:
- a. 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;
  - b. making any significant change in the scale of operation or funding of any initiative or particular scheme previously approved by the Department; or
  - c. 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.
  - d. carrying out policies that go against the principles, rules, guidance and advice in *Managing Public Money*.

### **Grant in aid arrangements**

- 2.10 Grant in aid will be paid to the PO in quarterly instalments, on the basis of a written application from the PO showing evidence of need. The application shall certify that the conditions applying to the use of grant in aid have been observed to date and that further grant in aid is now required for purposes appropriate to the PO's functions.
- 2.11 The PO should have regard to the general principles enshrined in Annex 5.1 of *Managing Public Money* that it should seek grant in aid according to need.
- 2:12 The PO will provide the following information to support such claims:
- a. cash in bank at start of period
  - b. grant in aid received in year to date;
  - c. actual expenditure in year to date, analysed by month against major categories of expenditure with an explanation of material variances from forecast expenditure;
  - d. anticipated expenditure for the remainder of the year, analysed by month;
  - e. amount requested, with relevant supporting calculations, including amount of any receipts; and
  - f. an exception report where actual expenditure in the current year is plus or minus 5 percent of budgeted expenditure for the current year to date or forecast at year end.
- 2.13 All grant in aid applications will be authorised by the PO, or the Deputy PO or Business

Manager on his behalf, and should be received by the Department no less than 7 working days before payment is required.

- 2.14 Both the department and the PO will aim to ensure that financial transactions in relation to the grant in aid are dealt with efficiently and communications are processed with due regard to time constraints and their financial implications.
- 2.15 Cash balances accumulated during the course of the year from grant in aid shall be kept at the minimum level consistent with the efficient operation of the PO's office. Grant in aid not drawn down by the end of the year shall lapse. However, where draw-down of grant in aid is delayed to avoid excess cash balances at year-end, the department will make available in the next financial year, subject to approval by Parliament of the relevant Estimates provision, any such grant in aid which is required to meet any liabilities at year end, such as creditors. The Steward should be advised of any such liabilities at year end.
- 2.16 The full administrative resource costs of the PO are recovered via the General Levy charged to all UK tax-registered or tax-approved occupational and personal pension schemes with two or more members. The General Levy will be paid direct to the Department which will treat the funds as an appropriation in aid to reduce the amount of cash required on supply from the exchequer.
- 2.17 In any given year, should the General Levy collected not equal the resource expenditure of the PO, the surplus or deficit will be accrued for that period, with a corresponding adjustment to the levy charged in the following period. This treatment ensures that the Department's resource DEL remains neutral.

#### **Levels of reserves/balances**

- 2.18 At the end of any quarterly accounting period, the PO should aim to hold a cash or cash equivalent balance of not more than 5 per cent of the annual grant in aid, after taking into account accruals. At the end of the financial year, the PO's carry-over into the next financial year of any issued but unexpected balance of the grant in aid that exceeds 2% of the annual grant in aid allocation must be agreed with the Department.

#### **Reporting arrangements**

- 2.19 The PO shall provide quarterly finance reports to the Department. These reports should be prepared on a resource basis, to inform decisions about the levy and impact on Departmental resource budgets and accounts, and to inform grant in aid payments
- 2.20 The quarterly financial reports should cover actual outturn against budget by month and should include a forecast of the end of year position, broken down by monthly profile against major categories of expenditure (including a split between capital and resource expenditure), with an accompanying explanation of material variances.

#### **Delegated Powers**

- 2.21 The delegated powers of the PO in respect of grant in aid are set out below.

The PO has personal authority to write off individual losses under £2,500 without prior consultation with the department and an overall limit of £10,000 in any financial year. Losses are defined monies or items of monetary value which have been erroneously expended or removed in the normal course of business and are deemed irrecoverable. This does not include losses arising from the disposal of fixed assets that are disposed of through the normal course of business, but does include losses arising from the theft or loss of fixed assets. Once the PO's budget has been approved by the Department, and subject to any restrictions imposed by the Department, it shall have authority to incur expenditure approved in the budget without further reference to the Department, on the following conditions:

- a. the PO shall comply with his responsibilities as accounting officer as set out in this document;
- b. the PO shall comply with the conditions set out in paragraph 2.9 of the Financial Memorandum regarding novel, contentious or repercussive proposals;
- c. inclusion of any planned and approved expenditure in the PO's budget shall not remove the need to seek formal Departmental approval where any proposed expenditure is outside the delegated limits;
- d. the PO shall provide the Department with such information about his office's operations, individual projects or other expenditure as detailed in this document.

2.22 Subject to the delegated limits set out in Annex 3, the PO does not possess the power to:

- a. commit any material capital expenditure for the purchase of assets, capital projects, lease agreements or contracts, which was not included in the annual grant in aid capital expenditure submission without the approval of the Departmental Steward;
- b. dispose of any individual fixed asset which was not included in the annual grant in aid capital expenditure submission without the approval of the Department.

### **Management and disposal of fixed assets**

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

2.24 The PO 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 Annex 4.8 of Managing Public Money.

2.25 Anticipated proceeds from the sale of fixed assets should be included in estimates supplied to the Department for the purposes of determining grant in aid requirements. Any amounts in excess of the estimated receipts should be treated in accordance with Box A4.8B, bullet point 4 of Managing Public Money.

### **3. Accounting and Budget Considerations**

#### **Budgetary Control**

- 3.1 The PO's approved annual business plan will take account both of his approved funding provision and of any forecast receipts, and will include a budget of estimated payments and receipts together with a profile of expected expenditure and of draw-down of any departmental funding and/or other income over the year. These elements will form part of the approved business plan for the year in question (paragraph 3.5 of the Management Statement).
- 3.2 The PO undertakes to keep within its budget allocation, subject to its duties and responsibilities remaining unchanged. The PO shall provide the Department with, as a minimum, information on a regular basis which will enable the satisfactory monitoring by the Department of:
- a. the PO's cash management;
  - b. its draw-down of any grant in aid;
  - c. forecast outturn by resource headings;
  - d. other data required for the Government Expenditure Monitoring Systems.
- 3.3 If the PO does not receive all the resources it bids for, it will agree with the Department the relative priorities contained in its plan. It is for the PO to decide how the budget is spent, subject to the guidelines set out in this Financial Memorandum. The PO must not commit to expenditure for which resources have not been secured nor vire resources between capital and revenue.
- 3.4 The PO will consult with the Department, normally within the management and business planning process, before any significant expansion of the scope of its work is undertaken which would involve an addition to recurrent expenditure in future years, or before any arrangements are entered into which would imply any new financial commitments. The PO should notify the Department immediately of any forecast overspend. Any proposals to incur capital expenditure for any project, lease or contract and any matter requiring the consent or approval of HM Treasury should be included in the annual budgetary process with the Department.

#### **Capital Expenditure**

- 3.5 Expenditure on the acquisition or creation of fixed assets for the use of administration purposes shall be capitalised on an accruals basis in accordance with the PO's capitalisation policy, as agreed with the Department.
- 3.6 Proposals for large-scale individual capital projects or acquisitions (including capital expenditure on property leases) will normally be considered within the PO's management and business planning process. Applications for approval by the Department shall be supported by formal notification that the proposed project or purchase has been examined and duly authorised by the PO. Regular reports on the progress of projects shall be submitted to the Department.

- 3.7 Within his approved overall resources limit, the PO shall, as indicated in Annex 3 on delegations, have delegated authority to spend up to £50,000 on any individual capital project or acquisition. Beyond that delegated limit, the Department's prior authority must be obtained before expenditure on an individual project or acquisition is incurred.

### **Leasing**

- 3.8 Prior Departmental approval must be secured for all property and finance leases. The PO must have capital DEL provision for finance leases and other transactions which are, in substance, borrowing.
- 3.9 Before entering into any lease (including an operating lease), the PO shall demonstrate that the lease offers better value for money than purchase.

### **Expenditure on staff**

#### **Staff costs**

- 3.10 Subject to his delegated levels of authority (see Annex 3), the PO shall ensure that the creation of any additional posts does not incur forward commitments which will exceed its ability to pay for them.

#### **Pay and conditions of service**

- 3.11 The PO's staff, whether on permanent or temporary contract, shall be subject to levels of remuneration and terms and conditions of service, including superannuation, within the general pay structure approved by the Department and following Treasury guidelines.
- 3.12 Current general terms and conditions for the PO's staff are those set out in its Employee Handbook. The detail is set out in staff contracts. The PO shall provide the Department with a copy of the Handbook, when it has been completed, and subsequent amendments.
- 3.13 Although not mandatory, it is recommended that the PO operate a performance-related pay scheme which shall form part of the general pay structure approved by the Department and the Treasury.
- 3.14 The PO shall comply with the EU directive on contract workers (Fixed Term Employees Regulations (Prevention of Less Favourable Treatment)).

#### **Pensions; redundancy/compensation**

- 3.15 The PO's staff shall normally be eligible for a pension provided by membership of the Principal Civil Service Pension Scheme (PCSPS).

- 3.16 Staff may opt out of the occupational pension scheme provided by the PO. However, the employer's contribution to any personal pension arrangement, including a stakeholder pension, shall normally be limited to the national insurance rebate level.
- 3.17 Any proposal by the PO to move from the existing pension arrangements, or to pay any redundancy or compensation for loss of office, requires the approval of DWP. Proposals on severance payments must comply with the rules contained in Chapter 4 of Managing Public Money. In the event of the PO no longer receiving grant in aid, if alternative funding is not available, staff will receive early severance under the PCSPS or if either, not applicable, or it is better for the individual, the redundancy package agreed with DWP.

### **Accounting Requirements**

- 3.18 The PO is required to produce accounts in accordance with the requirements of the Accounts Direction issued by authority of the Secretary of State. The accounts must also contain a foreword by the PO, which must include:
- a. an explanation of the PO's present and future liabilities and assets;
  - b. a description of the method used to assess the PO's liabilities.
- 3.19 The PO will produce annual accounts audited by the Comptroller and Auditor General in accordance with the relevant statutes and specific accounts direction issued by the Department as well as the FReM for inspection by the Department by 30 June each year. A summary of the full audited accounts shall be included in the PO's Annual Report and Accounts.
- 3.20 The Annual Report and Accounts shall include
- a. a report by the PO which should:
    - i. set out the main aims of the PO and outline its principal activities;
    - ii. provide details of historical developments which are essential to understanding the report and accounts;
    - iii. describe the extent to which the PO has achieved its performance targets during the past year, and immediately preceding years, and assess how far this represents an improvement in performance;
    - iv. include a report of any serious breaches of information security within the PO or anyone working on behalf of the PO;
    - v. include a statement of responsibilities;
    - vi. include a Statement of Internal Control; and
    - vii. summarise the main performance targets for future years;
  - b. a financial/performance summary showing the extent to which the PO has met its performance targets over a 3 year period;

## **Banking arrangements**

- 3.21 The PO is responsible for ensuring that its banking arrangements are in accordance with the requirements of Annex 5.7 of Managing Public Money. In particular, it shall ensure that the arrangements safeguard public funds and are carried out efficiently, economically and effectively.
- 3.22 The PO shall therefore ensure that:
- a. these arrangements are suitably structured and represent value for money, and are reviewed at least every two years, with a comprehensive review, usually leading to competitive tendering, at least every three to five years;
  - b. sufficient information about banking arrangements is supplied to the Department's Accounting Officer to enable the latter to satisfy his own responsibilities as set out in the Management Statement;
  - c. its banking arrangements shall be kept separate and distinct from those of any other person, NDPB or organisation;
  - d. adequate records are maintained of payments and receipts and adequate facilities are available for the secure storage of cash.

## **Interest earned**

- 3.23 Any interest earned by the PO on its assets shall be given the same budgeting treatment as the cost of capital charge on the assets.
- 3.24 Under SR2002 budgeting rules, the cost of capital charge and any interest receipts on most DEL financed assets score as resource DEL.
- 3.25 If the receipts are used to finance additional expenditure by the PO, the Department will need to ensure it has the necessary DEL cover. 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 PO's cash requirement, it may lead to commensurate reduction of grant in aid or be required to be surrendered to the Consolidated Fund via the Department.

## **Investment and borrowing**

- 3.26 The PO may invest the grant in aid in any interest bearing account at a bank or building society or in such other accounts or investments as the Secretary of State may from time to time agree in writing. The PO may not borrow from commercial sources for the purposes of meeting administration costs.
- 3.27 Any interest earned by the PO on its assets shall be given the same budgeting treatment as the cost of capital charge on the assets. Under budgeting rules, the cost of capital charge and any interest receipts on most DEL financed assets score as resource DEL.

## **Audit Arrangements**

- 3.28 The PO must establish an effective internal audit function in accordance with HM Treasury legislation and guidance. The PO may hold discussions with the Department's Risk Assurance Division to satisfy this requirement or appoint an external body. Such audit will be in accordance with the objectives, standards and practices outlined in HM Treasury's "Government Internal Audit Manual".
- 3.29 The PO shall also make its annual accounts available for inspection by National Audit Office.

## **Insurance**

- 3.30 As a levy funded organisation, the PO is not exempted from the Employers' Liability (Compulsory Insurance) Act 1969 and must therefore insure against losses arising from its duty as an employer. Furthermore, the Department does not indemnify the PO against the risk of loss of, or damage to, assets or against third party claims. Commercial insurance must therefore be procured to safeguard against the risk of losses to or impairment of assets, and claims from third parties, where this is deemed to be cost effective. The PO is also required to insure any vehicles registered in his office's name for third party vehicle claims so as to comply with the Road Traffic Acts.
- 3.31 PO staff using their own vehicles for official business purposes must have the appropriate business insurance cover for any loss incurred whilst on duty.

## **Retention of Records**

- 3.32 In accordance with the Companies Act 1985, all financial transaction records and supporting documents, held clerically or on a database, must be retained for at least six years after the end of the financial year to which they relate.

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

- 3.33 Proposals for making gifts or other special payments (including write-offs) must have the prior approval of the Department.
- 3.34 If the total losses or special payments in a single financial year exceed £10,000 the PO's accounts should include a statement on losses and/or special payments as appropriate. This statement should include the total amount and the number of incidents involved. In addition any individual loss or special payment exceeding £2,500 should be separately noted.
- 3.35 Gifts by management to staff are subject to the requirements of DAO(GEN)13/01 and the associated Cabinet Office guidance on non-pay rewards.

### **Gifts and bequests received**

- 3.36 The PO is free to retain any gifts, bequests or similar donations. These shall be treated as receipts. Before proceeding in this way the PO should consider if there are any associated costs in doing so or any conflicts of interest arising. The PO shall keep a written record of any such gifts, bequests and donations, whether given or received and of their estimated value and whether they are disposed of or retained.

### **Goods and services**

- 3.37 The PO shall agree levels of delegated financial authorities for those in his employ authorised to enter into contracts for goods, services, lease or rental agreements (see Annex 3).

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

- 3.38 The PO shall not, without the Department's prior written consent, lend money, charge any asset or security, give any guarantee or indemnities or letters of comfort, or incur any other contingent liability (as defined in Annex 5.6 of Managing Public Money), whether or not in a legally binding form.

### **Unconventional financing**

- 3.39 Unless otherwise agreed with the Department, the PO shall not enter into any unconventional financing arrangement.


## **4. Review of Framework Document**

- 4.1 This Financial Memorandum together with the associated Management Statement is open to review at the request of either the Department or the PO and may be amended by joint agreement or by order of the Secretary of State for Work and Pensions.
- 4.2 HM Treasury will be consulted on any significant variation proposed to this Financial Memorandum and the associated Management Statement.

**5. Signatures of the PO & DWP Steward**

  
..... Date 28/09/09

On behalf of the Department for Work and Pensions

  
..... Date 11/9/09

The PO/PPFO