



**Ministry
of Defence**

**JSP 462
Financial Management and Charging Policy Manual
Part 1: Directive**

Foreword

Along with effective financial planning and approvals, effective financial management forms an essential foundation for the delivery of military capability through our Armed Forces.

I am pleased to present this updated Financial Management Direction, prepared by the Finance Policy team within Finance Management Policy and Accounting. Drawing from Subject Matter Experts, this JSP provides MOD practitioners and others with clear direction and guidance on our financial policy and processes, and is in line with the Treasury publication 'Managing Public Money'.

I commend this version to you and your staff.

Cat Little
DG Finance
Defence Authority for Financial Management and Approvals

Preface

How to use this JSP

1. JSP 462 is intended as a practical source of reference on the Department's financial management policies and processes in line with the Treasury's publication 'Managing Public Money'. It is designed to be used by all staff responsible for managing Defence resources, either directly or indirectly. This JSP contains the policy and direction on a range of financial management topics, with particular emphasis on those that may present issues in practice from a government perspective. It also contains guidance on the processes involved and good practice to apply in order to ensure that the Department's financial resources are used in a way that meets Treasury's expectations, for example to spend money wisely, with probity and in the public interest. This JSP will be reviewed at least annually.
2. The JSP is structured in two parts:
 - a. Part 1 - Directive, which provides the direction that must be followed in accordance with Statute, or Policy mandated by Defence or on Defence by Central Government.
 - b. [Part 2](#) - Guidance, which provides the guidance and best practice that will assist the user to comply with the Directive(s) detailed in Part 1.
3. Note for Reader: On opening the JSP 462 link the Reader should maximise the screen by clicking on the maximise icon top right hand corner of screen.

Coherence with other Defence Authority Policy and Guidance.

4. Where applicable, this document contains links to other relevant JSPs, some of which may be published by different Defence Authorities. Where particular dependencies exist, these other Defence Authorities have been consulted in the formulation of the policy and guidance detailed in this publication.

| Related JSPs | Title |
|--------------|-------------------------------------------------|
| JSP 462 Pt 2 | Financial Management and Charging Policy Manual |

Further Advice and Feedback - Contacts

5. The owner of this JSP is DFinStrat-FMPA-FinPol-AHd-1. For further information on any aspect of this document, for questions not answered by contacting the Subject Matter Experts identified within the relevant Chapters, or to provide feedback on the content contact:

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Amendment Log

The main amendments to the 2018/19 Financial Management and Charging Policy Manual reflected in this version are listed below.

| Log | Amendment Version | Chapter/Annex | Summary of Change | Applicable FY |
|-----|-------------------|---------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|
| 1 | 6 | 14/Annex 28 | Reference made to MOD Fraud Policy Part 1 Chap 14 Regularity and Propriety in Public Expenditure Para 14.8. Inclusion of New Annex Part 2 Annex 28 entitled Ministry of Defence Policy – Fraud, Theft, Bribery, Corruption, Value for Money and Related Irregularities (MOD Fraud Policy). | 2018-19 |
| 2 | 6 | 5 | Amendments covering ABC 19 | 2018-19 |
| 3 | 6 | 18/Annexes 34, 35, 36, 37 | Amendments made throughout Consultancy Chapter in Part 1 and 2 plus related Annexes | 2018-19 |
| 4 | 7 | 18 | Correction made to Consultancy Chapter in Part 1 for expenditure approval requirements | 2018-19 |
| 5 | 7 | 12 | Revision of Gifting Chapter Parts 1 and 2, new Annexes 45-48 and removal of Annex 19 | 2018-19 |

Table of Contents

| | Page Nos |
|-------------------------------------------------------------------------------------------------------------|----------|
| Foreword | i |
| Preface..... | ii |
| How to use this JSP | ii |
| Coherence with other Defence Authority Policy and Guidance | ii |
| Further Advice and Feedback - Contacts..... | ii |
| Amendment Log..... | iii |
| Contents | iv-v |
| Chapter 1 - Parliamentary Supply and the Government's Financial Framework..... | 1 |
| Chapter 2 - The National Audit Office and the Committee of Public Accounts | 13 |
| Chapter 3 - Financial Delegations and the Role of Directors of Resources, Budget Holders and Managers | 15 |
| Chapter 4 - Responsibilities of Accounting Officers | 19 |
| Chapter 5 - The Annual Budget Cycle Process and In-Year Financial Management | 23 |
| Chapter 6 - Operations | 25 |
| Chapter 7 - Sponsorship..... | 35 |
| Chapter 8 - Advance, Interim and Deferred Payments | 41 |
| Chapter 9 - Authorisation and Payment of Invoices..... | 44 |
| Chapter 10 - Cash Feeder Processes | 47 |

Contents (contd.)

| | Page Nos |
|-----------------------------------------------------------------------------------------------------------------------------------------|----------|
| Chapter 11 - Debt Management..... | 53 |
| Chapter 12 - Making a Gift of UK Defence Assets, Exchanges of Gifts with Foreign Counterparts and Corporate and Promotional Items... .. | 56 |
| Chapter 13 - Grants and Grants in Aid | 68 |
| Chapter 14 - Regularity and Propriety in Public Expenditure | 75 |
| Chapter 15 - Official Hospitality (OH) Policy | 83 |
| Chapter 16 - Seasonal Fesitivities | 94 |
| Chapter 17 - Third Sector Funding | 96 |
| Chapter 18 - Consultancy | 100 |
| Chapter 19 - Charging..... | 105 |
| Chapter 20 - Income Generation | 111 |

1 Parliamentary Supply and the Government's Financial Management Framework

Introduction

1.1. This chapter explains how the MOD obtains the necessary Parliamentary approval for its annual spending, that is the Parliamentary Supply process. It then goes on to explain the different elements of expenditure that make up the Supply process, its governance and how MOD reports against its supply at year-end. Separate sections are included covering Defence Votes A, which governs the maximum number of serving Armed Forces personnel at any one time, and the role of the Committee of Public Accounts (PAC), the House of Commons Defence Committee (HCDC), the National Audit Office (NAO) and the Comptroller and Auditor General (C&AG).

Subject Matter Experts

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| Def Res-C1 (Fin Ext rep) | External Financial Reporting and Statistics. Annual Accounts, Estimates and Planning Processes | 9621 86291 |
| Def Res-C2 (Parly Est 1) | OSCAR Supervisor and HMT reporting, Budgetary Cover Transfers between Government Departments | 9621 78879 |
| Def Strat-Stat-Tri-HAnalyst-2 | Votes A | 9621 80262 |

Key Directives

1.2. All expenditure of MOD public funds must be authorised by Parliament and covered by appropriate legislation.

1.3. Receipts may be appropriated in aid only if they relate directly to Departmental business, otherwise they must be surrendered to the Consolidated Fund as Extra Receipts.

1.4. Defence Resources advice must be sought at the earliest opportunity when negotiating or agreeing Budgetary Transfers with Other Government Departments (OGDs). All OGD Budgetary Transfers must be included in the Final Annual Budget Cycle (ABC) Plan if they are to be included in Main Estimates Transfers.

The Parliamentary Supply Process

The Government's Expenditure Plans (GEP)

1.5. The Government normally carries out a Spending Review (SR) every four years. This is an in-depth planning and budgeting process allowing the Government to agree

Departmental objectives and to assess the longer term financial implications of these objectives. The SR results in Departmental Expenditure Limits (DEL), which are Resource (Non-Ring Fenced (formerly Direct RDEL) and Ring Fenced (formerly IRDEL) Depreciation and Impairments of Non Current Assets) DEL, Programme and Administration costs, Capital DEL and Cash Expenditure Limits, for each Department for three years forward. In recent years the Treasury has introduced a further control measure, 'Near Cash' (that is Cash Resource DEL plus Capital DEL). Occasionally a SR may be undertaken before the four year point, for example when a General Election is expected.

Principles of Parliamentary Supply

1.6. It is for Parliament to grant the authority for Departments to incur expenditure each year through Parliamentary Supply. Parliamentary Supply provides the mechanism for the Government to set out its detailed expenditure plans for the forthcoming year to Parliament, for Parliament to debate and approve the plans, and for the appropriate legislation to be enacted.

1.7. The Government asks for funds (both Resource and Capital) in the Supply Estimates, which contain details about how much will be spent by Departments and on what, and identify who will be responsible for ensuring that the funds are expended with financial regularity and propriety.

1.8. If Parliament is content with the Estimates it votes the Consolidated Fund Appropriation Act to make funds available for spending by Departments. The Act also imposes legal constraints on the way in which voted funds may be spent. The main principles of Supply are as follows:

- a. no expenditure may be incurred without legislation;
- b. a sum voted for a particular service cannot be spent on another service;
- c. a sum voted is a maximum sum. Additional funding must be approved by the single Supplementary Estimate;
- d. a sum voted is available only for the year for which it has been appropriated (the annuality principle);
- e. separate authority is needed for overspends;
- f. emergency spending is subject to Parliament's authority.

1.9. Thus, if a Department wishes to increase expenditure, vary the way in which it wishes to spend the funds voted in the Supply Estimates, or carry forward unspent amounts to the next Financial Year, it must seek additional Parliamentary authority in year through a Supplementary Estimate. Supplementary Estimates are usually presented in February (Spring). Parliament, if content, then votes the Consolidation Appropriation Act to make the funds available to the Department. In extremely rare occasions a Summer Supplementary Estimate may be requested in June, but only to correct major errors or new items which cannot wait for the Spring Supplementary Estimate.

1.10. Departments do not have an automatic right to more money to pay for new services, or to make up insufficiencies for existing services. Excesses on one service have to be met

so far as it is possible within a Department's discretion by compensating savings on other services. Where additional funding is agreed in year it is provided from the Reserve (General and Special).

1.11. At the end of the year, each Department produces a consolidated Resource Account which is audited by the National Audit Office (NAO). After the audit, the account is laid before Parliament. The Committee of Public Accounts (PAC) examines the account and the reasons for any overspend. Overspends are subsequently voted by Parliament in an Excess Vote. The roles and responsibilities of the NAO and PAC are detailed at [Chapter 2](#) - The National Audit Office and the Committee of Public Accounts.

Supply Estimates

1.12. The form and purpose of the Supply Estimates is important. Estimates provide the mechanism for receiving authority from Parliament, and also provide Parliament with information about the nature and scope of resource consumption, how resources are to be managed, and who will be responsible for ensuring that effective and proper financial management is set in place. The principles that govern Supply are a combination of Parliamentary practice, plus the requirements of the Government Resources and Accounts Act 2000 and associated legislation.

1.13. Main Supply Estimates set the control framework for the next Financial Year. They are presented to Parliament by the Treasury in a publication called 'Central Government Supply Estimates' covering all Departments' Estimates. It is this document that facilitates Parliament's formal authorisation of the sums for the forthcoming Financial Year.

1.14. Each Supply Estimate covers expenditure on specified services for which a Department will be accountable to Parliament. Each Estimate is broken down into Commodity Blocks for core Defence Capability and Operations. There are no longer separate Requests for Resources (RfRs), which originally covered the main programmes for which the Department is responsible.

1.15. This Department has two Estimates (two 'Votes'):

- a. **Ministry of Defence Main.** This includes the net costs of Arms Length Bodies, hence when TLBs give out grants they must take into account the impact on the MOD's total position appearing in the Annual Report and Accounts (ARAc);
- b. **Armed Forces Pensions and Compensation Scheme (AFPCS).**

1.16. Further information on the form of the Supply Estimates may be found at [Part 2](#).

Revised Estimate

1.17. A Revised Estimate may be presented to Parliament to replace the original Supply Estimate. An unusual occurrence, it acknowledges the possibility that spending plans may change between presentation of Supply Estimates in March and the consideration of the Appropriation Act in July. It would clearly be wrong to invite Parliament to vote sums which are known to be incorrect. Presentation of a Revised Estimate is an unusual occurrence and would generally only happen in exceptional circumstances, e.g:

- a. to reduce provision;

- b. to effect a major redistribution between Commodity Blocks;
- c. to amend an Ambit. See [Part 2](#).

Appropriation Act

1.18. Having considered the Estimates, Parliament votes the Appropriation Act, which, before enactment, is termed the Consolidated Fund (Appropriation) Bill. The annual Appropriation Act constitutes the statutory authority for Supply services.

1.19. The Act's function is to:

- a. appropriate funds voted by Parliament to the use described in the Ambit of the Estimates;
- b. authorise issues to spending departments from the Consolidated Fund up to the net ceiling voted by Parliament in Supply Estimates;
- c. specify the period over which voted funds may be expended. This is generally the current Financial Year (the annuality rule), but arrangements tailored to individual Departments are in place to allow carry forward of unspent provision into the following Financial Year in certain circumstances.

1.20. The Act gives approval to the provision sought in Supply Estimates, amended where necessary by Revised Estimates or Summer Supplementary Estimates for the current year. It also appropriates the revised sums authorised in the preceding year's Supplementary Estimate, and authorises any Excess Vote for the year before that.

1.21. Appropriation means that the funds are actually attributed in statute, both in scope and amount, to the specific goods and services for which they have been voted. Of such constitutional importance is the concept of appropriation that a Parliamentary session cannot be closed until it has taken place.

Consolidated Fund Acts

1.22. These Acts have a similar function to the Appropriation Act, but relate to the Supplementary Estimates and the Vote on Account. The essential difference is that the Consolidated Fund Acts simply authorise issues from the Consolidated Fund, whereas the Appropriation Act actually appropriates the funds.

The Consolidated Fund

1.23. The Consolidated Fund, held by the Treasury at the Bank of England, is the account to which tax revenues and other public revenues and receipts are credited and to which payments are debited for Supply services, for example spending by Departments such as MOD.

1.24. The statutory authority for issues from the Consolidated Fund for Supply services is provided by the Appropriation Act and Consolidated Fund Acts which, taken together, grant to the Government the amounts voted by Parliament for the Financial Year in question.

Vote on Account

1.25. The Vote on Account provides the authority for Departments to finance existing services during the early months of a Financial Year, pending Parliament's consideration of the Main Supply Estimates for that year.

1.26. The amounts in the Vote on Account are generally 45% of amounts already voted for corresponding services in the current year, both resource and cash. Spending on new programmes, however, should not commence without emergency authority from Parliament and a repayable advance from the Contingencies Fund.

In-Year Reporting to Parliament and the Treasury

Online System for Central Accounting and Reporting (OSCAR)

1.27. MOD provides monthly actual and forecast information to the Treasury through the Treasury's OSCAR system, and this is combined with that of other Government Departments and published by the Office of National Statistics (ONS).

Departmental Expenditure Limits (DEL) and Annually Managed Expenditure (AME)

1.28. DEL is a Treasury (as distinct from Parliamentary) control on spending in year. DELs are a control mechanism designed to increase the ability of the Government to hold to its Expenditure plans, and are intended to provide a clear incentive for efficient financial management. DEL is split between capital and resource (current) expenditure, that is Capital DEL and Resource DEL. Resource DEL is further broken down into Non-Ring Fenced DEL and Ring Fenced DEL (Depreciation and Impairment of Non-Current Assets). Non-Ring Fenced DEL is further broken down into Programme and Administration costs. Virement from Ring Fenced DEL to Non-Ring Fenced DEL is not usually permitted, and neither is virement from Programme to Administration costs. All non-cash costs in DEL except Depreciation fall to Resource DEL. MOD, for internal purposes, also maintains visibility of Direct (near cash) and Indirect (non-cash) costs.

1.29. Any Department exceeding its DEL will be investigated by the NAO and will be penalised for the amounts breached in the following year. The Treasury acknowledges that certain elements of Departments' programmes are demand-led or highly volatile. Such items cannot reasonably be subject to firm multi-year limits and are instead treated as Annually Managed Expenditure (AME). Expenditure and income for the Armed Forces Pensions and Compensation Scheme (AFPCS) and payments of War Pension Benefit are examples of AME costs. AME also includes the creation and revaluation of Provisions and certain categories of Depreciation and Impairment.

1.30. Both DEL and AME are visible in the Estimates. Parliament votes the DEL and AME totals, and the Accounting Officer is therefore accountable to Parliament for both DEL and AME and is required to explain variations from the estimated provision.

Virement

1.31. 'Virement' refers to the transfer of underspends in one area of an Estimate to meet expenditure in another area. It is subject to the following rules:

- a. a Department cannot seek to vire non-voted provision to voted provision. Such changes need to be achieved via a Supplementary Estimate;
- b. a Department cannot vire between voted budgetary provision, that is Resource DEL, Capital DEL, Resource AME, Capital AME and Non Budget. Such changes need to be achieved via a Supplementary Estimate;
- c. virement from Programme to Administration costs requires Treasury approval. Treasury approval is not required for virement from Administration to Programme costs.

1.32. In practice, virement usually requires Treasury approval. The Treasury also limits the extent to which funds may be 'vired' from Capital to Resource expenditure. Parliamentary approval, through a Supplementary Estimate is required to:

- a. vire from Programme to Administration sub-head. An increase in Administration costs will normally be agreed only if there is sufficient cover for Administration costs in DEL as a whole, that is there is cover in the Departmental Unallocated Provision for Administration;
- b. vire into a new Estimate not included within the last Estimate approved by Parliament;
- c. vire into a ring-fenced Estimate section;
- d. vire income from one Estimate section to another. Such virement will only be approved where the income has an appropriate relationship to expenditure in the section into which it is being vired.

1.33. In certain circumstances, and to protect the interests of Parliament, the Treasury may refuse virement. This may happen if:

- a. parliament has not been informed of a new service;
- b. the expenditure is novel and contentious;
- c. it results from a major policy change;
- d. it is large in relation to original provision for the service;
- e. it is likely to result in heavy liabilities in later years;
- f. the provision is from the Departmental Unallocated Provision (DUP). This must be achieved via a Supplementary Estimate;
- g. there would be a breach of the Net Cash Requirement.

Supplementary Estimates

1.34. A Supplementary Estimate is an in-year Supply Estimate. Supplementary Estimates set the control framework for the remainder of the current Financial Year. Supplementary Estimates may take two forms:

- a. **substantive**, where additional resources (Resource, Capital and Cash) are required;
 - b. **token**, where Parliamentary authority is required, even though there is no overall change in net provision.
- 1.35. A substantive Supplementary Estimate must be presented to Parliament when:
- a. additional provision is needed to pay for new services which cannot be financed from savings within the DEL;
 - b. the Estimates provision for existing services is likely to be insufficient, that is because of a gross overspend or a forecast shortfall of Appropriation in Aid (AinA) (or a combination of the two). There is a Treasury presumption that an increase on these grounds would not be admissible unless offset by deliverable savings elsewhere;
 - c. authority is needed to meet an excess on one DEL either from savings on another DEL or from drawing on any Budget Flexibility;
 - d. there is to be a transfer of provision to or from another Department. These transfers are termed 'Budgetary Transfers' (see below). Top Level Budgets (TLBs) must inform Defence Resources of all transfers at the earliest opportunity to ensure they are programmed on OSCAR in time for the Estimates.
- 1.36. A token Supplementary Estimate must be presented to Parliament when:
- a. a new service is not covered by the DEL Ambit, even though the expenditure could be met from savings within the DEL;
 - b. existing Estimates provision is to be redistributed within the DEL;
 - c. AinA are forecast to exceed the amounts authorised by Parliament. Failure to make Supplementary provision may increase the risk of having to surrender such receipts to the Consolidated Fund;
 - d. the cost of a new service is to be met from non-public funds;
 - e. a material change is proposed in the conditions under which a Grant in Aid has been made.
- 1.37. An updated Statement of Comprehensive Net Expenditure and Statement of Cashflow are provided with each Supplementary Estimate.

Budgetary Transfers

1.38. Defence Resources advice must be sought at the earliest opportunity when negotiating or agreeing Budgetary Transfers with OGDs. Due to the timing differences between the Estimates, the IYM and ABC process, TLBs and Basic level Budgets (BLBs) should include the resources required in PB&F forecasts and plans once a firm agreement has been reached, and before the transfer is actioned between Departments.

1.39. When a Budgetary Transfer to or from an OGD has been agreed, the following details must be provided to Defence Resources:

- a. TLB and OGD;
- b. TLB/MOD and OGD points of contact;
- c. reason for transfer and name of transfer;
- d. amounts (in £K) and years concerned (note that transfers are limited to the SR cycle);
- e. confirmation that the transfer is included the TLB or Equipment Plan. For Supplementary Estimates Transfers, confirmation that expenditure is included in the IYM forecast and subsequent years' Final ABC Plan.

1.40. Defence Resources actions funding transfers into or out of the Department through OSCAR at Supplementary (February) and Main Estimates (March) only. Transfers are initially reflected only on OSCAR and not directly on PB&F. Defence Resources subsequently reconciles PB&F Control Totals by TLB to the total OSCAR position and, taking into account the availability of Departmental funding on OSCAR, then disaggregates revised IYM Control Totals to TLBs. For Supplementary Estimates Transfers this is affected via the IYM PB&F transfers model. For these transfers to take place, anticipated in year costs must be included in the forecast, and any subsequent years' figures must be included in the Final ABC Plan. Main Estimates Transfers are affected via the rollout of IYM Control Totals on PB&F based on the outcome of the ABC process. Again, it is important that these requirements are embedded in the Final ABC Plan so that they are available in the next Financial Year.

1.41. New funding attributable to OGD Transfers is not ring-fenced within disaggregated Control Totals or separately identifiable on PB&F. TLBs are therefore responsible for ensuring that robust audit trails, to the nearest £1K, are maintained supporting the disaggregation of funding below TLB level and for ensuring that the funding is included in the correct TLB/Equipment Plan. Where delivery of the task being funded crosses TLB boundaries then TLBs are responsible for ensuring that internal PB&F transfers are processed correctly in accordance with the internal Departmental IYM instructions. In the event of funding becoming untraceable then the TLB may need to fund any obligations made with OGDs 'at risk' or from other internal resources, as Defence Resources cannot replace or renegotiate funding that may have been lost in this way.

The Reserve

1.42. The Government's Reserve (as distinct from the Contingencies Fund) is the element of the Public Expenditure Control Total not allocated to spending Departments but earmarked for emergencies. Use of the Reserve does not increase the agreed level of planned public spending. The main reason for an MOD 'claim on the reserve' would be to fund the Net Additional Cost of Military Operations (NACMO) resulting from Conflict Prevention activities, which the Department would not normally have incurred and which could not otherwise be absorbed within the Defence Estimate.

Contingencies Fund

1.43. A principle of Parliamentary control over central Government expenditure is that Parliament votes funds for a service before any expenditure on that service is incurred. Parliament recognises, however, that there will sometimes be circumstances in which expenditure on some services, existing or new, is so pressing that it cannot wait for the voting of funds under the normal Supply procedure.

1.44. The Contingencies Fund (as distinct from the Reserve) is the fund which can be used for urgent expenditure in anticipation of provision by Parliament becoming available. Use of the Fund is possible only where it would be against the public interest to delay expenditure until Parliamentary authority has been given.

1.45. Legitimate uses of the Fund include instances where expenditure exceeds the amount provided in the Vote on Account, or where expenditure is required on a new service before there is an opportunity to present a Supplementary Estimate.

End of Year Reporting

Annual Report and Accounts (ARAc)

1.46. At the end of the year, after expenditure has been incurred, it is audited and accounted for to check that the amounts and purposes approved have not been exceeded. Resource Accounts are prepared for the Department and AFPCS Estimates. For both entities, the Resource Account together with the Annual Report comprise the Annual Report and Accounts (ARAc).

1.47. In many respects the form of the ARAc follows commercial accounting conventions and is comparable to the accounts produced by any UK registered company. To meet the needs of Parliamentary accountability, the MOD is required to provide an additional schedule which compares the end-of-year account with the amounts in Supply Estimates, as amended by any subsequent Supplementary Estimate. Substantial differences must be explained.

1.48. The ARAc is presented in the following form:

- a. **Statement of Parliamentary Supply.** Net Cash Requirement and Summary of Income paid to the Consolidated Fund. This compares the Estimate with outturn;
- b. **Statement of Comprehensive Net Expenditure and Statement of Recognised Gains and Losses.** This broadly follows generally accepted commercial accounting practice;
- c. **Statement of Financial Position.** This is a statement of the Department's assets and liabilities at the year end;
- d. **Statement of Cashflow;**
- e. **Statement of Operating Costs by Departmental Aim and Objectives.** This allocates operating costs to Departmental objectives.

1.49. The ARAc also contains supporting notes and statements on corporate governance and Accounting Officer responsibilities.

1.50. The AFPCS Accounts follow a similar form to the main ARAc.

Excess Votes

1.51. An Excess Vote is an excess of expenditure over provision voted by Parliament. Expenditure must be planned and controlled so that it does not exceed the amounts voted by Parliament. If an excess on one service seems likely, expenditure on other services needs to be reduced or postponed. This does not mean that bills contractually due should not be paid, rather that new commitments should not be entered into if money is unlikely to be available to settle those bills.

1.52. If an excess cannot be avoided, a Supplementary Estimate must be presented to Parliament. Excesses at the end of the year, however, sometimes cannot be prevented. In such cases, bills falling due must still be settled, either with the help of the Contingencies Fund or by drawing on any Excess Receipts.

1.53. The PAC (which represents the interests of Parliament in this) can be expected to be highly critical of Departments who spend more than they have been voted by Parliament. This is because overspends strike at the heart of the Parliamentary control of expenditure, in which taut estimating plays a central role. However, Parliament does not withhold authorisation for an Excess Vote if this is due to a cause demonstrably outside the control of the overspending Department.

1.54. The amounts of any excess are disclosed in the annual ARAc under Analysis of Income Payable to the Consolidated Fund. The reasons for the excess are investigated by the NAO, who report their findings to the PAC for examination before authorisation of the overspend by Parliament. This is likely to involve oral questioning of the Accounting Officer and a subsequent PAC report to Parliament. If Parliament is content, its agreement is embodied in the March Consolidated Fund Bill and the excess grants are appropriated in the Appropriation Act in July.

Budget Exchange

1.55. Budget Exchange is a Department's ability to carry forward the current year's resource underspends into the next Financial Year. This is effected in the Supplementary Estimate and reduces the Department's in-year allocation. Care must therefore be taken not to Budget Exchange too much, as this could lead to an Excess Vote. The amount of MOD's Budget Exchange is limited to 0.75% for RDEL and 1.5% for CDEL. The Treasury will not allow the Department to exchange above these set percentages of the Total DEL, transfer Capital DEL to Resource DEL, or transfer Ring Fenced DEL to Non-Ring Fenced DEL. The carry forward must be used in the following year as it will be netted off against any claim for Budget Exchange in the following year.

Supply Timetable

1.56. The following table summarises, as an example, the key dates in the Supply process for the 2013/14 Estimates, and the links to ARAc:

| Date | Activity |
|--------|-------------------------------------------------------------------------------------------|
| Nov 12 | Vote on Account for the next financial year presented to Parliament |
| Apr 13 | Main Supply Estimates and Summary Request for Supply presented to Parliament for 2013/14. |
| Jun 13 | Revised Estimates and Summer Supplementary Estimates presented to Parliament for 2013/14. |
| Jul 13 | Supply Estimates voted by Parliament. Appropriation Act passed. |
| Feb 14 | Supplementary Estimates for 2013/14 presented to Parliament. |
| Jul 14 | Annual Report and Accounts for 2013/14 presented to Parliament. |
| Feb 15 | Statement of Excesses presented to Parliament. |
| Apr 15 | Excess DEL authorised in the Appropriation Act. |

Defence Votes A

1.57. Under a long-standing convention, Parliament exercises control over the maximum numbers of servicemen and women allowed to serve in the Armed Forces at any one time. 'Votes A', a document setting out maximum manpower numbers for all elements of the Services and their reserve forces, is the mechanism for this. The Secretary of State for Defence is required to present Votes A to Parliament at the same time the Financial Secretary to the Treasury presents the Summary Request for Resources for all Departments. Defence Strategy and Statistics now manage Votes A.

1.58. Any increase above the maximum numbers authorised for each Service requires fresh Parliamentary authority in a Supplementary Vote. The actual numbers are audited and accounted for at the end of the year within the ARAc.

The Committee of Public Accounts (PAC)

1.59. The PAC is a Select Committee of the House of Commons, established to help give Parliament better control of the expenditure of public funds. The role of the PAC is to satisfy itself regarding the accounting for, and regularity and propriety of, Government expenditure, and also to explore economy, efficiency and effectiveness issues set out in National Audit Office (NAO) Value for Money (VFM) and Cross Government study reports.

1.60. The PAC receives reports from the NAO on the basis of which it can summon Accounting Officers to be examined, and itself makes reports to Parliament. Although the PAC has no executive power and its recommendations are not binding on Parliament, its views are highly influential. In matters touching on the Parliamentary control of expenditure, its recommendations are usually accepted by Parliament. Further information on the PAC is in [Chapter 2](#) - The National Audit Office and the Committee of Public Accounts.

Further Information

1.61. For further information on the roles of the House of Commons Defence Committee, the NAO and Comptroller and Auditor General and the Treasury see [Part 2](#).

1.62. For further information on Parliamentary Supply and the Government's Financial Management Framework see [Part 2](#).

1.63. For further detail about how the Parliamentary Supply process links into in-year management, and reporting to the Treasury (through the OSCAR database) see [Chapter 5](#) – The Annual Budget Cycle Process and In-Year Financial Management.

2 The National Audit Office and the Committee of Public Accounts

Introduction

2.1. This chapter outlines the role of the National Audit Office (NAO) and the Committee of Public Accounts (PAC) in relation to Defence in the production of 'Value for Money' studies and associated follow up work. Specifically, it sets out the end to end process which is in place to govern this activity. It is aimed principally at those who will manage the day to day relationship with the NAO, but staff at a senior level who coordinate activity, and who are personally appointed by the Permanent Under Secretary (PUS) to do so, will find it a valuable insight. The chapter covers both MOD specific activity as well as our contribution to cross Government work carried out by the NAO.

Subject Matter Experts

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|--------------------------|-------------------------------|------------|
| DFinStrat-FMPA-FinPol-1a | Advice concerning NAO and PAC | 9621 84576 |

Key Directives

2.2. Those responsible in the Department must ensure that any work contributing to the work of the NAO or the PAC is of the highest standard, factually accurate, presents a balanced analysis of the Department's performance and is dealt with in a timely manner.

2.3. NAO Study Coordinators, nominated by PUS to co-ordinate NAO studies and act as subject matter experts, and any other individuals whom PUS in turn calls on, must co-operate fully with the NAO and give it all the assistance they can.

General Principles

2.4. The NAO supports the work of the PAC, principally by preparing 'Value for Money' reports, which may then form the basis of a hearing before the PAC and the production of a report by the PAC itself.

- 2.5. The Department's relationship with the NAO is a strategic one:
- a. if the conduct of our business with the NAO is carried out ineffectively, the potential for adverse public, press and parliamentary comment is strong;
 - b. those responsible in the Department must ensure that any work contributing to the work of the NAO is of the highest standard, factually accurate, presents a balanced analysis of the Department's performance and is dealt with in a timely manner. It is important that NAO studies are dealt with expeditiously as the timetable for publication of reports is set in advance to allow scheduling of PAC hearings and the NAO will not slip publication dates to allow MOD to complete work;

- c. the work of the NAO focuses on the economy, efficiency and effectiveness of the Government's expenditure;
 - d. there is a clear process governing our contribution to the work of the NAO.
- 2.6. The role of the PAC exists to hold the Government to account for the way it spends taxpayer's money.
- 2.7. The Department's relationship with the PAC is a strategic one:
- a. if the conduct of our business with the PAC is carried out ineffectively, adverse public, press and parliamentary comment will inevitably follow;
 - b. as before under Key Directives refer to paragraph [2.2](#);
 - c. there is a clear process governing our contribution to the work of the NAO;
 - d. the PAC is a non-political, cross-party committee which represents Parliament in dealing with all Government Departments. It scrutinises how rather than why money is spent; unlike Select Committees it has no role in reviewing policy making. The PAC is traditionally chaired by an MP from the main opposition party. Further information on the role, background and statutory basis of the PAC and the NAO may be found in the Treasury publication 'Guide to the Scrutiny of Public Expenditure'. (See [Part 2](#))
- 2.8. For further information on the Department's relationship with the NAO see [Part 2](#).

Osmotherly Rules

2.9. The basic principles for immediately commenting on NAO and PAC reports are set out in the Cabinet Office Guidance 'Giving Evidence to Select Committees (Guidance for Civil Servants)' often referred to as the 'Osmotherly Rules'. For further information, see [Part 2](#).

3 Financial Delegations and the Role of Directors of Resources, Budget Holders and Managers

Introduction

3.1. This chapter covers the management of financial delegations. It applies to the MOD and its Agencies and will be of use to all staff who commit or authorise others to commit the Department to expenditure, and who will therefore either receive or issue a letter of financial delegation. It also describes the function of Directors of Resources (D Res) and outlines the role and responsibilities of Budget Holders and Budget Managers.

Subject Matter Experts

| Job Title/E-mail | Subject Matter Expert | Phone |
|-----------------------------|--------------------------------------------------------------------------|------------|
| DfinStrat-FMPA-FinPol-1a | Financial Delegations and the Role of D Res, Budget Holders and Managers | 9621 84576 |
| DFinStrat-FMPA-FinPol-AHd-1 | Financial Delegations and the Role of D Res, Budget Holders and Managers | 9621 86949 |

Key Directives

3.2. The Treasury has delegated to the Permanent Under Secretary (PUS) certain categories and levels of expenditure within which the Department may **normally** incur commitments without reference to the Treasury. (See [Part 2](#))

3.3. PUS has, in turn, delegated financial authority in personal Letters of Delegation to the Top Level Budget (TLB) Holders in whom responsibility for actually consuming the Department's allocated resources resides. TLB Holders are encouraged to sub-delegate to lower level Budget Holders to ensure business is managed efficiently at the right level.

3.4. The financial authority PUS delegates to TLB Holders **does not** allow individuals to commit to expenditure which:

- a. is illegal, conflicts Treasury guidance, or may be novel, contentious, or repercussive. Treasury guidance on delegations is contained in Managing Public Money, Annex 2.2. (See [Part 2](#));
- b. cannot be met from within a TLB Holder's Budget;
- c. is outside of an individual's functional management authority (for example only the Defence Infrastructure Organisation may purchase estate on behalf of the Department, though it may use funding from another TLB to do so);
- d. requires scrutiny and approval by other approving authorities – for example as set out in JSP 655 Defence Investment Approvals. (See [Part 2](#))

3.5. TLB Holders must seek advice from the TLB D Res as the authoritative source of all financial management advice within the TLB. Any financial proposal not endorsed by the D Res is deemed to fall outside the delegated authority of the TLB Holder and must be referred in the first instance to DG Finance and subsequently PUS, if still unresolved.

3.6. D Res are the lead finance professionals in TLBs and are required to act in accordance with the Letter of Delegation issued to them personally by DG Finance. They report to the TLB Holder, with DG Finance being their Second Reporting Officer.

3.7. Budget Managers are required to advise Budget Holders on all financial matters and are responsible to the Budget Holder for sound effective and efficient financial management of the Budget.

General Principles

3.8. No expenditure may be incurred by the MOD or its Agencies without the approval of the Treasury. To remove the need to seek Treasury approval for every new financial commitment, the Treasury has agreed certain levels and categories of expenditure within which the Department may normally incur commitments without reference to the Treasury, provided these costs can be met from within existing budgetary limits. The levels and categories of expenditure which PUS has delegated to each TLB Holder are set out in personal Letters of Delegation. The Treasury has reserved the right to amend or withdraw the delegations set out in PUS' Letter of Delegation at any time and may ask to be consulted about any individual project or area of work.

3.9. There are no circumstances where it is appropriate to incur expenditure which may conflict with legislation (including European legislation which may cover some of our activities) and the spirit of legislation, or Treasury guidance (including Managing Public Money, which is a key source setting out the general principles associated with delegations), or is otherwise novel, contentious or repercussive. Only the Treasury, through Financial Management Policy & Accounting-Finance Policy (FMPA-Fin Pol), may approve expenditure which is novel, contentious or repercussive, or in some other way is at odds with its guidance. No expenditure may be incurred which is illegal. Similarly, expenditure must not be incurred if the TLB Holder holds insufficient funding to meet the spending commitment, even if the expenditure is within his or her delegated authority. Delegated financial authority does not take away the need to ensure that proposed expenditure is agreed first by any internal approving authorities which exist. The principal guidance in this respect is JSP 655 Defence Investment Approvals, although other local guidance may also exist.

3.10. The MOD is fully responsible for decisions taken within the scope of its delegation, and it is for PUS, as the Department's Accounting Officer, to justify the use of those delegated powers exercised in accordance with his personal letter of delegation from the Treasury. Ultimately, PUS may be called to explain the Department's spending activities to the Committee of Public Accounts (PAC). For more information on the PAC see [Chapter 2](#) - The National Audit Office and the Committee of Public Accounts.

3.11. Artificial tax avoidance (such as the use of devices to artificially reduce the apparent cost of goods and services by paying less tax or National Insurance Contributions) is always regarded as a novel and contentious use of public resources. Any proposal which involves tax avoidance requires approval by the Treasury and HM Revenue and Customs before proceeding, in line with Managing Public Money,

Paragraph 5.6. In the absence of explicit Treasury agreement (which will only be provided if value for money can be clearly demonstrated), auditors are likely to find the use of artificial tax avoidance irregular or improper.

PUS - Letters of Delegation and Designation

3.12. Letters of Delegation are routinely issued from the Treasury to Departmental Permanent Under Secretaries once the Spending Round is finalised. The Treasury can, at its discretion, reduce delegated powers or revoke a delegation at any point. For more information on Spending Rounds see [Chapter 1](#) - Parliamentary Supply and the Government's Financial Framework. A copy of PUS' Letter of Delegation from the Treasury is at [Part 2](#).

3.13. When a new PUS is appointed he/she is issued with a Letter of Designation by the Treasury which details the role of Principal Accounting Officer. For more information on the role of the Principal Accounting Officer see [Chapter 4](#) – Responsibilities of Accounting Officers.

Budgets

3.14. Budgets are used to allocate resources for the activities of the different parts of Defence. They form a hierarchical structure from Top Level Budgets (TLBs) through Higher Level Budgets (HLBs) to Basic Level Budgets (BLBs). For further information on Budgets see [Chapter 5](#) - The Annual Budget Cycle and In-Year Financial Management.

3.15. Budget Holders are personally accountable for delivering agreed outputs as effectively, efficiently and economically as possible, for ensuring regularity and propriety and for remaining within the Control Totals issued for their Budgets.

Role of Director of Resources (D Res)

3.16. D Res are the Senior Finance Officer (SFO) in each TLB and sit on the TLB Senior Governance Board and other appropriate bodies. As D Res he/she is personally responsible for specific delegations made by DG Finance (the Second Reporting Officer for the D Res), including discharge of any matters not reserved by the central Investment Approvals Committee. These responsibilities sit alongside other appropriate duties, provided that any additional burden is not detrimental to the execution of core D Res tasks. For further information on the Investment Approvals Committee see [Part 2](#).

3.17. D Res are responsible for assuring that adequate arrangements exist within the TLB to execute financial management and stewardship responsibilities in support of delivery of the TLB Command Plan. This includes the requirement that financial management in the Department should be based on a single version of the financial truth. They are also responsible for ensuring that the TLB discharges its financial management and stewardship duties in accordance with the corporate framework established through Treasury and Cabinet Office guidance, as well as in line with the policies, standards and processes laid down by the Accounting Officer or relevant Defence Authority.

3.18. D Res must be given sufficient authority within the TLB to operate at the highest levels, both as the Accounting Officers/DG Finance's representative within the TLB and as the Senior Financial Adviser to the TLB Holder. DG Finance will provide professional

leadership and mentoring to Directors of Resources seeking advice and guidance in the discharge of their financial management responsibilities. They are also members of the Finance Board chaired by DG Finance. For further information on the role of D Res see [Part 2](#).

Role of TLB Holders

3.19. The TLB Holder is the senior officer within the TLB/Command and will have delegated authority from PUS to deliver agreed TLB outputs whilst managing the associated risks and delegated resources. The TLB Holder has a stewardship responsibility to secure value for money, prevent loss, waste or misuse of Defence assets, and for the sound management of delegated Capital and Revenue budgets, both in year and for future commitments. The TLB Holder must discharge his/her functions within the corporate framework as well as in line with the policies, standards and processes laid down by Process Owners and Treasury and Cabinet Office guidance.

3.20. In discharging their responsibilities, the TLB Holder must seek the advice of the TLB D Res. The D Res is the authoritative source of financial management advice within the TLB and must have access to all relevant information and discussions to ensure that they are at the heart of decision making in the TLB, particularly where it has an impact on the use of resources. The TLB Holder must ensure that the D Res is able to participate fully as a member of the TLB Senior Governance Board.

3.21. All TLB Holders are required to produce a TLB/Command Plan which must comply with minimum standards as set out in annual instructions issued by Def Strat-CSG Planning DH. D Res play a pivotal role in the financial management, risk and financial planning content of those plans.

Conflict Resolution

3.22. If a Budget Holder does not wish to accept the formal advice of the D Res, or a Budget Manager acting on behalf of the D Res, on any aspect of a proposal with resource or accounting implications, the proposal is deemed to fall outside the Budget Holder's delegated authority and must be referred up the management chain for resolution. Disputes between the TLB Holder and the D Res should be escalated, in the first instance, to DG Finance with subsequent escalation to PUS if still unresolved.

Role of the Budget Manager

3.23. The Budget Manager is responsible for advising the Budget Holder, D Res and other key personnel on all financial matters. They are responsible to the Budget Holder for sound, effective and efficient financial management of the Budget. Budget Managers also have a functional responsibility to support the D Res in the performance of the D Res duties. Budget Holders will look to the Budget Manager for specific/specialist advice and general guidance on all financial matters (including rules and procedures). The Budget Holder remains accountable for action taken on the advice of the Budget Manager. For further information on the role of the Budget Manager, Financial Scrutiny and Requirement Scrutiny see [Part 2](#).

4 Responsibilities of Accounting Officers

Introduction

4.1. This chapter outlines the role and responsibilities of the Permanent Under Secretary (PUS) as MOD's Principal Accounting Officer (PAO) and those officials, led by Director General Finance (DG Fin), who are tasked with supporting the PAO in managing the Department's resource consumption.

Subject Matter Experts

| Job Title/E-mail | Subject focus | Phone |
|-----------------------------|-----------------------------------------|------------|
| DFinStrat-FMPA-FinPol-1a | The role of PUS and Accounting Officers | 9621 84576 |
| DFinStrat-FMPA-FinPol-AHd-1 | The role of PUS and Accounting Officers | 9621 86949 |

Key Directives

4.2. Each organisation in Central Government - Department, Agency, Trading Fund, NHS body, Non Departmental Public Body (NDPB) or Arm's Length Body (ALB) - must have an Accounting Officer, who should be supported by a Board structured in line with the Treasury's corporate governance Code of Good Practice. (See [Part 2](#))

4.3. The Treasury appoints the permanent head of each Central Government Department to be its Accounting Officer. Where there are several Accounting Officers in a Department, the permanent head (PUS) is the Principal Accounting Officer. The exception to this is the Accounting Officer of a Trading Fund, who is appointed directly by the Treasury rather than being appointed by, and therefore being subordinate to, the permanent head of the Department.

Accounting Officers

4.4. In accordance with the Government's Resources and Accounts Act 2000, PUS holds a separate Treasury appointment as the Department's PAO for Defence. If additional senior managers are made responsible for particular elements within the Departmental Estimate, PUS as permanent head of the Department appoints them as Additional Accounting Officers, subordinate to PUS. For more information on the Estimates process see [Chapter 1](#) - Parliamentary Supply and the Government's Financial Management Framework. The responsibilities of an Accounting Officer are detailed in the Treasury's Managing Public Money, Chapter 3. (See [Part 2](#))

4.5. PUS has the personal duty of signing the Resource Accounts and the Annual Report, and of being a witness before the Committee of Public Accounts (PAC) to deal with issues arising from the accounts or, more commonly, from reports made to Parliament by the Comptroller and Auditor General (C&AG) under the National Audit Act 1983. Further information on the National Audit Office (NAO) and the PAC is at [Chapter](#)

[2](#) - The National Audit Office and Committee of Public Accounts. Further information on the Annual Report and Accounts is contained within JSP 472 - Financial Accounting and Reporting Manual. (See [Part 2](#))

4.6. PUS combines his/her PAC responsibilities with a duty to serve the Secretary of State (SofS), to whom he/she is responsible for the efficient administration of the Department. SofS in turn is responsible to Parliament in respect of policies, actions and conduct of the MOD.

4.7. PUS is advised by his/her senior financial advisor, DG Fin, on all financial issues. The role of a Department's senior financial advisor is detailed in Managing Public Money, Annex 4.1. (See [Part 2](#))

Main Responsibilities of PUS

4.8. PUS must ensure that a sound system of internal control is maintained in the MOD to support the achievement of its policies, aims and objectives and should regularly review the effectiveness of that system. He/she should ensure that managers at all levels:

- a. have a clear view of their objectives, and the means to assess and, wherever possible, measure outputs or performance in relation to those objectives;
- b. are given well-defined responsibilities for making the best use of resources (both those consumed by their business areas and any made available to organisations or individuals outside MOD), including a critical scrutiny of output and value for money;
- c. have the necessary information (particularly about costs), training and access to expert advice to exercise their responsibilities effectively.

4.9. For further information see [Part 2](#).

Joined-Up Activities

4.10. PUS should ensure that the impact of MOD activities on others is properly identified and where appropriate, taken into account. For example, it might be decided that MOD should take part in a combined activity working with one or more other bodies and, although this would not directly contribute to the achievement of MOD's own objectives, participation would assist in the achievement of other Government objectives. PUS will need to be satisfied that participation represents good value for money for the Exchequer, and that appropriate controls are in place to safeguard propriety and to provide proper accountability.

4.11. In some circumstances, an activity proposed by MOD might lead to additional expenditure pressures arising on another Department's programme, or have an impact on the level of revenue collected by the Exchequer. In implementing the activity, MOD staff must ensure that value for money is secured across Departmental boundaries, as though the full impact of the activity fell directly to their own Department.

Regularity and Propriety of Expenditure

4.12. PUS has specific responsibility for ensuring compliance with Parliamentary requirements in the control of expenditure. A fundamental requirement is that funds should be applied only to the extent and for the purposes authorised by Parliament.

4.13. Parliament's attention must be drawn to Losses or Special Payments, by appropriate notation of the relevant account. In the case of voted expenditure, any expenditure incurred or payments made must be within the Ambit and amount of the Estimate and Parliamentary approval must be sought and given. Amounts appropriated in aid, as set out in the Estimate, must be within the limits approved by Parliament. In cases not covered by the original Estimate, for example in connection with a service not contemplated when that Estimate was presented, or where a temporary advance from the Contingencies Fund has been sanctioned by the Treasury, PUS must ensure that Parliamentary approval is sought and given at the earliest practicable opportunity by way of a Supplementary Estimate or, if necessary, an Excess Vote.

4.14. PUS is responsible for ensuring that specific Treasury sanction for expenditure has been obtained in all cases where it is required. It is required for any expenditure not covered by any standing authorities delegated by the Treasury to MOD. It is necessary before any expenditure is incurred in excess of the amount specified in the Departmental Estimates, even though savings may be available elsewhere and the expenditure falls within MOD's delegated authority. PUS is responsible for ensuring that adequate machinery exists for the collection and bringing to account in due form all income and receipts of any kind connected with the Estimate and accounts for which he/she is responsible. For further information on the Estimates process see [Chapter 1](#) - Parliamentary Supply and the Government's Financial Management Framework.

Advice to Ministers

4.15. PUS has responsibility to ensure that appropriate advice is given to Ministers on all matters of financial regularity and propriety and more broadly on all matters of efficient administration. PUS is required to consider whether proposed policies or activities are feasible when considering whether to seek a Ministerial Direction. Further information on Ministerial Directions is provided in Managing Public Money, Chapter 3, Box 3.2. (See [Part 2](#))

4.16. If SofS is contemplating a course of action involving a transaction which the Accounting Officer considers would infringe the requirements of regularity and propriety (including where applicable the need for Treasury approval), PUS should set out in writing his/her objections to the proposal, the reasons for those objections and his/her duty to notify the C&AG should the advice be overruled. If SofS decides to proceed, PUS should seek a formal written direction to take the action in question. Having received such a direction, he/she must comply with it, but should then inform the Treasury (TOA) and the C&AG of what has occurred. The C&AG will normally draw the matter to the attention of the PAC, who will attach no blame to the Accounting Officer.

4.17. If a proposed course of action raises an issue not of formal propriety or regularity but relating to PUS's wider responsibilities for economy, efficiency and effectiveness, he/she has the duty to draw the relevant factors to the attention of the SofS and to advise in whatever way he/she deems appropriate. If PUS's advice is overruled and the proposal

is one which he/she would not feel able to defend to the PAC as representing value for money, he/she should seek a written direction before proceeding. He/she must then comply with the direction, informing the Treasury and the C&AG as in cases of propriety or regularity.

4.18. All Ministerial Directions will be published. The aim is to publish no later than the Annual Report and Accounts.

Appearance Before the Committee of Public Accounts (PAC)

4.19. Under the National Audit Act 1983, the C&AG can carry out examinations into the economy, efficiency and effectiveness with which MOD has used its resources in discharging its functions. PUS can expect to be called upon to appear before the PAC to give evidence on the reports arising from these examinations, and answer questions concerning the Resource Accounts and other accounts, or parts of accounts, for which he/she is the Accounting Officer. PUS may be supported by other officials who may if required give evidence also.

4.20. PUS will be expected to provide the PAC with explanations of any indications of weakness in the matters to which its attention has been brought to by the C&AG.

4.21. Although PUS may have delegated authority widely, he/she cannot on that account disclaim responsibility. Neither, by convention, does the incumbent PUS decline to answer questions on activities which took place prior to his/her appointment.

Other Issues

4.22. PUS has discretion, if he/she wishes, to appoint Additional Accounting Officers to take responsibility for specific, significant areas of the business, for example DE&S (a Bespoke Trading Entity) or Arms Length Bodies (ALB).

4.23. In the event of serious failures within an ALB, PUS can arrange for the governance of the ALB to be amended, or the Accounting Officer to be replaced, if that is necessary to bring about the required improvements. Leaders of ALBs must be made aware of this responsibility on appointment. For more information on ALBs see [Chapter 13](#) - Grants and Grants-in-Aid.

5 The Annual Budget Cycle Process and In-Year Financial Management

Introduction

5.1. This Chapter provides an overview of the Department's Annual Budget Cycle (ABC) and In-Year Financial management processes. It describes the ABC 19 process, setting it within the context of the Department's delegated financial model, and touches on the role of Command Plans and other ABC outputs.

5.2. The MOD is required to live within the resources voted by Parliament. To assist in monitoring the Departmental position, and to provide early warning of impending problems, regular In-Year Management (IYM) reports are required from all Top Level Budget (TLB) areas including the Bespoke Trading Entity (BTE)¹.

5.3. Whilst comprehensive guidance and instructions on ABC and IYM processes exist on Defnet (see [Part 2](#)), this Chapter is included within this JSP in order to enable the reader to set the remainder of the document in context.

Subject Matter Experts

| Job Title/E-mail | Subject Matter Expert | Phone |
|-----------------------------------------|------------------------------------------------------------|--------------------------|
| Defence Resources-Hd | Policy and Annual Budget Cycle Process, In Year Management | 9621 87056 |
| FMC-Cap-Strat-Hd | Policy and Programmes | 9621 86436 |
| FMC-Cap-Plans-Hd FMC-Cap-Jt Plans-Hd | Command/TLB Specific Issues | 9621 83900 9621 78695 |
| FMC-Cap-Infra-Hd | Infrastructure Issues | 9621 89409 |
| Def Res-Asst Hd (Planning) | Annual Budget Cycle Process | 030 67887581 |
| Def Res-Planning 1 | Annual Budget Cycle Process, PB&F Planning Models | 9621 86662 |
| Def Res-C1 (IYM TL) | In-Year Management | 9621 85678 |

Key Directives

5.4. All staff involved in the ABC process must acquaint themselves with, and adhere to, the Corporate Centre's ABC Instructions, including Supplementary Guidance Notes.

5.5. To ensure a proper understanding of the ABC process, all staff involved must be appropriately trained. The level of knowledge assumed in the corporate Centre's instructions is Financial Skills Certificate (FSC) Foundation. For staff in the Finance Function at Band C and above, obtaining at least one FSC Intermediate Certificate is mandatory.

¹ BTE is the Operating Cost of the Defence Equipment & Support organisation.

5.6. TLBs and the BTE are responsible and accountable for the detailed management of their resources in-year, including Operating Costs and the Equipment Programme, in terms of actuals, budgets and forecasts.

5.7. Fully profiled resource-based forecasts are required to be submitted by TLBs/BTE monthly to Defence Resources (Def Res) throughout the Financial Year. Forecasts are consolidated by Def Res, who present the Department's financial position to Director General (DG) Finance, the Treasury and the Defence Board.

5.8. Under the Delegated Operating model all TLBs/BTE are responsible, in the first instance, to balance any re-allocation of resources or adjustment in outputs, as necessary.

5.9. For further information on the framework and context for Defence planning, ABC19, the Treasury control regime and IYM processes see [Part 2](#).

6 Operations

Introduction

6.1. This chapter provides guidance on the approach to be adopted where UK forces are deployed overseas on Operations and on the general principles to be observed when determining the financial, contractual and accounting arrangements. These arrangements will need to be adapted to the circumstances of an individual deployment; Defence Resources (Def Res) will issue supplementary deployment-specific guidance as necessary. UK forces may be deployed under national command or as part of an allied military operation conducted by NATO, the EU, or the UN, or by an ad-hoc coalition under UN or other auspices. The guidance in this chapter covers all operations outside the UK, except as part of a force under direct UN command.

Subject Matter Experts

| Job Title/E-mail | Subject Matter Expert | Phone |
|-------------------------|----------------------------------------------------------------|------------|
| PJHQ-J8FinOps-DACOS-Ops | Operational Finance Policy | 9360 55828 |
| PJHQ-J8-ACOS | PJHQ - all Resource issues | 9360 55800 |
| Def Res-C1 (Ops - IYM) | Def Res focal point for PJHQ-Operations and Peacekeeping Costs | 9621 82889 |
| Def Res-SO1 Joint | Military advice in support of scrutiny for Costs of Operations | 9621 87698 |

Key Directives

6.2. Arrangements should be made at the outset to protect the interests of PUS as the MOD's Principal Accounting Officer, whose responsibilities remain undiminished in an operational deployment:

- a. senior Central Staff (for example Deputy Head Finance Policy, Head Defence Resources and ACOS J8 PJHQ and/or their staff must receive copies of papers with significant financial implications highlighting issues such as value for money, and regularity and propriety;
- b. finance staff must be particularly alert to the need for financial scrutiny, as the commitment of money will move rapidly and possibly in unconventional ways;
- c. in conducting an Operation, the crucial test must be whether Value for Money (VFM) is being obtained, and procedures must be adopted which PUS could defend.

6.3. Costs lie where they fall.

Funding Arrangements

6.4. Funding for Operations can comprise financial cover from Core, Deployed Military Activity Pool (DMAP), HM Treasury Special Reserve or Conflict Stability and Security Fund (CSSF).

6.5. There are a number of established principles which will apply to any overseas operation:

- a. the cost of overseas operations are not included in the forward programme. The Defence Budget includes no provision for overseas operations;
- b. from the start of planning, the Head Defence Resources (Hd Def Res), in consultation with Permanent Joint Headquarters (PJHQ), liaises with HM Treasury and Other Government Departments (OGDs) on funding and accounting for the costs of the deployment;
- c. unless the costs are attributed to OGDs, the costs of an overseas Operation will be a charge to the Defence Budget;
- d. Def Res is responsible for Finance Instructions relating to Operations.

6.6. Costs may be recovered from:

- a. contributions from other nations, either burden sharing or Host Nation Support (HNS);
- b. North Atlantic Treaty Organisation (NATO) common-funded expenditure, where a portion of the expenditure is reimbursed by NATO;
- c. European Union (EU) common-funded expenditure, where a portion of the expenditure is reimbursed by EU;
- d. costs of humanitarian assistance, which are reimbursed by the Department for International Development (DFID);
- e. the Foreign and Commonwealth Office (FCO), where appropriate;
- f. journalists and contractors, who are reimbursed by their companies;
- g. the CSSF – costs of peacekeeping operations may be reimbursed where the operation is accepted by one of the Pool programmes.

6.7. The CSSF is a tri-departmental budget jointly managed by FCO, MOD and DFID. It pays for UK discretionary peacekeeping, stabilisation and conflict prevention activities around the world. Approval and a budget must be obtained from the appropriate tri-departmental Programme Board. All requests to gain access to this source of funding should be routed through the Defence Engagement Strategy in the first instance.

Burden Sharing

6.8. Burden-sharing usually involves a cash contribution to the UK's costs by nations regarded as benefiting from the Operation, or by those sharing the objectives of the Operation but not making a significant military contribution. Early consideration should be given to opportunities for burden-sharing as part of MOD's examination of the Operation's financial implications. A decision to seek burden-sharing would need to be agreed inter-departmentally, with negotiations initiated at government-to-government level, and led by the FCO.

6.9. There may be scope for seeking assistance in kind from allies and others for items such as transport, equipment, spares and medical services. These must be recorded, valued and accounted for. Valuation should represent the equivalent cost of providing the same service from UK resources. When this is not available (for example certain types of equipment), details of the item and period of loan should be recorded separately so that a value may be attributed to the assistance later.

Host Nation Support (HNS)

6.10. HNS covers civil and military assistance provided during an operational deployment by a host nation to allied forces located in, or in transit through, its territory:

- a. assistance may include the provision of basic infrastructure and facilities, petrol oil and lubricants (POL), transport, labour, communications, water, food and accommodation. This can reduce the logistic task of the deploying forces, and certain assistance may be supplied free of charge;
- b. early in operational planning, MOD should explore the availability and potential for HNS with host nations and agree a cost/burden sharing formula, accepting that in some circumstances a host nation may not be able or willing to cover the costs of HNS;
- c. where there are contingency plans for possible future operations, the availability of HNS should be considered together with the terms under which it would be provided.

6.11. In-theatre, PJHQ has the responsibility, in conjunction with the deployed military logistics staffs, to negotiate the provision of HNS to meet the requirements of the deployed force:

- a. the preferred option is provision in kind, but purchase by UK forces with recovery of costs from the host nation is an alternative;
- b. any arrangement for provision in kind must safeguard HM Government should the host nation be unable to meet supply commitments. For example, the option might be retained for UK forces to procure their own items or facilities with recovery of costs if the host nation is unable to meet a requirement within a specified number of days;
- c. the outcome of these negotiations should, where practicable, be confirmed in a formal agreement;

- d. the extent and value of HNS received must, where practicable, be recorded.

Financial Management and Advice

6.12. In any deployment, finance and secretariat arrangements will need to be set up at the outset alongside the military Chain of Command. The Chief of Joint Operations (CJO) is responsible for planning and executing UK-led joint, potentially joint, combined and multinational operations. CJO exercises operational command of UK forces assigned to combined and multinational operations led by others. ACOS J8 PJHQ is responsible to CJO for financial and secretariat arrangements.

6.13. As soon as a decision is taken to deploy UK forces, Commitments staff and PJHQ need to consider the provision of financial, secretariat and contractual support to the forces in-theatre. Where significant in-theatre expenditure or supply commitments are expected, an in-theatre PJHQ, Civil Secretary (Civ Sec) and appropriate supporting staff should deploy at the start of the Operation. For further information see [Part 2](#).

6.14. For every Operation, a series of delegation letters will be issued to ensure that everyone is aware of their responsibility to ensure full and proper financial management. For most Operations, CJO will delegate financial authority. In parallel, PJHQ COS Pol Fin will issue the in-theatre J8 with a similar letter placing responsibility for financial scrutiny, regularity and propriety and contractual powers specific to the Operation.

Treatment of Expenditure

6.15. Costs incurred in supporting an overseas Operation are to be treated in accordance with the following principles:

- a. costs incurred will rest with the TLBs where they fall, and should be authorised and reported accordingly;
- b. manpower costs of deployed personnel will rest with their parent Commands. Operational Allowance must be specifically authorised by CJO;
- c. for an NSC endorsed Operation, Def Res will issue an IYM notice concerning financial arrangements.

Recording Expenditure

6.16. Costs incurred, and the value of items consumed, on deployments and Operations are to be recorded for control and accountability purposes and to provide broad cost figures (for example for use by Ministers in Parliament, and in support of arrangements for financing the operation). Budget managers must, subject to instructions given at the time, identify and record:

- a. all additional in-year expenditure directly attributable to the Operation (that is expenditure which would not have arisen but for the operation), including the purchase or hire of additional equipment, stores and services; additional cost of equipment refurbishment; additional freight and passenger movement (both in and out of theatre); the additional cost of deploying units; extra civilian overtime,

allowances or staff recruitment; additional payment of Service allowances; and receipts forgone;

b. additional receipts attributable to the Operation;

c. expenditure likely in-year to replenish stores, equipment and ammunition depleted by the Operation;

d. expenditure which would otherwise have occurred, but because of the Operation did not (for example on allowances ceasing on assignment to an Operation for which exercises were cancelled);

e. additional expenditure (for example to replenish inventories) and savings likely to result (for example due to expenditure brought forward) beyond the current year.

6.17. At each Accounting Period (AP) Budget Managers should, subject to guidance at the time, reflect in their forecasts any additional expenditure and receipts which have arisen or are forecast to arise in year.

6.18. TLBs should keep records, in accordance with standing procedures for stores accounting, of equipment, stores and other items of significant value which are consumed, destroyed or otherwise disposed of either in the theatre of operations or as a result of the Operation. TLBs are responsible for proper recording of IT purchases, and ensuring that such purchases are compatible with existing facilities and functional standards.

Equipment Spares and Requirements

6.19. An operational deployment is likely to lead to additional requirements for equipment, communications infrastructure, IT, medical stores, spares and supplies. The normal principles of financial approval will, except as below, continue to apply, including requirement scrutiny. In carrying out these activities, staff must ensure that the requirements of regularity and propriety are complied with and that VFM is achieved.

6.20. SFOs and central staff should quickly formulate and promulgate any necessary streamlining of procedures, striking a balance between ensuring that the potential needs of an Operation are met and avoiding nugatory expenditure. They should make known any delegation of responsibility for equipment requirement scrutiny.

Contractual Issues

6.21. Budget staff must be aware of the contractual implications of their decisions, and of the need to adopt contracting arrangements for overseas Operations which are as robust as those in place in the normal course of business:

a. only officials holding delegated contractual authority are empowered to enter into contractual commitments (including local purchase) on MOD's behalf, and these powers may be exercised only after financial authority has been given;

- b. Commercial and Local Purchase Officers should deal with requirements expeditiously and consider all available procedural options to ensure that Operations are not hampered;
- c. MOD is not empowered to direct contractors to divert equipment from other customers' orders to meet MOD requirements. Any such diversions need to be negotiated with the contractor concerned by the appropriate Commercial staff and the extra costs (if any) noted;
- d. on the conclusion of Operations, outstanding contracts should be reviewed to decide whether value for money would be best served by cancellation or by letting them run their course. Significant factors will include cancellation charges, and the usefulness of the equipment etc in other contexts.

Charging Issues

6.22. Operational deployments may result in services, facilities or stores being provided to OGDs or by the Armed Forces of another government. Normal charging procedures as laid down in [Chapter 19](#) - Charging are to be followed, except where:

- a. international agreements apply, for example existing Memoranda of Understanding (MOUs), NATO Standardisation Agreements (STANAGs) or special interdepartmental agreements;
- b. support is provided to other governments who are providing services or deploying personnel or equipment free of charge to make up shortfalls in the UK's own resources;
- c. agreements exist between governments to not charge for reciprocal services of roughly equivalent value.

6.23. If it is intended to enter into an agreement with industry to supply MOD stores and equipment to other governments on other than standard repayment terms (for example on the basis of replacement in kind, then FMPA-Charging Policy must be consulted and an appropriate agreement signed by representatives of the MOD procurement branch and the company before any stores or equipment are released. MOD's overhead charges must be taken account of.

6.24. If it is intended to enter into an arrangement to supply manpower, equipment, services or stores to commercial companies to undertake commercial work for other governments either before, after or during a deployment, an agreement must be signed by representatives of the appropriate MOD procurement branch and the company before any assistance is provided. Any such assistance provided to another government through an OGD will be subject to the interdepartmental rules normally applying or, if there are none, to normal repayment rules.

Gifting Issues

6.25. Requests for Gifting which arise as a result of a deployment must be considered in accordance with the normal criteria (see [Chapter 12](#)), and authorised in accordance with normal procedures:

- a. all items considered for Gifting must be valued, even if only a notional scrap value is appropriate;
- b. the delegated authority applies to the totality of the proposed Gift, not the value of individual items;
- c. any decision to proceed with a Gift must be supported by a business case;
- d. the interests of the Accounting Officer must be safeguarded at all times;
- e. when in doubt, FMPA-Charging Policy and Def Res advice should be sought.

Personnel Issues

6.26. The peacetime pay and allowances structure cannot be extended to cover all the circumstances that may arise in a major emergency. Points to note are:

- a. adaptations may be needed to meet special circumstances, and particular welfare-related measures may have to be worked out;
- b. a checklist of pay, allowance and welfare issues to be considered at the outset of any major deployment is available from People-Armed Forces Remuneration-Allowances (People-AF Rem-Allces);
- c. any departure from the normal rules must be justified, and must not lead to invidious comparisons elsewhere;
- d. the rationale for the 'X-factor' must not be undermined;
- e. once special concessions have been made, it is difficult to withdraw them;
- f. no decisions to change normal pay and allowance arrangements are to be made locally, and any such proposals are to be referred to People-AF REM-Allces through the in-theatre J1 staffs and PJHQ.

Local Accounting

6.27. Units are likely to need access to cash in-theatre, both for local purchase and, in some cases, for the payment of cash allowances.

Accounting for Cash

6.28. The arrangements for using cash in support of an overseas operation must be tailored to minimise the risks:

- a. cash must be accounted for through imprest accounts, or through sub-imprests linked to an imprest account held by a higher formation;
- b. holding large sums of cash should be avoided wherever possible;

- c. except for cash for immediate use, funds should be lodged in local banks (where these are available), subject to the advice of DBS Fin-FAADMT-Cash and Control Accounts who can arrange funding through bank accounts in most parts of the world at short notice;
- d. cash is held by the Imprest Holder, a Military officer trained in cash handling and accounting;
- e. financial limits applying to each Control Account should be clearly defined, and as far as possible the correct Resource Accounting Code (RAC) for different categories of expenditure indicated;
- f. official credit cards already in the possession of deploying units should not be used on operational deployments without the specific authority of the PJHQ Civ Sec, who will ensure that the proper accounting and requirement approval procedures are followed.

Accounting for Equipment

6.29. Even in an operational deployment, all possible steps must be taken to safeguard public property:

- a. special care should be taken in accounting for equipment at the completion of the Operation, for which unit rear parties with the required expertise should normally be tasked;
- b. arrangements should be made for the return of all stores and equipment with appropriate documentation except where such action is not cost effective. In these latter cases, properly documented local disposal should be arranged. PJHQ should be consulted in cases of doubt.

Local Purchase and General Accounting Arrangements

6.30. Local Purchase Orders should normally be placed only by staff with commercial and local purchase experience, and who have delegated contractual authority to do so. Arrangements should be supervised by commercial officers on the staff of ACOS J8 PJHQ, who may sub-delegate local purchase powers in appropriate circumstances.

6.31. Normal arrangements for cash and equipment accounting will continue to operate except in accordance with specific dispensation. The standing Service Instructions should be followed, supplemented where necessary by additional guidance prepared by the appropriate SFOs or their finance staffs.

Captured Prisoners of War and Equipment

Prisoners of War

6.32. Treatment of prisoners of war is governed by the *Geneva Convention Relative to the Treatment of Prisoners of War 1949* (known as the Third Geneva Convention). They are MOD's responsibility, whether inside or outside the UK and the financial aspects of the Convention's requirements are reflected in the Manual of Army Pay Duties.

Responsibility for internees and detainees in the UK, including any related costs, rests with the Home Office.

Equipment

6.33. Captured equipment becomes the property of the Crown:

- a. arrangements for its disposal must be made in good time before the end of any conflict;
- b. no such equipment must be brought back to the UK without official sanction;
- c. items for in-service use or scientific evaluation should have priority;
- d. whole-life cost implications must be considered before captured stores or equipment are taken into service, including the identification of offsetting savings where necessary.

Transfer of Equipment to UK

6.34. Where they can be carried within spare capacity, items may be brought back under the following charging conditions:

- a. for display by MOD units - free of charge;
- b. for display by museums not in receipt of a Grant-In-Aid (either MOD or an OGD) - at the marginal cost rate;
- c. for other purposes - at the full cost rate.

6.35. Sponsors will meet all costs from the port of arrival as well as the cost of subsequent upkeep. Items retained by museums will be Gifted to them formally. For further reference see [Chapter 12](#).

Ceremonial Events

6.36. In the aftermath of a deployment, there may be proposals for the Services to be involved in, or contribute to, ceremonial events (parades, services of thanksgiving, etc):

- a. it will be for MOD Ministers to decide whether there are to be any officially sanctioned ceremonies, in which case a steering group should be set up to coordinate arrangements;
- b. public funds must be spent in a proper manner and costs kept to the minimum consistent with the importance of the occasion;
- c. for any ceremonies or events not sanctioned by Ministers, FMPA-Charging Policy must be consulted and the responsibility for funding established at the outset before any commitments are agreed. For these events, any additional costs incurred must be recovered to the Defence Budget;

d. ceremonial events overseas are usually the financial responsibility of the FCO. Agreement on responsibility for funding must be reached before any commitments are entered into.

6.37. For further information see [Chapter 12](#).

Public Accountability

6.38. The Committee of Public Accounts (PAC), House of Commons Defence Committee (HCDC) and NAO take particular interest in the arrangements for the financial management of operational deployments. Systems for identifying and recording costs must be in place and working effectively. For further information on the PAC and NAO see [Chapter 2](#).

Deployments under UN Command

6.39. Where individuals or units are deployed as part of a UN force (as distinct from under UK or allied command in pursuit of a UN resolution), the FCO is responsible for both the policy and funding. A Financial Instruction will normally be issued by Defence Resources. In cases of doubt, FMPA-Charging Policy should be consulted on charging levels.

6.40. Robust accounting practices must be followed, and documentation provided to identify all the costs arising, so that reimbursement of costs may be secured. For further information on procedures for UN reimbursement see [Part 2](#). PJHQ will ensure that the strict rules and procedures that the UN impose are followed to ensure maximum reimbursement.

7 Sponsorship

Introduction

7.1. Sponsorship is the payment of a sum of money, or the giving of a ‘benefit in kind’, by an organisation in return for the rights to be associated with an activity, event, team or item. The money received can contribute towards the cost of an activity, while goods and services (‘benefits in kind’) can support or enhance the activity. Sponsorship differs from donations. For further information on donations see [Chapter 12](#) – Gifting and Chapter 17 – Grants and Grants in Aid.

7.2. This policy is to be followed where sponsorship is being considered to support core Defence activities. It is written in accordance with the principles of propriety and regularity in the use of publicly funded resources and is mindful of the Department’s commercial and reputational responsibilities. (See [Part 2](#) - Guidance). Because of the close link with commercial activity, this chapter is co-sponsored by Def Comrcl CC-Air Hd.

7.3. Sponsorship of non-core activities should follow the same general policy set out in this chapter, recognising that core and non-core activities can impact on the Defence ‘Brand’ and the public’s perception of the MOD, in the same way. Where TLBs intend to adopt a lighter touch approach to the scrutiny and approval of sponsorship for non-core activities, this should be agreed by the Director of Resources (D Res).

The Benefits of Sponsorship

7.4. Sponsorship can offer the MOD and the external organisation a number of benefits. For example, it can help offset costs to the public purse and enhance the Defence profile in the public eye. For the Sponsor it can enhance relations with the MOD and provide wider business benefits.

7.5. Sponsorship can take many forms, for example, vehicles loaned to the MOD, branding equipment or clothing or the placement of adverts in MOD publications and the direct association of the Sponsor’s name with an activity.

7.6. For further information on acceptable sponsorship activities and benefits realisation considerations see [Part 2](#) - Guidance.

Subject Matter Experts

| Job Title/E-mail | Subject Matter Expert | Phone |
|-----------------------------|-----------------------|--------------|
| DFinStrat-FMPA-FinPol-AHd-2 | Governance Policy | 9621 80221 |
| Def Comrcl CC-Air Hd | Commercial Advice | 0306 7707696 |

Key Directives

7.7. Although there are real benefits to be realised from sponsorship arrangements, agreements set in place should be specific and not run contrary to existing Departmental procurement arrangements with industry. The MOD must at all times deal with external organisations in a fair, equitable, open and transparent way, allowing no opportunity for,

or the perception of, undue influence to be exerted by the external organisation in the decision-making processes of MOD. Inappropriate sponsorship arrangements could leave the MOD open to accusations of being influenced by a particular organisation, for example through access to officials and Service personnel which might not be available to competitors. The underlying theme is that any sponsorship arrangement must be able to withstand public scrutiny and have clear, deliverable benefits for the MOD. Principles around sponsorship are also articulated in Cabinet Office guidance at:

<https://gcs.civilservice.gov.uk/wp-content/uploads/2015/09/Planning-and-Delivering-Effective-Communications-Partnership-Strategies.pdf>

General Principles

7.8. The following points must be observed when considering sponsorship in order to ensure that any arrangement is justifiable and defensible:

- a. sponsorship must add significant benefit to an existing MOD message or activity;
- b. no matter how great the commercial advantage to the Sponsor, or the financial advantage to MOD, the need to safeguard the Services' and the MOD's reputation must be paramount;
- c. upfront costs for a sponsored activity may be provided by the MOD on the agreement that the Sponsor will subsequently reimburse in full. Events must not take place if there is concern that costs to public funds may not be recovered and binding Contract must be in place between the Parties before public money is committed;
- d. publicly funded resources must not be used to generate income or profit for external organisations or private individuals without equal, or greater benefit to MOD;
- e. in general, sponsorship must relate to Defence activities and should not be provided to support the individual pursuits of MOD employees. By exception, a D Res may approve sponsorship for individuals participating in elite events, for example the Olympics;
- f. sponsors must not be, or appear to be, given privileged access to Ministers or senior officials in return for cash or benefits;
- g. sponsors must not receive ownership rights to any MOD assets, and their support must always be seen as secondary to MOD's aims;
- h. sponsors must not use the MOD's activity as a direct sales channel for their products or services;
- i. any sponsorship which could bring the MOD, or Government into disrepute must be declined. Further guidance can be found in [Part 2](#), Chapter 7.
- j. sponsorships must be governed by a binding commercial agreement between MOD and the Sponsor.

Level of Sponsorship

7.9. The following conditions must be followed:

- a. sponsorship should not give the Sponsor overt commercial advantage;
- b. the activity must not be entirely dependent on sponsorship support for its funding;
- c. sponsors must not receive benefits which are disproportionate to the value of sponsorship offered. It is common for a proposal (and often unsolicited proposals) to MOD to involve the delivery of small value goods or services, particularly to areas that are experiencing funding gaps, with a corresponding requirement for MOD to appear in advertising campaign (product placement) or to actively endorse (in writing, or by stating a certain product is preferred) such products or services. Any such approach should be rejected. Individuals within MOD (and Service personnel in particular) should actively avoid situations where they trade their participation or endorsement (or even perceived endorsement) for such goods or services, as they are unlikely to pass public scrutiny and may bring the MOD, and the individual, into disrepute, risking disciplinary action;
- d. to ensure the MOD is not exploited, or to undermine any potential Income Generation opportunities, there must be no overt commercial advantage to the Sponsor in terms of direct sale of their products or brands as a result of their association with MOD. Nor must there be any agreement to participate in an advertising campaign for the Sponsor's products;
- e. the MOD must not 'endorse', or be seen to endorse, the sponsoring organisation or its products. In other words, names insignia and logos must not be used to imply that the MOD particularly favours a Sponsor's products or services, or certifies the suitability or quality of them. This also includes ensuring that the Sponsored equipment is of benefit to the MOD - for example jackets if worn in lieu of those provided by the MOD which saves on wear and tear. The company may imply that we chose their jackets for the quality, and this could cast doubt over MOD's choice of suppliers and must be avoided. Individuals must not make statements credited to them personally in any official capacity being used by the Sponsor if they endorse, or appear to endorse, the Sponsor.
- f. when consideration is made in accepting equipment the benefit to the MOD should be equal to, or more than any benefit the Sponsor may derive. The decision on accepting sponsored equipment must be made on negotiating the best deal for the MOD while avoiding any obligations to the Sponsor in providing endorsement or product placement. A decision must be made to decline equipment where there is little, or no benefit to the MOD especially if the equipment is high profile and provides the Sponsor with an advertising advantage, that is high profile watches which provide little, or no benefit to the MOD but is of great benefit to the Sponsor or individual.
- g. MOD's policy in respect of suppliers is that as an impartial central government department, staff may make factual statements in respect of contractual positions only. Staff must not express a preference for, or give or appear to give an endorsement of any company, product or service, for example if asked by suppliers

to give input to their press releases or PR material. Additionally staff have no delegation to permit third parties to make use of MOD logos (for example in conjunction with suppliers' press releases), even to indicate companies are suppliers to, or are under contract to MOD. The policy on badge usage by third parties and DIPR contact details is set out within both the DIN MOD Names, Logos and Insignia and also MOD Copyright Licensing Information – see [Part 2](#) Chapter 7 Sponsorship under Acceptable Sponsorship Activity Paragraph 2.

h. further guidance may be found in 2014DIN03-024 Contact with the Media and Communicating in Public. For further information see [Part 2](#) Chapter 7 Sponsorship Paragraph 5.

Establishing and Approving Sponsorship

7.10. A wide range of MOD activities may be suitable for sponsorship. Each must be evaluated on its own merits. The Sponsorship Organiser of any activity using public funds or publicly funded resources must submit a Business Case to the TLB D Res (or delegated representative) providing full details of the proposal. Full guidance on suitable sponsorship activities, as well as the process for selecting and agreeing terms with a sponsor, can be found in [Part 2](#) - Guidance.

Cabinet Office

7.11. Some cases may be subject to Cabinet Office Controls and require approval for spend of £100K and above such as:

- a. advertising including: TV; radio; digital advertising; outdoor; print; advertorials; recruitment; costs of media; fees and commission for media buying; media planning; creative development and production;
- b. marketing activities including: design and branding; direct and relationship marketing; customer relationship management programmes; telemarketing; campaign help lines; partnership marketing; sponsorship marketing; field or experiential marketing; merchandising; advertiser-funded programming; audio-visual activity; storage and distribution of marketing materials;
- c. consultation activities including: associated publicity, events, resources and materials, research, analysis and evaluation;
- d. printing and publications;
- e. events, conferences and exhibitions, including stakeholder, public and internal communication events, but excluding training events.

7.12. More detailed guidance may be found in [Part 2](#) Chapter 7 Sponsorship Paragraph 34.

Roles and Responsibilities

7.13. Further guidance on the roles and responsibilities of TLB Sponsorship Focal Points, Sponsorship Organiser, Commercial staff, Defence Intellectual Property Rights,

Directorate of Defence Communications and the Directorate of Judicial Engagement Policy (Common Law Claims & Policy) can be found in [Part 2](#) - Guidance.

7.14. Sponsored activities must be subject to a system of evaluation and post-implementation reviews. This ensures that sponsorship activities have been undertaken in accordance with the Business Case presented and the Sponsorship Agreement made. Further guidance can be found in [Part 2](#) - Guidance.

Recording and Reporting Sponsorship Activity

7.15. Sponsorship activities valued at £5K in total should be reported in the ARAc. To inform this requirement, TLBs are required to send sponsorship returns to FMPA-Fin Pol on a six monthly basis. Approved Business Cases should be embedded in the return to FMPA-Fin Pol for scrutiny and retained by the TLB as part of the Sponsorship audit trail. Further guidance, a Process Chart, Checklist and Business Case template may be found in [Part 2](#) - Guidance. The returns will be viewed by the Finance Management Executive twice a year to allow for sharing of knowledge of sponsorship opportunities, as well as to ensure consistency of approach across the TLBs.

Use of Military Names, Insignia and Logos

7.16. The MOD and Service names, insignia and logos, such as the MOD Departmental crest, the name 'Royal Navy', the Army 'cross swords' logo, the Royal Air Force roundel, and Army Regimental cap badges, are all MOD owned assets, many of which have been registered as trade marks in the name of the Secretary of State for Defence. The names and logos of 'core' events and activities are also official MOD assets. Use of these is strictly controlled. Nevertheless, there are potential benefits in offering a joint package of sponsorship and brand licensing opportunities, please see [Part 2](#) - Guidance.

Use of Sponsors' Logos

7.17. The use of a Sponsor's logo plays a strong role in Sponsor recognition. Careful consideration has to be made on the prominence of Sponsor logos, their use in relation to MOD/Military logos and the overall impression such use implies. Further guidance on acceptable use of Sponsors' Logos is at [Part 2](#) - Guidance.

Photographs

7.18. There are restrictions on which photographs may be used by sponsors, in particular photographs depicting identifiable individuals engaging in sponsored activities. See [Part 2](#) - Guidance.

Acceptance of Gifts and Hospitality by Crown Servants

7.19. Sponsors occasionally offer hospitality to Crown Servants. Typically this might be an invitation to attend the sponsored event – the guidance in [Part 2](#) – Guidance should be followed in these cases.

Non-Core Defence Business Activities

7.20. Public money should not be used to support a non-public activity unless there is a direct benefit to MOD's core business, for example recruiting, and the requirement - together with any necessary funding - has been approved by the TLB D Res. For example, MOD could sponsor a table at a corporate business event if it were considered a good opportunity to promote MOD business. Permission to use public funds in this way should be given by the TLB D Res and should be subject to the normal rules of regularity and propriety and value for money. Further direction on sponsorship of non-core Defence activities is given in [Part 2](#) - Guidance.

External Support for Activities

7.21. Instead of offering sponsorship, where there is a mutual benefit offered by both parties, an outside organisation may choose to provide support to the MOD in the form of discounted goods (at its own business risk). The relationship in this case is governed by a standard contractual arrangement drawn up by the appropriate Commercial staff between the MOD and the supplier. No Sponsorship Agreement is required, and therefore such an activity should not be recorded as sponsorship. Where individuals are offered discount/trade priced goods or services/privileges (other than those through the Defence Discount Service), the relevant section 'Acceptance of Gifts and Hospitality by Crown Servants' and its enclosed link should be consulted in [Part 2](#) - Guidance.

8 Advance, Interim and Deferred Payments

Introduction

8.1. This chapter sets out MOD's policy on advance, interim and deferred payments.

Subject Matter Experts

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|---------------------------------|---------------------------|--------------|
| DFinStrat-FMPA-FinPol-AHd-1 | General Policy Advice | 9621 86949 |
| Def Comrcl Pol-1C-Asst-TL | Commercial Policy Advice | 9352 30483 |
| DFinStrat-FMPA-ATM-ACCPOL-TMAHd | Cash and Banking Services | 0306 7984646 |

Key Directives

8.2. Advance, Interim and Deferred Payments must be properly justified and approved.

8.3. MOD has no delegated authority to approve Advance or Deferred Payments. Treasury approval is therefore normally required.

8.4. Responsibility for negotiating contract terms and conditions, including Advance, Interim and Deferred Payments, rests solely with Commercial staff.

General Rules for Payment

8.5. The general rule is that payments should be made in arrears after the specified goods or services have been satisfactorily provided, and that when they have become due they should be paid promptly in accordance with the Late Payment of Commercial Debt (Interest) Act 1998.

8.6. In particular, public sector organisations should observe the Better Payment Practice Code, which advocates:

- a. explaining payment procedures to suppliers;
- b. agreeing payment terms at the outset and keeping to them;
- c. paying bills in accordance with agreed terms, or as required by law;
- d. informing suppliers without delay when an invoice is contested, and settling quickly when issues relating to a contested invoice have been satisfactorily resolved.

8.7. For further information on the Late Payment of Commercial Debt (Interest) Act 1998 and the Better Payment Code see [Part 2](#).

Advance Payments

8.8. Advance Payments lead to higher Exchequer financing costs. It is not good value for money for public sector organisations to act as a source of finance for contractors or other external bodies who have access to other forms of loan finance. Requests for Advance Payments from contractors should therefore be exceptional, and should only be considered if a good value for money case can be made, for example a price discount commensurate with the time value of the funds in question.

8.9. There may be other occasions where Advance Payments are considered to be necessary. In such cases the Budget Manager, in consultation with Commercial staff, should undertake a financial appraisal to establish whether there is a value for money case for payment in advance.

8.10. Advance Payments expose the MOD to risk, for example if a contractor goes into receivership before the work is satisfactorily completed. They may also reduce the incentive for the contractor to make satisfactory progress. Action should therefore be taken to reduce this risk, typically by requiring a bond or financial guarantee issued by a reputable bank for the value of the advance, and payable upon non-performance. The cost of such a guarantee should be included in the financial appraisal.

8.11. Failing to seek a repayment or rebate due from a contractor is tantamount to making an Advance Payment. Every effort should therefore be made to recover amounts due from contractors at the earliest possible opportunity.

8.12. MOD has no delegated authority to approve Advance Payments. Advance Payments are therefore classed as 'novel and/or contentious' and normally require Treasury approval (subject to the exceptions identified below).

Exceptions

8.13. The following Advance Payments may be treated as exceptions to the above:

- a. service and maintenance contracts which require payment when the contract commences, provided that the service is available and can be called on from the date of payment;
- b. payments for activities carried out by, or on behalf of, a public sector funder, for example Grant in Aid to NDPBs or grants to small voluntary or community bodies where the recipients need working capital to carry out the commitment for which the grant is paid;
- c. minor services, such as training courses or attendance at conferences, where local discretion is acceptable.

Interim Payments

8.14. Interim payments may have an element of prepayment and therefore public sector organisations should consider them carefully before agreeing to them. However, if they are genuinely linked to work completed, or physical progress satisfactorily achieved, as defined under a contract then they may represent acceptable value for public funds.

8.15. Taking legal/commercial advice as necessary, organisations should consider whether:

- a. the contractor's reduced need for working capital should be reflected in reduced prices;
- b. the contractor should provide a performance bond in the form of a Bank Guarantee in order to deal with possible breach of contract.

8.16. When it is decided, on balance of advantage, that interim payments can be allowed, adequate contractual safeguards to protect MOD's exposure should be drawn up by Commercial staff, linked to the prior achievement of milestones.

8.17. Interim Payments should not, however, be used to circumvent public spending controls. For example, it is not acceptable to make Interim Payments where value has not been received, simply to avoid underspending. It is the responsibility of Project Managers or sponsors to ensure that expenditure on a project is fully matched by physical performance.

Deferred Payments

8.18. Deferred Payments are generally not good practice. They normally mean paying more to compensate the contractor for higher financing costs and thus represent poor value for money (at the margin the Exchequer can always borrow more cheaply than the private sector).

8.19. Proposals to deliberately make late payments are therefore potentially novel and/or contentious, and any Department or Non Departmental Public Body (NDPB) considering Deferred Payments must seek Treasury approval before proceeding. A compelling justification will be required.

8.20. Sums of money retained under a contract as a guarantee of maintenance commitments, or the acceptable performance of delivered equipment, are not considered to be Deferred Payments.

9 Authorisation and Payment of Invoices

Introduction

9.1. This Chapter provides direction on the responsibility that finance and purchasing staffs, at every level, have for ensuring that all invoices are properly authorised and all payments properly recorded to ensure efficient handling and avoidance of duplicate payments. For further guidance on MOD's purchasing and payment processes see [Part 2](#).

Subject Matter Experts

| Job Title/E-mail | Subject Matter Expert | Phone |
|-------------------|------------------------------------------------|------------|
| DBS Fin-IR-IP-Ahd | Invoice Processes, Revenue and Debt Management | 94552 2394 |

Key Directives

9.2. All payment authorisation systems should be constructed to take into account the following over-arching principles.

The Government's Better Payments Practice Code

9.3. In order to promptly discharge responsibility for the payment of goods and services, business conducted with a supplier should reflect the following four principles:

- a. agree payment terms at the outset of a contract and abide by them;
- b. explain the payment procedures to suppliers;
- c. pay invoices in accordance with any contract agreed with the supplier, or as required by law;
- d. tell suppliers without delay when any invoice is contested, and settle quickly on receiving a satisfactory response.

Prompt Payment

9.4. In October 2008 the Prime Minister committed Government organisations to quickening the payments process, paying suppliers wherever possible within 10 working days. This timeframe was shortened to 5 working days in the Chancellor of the Exchequer's Budget speech in March 2010.

The Late Payment of Commercial Debt (Interest) Act 1998

9.5. The Act provides a statutory right for suppliers to claim interest on late payment of commercial debt. The provisions of the Act apply to the whole of the public sector. All contracts entered into must comply with the terms of the Act.

Invoice Verification

9.6. All payments should be checked prior to certification by an individual who has personally been given delegated authority to authorise payments.

9.7. As a minimum requirement, the Certifying Officer should undertake the following checks. Only after these have been completed should the claim be certified as correct:

- a. that there is proper authority for the service or supply ordered;
- b. that the service or supply has been performed or received, and payment is properly due;
- c. that the order/agreement number and supplier details are correct;
- d. that the change accords with the terms of the contract or order and is arithmetically correct;
- e. that payment has not already been made.
- f. there is a MOD invoice reference number on the claim that will allow it to be identified after payment.

Control

9.8. Proper control over expenditure and payments should be maintained at all stages. Top Level Budgets (TLBs) and Management Groups (MGs) should construct and operate systems to ensure that appropriate information is recorded on the Departmental Financial Management System (DFMS). TLBs and MGs should respond to developments in payment systems by:

- a. regularly assessing the risks associated with different methods of payment and adopting a selective approach based on that assessment;
- b. designing, documenting and operating systems appropriate to those levels of risk;
- c. evaluating management controls (a task of Defence Internal Audit).

9.9. The following tasks must be carried out:

- a. a Unique Order Number/contract number to be generated by the system, which must be used on all correspondence. Invoices received without such an MOD number should be queried immediately;
- b. timely processing of invoices and logging of payments against orders, to reduce the risk of duplication;
- c. an identifiable MOD reference to be included on every invoice. This excludes MOD Form 640 payments as the unique MOD Form 640 number forms the MOD reference. For further information on MOD Form 640 see [Chapter 10](#) - Cash Feeder Processes.

Overpayments

9.10. If an overpayment or duplicate payment occurs, MOD should seek immediate recovery, although there may be practical or legal limits relating to how cases are handled.

9.11. Recovery of overpayments arising from business transactions with suppliers should be pursued in all cases, irrespective of the cause of overpayment. If a request for repayment is not accepted, and set-off against subsequent payments or other Government debt is not possible, Budget Managers should consider taking legal action.

9.12. Where recovery action is successful, it is essential that the receipt is paid through the same account as the original payment. If the original payments were made through the DBS Fin-IR, the recovery must also be received through the DBS Fin-IR so that accounting records may be appropriately amended.

9.13. TLBs/MGs must ensure that:

- a. overpayments are recorded as soon as they are discovered, are followed up properly and, where write-off action has to be taken, the consequent loss is recorded in the Departmental Resource Account;
- b. any decision not to pursue recovery, or not to pursue recovery in full, is defensible in the public interest;
- c. legal advice is sought where necessary.

Retention of Records

9.14. All relevant documents must be retained for a minimum of six years to provide an audit trail.

10 Cash Feeder Processes

Introduction

10.1. This chapter outlines how cash transactions are accounted for, and corrected, within the Resource Accounting and Budgeting (RAB) environment.

Subject Matter Experts

| Job Title/E-mail | Subject Matter Expert | Phone |
|-------------------------------------|--------------------------------------------------------------------------------------|---------------------|
| DBS Fin-FAADMT-COA Team (MULTIUSER) | Chart of Accounts Focal Point (including RAC and TLB/MG Level Organisational Change) | 9679 84514 |
| DBS-SDS INPUT Team (MULTIUSER) | SDS Input Management | 9679 84509 |
| DFM-FMSSC-Contactpoint(MULTIUSER) | DBS Finance Contact Point | 94552 2000 Option 2 |
| CRUISEMailbox@dfms.mod.uk | Cash Office Accounts Processing Focal | 9679 84512 |
| DFinStrat-FMPA-ATM-TAXVATPOL | VAT Policy | 9679 86502 |

Key Directives

10.2. All cash transactions that flow through MOD's accounting systems must be coded with appropriate and relevant accounting codes to show what the transaction represents, who it is to be charged to, and what VAT treatment is applicable.

10.3. No payment is to be made unless it has been properly authorised by an individual who has personally been given delegated authority to authorise payments.

Cash Feeder Transactions

10.4. A cash transaction refers to any payment or receipt made either using cash or through a bank (for example through the use of cheques/payable orders or electronic transfers).

10.5. All MOD cash transactions are processed through a 'Cash Feeder'. There are currently four Cash Feeders: the Defence Business Services - Civilian Human Resources (DBS-Civ HR), the Service Personnel and Veterans Agency (SPVA), the CRUISE Feeder which processes the transactions of numerous cash offices, and Foreign Military Sales (FMS).

10.6. The Defence Business Services - Finance - Invoicing and Revenue (DBS Fin-IR) Liverpool comprises two independent Oracle-based systems, which are integral components of the Defence Financial Management System (DFMS), rather than 'feeds'.

10.7. All cash transactions that flow through MOD's accounting systems must be coded with relevant accounting codes to show what the transaction represents, who it is to be

charged to, and what VAT treatment is applicable. MOD uses an account coding structure called the Departmental Chart of Accounts (CoA).

10.8. All cash transactions must be input to Feeders with a valid Resource Account Code (RAC), VAT Code and, if applicable, a Local Project Code (LPC). This is in addition to the organisational codes such as the Unit Identification Number (UIN). For any financial code to be valid it must be recorded on the Standing Data System (SDS), which is maintained on the behalf of code users by DBS-SDS staff in Abbey Wood. To ensure that the financial codes held on the SDS reflect the business requirements, various focal points are set up in TLBs/ DBS Finance to co-ordinate Standing Data change requests and to provide advice on the use of these codes.

10.9. Standing Data files are also provided electronically directly to major Cash Feeders and Management Groupings for validation purposes.

10.10. For further information on CoA codes/policy, particularly on the RAC and LPC (including Single Point Management Codes (SPMCs)), the SDS (including how to request changes, and listings of valid codes held on the SDS for each Accounting Period), and also VAT policy see [Part 2](#).

10.11. How a transaction is originated and dealt with depends on which of the Cash Feeders and teams are processing it, and those variations are outlined below.

Contract Payments

10.12. Contract payments are made through DBS Fin-IR Liverpool. In the case of contract payments, 'coding at source' is the application of coding when the contract is placed. Commercial policy is for all new contracts to be generated from ASPECT, a Commercial tool to manage the life of the contract. A DEFFORM 57 (DF57) is raised with each new contract, and for the majority of contracts this will be generated from ASPECT. It is important that the financial and statistical coding that appears on the DF57 is consistent between ASPECT and DFMS. Although commercial officers raise the DF57s, Section 3 containing RAC, VAT and LPC, is completed using information supplied by the Financial Authority, usually on the Request for Contract Action form. A copy of each completed DF57 is copied to DBS Fin-IR Liverpool and referred to when invoices are processed. In most cases the DBS Fin-IR can only apply financial coding which is captured on the DF57, and the UIN used for payment is that which is annotated on the invoice (both the AG 173 and MOD Form 640 has boxes that capture the UIN of the consuming/ordering department).

10.13. However, the DBS Fin-IR cannot use the UIN annotated on the invoice in those cases where the contract states otherwise, for example where an LPC has a cost UIN associated with it, then the Oracle System will override the consuming UIN and charge the cost UIN accordingly.

10.14. For Petrol, Oil and Lubricant (POL) invoices, which are paid on sight, the UIN is also dictated by the contract.

10.15. Contracts can have more than one cluster of financial codes to be applied depending on which items of the contract have been supplied or which MOD financial branch authorised the expenditure. Suppliers are contractually obliged to include details

of items supplied on submitted invoices, so that DBS Fin-IR can determine which cluster is applicable for the payment.

The Role of MOD Form 640 and AG 173

10.16. Suppliers who supply against contracts (as opposed to local purchases) are contractually required to use special MOD forms for the supply of goods or services to MOD. The MOD Form 640 has five pages, all colour coded as to their use:

- a. **Mauve** - the information copy. The distribution of this copy is governed by the contract schedule;
- b. **Yellow** - the supplier's copy. This copy is to be retained;
- c. **Red** - the packaging and stores accounting copy. This copy is despatched with the consignment and the consignee retains it as the store accounting copy;
- d. **Green** - the advice copy. This copy (with the brown copy) is sent by the post to the consignee who retains it as an accounting copy;
- e. **Brown** – the acknowledgement copy. This copy details the goods supplied and the amounts payable, and is sent to the consignee for a signature to confirm that the supply has met the terms of the original order. Once signed by the consignee, the brown copy is returned to the supplier who will forward it to the DBS Fin-IR with a request for payment.

10.17. The AG 173 is used in a similar way to the brown copy of the MOD Form 640, but acknowledges receipt of services received so that the supplier can claim due payment.

Amendments to Contract Coding

10.18. Any amendments to the coding of contract clusters must be made using a DEFFORM 57A (DF57A) which can only be raised by the Commercial Branch that owns the contract. Those wishing to establish the owner of a contract should contact the DBS Fin-IR Contact Point (DFM-FMSSC-Contactpoint) who will be able to provide assistance. Care should be taken only to change the coding on the relevant cluster, as a change to the wrong cluster will affect other users of the contract. Similarly it is important that data input into DFMS is consistent with ASPECT. Any changes fed into DFMS must be mirrored in ASPECT also.

10.19. If an amendment to a contract coding (RAC/VAT/LPC) is required, a DF57A must be completed and attached to a loose minute stating the effective date of the revised codes. A Transfer Entry (TE) request (MOD Form 1100) must not be raised. Any requirement to move in-year spend will be managed by DBS Finance using a BX241 Form.

10.20. Upon the receipt of complete documentation, the DBS Fin-IR will take the appropriate action as per the effective date, which must always be provided:

- a. if all current year spend is to be transferred to the revised codes, the DBS Fin-IR will then complete an accumulated transfer of all in-year spend on that cluster, to the new codes;

- b. if only part of the current year spend is to be transferred to the new coding, the values must be clearly provided on the accompanying loose minute so that the specific journal can be actioned accordingly;
- c. if an accumulated transfer of previous spend on the cluster is not required the necessary changes will be actioned, no transfer will be applicable.

10.21. If the DF57A involves attributing additional finance to a value contract, a formal contract amendment must accompany the DF57A. If the additional finance relates to an enabling contract, a loose minute will suffice.

Miscellaneous Personal Payments

10.22. Miscellaneous Personal Payments (MPP) are payments of a non-commercial nature to private individuals. MPPs are authorised through HR Form 1108 and will be paid through the pay systems to Service personnel and MOD employees and by BACS transfers to other private individuals. It is improper to use the MPP system for commercial payments. All commercial payments must be routed through the MOD contract payments process, Purchase to Payment (P2P), Electronic Purchasing Card (ePC) or the Miscellaneous Invoicing System - Bills Direct. MPPs are also not to be used for taxable payments.

10.23. MPPs are subject to the same degree of checking and authorisation as contract payments. No payment is to be made unless it has been properly authorised by an individual who has personally been given delegated authority to authorise payments. The following checks must be carried out by finance staff before payment authorisation:

- a. that the payment is of a non-commercial nature to a private individual which is not taxable. Payments to commercial undertakings must use contract payment systems;
- b. that there is no other properly authorised route for payment. For instance, that the claim does not relate to travel and subsistence, overtime, hospitality or entertainment. MPPs are the officially approved method of making payments for reimbursement of professional subscriptions, for reimbursement of claims for loss or damage to personal property, and for reimbursement of eyesight tests and other costs when Cross-Government arrangements cannot be used. For further information see [Part 2](#);
- c. that appropriate authority has been provided to make the payment either by the Line Manager of the individual to whom the payment is being made, or by compliance with MOD instructions, for example relevant DINs;
- d. that evidence of expenditure is provided where reimbursement is sought and that payment has not already been made.

10.24. The usual rules on segregation of duties apply and no-one may authorise a payment themselves.

10.25. All MPPs must be authorised by a properly approved Authorising Officer using a signed HR Form 1108 in each case before the form is passed to Defence Business Services (DBS) for action. For both financial planning and governance purposes, budget

managers are to maintain visibility over MPPs charged against their budget through monthly MB5 prints from DBS.

Pay

10.26. Transactions which go through the Joint Personnel Administration (JPA) System and DBS-Civ HR relate to payment of staff, so all coding is done internally based on pay codes and then mapped to CoA codes before the pay file is forwarded to the DFMS. The only interfaces with the pay systems where CoA coding at source is required are on the DBS-Civ HR Fees and Miscellaneous Claim Forms (1108 and 382) and on the MOD Form 1100 which can be used by budget staff to initiate corrective transfer entries on either pay system.

Correction of Errors Through Cash Feeders (Non-Contract or Contracts Not Requiring Accumulated Transfers)

10.27. All Transfer Entries should be directed through the source system or feeder in which the error originated.

10.28. Any transactions which are output from Cash Feeders (with the exception of the CRUISE and JPA Feeders) can be amended within the Financial Year by transfer entry, using MOD Form 1100, provided that the sum of the transfer entry is greater than £1000. This minimum value does not apply to CRUISE transfer entries (see below).

10.29. All MOD Forms 1100 to be actioned by the DBS Fin-IR must include the VAT amount, even if there is no intention of changing the VAT coding, and even if the VAT value is nil. If VAT is not visible in the Management Grouping Ledger, it should not be assumed that there was no VAT on the transaction. VAT coded as Contracted Out Service, Sales or 100% recoverable is separated from the net line of the transaction by the PORTAL or CRUISE and is redirected to the Financial Management Policy and Accounting (FMPA) Banking team to be accounted for centrally. This applies to transactions coded with VAT codes C, J, K, R, S or T. Where this is the case, the original invoice should be referred to or the FMSSC Contact Point telephoned to obtain the VAT value.

10.30. The VAT-only line of transactions coded with VAT codes C and R should be coded with the same RAC/LPC/VAT code as the net line on all Cash Office and feeder inputs. Note that recoverable VAT is coded to a specific MG (JP0).

10.31. The coding of the VAT-only line on sales transactions varies from system to system, but on DBS Fin-IR inputs the VAT line should have the same RAC/LPC/VAT code as the net line. Local system instructions should be referred to for guidance on this matter.

CRUISE Feeder

10.32. Cash Offices are only permitted to raise TEs to enable the clearance of ELL000 if instructed to do so by their Management Group (MG) or TLB. Invalid coding on a Cash Office transaction will result in the transaction being directed, by CRUISE, to RAC ELL000. TEs other than those relating to ELL000 (for example a mis-booking or exchange rate variance) which have originated through a Cash Account and will be inter-

MG should be raised at the MG level using a source code and batch number issued by the CRUISE Accounting Team. The TE itself is raised electronically on an Excel spreadsheet, and on its completion is saved as a CRUISE-compliant file.

Manual Journals (NOT Processed Through Feeders)

10.33. Manual Journals should not be used except to account for accruals at the period end. Errors must be corrected through the appropriate Feeder to ensure that DFMS systems and Feeders which produce external reports are kept in line.

10.34. Policy guidance on Inter-Management Grouping Transfers may be found in Chapter 1 of JSP 472 - Financial Accounting and Reporting Manual. (See [Part 2](#))

Correction Methods

10.35. Examples of different types of Cash Feeder transaction coding errors and the corrective action to be taken are at [Part 2](#).

11 Debt Management

Introduction

11.1. This chapter outlines the general principles underlying the recovery of money owed to MOD. These principles are contained in Managing Public Money, and apply in principle to the recovery of all debt. The detailed treatment of personal debt management is, however, different from that of business debt.

11.2. Detailed advice on specific matters relating to debt is issued by the Defence Business Services - Finance - Invoicing and Revenue (DBS Fin IR), the Defence Infrastructure Organisation - Accommodation (DIO Ops-Accn), the Directorate of Business Resilience - Common Law Claims and Policy (DBR-CLCP) and the Defence Business Services - Civilian Human Resources (DBS-Civilian HR).

Subject Matter Experts

| Job Title/E-mail | Subject Matter Expert | Phone |
|-----------------------------------|--------------------------|------------------------|
| DFM-FMSSC-Contactpoint(MULTIUSER) | DBS Fin IR Contact Point | 94552 2000 Option 2 |

Key Directives

Role of Directors of Resources

11.3. The management of debt is an important basic accounting process. Directors of Resources are to ensure that adequate and effective management control is maintained in respect of business debts belonging to their TLB.

Bankruptcies, Liquidations and Receiverships

11.4. If it is discovered that a company or private individual with whom MOD is or is planning to do business is to be taken into receivership or become bankrupt, DBS Fin Accg 1 (Legal Process) must be advised as soon as possible so that appropriate steps may be taken to secure MOD resources.

11.5. As a general rule, when MOD learns of a bankruptcy, liquidation or receivership, it should stop all payments pending confirmation of the bankruptcy, etc and then, as a matter of urgency, prepare a statement of amounts due to and from MOD.

11.6. In the case of a person or company with a debtor or creditor relationship with MOD, it is essential to ensure that any payment due by MOD is made only to the proper person, and that any claim by MOD is properly lodged. If MOD inadvertently pays the wrong person, it may fail to obtain a valid discharge or the payment (and be made to pay again). If it delays lodgement of a claim with the right party, it may fail to recover the amount properly due. It is therefore essential that information about any bankruptcy etc relevant to MOD's business should be obtained as early as possible.

Considering Legal Action/Write Off

11.7. Before embarking on legal action, consideration must be given to the probability of a successful recovery. If a recovery is unlikely, write-off should be considered to avoid waste of further public money. For further information see [Part 2](#).

11.8. When dealing with a small amount of money it is often not economical to take court action. Court action should not be taken for sums of less than £100.

11.9. Where, however, the amount is under £5K (£1K for personal injury damages), and the case is not contentious, the Small Claims Court (SCC) should be the preferred route.

11.10. For further guidance regarding when legal action is appropriate, and the use of solicitors, the SCC and County Courts see [Part 2](#).

Business Debt Management - General Points

11.11. MOD's invoicing process is through the Defence Business Services - Finance - Invoicing and Revenue (DBS Fin IR), using either the Invoice Request Input System (IRIS) or the paper based DAB1 process. For IRIS invoices, the minimal value is £10 (ex VAT). The minimum value for a DAB1 invoice is £35 (ex VAT). No other form of invoicing is permitted.

11.12. DBS Fin IR constantly monitors outstanding debt owed to MOD and takes action necessary to ensure that this money is recovered. DBS Fin IR provides a single point of contact between the debtor and MOD branches/TLBs, which allows them to build up a thorough knowledge of each debtor and so deal with any problems promptly and efficiently. This in turn allows money due to MOD to be recovered with the minimum of delay.

11.13. Management Information (MI) is available to invoice request originators with access to Oracle and Cognos on a 'self serve' basis as and when required. Those originators without access must contact their TLB focal points to make local arrangements to obtain the MI they require.

Budget Manager/Originator Responsibilities

11.14. To minimise the occurrence of bad debt, Budget staff should as a general rule seek to sell goods and services only to third parties who have an established business record with MOD or who have agreed to contract formally on a deposit-paid basis.

11.15. It is essential that the customer agrees to the detailed services to be provided and the appropriate cost before work starts, preferably in writing. Any variable cost elements must be clearly identified at the outset so that there is no ambiguity regarding the service provided or its related cost. Advice on costing may be found in [Chapter 19](#) - Charging.

11.16. Payment terms must be covered in any agreement and also include when payment is to be received, i.e. within a specified timeframe from the date of the invoice. Standard terms of 30 days are applied except for NATO governments, where 60 days terms apply. Where non-standard payment terms apply these must be clearly identifiable for invoicing purposes and specified in the description when raising an invoice request through the WEB-enabled Invoice Request System (webIRIS). This action will ensure all

parties are absolutely clear when payment is due, preventing unnecessary debt hastening, limiting the need for referral to MOD branches to consider extension of payment terms, and, will help support any further action.

11.17. If a debtor raises a query or dispute directly with the originator, DBS Fin IR is to be advised immediately so that hastening action can be halted until the query is resolved. When this occurs the DBS Fin IR is to be advised again so that they may re-start the process. The initial advice to the DBS Fin IR should detail the debtor, invoice number, nature of the query, whether only part of the invoice is being queried and the expected resolution date. If only part of an invoice is subject to query, recovery may continue against the balance.

11.18. If DBS Fin IR receives a query or dispute direct from the debtor, the details will be referred to the originator, who must then quickly provide the information needed to resolve the dispute or take action to correct or cancel erroneous charges.

Fraud Awareness

11.19. The Budget Manager should be aware of the risk of fraud arising from incorrect completion of a billing document, resulting in bills being returned to the originator for resolution and DBS Fin IR ceasing debt recovery action.

11.20. The possibility of fraud arises because of the financial advantage accruing to the debtor. Delaying resubmission of the corrected invoice will give the debtor use of the funds that should have been paid, while mislaying the invoice altogether would provide the debtor with a free service. Care must be taken to ensure that bills are not unduly delayed and that any significant incidence is checked to allay any suspicion of fraud.

12 Making a Gift of UK Defence Assets, Exchanges of Gifts with Foreign Counterparts and Corporate and Promotional Items

Introduction

12.1. This chapter explains the circumstances in which it is appropriate for both the Department and its Military/Civilian staff to make Gifts (See paragraph 12.6). It comprises two parts: **Part A** deals with giving UK Defence assets to external organisations by way of a Gift, and **Part B** covers exchanges of Gifts with foreign counterparts, and corporate and promotional items. **Any proposal to make a Gift must follow the requirements set out in this JSP.**

12.2. Other than the reciprocal Gifting activity described in Part B, **for guidance on acceptance of Gifts, Rewards and Hospitality** by Military and Civilian personnel see [Part 2](#) of this JSP. Donations of items to MOD corporately is covered in Chapter 14 of this JSP.

12.3. The term 'Gifting' is typically used within the Department broadly to describe any activity that results in UK Defence assets being given to an external recipient. The term can equally be applied where items are received into the Department, most usually involving reciprocal exchanges (see [Part B](#)). The majority of MOD outward Gifting is sourced wholly, or in part, from equipment that has been declared surplus. **Part A** of this Chapter also provides direction when there is a requirement to **transfer assets to another Government Department** due to the status of the intended recipient (See Paragraph 12.12).

12.4. No-one is permitted to make a Gift without specific approval from the correct authority, determined by its type and value. The approval process for each category is described in Part A and Part B as appropriate of this chapter. Failure to comply with the requirements set out in this chapter may result in the Department incurring irregular expenditure, either because the purpose of the Gift is not an appropriate charge to the Defence Budget, or because the sum involved exceeds the individual TLB Holder's delegated authority and/or that of the Department. This is likely to lead to unwanted attention and scrutiny by the NAO or PAC, Press and public, and cause unnecessary and avoidable embarrassment for individuals and the Department.

12.5. Except where there is specific MOD Ministerial direction given to make a Gift of UK Defence assets in support of a Defence-sponsored counter terrorism initiative, capability building or international Defence policy objective, the Gifting of assets should not in any other way be MOD inspired. The staffing requirements articulated in this chapter must be followed irrespective of a Ministerial direction. The MOD can only act as the sponsor to make a Gift or transfer its own assets; i.e. those for which it has accounting responsibility.

12.6. Treasury guidance on Gifts is provided within ‘Managing Public Money’ (See [Part 2](#)) and states:

- A Gift constitutes something voluntarily donated, with no preconditions and without the expectation of any return.

Subject Matter Experts

| Job Title/E-mail | Subject Matter Expert | Phone |
|-------------------------------|---------------------------------------------------------------------------------------------------------------|------------|
| DFinStrat-FMPA-FinPol-AHd-2 | MOD assets used to make a Gift | 9621 80221 |
| DFinStrat-FMPA-FinPol-2b | MOD assets used to make a Gift, exchanges of Gifts with foreign counterparts, corporate and promotional items | 9621 87063 |
| deslcls-edisposals@mod.gov.uk | Official valuation of assets to be Gifted | |

Part A – Making a Gift of UK Defence Assets

Key Directives

Selling assets versus a Gift

12.7. **Wherever possible MOD must aim to sell assets it no longer needs at the market value**, so that the proceeds may be reinvested in Defence. The primary option for disposal of surplus MOD assets, except land and/or buildings (see [12.23.](#)), is sale through the Defence Equipment Sales Authority (DESA) (formerly the Disposal Services Authority (DSA)), in order to generate a financial return to the equipment owner (and the taxpayer) for their investment in the asset (See also paragraphs 12.18 & 12.19).

12.8. Giving away our assets does not generate a financial return and results in the loss of a disposal receipt. This represents a cost to the Equipment Owner and the Department, and must be weighed carefully against other priorities and competing financial resource demands. Such activity should therefore be exceptional.

12.9. Consistent with the aim of maximising the benefit of an asset's worth, a Gift made by the Department must always seek to produce a positive, clear and demonstrable benefit to Defence and make a significant contribution to its core objectives. As an example, a donation of equipment made on heritage or preservation grounds to a qualifying recipient e.g. a museum or trust demonstrates additional benefit to the Department by helping meet its objectives in those regards (see paragraphs 12.11c, 12.15 and 12.19).

WHAT IS A GIFT?

12.10. When the MOD supplies existing surplus or purchased assets to an external body and does not charge or expect anything in return, it is a Gift and must be accounted for as such.

12.11. Gifts include all transactions which are economically equivalent to free and unremunerated transfers from Departments to others, such as:

- a. the loan of an asset for its expected useful life (or indefinite loans);
- b. the sale or lease of assets at below market value (in which case the difference between the amount received and the market value is the value of the Gift);
- c. donations by Departments - this includes assets given specifically to museums and trusts;
- d. transfers of land and buildings, or assignment of leases, to private sector bodies at less than market price (in which case the Gift is valued at the difference between the price agreed and the market price);
- e. exchange of surplus MOD equipment with equipment owned by a contractor where the value of goods received is less than that given in exchange.

WHAT IS NOT A GIFT?

Transfer of an Asset to another Government Department

12.12. If MOD sources an asset to be used as a Gift made by another UK Government Department, MOD must transfer the item to the other Department **and recover the full current market value of the asset** from that Department in accordance with Managing Public Money, Annex 4.12A (unless the transfer is made in connection with a machinery of government change, in which case no charge is generally made). For further information on approval processes in this situation, see [Part 2](#).

Equipment purchased from programme funding and donated

12.13. Where MOD assets are given to a permitted recipient (see para 12.15) expressly to achieve a defined and quantifiable benefit for Defence (and that benefit must fall within the scope of the Department's core objectives), it is not a Gift. The source of the item(s) used can be surplus or non-surplus existing equipment or purchased specifically (see Paragraphs 12.17 & 12.21 & 12.22). Where a donation of equipment is intended using programme funding, such as that of the Conflict, Stability and Security Fund (CSSF), the sponsor should obtain clarification from Defence Resources Operations as to whether the Fund can be used for the purpose. Repayment of the official disposal value of the surplus asset must be made to the asset owner using the Fund, or when existing non-surplus equipment is used the full current market value of the asset **must** be made to the asset owner using the Fund.

Cash

12.14. The Gifting of cash other than minor cash awards permitted under the terms of Corporate and Promotional Items (See [Part B](#)) will almost certainly be **inappropriate**. Consequently, TLBs intending to sponsor a cash Gift must seek advice from FMFA-Finance Policy at the earliest opportunity.

Permitted Recipients of a Gift

12.15. A Gift can normally be made only to:

- a. foreign governments;
- b. national museums sponsored by the Department for Digital, Culture, Media and Sport. This includes the Imperial War Museum, the National Maritime Museum, the Science Museum, the Museum of Science and Industry Manchester;
- c. the principal MOD-sponsored museums, which are the National Museum of the Royal Navy, the National Army Museum and the Royal Air Force Museum;
- d. regimental and Corps Museums that are funded or otherwise controlled by MOD;
- e. regimental and Corps Museums that are funded or otherwise controlled by public authorities (such as city councils) and are endorsed by the respective Service Heritage Branch. In these cases, the Gift request must be made by the public authority and the Gift will be made to the public authority for display in the relevant museum;
- f. other Regimental and Corps Museums provided that they are:
 - i. a serving or antecedent Regiment;
 - ii. endorsed by the relevant Service Heritage Branch;
 - iii. affiliated to the Army Museums Ogilby trust;
 - iv. not privately owned, and
 - v. not operated for profit.
- g. public authorities who have an affiliation with the Services or the MOD, for example, certain local councils where a ship carries the name of the city or town or which have a large Service presence.

12.16. Gifts to charities or voluntary groups or companies (even if they are Defence contractors) will **not** normally be made, but may be considered **only** where there are very exceptional circumstances and a robust business case is made that sets out (in auditable terms) the clear value for money benefit that will accrue to Defence from the Gift. MOD receives many requests from charitable and other worthy organisations for donation (or

purchase at reduced price) of surplus assets. The MOD cannot routinely meet such requests. The MOD must ensure an even-handed approach, and it would be unfair to support one individual or organisation while refusing requests from others.

What can be used to make a Gift?

Assets Declared Surplus

12.17. The rules and processes governing asset management should be followed to formally declare surplus an asset for its disposal (See [Part 2](#)). The Defence Equipment Sales Authority (DESA) is responsible for disposal of all MOD's surplus assets **except** land and buildings (See Paragraph 12.23). Once declared surplus by the owner of the item or the Equipment Owner and passed for formal disposal action to DESA, disposal will normally be done through their network of marketing contractors, by Private Treaty or competitive tender. This approach offers the best return for the taxpayer from the disposal of publicly-funded assets.

12.18. The Department **must** be able to demonstrate that making a Gift using surplus assets produces a positive benefit for Defence outweighing the lost income from disposal. The DESA role in the Gifting process is to provide an official independent impartial valuation, based on market conditions and reasonable market prices, of the assessed current worth of the item were it to be offered for sale on the open market, or otherwise disposed of by their contractors. The valuation will be based upon a range of factors such as condition, age, history, rarity or attractiveness to collectors and enthusiasts to allow the Department to carefully consider the financial merit of each case.

Items to be preserved for Heritage purposes

12.19. A proposal to Gift an asset in furtherance of the Department's heritage and preservation aims, most usually to a museum or Trust, must be fully considered by the respective Service Heritage Branch, or where appropriate Historic Branch, and receive their endorsement before final approval can be given. [JSP 472, Pt 1, Chapter 5, Page 67](#) should also be consulted regarding valuation and accounting for Heritage Assets. In meeting the Department's heritage and preservation aims it is not usual to approve Gifting more than one example of any individual item or type of item to a single recipient. It is sometimes the case that a 2nd example is requested for active demonstration use, or to provide spare parts for an item MOD previously Gifted. Whilst the Department acknowledges the importance of UK military heritage and supports this through preservation of its equipment by museums and Trusts, this must not however be used as a means of subsidising the running costs of a recipient organisation in respect of on-going maintenance or repair of their MOD-Gifted or otherwise acquired exhibits, or as an alternative to them using their acquisition budget or income derived from admission charges to purchase what they want. In that context careful consideration must be given to a request for a 2nd example, and particularly for spare parts.

Gate Guardians, War Memorials, Operational Memorabilia and Excavations of Military Aircraft and Equipment

12.20. Additional guidance on these aspects is available through the information sources given in [Part 2](#). The requirements set out in this chapter regarding ownership, authority and approval must be observed in all cases.

Assets Not Declared Surplus

12.21. Until an existing MOD-owned asset has been officially declared surplus by the owner it must be regarded as being required for operational use, or held as stock to support such assets, with an on-going requirement for retention. In order that an item that isn't surplus can be used to source a Gift (or to transfer it (See Paragraph 12.12)) the asset owner should agree in writing to conditionally release the item on repayment terms i.e. full replacement cost at current market prices to enable re-stocking/procurement.

Assets Purchased Specifically to Gift

12.22. Purchasing items of equipment or other assets specifically to Gift is permitted, provided a **robust business case** is made clearly setting out and demonstrating the value for money offered by the proposal, and the positive benefit for Defence that it will produce. The business case must be staffed through the sponsor's TLB Gifting Focal Point (see [Part 2](#)) to the Budget Holder, for approval that their funds may be used in this way, i.e. the purchase is consistent with the terms governing the use of the funds and is an appropriate charge to the Defence Budget. Where there is doubt as to the appropriate use of the funds for this purpose, Defence Resources should be consulted and confirmation obtained in writing. Where no authority to approve making the Gift is held by the Budget Holder, approval must be sought through a business case sent, with appropriate supporting evidence for use of the funds, to FMPA Finance Policy. The Budget Holder must endorse the expenditure before the case is forwarded to FMPA Finance Policy. If the purchase value of the Gift exceeds £300K the approval of Treasury and Parliament (through FMPA Fin Pol) will need to be obtained. (see Paragraphs 12.38 – 12.41)

Land and Buildings

12.23. Defence Infrastructure Organisation (DIO) is responsible for estate management and disposal of MOD land and buildings on the Defence Estate. **Any** proposal to Gift land and/or buildings **MUST** be referred to DIO in the first instance to obtain agreement to proceed; and that DIO is prepared to forgo the receipt.

Restricted Items

12.24. Items that are Attractive to Criminals or Terrorist Organisations (ATCO), or those containing Hazardous Materials that require specialist disposal shall be subject to greater scrutiny to gain approval.

Pre-Conditions for making a Gift

Additional Costs

12.25. Assets must normally be given in their existing condition, and thus should not lead to any additional costs falling to the Department, such as transportation, refurbishment or repair work etc. Where MOD is requested by the Gift recipient to provide additional assistance in the making of a Gift and is able and agrees to do so, for example, the use of specialist lifting equipment, transportation capability or use of stores items and/or manpower, the full cost of such assistance must be given in writing to the Gift recipient, and their prior agreement in writing to pay the cost must be obtained, before any undertaking is made or assistance is given.

THE PROCESS FOR MAKING A GIFT

12.26. For propriety and regularity reasons MOD can only act as the sponsor to make a Gift of its own assets; i.e. those for which it has accounting responsibility.

12.27. **Annex 13** in [Part 2](#) of this JSP provides a **Process Flow** that summarises the stages applicable for a Gift, **whether made using existing UK Defence assets or those that have been specifically purchased for the purpose**. This should be used in conjunction with the following paragraphs and the whole of Part A of this chapter.

12.28. An **'Application to Gift Defence Assets'** (see **Annex 18** in [Part 2](#)) **must be completed in full in accordance with its Guidance Notes where existing Defence assets are to be used to source a Gift**. This is the responsibility of the **Sponsor** to staff (see para 12.29) and provides a sequenced and auditable record of who is making and receiving the Gift, its official valuation and the authorisation, verifications and internal MOD approvals required. Where necessary, additional approvals may be needed from Treasury and Parliament. To expedite the time taken to complete it, the contents of each Part of the 'Application to Gift Defence Assets' may be copied and pasted into an e-mail and sent by the Sponsor to the appropriate recipient; and the response provided in like fashion. Accordingly, that e-mail correspondence therefore forms an essential part of the audit trail, and must be kept and presented as case supporting paperwork to gain approval.

The Sponsor's Role

12.29. Every Gift must have a sponsor; someone within the Department who takes the lead in progressing a proposal or intent to give a MOD-owned accountable asset to a permitted recipient, and who assumes responsibility for fulfilling the staffing, reporting, accounting and completion requirements described in this Chapter.

12.30. To commence the process, where an existing UK Defence asset is used to source the Gift the Sponsor must use the 'Application to Gift Defence Assets' to:

1. Provide details at Part 1 of the intended recipient
2. Provide detail at Part 2 of themselves as the Sponsor
3. Obtain a declaration at Part 3 from the Item Owner as to its status, whether it is surplus, has any restrictions or H&S issues or is subject to regulatory control (see paragraphs 12.31 – 32), and able to be released. Where the item has been fully or part-funded from the Treasury Reserve, including Urgent Capability Requirements (UCRs), or those sourced from military activity pool funding such as the Conflict, Stability and Security Fund (CSSF), the Gift sponsor must contact Defence Resources Operations to obtain authority for the item to be used
4. Obtain an official valuation of the item at Part 4 from DESA
5. Obtain confirmation from Defence Movements and Transport at Part 6 that any transportation requirements necessary to make the Gift have been notified to them, and the appropriate costs have been provided to the Sponsor for inclusion in their Business Case. (the Sponsor must provide all the required information needed by Defence Movements and Transport in advance of sending them a Part 6 completion request)

6. The remaining paragraphs of this Part A of the chapter (12.31 - 12.47) also require the Sponsor's action

Assessment Against Consolidated EU and National Arms Export Licensing Criteria

12.31. At this point in the process it is advisable that the Sponsor check this aspect to ensure there is no impediment to making the intended Gift. A Gift of export controlled equipment made to a foreign government or end user must be assessed on a case-by-case basis against the Consolidated EU and National Arms Export Licensing Criteria. This is to ensure that Gifts are scrutinised to the same standards as export licence applications. This process is managed by **Global Issues – Export Control Policy** who must be contacted by the Sponsor when a Gift is being considered. Global Issues manages the assessment against the criteria on behalf of Government. Clearance must be obtained before the financial approval stage is reached. For further information, see [Part 2](#).

United States or Other Foreign Transfer Requirements

12.32. The United States International Traffic in Arms Regulation (ITAR) controls the transfer of some assets procured from the USA. This may apply to items which fall under the US Munitions List (USML). Many other countries impose re-transfer undertakings on equipment originally exported from their countries. For further guidance see [Part 2](#).

Write A Business Case

12.33. For any Gift a business case must be written by the Sponsor outlining the proposal, and providing a robust argument that supports making a Gift using existing UK MOD assets or items purchased specifically to Gift. It must state, with sufficient detail and clarity, how it will produce a positive, clear and demonstrable benefit to Defence to justify the lost income.

12.34. Having obtained the necessary information from Parts 1 – 5 of the 'Application to Gift Defence Assets', the business case can now be finalised and staffed sequentially to the relevant addressees of Parts 7 - 9 to complete the remaining parts.

12.35. There is no requirement to use the 'Application to Gift Defence Assets' where a Gift is being sourced by an asset purchased specifically; the Sponsor can obtain the necessary information directly if applicable from Defence Movements and Transport and Heritage Branch.

Obtaining Approval

A Gift Valued at UP TO £300K

12.36. Each TLB Director of Resources has delegated authority to approve Gifting of surplus assets with an official valuation up to a maximum of £50,000 per Gift. D Fin Strat has delegated authority from DG Finance to approve Gifts of surplus assets with a value up to £300K. Gifting proposals valued in excess of £50,000 and up to £300K, **or** which are deemed to be novel and/or contentious (see Chapter 14, Regularity and Propriety, paragraphs [14.3a](#) and [14.3b](#)) regardless of value, must be referred to D Fin Strat through FMPA-Finance Policy (DFinStrat-FMPA-FinPol-Gifting (Multiuser)). The approval decision from DFinStrat will be notified to the Sponsor by FMPA Fin Pol.

12.37. D Fin Strat is not authorised to approve a Gift of an asset that has been funded by the Treasury Reserve, including Urgent Capability Requirements (UCRs) equipment, or those sourced from military activity pool funding e.g. Conflict, Stability and Security Fund (CSSF) without the appropriate agreement of Treasury or the Fund manager via Defence Resources Operations as appropriate.

A Gift Valued at OVER £300K

12.38. A surplus asset with an official valuation (see paragraph 12.18) including any additional costs involved in making it (see paragraph 12.25) in excess of £300K will require Treasury and Parliamentary approval. DFinStrat-FMPA-Finance Policy must be advised of all such cases from the outset, and internal approvals obtained through completion of the 'Application to Gift Defence Assets' (see [Part 2](#) Annex 18) BEFORE the case can be progressed for Treasury, Ministerial and Parliamentary approvals. Parliamentary approval can either be sought through Main or Supplementary Estimates or, more usually, by laying a Departmental Minute (DM) (see [Part 2](#)), which must be accompanied by a Written Ministerial Statement (WMS) from the MOD Minister. In either case, the Chair of the Committees on Arms Exports Control (CAEC) should be provided with a copy at the formal presentation stage.

12.39. For Gifts requiring Parliamentary approval, MOD's Parliamentary Branch should be consulted at an early stage by the Gift sponsor, to ensure that the requirements of the process are understood and met, particularly those concerning the Parliamentary timetable.

12.40. Following the laying of the WMS and DM before the House of Commons, 14 sitting days must elapse before the Gift can take effect; this is to allow time for any Parliamentary objections to be received. Managing Public Money describes the processes that should be used during a Parliamentary recess in cases of special urgency.

12.41. For further information on the approvals process, including a process diagram and example submissions, see [Part 2](#).

Payment of Import Duty

12.42. If a Gift is to be made of equipment which was the subject of an Import Duty waiver upon its import to the UK, and the Gift is made within the three years following its delivery to the MOD, the facts need to be reported to HM Revenue and Customs through FMPA-A&TM; as the waiver may become invalid and Import Duty be payable. In these circumstances, the costs of paying the Import Duty should be passed to the recipient of the item.

12.43. Further information on Import Duty and waivers may be found in JSP 916 - MOD Tax and Duty Manual. (See [Part 2](#))

Making a Gift in an Operational Theatre or on Exercise

12.44. In certain circumstances, such as major overseas exercises or in operational theatres, giving of non-warlike equipment may be undertaken where this offers a cost-effective alternative to local sale, return to UK, or where such giving is coherent with the aims of a particular operation. Authority to approve such giving will be made through the issue of a specific delegation where this is considered appropriate. The Sponsor is

responsible for maintaining an audit trail and notifying their TLB Gifting Focal Point to ensure reporting requirements are fulfilled.

Completing, Reporting and Accounting for a Gift

12.45. All the necessary approvals, including financial approval, must be obtained **before** physical handover of the item to the recipient.

12.46. **The Sponsor** has responsibility to legally transfer title and ownership of the asset and to secure indemnity for the Department against future claims arising from accident, injury or death resulting from the use or operation of the item (see Annexes 46 - 48). It is also their responsibility to ensure completion of the following residual actions:

- a. press briefing and lines to take linked to the Gift, where this is required;
- b. ensuring that an asset, once handed over to the recipient, is removed from the asset register on which it appears. Removal from the asset register must be done via Defence Business Services (DBS) Asset Management Team (ADMT);
- c. reporting the occurrence of a Gift to their TLB focal point in accordance with this chapter and their own TLB's instructions.

12.47. **TLBs must maintain an audit trail of every Gift they make.** Once approved, all Gifts that have been handed over to the recipient must be reported by the **Sponsor** to their TLB Gifting Focal Point, in accordance with the TLB's instructions, to meet the requirements for reporting Losses, Special Payments & Gifting in the Annual Report and Accounts (ARAc). Additionally, Gifts valued in excess of £300K for which Parliamentary authority has been sought must be reported BEFORE they are handed over as an Advance Notification entry in the ARAc. Arrangements for reporting Gifts will be promulgated soon after the start of each financial year by D Fin Strat-FMPA-Fin Pol. A Gift Sponsor must maintain and retain an audit trail of every Gift they make, and provide the details to their TLB Gifting focal point for inclusion in the ARAc.

Part B - Exchanges of Gifts with Foreign Counterparts and Corporate and Promotional Items

Key Directives

Exchanges of Gifts with Foreign Counterparts

12.48. All exchanges of Gifts must contribute towards Defence objectives and help develop working relationships which will benefit MOD. Gifts using taxpayers' money are a sensitive issue. The Department must have a robust case for making a Gift and be able to demonstrate that the level and choice of Gift represents a proper use of taxpayers' money, is appropriate in nature i.e. corporate not personal, and is not extravagant.

12.49. Except in the circumstances described in paragraph 12.60., exchanges of Gifts should always be reciprocal, and must only take place at 2 star level and above; unless a specific sub-delegation has been made (See paragraph 12.63.).

12.50. Spouses and partners are not permitted to present official Gifts at public expense (see paragraph 12.64.).

12.51. The maximum amount which can be spent on a single Gift is £140 for Ministers, £80 for other members of the Defence Council and £50 for all other entitled personnel.

12.52. Authority is delegated to TLB Holders to approve expenditure on exchanges of Gifts within the rules set out in this Part of the chapter. TLB Holders may sub-delegate their authority as they see fit.

12.53. TLBs must maintain records of all Gifts presented, for official reporting, audit, and FOI purposes.

Corporate and Promotional Items

12.54. TLBs have delegated authority to spend money on corporate Gifts where this would contribute to a clear and specific TLB business objective. Management areas may issue branded items to their staff to foster a corporate identity.

12.55. MOD can give prizes to outside individuals and bodies where this can be shown to contribute to the delivery of a TLB core business. Any awards to Service and Civilian MOD employees must be through the medium of established schemes such as the Special Bonus, Minor Awards or GEMS schemes.

12.56. A record of expenditure on these items must be held to enable information requests to be answered, as well as for audit and governance purposes.

Exchanges of Gifts with Foreign Counterparts

12.57. Exchange of Gifts between MOD personnel and their foreign counterparts promotes good relations with foreign officials, at home and overseas, where custom requires it, and where failure to do so would result in the foreign party being offended. This is particularly relevant where an exchange of a Gift is an important part of the intended recipient's national culture. Gifts must be made on an official business footing and not as an expression of personal admiration or affection for the recipient (see also paragraph 12.61).

12.58. Expenditure funded by the taxpayer on Gifts is open to audit and public scrutiny, and is a sensitive issue. The value to be gained from making Gifts to foreign VIPs may not be obvious to the media and taxpayer, and the benefits difficult to quantify. Adverse publicity, which may include accusations that the Department is misusing public funds, particularly where Gifts are lavish, is therefore a risk and must be taken account of. If called upon to do so by Parliament or the Treasury, the Permanent Secretary, as MOD's Accounting Officer, must be able to defend expenditure on Gifts as being an appropriate and effective use of the Defence budget. All Gifts must therefore demonstrably contribute to the development of good working relationships which will benefit MOD.

Eligible Recipients

12.59. **Except** during operational deployments in war or conflict zones (see paragraph 12.60.) reciprocal Gifts may only be presented to foreign personnel whose rank or grade is equivalent to UK 1 star and above, or who hold the equivalent of Head of Establishment

or Director-level appointments. Gifts must be reciprocal, and only one Gift must be presented to each recipient.

12.60. During operational deployments in war or conflict zones Gifts may be presented in-theatre to foreign officials, such as military personnel and local civic authority and police representatives, with whom good relations are essential for getting the job done or whose co-operation contributes to the safety and security of UK personnel. TLB Holders should make prior provision for the arrangements that will apply for gaining approval and authority to make Gifts in these circumstances, whether by the appropriate TLB Director of Resources or the in-theatre Civil Secretary via a sub-delegation arrangement. **The normal rules on Gifting apply to Gifts during operational deployments, except that:**

- a. Gifts may be offered by officers in command of deployed units at a level to be determined by the TLB Holder authority;
- b. the importance of the recipient's cooperation with UK forces to achieving the deployment's aim, rather than their rank, grade or position, will determine whether it is appropriate to present them with a Gift;
- c. it is desirable, but not essential, for the Gift to be reciprocated.

Ineligible Recipients

12.61. Gifts must **not** be presented to:

- a. UK citizens, Service personnel or Crown servants. This includes staff serving in British embassies and consulates;
- b. UK or foreign representatives of companies;
- c. NATO personnel, where the meeting or function is routine;
- d. spouses, partners or other persons in attendance at meetings or functions such as drivers, interpreters, guides, liaison officers, bodyguards;
- e. private individuals.

12.62. MOD does not fund Gifts presented by UK officers holding NATO appointments or Gifts presented in the NATO role by officers holding dual appointments. This prohibition does not apply to the UK Military Representative to NATO (UKMILREP) which is a UK post.

Who may present a reciprocal Gift?

12.63. Gifts can be presented only by **2 star/OF7 equivalent officers and above** unless a specific sub-delegation is made by the TLB Holder (see Paragraph 12.69.). Exceptionally, a Gift may be presented by a lower ranking officer if they are personally representing the entitled officer, however in such circumstances - and on each and every occasion - for reasons of compliance, governance, and audit the representative must have the entitled officer's written authority to present a Gift on his/her behalf. Where this is likely to be a frequent occurrence, the entitled officer must put in place arrangements to ensure proper governance and audit trail requirements are met, and that these

arrangements are reviewed regularly. An example form for this purpose is provided in [Part 2](#).

Who is not permitted to present a reciprocal Gift?

12.64. Spouses and partners are not entitled to present official Gifts at public expense. When visits (outward and inward) are arranged, diplomatic channels e.g. Defence Diplomacy and the respective Embassies or Consulates should be engaged at an early stage, so they can provide appropriate advice to both hosts and visitors, to ensure the UK rules on exchanges as described in this Part of the chapter are observed; thus avoiding embarrassment on both sides. FMPA Finance Policy will not approve a request for exemption regarding publicly funded Gifts made to a spouse or partner.

Permitted Expenditure on Reciprocal Gifts

12.65. The maximum amount that can be spent on a single Gift, including VAT and all associated costs such as postage and packaging, engraving, Gift wrap etc is:

- a. Ministers - £140
- b. Members of the Defence Council - £80
- c. All other entitled personnel - £50 (see Paragraph 12.59.)

Suitable Gifts to Exchange

12.66. All Gifts presented must be viewed as official Gifts that appropriately reflect they are made from a Department of State, and thus should avoid any confusion or conflict with a Gift that might otherwise be given in a private capacity. There is no definitive list of the type of Gift deemed suitable for presentation. Ideally, the Gift should be a lasting reminder of the recipient's encounter with MOD, the British Armed Forces and the UK. Plaques, crystal, china and silverware bearing MOD or military crests and military statuettes are popular items. Books are also acceptable.

Unsuitable Gifts to Exchange

12.67. Cash or Gift vouchers, electronic equipment such as I-Pad, Tablet, mobile phone, sports or performance tickets, and consumable items, such as alcohol, tobacco products, biscuits or chocolate **must not** be offered as Gifts, nor should humorous or novelty items be presented. Care should be exercised to ensure that the Gift is not offensive to the recipient, either personally or politically. If in doubt the advice of Defence Diplomacy, Attaché, Embassy or Consulate staffs should be sought.

Non-reciprocal Gifts to foreign counterparts

12.68. Very occasionally circumstances may arise when it might be appropriate for a Gift of a low value item (such as a key ring or baseball cap) to be made by a UK personnel member to a counterpart in order to foster good will. Similarly, a desire to present a certificate or similar token given by UK to foreign personnel to recognise attendance at e.g. a hosted training event may be seen as appropriate. These situations should not generally be a commonplace occurrence. Anything that might result in a proliferation of low value Gifting could create control and accountability issues, and should therefore be

avoided. Authority and approval to make Gifts of this nature is set out below. In cases of doubt, TLB Gifting Focal Point staff (see [Part 2](#)) should be contacted for advice.

Authority and Approval Arrangements

12.69. Authority to commit expenditure on Gifts made to foreign counterparts, subject to the rules in this Part of the chapter, is delegated to TLB Holders. TLB Holders may sub-delegate their authority as they see fit, however sub-delegation must be undertaken formally in writing to named individuals, who are to acknowledge receipt and confirm that they understand the terms and extent of their delegated authority. Such arrangements must be reviewed regularly to keep pace with change. TLB Holders remain accountable for all reciprocal and any non-reciprocal Gifts made using their budgetary resources.

12.70. Those to whom authority for making Gifts has been delegated should base an approval decision on the merits of each case, their respective TLB expenditure limits, and on the normal rules of financial regularity and propriety, value for money and affordability.

12.71. TLBs should issue their own instructions about the procedure they wish their staff to follow for submitting requests and obtaining approval for Gifting to foreign counterparts.

Recording and Accounting for Foreign Counterpart Gifts

12.72. For governance, audit and FOI purposes, TLBs must keep records of all Gifts presented to foreign counterparts. The record should contain the following details:

- a. name rank/grade and post of the presenter;
- b. name, nationality, rank or grade and position of recipient;
- c. cost of the Gift presented;
- d. details of the Gift received in return, including an estimate of the value;
- e. total spend, broken down by item type, on low value Gifts.

12.73. All expenditure on Gifts should be charged against Resource Account Code NFA 002 (Public Relations Costs).

12.74. Arrangements for reporting Gifts with foreign counterparts will be promulgated each financial year to TLB Gifting Reporting points by D Fin Strat-FMPA-Fin Pol.

Corporate and Promotional Items

12.75. TLBs have delegated authority to spend money on corporate Gifts where this would contribute towards a clear and specific TLB business objective. Such expenditure should be modest and should normally take the form of low-value Gifts (such as pens) and be distributed as part of **internal and external advertising and marketing campaigns and road-shows** to promote corporate opportunities, messages, policies and procedures.

12.76. Management areas may issue branded goods to their staff to foster a corporate identity, but only in the form of low-value stationery items (such as lanyards and pens).

Awards and Prizes

12.77. MOD can award prizes to outside individuals and bodies where this can be shown to contribute to the delivery of a TLB's core business. Minor cash awards, provided that they are made in support of core defence objectives, are permitted with TLB D Res approval. There could be tax liabilities associated with the giving of awards and prizes where these are related to employment. Further advice may be obtained from the FMPA Tax and Duty team.

12.78. MOD employees and Service personnel are rewarded through their normal pay and allowances, Special Bonus Scheme (for Civilians) and the Minor Award Scheme. TLBs must therefore avoid making cash awards to their staff other than through officially recognised MOD-wide schemes, including the GEMS scheme. Prizes to staff for success in TLB-sponsored competitions, designed to bring about improvements in the delivery of core business, should normally take the form of a low-value non-cash award. Modest trophies may also be awarded, but certificates or letters of commendation are preferable.

Recording and Accounting for Corporate and Promotional Items

12.79. TLBs should record expenditure on corporate and promotional items in such a way that they are able to answer questions and FOI requests fully. Expenditure on Gifts for staff is particularly sensitive, and TLBs should issue clear guidance on how such expenditure is to be managed and accounted for locally; including details of the scrutiny and approval arrangements for such expenditure. Wasteful or misplaced expenditure on corporate or promotional items would be criticised by Parliament and the media. If there is any doubt whether expenditure on such items could withstand Parliamentary or public scrutiny, the matter must be referred through the finance chain to the TLB Director Resources.

13 Grants and Grants in Aid

Introduction

- 13.1. This chapter explains the rules on Grants and Grants in Aid (GIA), in particular:
- a. the difference between a Grant and GIA;
 - b. control arrangements, including documentation to support Grants and GIA;
 - c. treatment of Capital Assets funded from Grants or GIA;
 - d. budgetary treatment of Grants/GIA to bodies within the Departmental accounting boundary.

Subject Matter Experts

| Job Title/E-mail | Subject Matter Expert | Phone |
|-----------------------------|-----------------------|------------|
| DFinStrat-FMPA-FinPol-AHd-1 | General Policy Advice | 9621 86949 |
| DFinStrat-FMPA-FinPol-1a | Managing Public Money | 9621 84576 |

Key Directives

13.2. Grants are one-off payments and must not be paid on a regular or recurring basis to recipients. Long term support for external organisations should be provided through a GIA. Any regular or recurring payments to external bodies must be treated as GIAs and not as a series of Grants.

13.3. For Grants, a formal agreement must be drawn up between the MOD and the external body providing the goods or services for which the Grant is to be paid, and kept up to date. Payment of a Grant to an external body without a valid Grant Scheme or Agreement with the recipient being in place constitutes irregular expenditure.

13.4. The MOD has full delegation from the Treasury in respect of Grants that meet or support Defence objectives. There is no requirement to separately identify Grants in Supply Estimates but Top Level Budgets (TLBs) are to ensure that provision is made in the Annual Budget Cycle (ABC) for expenditure on Grants. For further information on the ABC process see [Chapter 5](#) - The Annual Budget Cycle Process and In-Year Financial Management.

13.5. Grants should be paid on evidence of need or qualification, depending on the terms of the Grant Scheme or Agreement.

13.6. Proposed Grants which are considered novel and/or contentious, including any that do not directly support Defence outputs, should be submitted to the Treasury for approval.

13.7. Treasury and Parliamentary authority is required for MOD to initiate or amend a GIA. Specific empowering legislation may also be required.

13.8. In year implementation of, or change to, a GIA must be approved in time for inclusion in the AP06 forecast. This underpins the Spring Supplementary Estimates (SSE), which is MOD's last opportunity to seek fresh Parliamentary authority for revised spending plans.

13.9. Each GIA requires its own Resource Accounting Code (RAC) to enable expenditure to be properly identified. GIA over £1M must be separately noted in the Supply Estimate. For further information on the Parliamentary Supply process see [Chapter 1](#) - Parliamentary Supply and the Government's Financial Framework.

13.10. GIA must be supported by a Financial Framework (FF) document accurately reflecting the control framework to be put in place and the responsibilities of the external body as a result of it receiving the GIA. The FF must be signed off by the Budget Holder and Director Resources of the TLB providing the GIA, and by the Chairman and Chief Executive (CE) or equivalent of the external body receiving it. The FF must be regularly reviewed to ensure that it remains fit for purpose.

13.11. An Accounting Officer (AO) must be designated by PUS for the external body. This will normally be the senior full-time official (CE or equivalent).

13.12. Where an organisation is in receipt of a Grant or GIA and is also receiving other MOD financial support (for example provision of manpower, accommodation, IT or other facilities) it is not acceptable to offset the cost of providing such services against payment of the Grant or GIA.

The Difference Between a Grant and a Grant in Aid

13.13. A Grant is a one off payment by MOD to an external body where MOD is required, or wishes, to maintain direct control over the expenditure. A Grant is made for specific purposes, under statute, and satisfying specific conditions, for example about project terms, timing of payment or with other detailed control.

13.14. For further guidance on the difference between a Grant and GIA see [Part 2](#).

Statutory Authority for Grants and GIA

13.15. Managing Public Money makes it clear that payment of both Grants and GIA normally requires specific empowering legislation as well as cover in Supply Estimates. With Treasury approval, it is sometimes possible to rely on the Appropriation Act alone for statutory cover for Grants or GIAs. To qualify the Grant or GIA should be:

- a. no more than £1.5M a year, or
- b. expected to last no more than two years.

Payment of Grants

13.16. TLBs must ensure that Grants have been spent in accordance with the terms of the Grant, for which a formal Agreement must be drawn up and kept up-to-date. For a template Agreement to cover the payment of a Grant see [Part 2](#).

13.17. Payment of a Grant to an external organisation without a valid Grant Scheme or Agreement with the recipient being in place constitutes irregular expenditure.

13.18. Grants should be paid on evidence of need or qualification, depending on the terms of the Grant Scheme or Agreement. For example:

- a. the recipient may need to submit a claim with evidence of eligibility;
- b. the recipient may need to show that it meets the conditions of the scheme;
- c. the recipient has incurred expenditure;
- d. the recipient has claimed reimbursement.

13.19. Every Grant payment requires auditable evidence of compliance with the terms of the Grant Scheme or Agreement, and auditable evidence of need on the part of the recipient. Evidence of need may be based on estimates of future requirements but actual expenditure must be subsequently captured and scrutinised.

13.20. TLBs should maintain full records of Grants paid to Third Sector organisations or Voluntary Communities, as this information is required annually by the Office of the Third Sector and other organisations. For further information on the Third Sector see [Chapter 17](#) - Third Sector Funding.

13.21. The AO of the Grant funder is responsible for ensuring that the Grant is consumed by the recipient only on the specific services for which the Grant is authorised. Any part of the Grant not paid out by the end of the Financial Year (FY) will lapse. For further information on the role of the AO see [Chapter 4](#) – Responsibilities of Accounting Officers.

13.22. It is acceptable for external organisations to be in receipt of GIA (that is long term support for their operating costs) and also to be paid one-off Grants where the conditions of the Grant Scheme or Agreement are met.

13.23. MOD's external and internal auditors will expect to see that Grants and Grants-in-Aid:

- a. are awarded and used only for authorised purposes (the principle of regularity);
- b. are made and used fairly, free from undue influence (the principle of propriety), and
- c. secure the most cost-effective outputs (the principle of value for money).

Grants in Aid (GIA)

Authority for GIA

13.24. MOD has no delegation to establish a new GIA, and must therefore seek formal Treasury approval before any payment is made. Failure to obtain such approval would make the expenditure irregular.

13.25. The request to the Treasury should outline the following:

- a. what it is intended to fund;
- b. why this needs to be funded through a GIA;
- c. the statutory authority for the GIA;
- d. confirmation that the recipient is able to administer and account for the funding adequately; and
- e. confirmation that funding can be contained within existing MOD provision.

13.26. MOD is authorised to increase the level of funding for an existing GIA, subject to the ability to contain the increase within the existing MOD overall provision. However, any in year increase to the GIA must be included in the Supply Estimate. If a TLB wants to extend the GIA to cover new services, they must seek Treasury approval.

Types of External Body Funded Through GIA

13.27. Five main types of external bodies are funded by the MOD through GIA:

- a. international organisations such as the Commonwealth War Graves Commission;
- b. organisations with charitable status, such as Service Museums, which are subject to charity law, which provides legislative force to many of the controls which would otherwise need to be contained in a FF document. (See below);
- c. non Departmental Public Bodies (NDPBs), where MOD controls the body by virtue of being able to specify its role, appoint the majority of its Board and provide the majority of the funding. Currently all MOD NDPBs are charities and are subject to charity law;
- d. other independent organisations such as the Royal Hospital at Chelsea, which have similarities with some of the above and are treated according to their level of independence and the terms of any overriding legislation;
- e. central Government bodies, with Crown status, such as the Council of Reserve Forces' and Cadets' Associations.

Timing of Introduction or Amendment to a GIA

13.28. In establishing or amending a GIA, timing must be carefully considered, bearing the following points in mind:

- a. it is necessary to obtain Treasury and Parliamentary authority; it is not sufficient merely to insert a new GIA into the ABC and the Supply Estimate. There may need to be specific empowering legislation for a GIA;

- b. although a GIA may be established or amended in year, the preferred approach is to address the issues during the ABC and make appropriate provision in the Supply Estimate;
- c. it takes time to allocate a new RAC and insert it into the accounting system. TLB accounts staff should therefore be consulted at the earliest opportunity;
- d. in year implementation of, or change to, a GIA must be approved in time for inclusion in the AP06 forecast. This underpins the Spring Supplementary Estimates (SSE), which is MOD's last opportunity to seek fresh Parliamentary authority for revised spending plans. TLBs must also inform Defence Resources Finance & Operations (Def Res Fin Ops) of any changes;
- e. a GIA should be administered iaw the principles set out in Managing Public Money Annex 5.1.

TLBs' Responsibilities for GIA

13.29. For further information on TLBs' responsibilities in respect of GIA see [Part 2](#).

Resource Accounting Codes for GIA

13.30. Each GIA requires its own RAC to enable expenditure to be properly identified. Any new GIA, or a change of owner for an existing GIA, or any bodies merging will necessitate the issue of a new RAC before accounting action can occur. In such circumstances all TLBs must contact their RACE Representative for further advice. To ensure inclusion in the appropriate ABC, the new RAC will need to be issued by at least June of the year preceding the requirement. Managing Public Money requires GIA over £1M to be separately noted in the Supply Estimate.

Financial Framework (FF) Document

13.31. GIA must be supported by a FF document accurately reflecting the control framework to be put in place and the responsibilities of the external body as a result of it receiving the GIA.

13.32. FF documents should strike an appropriate balance between:

- a. ensuring prudent management of GIA funds;
- b. achieving value for money;
- c. assuring funders that the GIA is being used as envisaged, whilst
- d. allowing the external body reasonable freedom to make their own decisions. The extent of control will be influenced by the nature of the body concerned.

13.33. Although MOD does not normally seek to exercise detailed control of the activities of the recipient of a GIA, it must set out the terms and conditions on which the GIA is issued. The extent of and limits on the freedoms which the recipient body enjoys, and the recipient's responsibilities, must be clearly understood. The Committee of Public Accounts (PAC) can be expected to maintain a continuing interest in the nature of the

controls applied by MOD, as a consequence of Parliament's agreement to surrender some of its control over the funding it has granted.

13.34. The FF must be signed off by the Budget Holder and Director Resources of the TLB providing the GIA, and by the Chairman and Chief Executive (or equivalent) of the external body receiving it. The FF must be regularly reviewed to ensure that it remains fit for purpose.

13.35. Payment of GIA to an external organisation without a valid FF document in place constitutes irregular expenditure. For further guidance on FF documents and the conditions to be attached to payment of GIA see [Part 2](#).

Capital Assets Funded from Grants or Grants In Aid

13.36. When making any commitments on lease or hire purchase agreements, an organisation in receipt of GIA should seek approval from the sponsor Department if the term of the lease falls outside of the 5 year term of the existing FF document. TLBs might wish to consider requesting an annual return from the GIA funded body of the outstanding hire or lease liabilities when the accounts are submitted to the sponsor Department.

Acquisition or Improvement

13.37. Any proposed capital expenditure must be fully considered, regardless of the source of funding. Acquisition or improvement of assets may be funded by the Heritage Lottery Fund (HLF), the European Regional Development Fund (ERDF), UK Regional Development Grant or Local Authority Grant, as well as by GIA.

13.38. Each project may increase the risk to MOD GIA funds in several ways if it fails to meet either its non-Grant funding target or its projected increase in income, or if costs escalate beyond agreed funding. Examples include:

- a. increased repair and maintenance costs;
- b. MOD is the sponsor Department, and is clearly identified with the body. It would be difficult for MOD to dissociate itself from any problems the body might face in terms of increased funding needs as the result of non-GIA capital expenditure;
- c. increased staffing resulting from capital projects in management and support costs in the head office and security areas;
- d. the balance of risk may change significantly due to the new project, necessitating a reassessment of insurance and other factors.

13.39. It is essential that the FF document contains clear guidance on consultation on all capital projects between the sponsor and the recipient body. It must be made clear that MOD funding is limited, and that any significant increase in funding requirements as a result of capital projects will impact on MOD's ability to continue to support all the activities currently funded. Unplanned increases to meet shortfalls in capital projects will inevitably necessitate savings elsewhere within the recipient body.

13.40. The expenditure limits in the FF document will be designed to meet the management needs of the sponsor. Those limits must not, of course, exceed those held by the sponsoring Budget Holder.

Disposal

13.41. There is general presumption that, when a non-Exchequer body disposes of assets which were wholly or partly funded by government Grants or GIAs, the proceeds (or an appropriate proportion) should be repaid to the Exchequer. This is a presumption of policy, not of law, but it is nevertheless an important one. It has been established to ensure that where public funds have been used to acquire, improve or create assets, wholly or partly, the interests the taxpayer must be properly protected in the event of the body disposing of such assets. Further guidance may be found in Managing Public Money Annex 4.15.

13.42. Where assets are obtained, or improved, with Grant or GIA funds, they must be registered and the proceeds of any subsequent disposal made available to MOD, either for recovery, for acquisition of other capital assets or to abate the Grant or GIA. The sponsor will need to consider, from the outset, how disposal receipts are to be treated, subject to reinvestment conditions and ensure that appropriate conditions are inserted into the FF.

13.43. Particular care must be taken with grantees having charitable status to ensure that recoveries can be made. Suitable conditions must be agreed and entered into the FF document before payment of the Grant or GIA to protect the interests of the taxpayer.

Reinvestment

13.44. Parliamentary care is required for the requirement of funds generated by disposal where the value exceeds £1M.

13.45. The AO of the funder is responsible for ensuring that the Grant is consumed by the recipient only on the specific services for which the Grant is authorised. Any part of the Grant not paid out by the end of the FY will lapse.

Exceptions/Special Cases

13.46. Where the recipient of a Grant or GIA is a Third Sector organisation (for example, a charity) special considerations apply. If appropriate on value for money grounds, funding through Grants or GIA for Third Sector organisations should provide long term stability and not be limited to funding on an annual basis. For further information on Third Sector funding see [Chapter 17](#) - Third Sector Funding.

Budgetary Arrangements for the Payment of Grants and GIA

13.47. For further guidance on the budgetary arrangements for the payment of Grants and GIA see [Part 2](#).

14 Regularity and Propriety in Public Expenditure

Introduction

14.1. This chapter illustrates what is, and what is not, proper behaviour when managing public funds and provides guidance on distinguishing public funds from non-public funds. This guidance is in line with Managing Public Money (MPM), a Treasury publication which sets out the rules for managing and controlling public expenditure and is the ultimate reference manual on these matters for finance staff. (See [Part 2](#))

Subject Matter Experts

| Job Title/E-mail | Subject Matter Expert | Phone |
|-----------------------------|----------------------------------------------------|------------|
| DFinStrat-FMPA-FinPol-AHd-1 | Letters of Delegation and Regularity and Propriety | 9621 86949 |
| DFinStrat-FMPA-FinPol-1a | Letters of Delegation and Regularity and Propriety | 9621 84576 |

Key Directives

14.2. Public expenditure must comply with the principles of 'Regularity and Propriety':

a. **Regularity** is defined as the requirement for all items of expenditure and all receipts to be dealt with in accordance with the legislation authorising them, any applicable delegated authority, and the rules of MPM. The test for the regularity of any given expenditure proposal is whether or not Parliament could reasonably be expected to understand it to be covered by the Ambit. Expenditure cannot be legally incurred unless it is covered by the Ambit. Further information on Parliamentary financial controls is at [Chapter 1](#) - Parliamentary Supply and the Government's Financial Management Framework;

b. **Propriety** is defined as the further requirement that expenditure and receipts should be dealt with in accordance with Parliament's intentions and the principles of Parliamentary control, including the conventions agreed with Parliament (in particular the Committee of Public Accounts (PAC)). Tests of 'propriety' are most commonly applied to standards of conduct and behaviour in public service. Further information on the PAC is at [Chapter 2](#) - The National Audit Office and the Committee of Public Accounts.

14.3. The Department has no delegated authority to commit to expenditure which is novel or contentious. Such expenditure proposals must be reviewed and/or reported to the Treasury for approval:

a. **Novel expenditure** is defined as expenditure on goods and services not previously supplied or purchased, for which MOD has no funding authority, or for which there are no existing rules to suggest the proper course of action;

b. **Contentious expenditure** is defined as goods and services that do not constitute value for money and/or is likely to cause public or political controversy or repercussions for MOD and other Departments.

14.4. Any expenditure which falls outside a Department's delegated authority and which has not been approved by the Treasury is irregular and must be regularised with the Treasury.

Power to Incur Expenditure - Delegations

Treasury Delegations

14.5. Parliament authorises the Treasury to spend resources on its behalf. Accordingly, Treasury approval is required for all resources and expenditure but, in practice, the Treasury delegates to Departments the authority to spend within specific criteria and financial limits. Authority for certain types of resource consumption, for example new services, or novel and contentious proposals, is not delegated and Treasury approval is required before any commitment is entered into. Even if a proposal has the approval of a Minister, it should not go ahead until Treasury approval has been given. Further information on Treasury Delegations is at [Chapter 3](#) – Financial Delegations and the Role of Directors of Resources, Budget Holders and Managers .

Personal Delegations within MOD

14.6. Every member of staff at every level has a responsibility to ensure that they work within the bounds of financial regularity and propriety. Achieving good results in Defence is important, but these results must not be achieved by cutting corners in respect of financial regularity and propriety.

14.7. Basic principles to be adhered to are summarised below:

| DON'T | DO |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none">• Bend or break the rules.• Deceive or knowingly mislead.• Allow a conflict of interest to affect, or appear to affect decisions.• Use public money for private benefit or for others. | <ul style="list-style-type: none">• Comply with the law.• Put in place and follow up-to-date procedures.• Seek approval if needed first from the right person.• Record the reasons for decisions.• Be honest, impartial and even-handed. |

Personal Implications of Failing to Observe Regularity and Propriety

14.8. Failure to observe financial regularity and propriety constitutes an abuse of financial authority. History shows that the prime causes of abuse of financial authority are the absence of proper control or failure to observe existing controls. Those best placed to detect and deter incidents are those directly involved in an activity at risk.

Hence, prime responsibility for establishing controls to deter and detect fraud and theft and for reporting suspicions rests with line management at all levels. To note JSP 462 [Part 2](#) Annex 28 covers MOD Fraud Policy.

14.9. The Permanent Under Secretary (PUS) is personally responsible to Parliament for ensuring that MOD has sound controls in place. Abuse of financial authority is accordingly an issue covered by DG Finance's annual assurance report as Defence Authority for Financial Management and Scrutiny in the Department.

14.10. All staff should be aware that such abuse can lead to disciplinary action being taken against the individual or individuals involved, even where there is no personal gain.

Departmental Implications of Failing to Observe Regularity and Propriety

14.11. Parliament's concern for regularity and propriety in the management of public funds is reflected in the work of the PAC. The PAC is invariably highly critical of any breaches of financial regularity and propriety, and its comments are reported widely in the media.

14.12. If there is any question regarding whether a proposed course of action meets the requirements of regularity and propriety, Budget Managers should ask themselves if PUS could satisfactorily defend the proposal before the PAC and the public.

14.13. Any expenditure which falls outside a Department's delegated authority and which has not been approved by the Treasury is irregular and must be regularised with the Treasury. The Treasury may be prepared to give retrospective approval if it is satisfied that it would have granted approval had it been approached properly in the first place, and that the Department is taking steps to ensure that there is no recurrence. If the Treasury is not prepared to give retrospective approval it will inform the National Audit Office. This could lead the PAC to call an oral hearing at which PUS would have to give evidence. Accordingly, PUS attaches great weight to ensuring that all expenditure meets the requirements of financial regularity and propriety and represents value for money, as failure to do so could cause disproportionate damage to MOD's interests in relation to the Treasury, Parliament and public opinion.

Financial Scrutiny

14.14. Budget Managers are responsible for the scrutiny of expenditure proposals against the criteria of regularity and propriety, value for money, affordability and contribution to the objectives set out in the Business Plan. To ensure compliance, all financial proposals must be tested against the following criteria:

- a. is there a comprehensive business case?
- b. are the rules being followed?
- c. is there authority to proceed?
- d. are there clear procedures for decision making, and are they being followed?
- e. have any conflicts of interest been resolved?

- f. is it certain that public money is not being used for private benefit?
- g. are the principles of even-handedness being applied?
- h. have any wider implications been addressed?
- i. have all the right people been consulted?
- j. does the proposal represent value for money?
- k. is it affordable within existing budgetary limits?
- l. could the Accounting Officer defend the expenditure if called upon to do so by Parliament or the media?
- m. is there a formal record of the reasons for decisions?

14.15. If there is any doubt about the regularity and propriety of an expenditure proposal, then Budget Managers must consult up the Top Level Budget (TLB) Director of Resources (D Res) for a ruling. It is the responsibility of D Res to explain and justify expenditure within their business area if called upon to do so. If necessary the D Res should consult Financial Management Policy and Accounting - Finance Policy - Deputy Head (FMPA-Finance Policy-DHd) and, where appropriate, DG Finance, at the earliest opportunity.

14.16. Further information on the role of Budget Managers and the Financial Scrutiny process is at [Chapter 3](#) - Financial Delegations and the Role of D Res, Budget Holders and Managers.

Public and Non-Public Funds

14.17. The defence budget is approved by Parliament each year through the Supply process. The annual Supply Estimates set out the amount of funding approved for defence and the purpose of that funding. The financial delegations granted to Departments by the Treasury on behalf of Parliament set out how spend is to be scrutinised and approved in line with guidance set out in Managing Public Money. Spend should only be approved for the purposes voted by Parliament in support of defence objectives.

Non-Public Funds

14.18. Certain activities carried out by members of the MOD are not in direct pursuit of defence objectives and should not be funded from the public purse. On occasions, it can be difficult to determine whether an activity should be publicly funded, and the policy set out here is intended to provide some examples to help support these decisions.

Mixing of Public and Non-Public Funds

14.19. In principle, non-public funds e.g. mess funds and sports associations should not be managed through the department's core financial systems or processes. Instead separate accounts should be maintained and the rules applicable to accounting for non-public funds applied. (see Paragraph [14.29](#))

14.20. It is not good financial practice to mix public and non-public funds. Accordingly, MOD banking facilities should not be used to administer non-public funds. In exceptional circumstances (e.g. where local conditions make it impractical to set up a separate banking facility), MOD cash offices have permission to manage non-public funds, but there must be a clear separation between the two.

Enhancement of the Defence Estate

14.21. In certain circumstances, e.g. the provision of welfare facilities, non-public funds can be used to provide or enhance facilities and infrastructure on the Defence Estate. Where these facilities meet a valid Defence requirement it may be possible to contribute to their costs with public funds. Where no such requirement exists or can be established, all whole-life funding must be via non-public funds. The existence of a clear defence requirement is, therefore, a key determinant of the funding position.

14.22. Further guidance, including how this relates to the provision of the defence estate for non-public activity, can be found in [Part 2](#) Annex 25 of this JSP.

Use of MOD/Service personnel to manage non-publicly funded activity

14.23. It is common practice for service and civilian personnel to take on duties ancillary to their main function. These may include roles in connection with non-publicly funded activities that contribute to Unit welfare, such as Regimental Associations and sports clubs. Commanding Officers and Unit Budget Managers must ensure the necessary controls are put in place to manage these activities to minimise the risk to public funds and to recognise and deal with any potential conflicts of interest or loyalty that might arise. For further information on Tri-Service welfare policy see [Part 2](#). For further information on conflicts of interest, see paragraph [14.46](#).

14.24. Personnel are reminded that the term 'secondary duty' to describe such ancillary duties was discontinued² some years ago, as there is no legal difference between primary and secondary duties. In other words, the Crown remains liable for the actions of its personnel regardless of whether they are performing a publicly funded task or supporting a non-publicly funded activity. For this reason, and the reasons outlined in paragraph [14.17](#) above, the use of publicly funded manpower in support of non-publicly funded activity must be kept to an absolute minimum. Commanding Officers and Unit Budget Managers should monitor the use of such resources to ensure it is not excessive and should aim to reduce the level of publicly funded support to an absolute minimum, or else eradicate it entirely.

14.25. If Commanding Officers and Unit Budget Managers are uncertain about the applicability of public funding to a particular activity, they should seek guidance from D FinStrat FMPA-Fin Pol.

Use of publicly funded assets by non-public funds

14.26. Wherever practical, the Department should recover the cost of supplying publicly funded assets which support non-publicly funded activity. Consumable assets such as stationery, IT equipment, etc. should be procured directly by the non-public fund where possible; otherwise the cost to the public purse should be reimbursed.

² defnet/Corp/DINS Archive/2007DIN-02-193

14.27. The use of MOD land and buildings by a non-publicly funded entity should be the subject of an appropriate DIO licence, lease or encroachment agreement, for which an appropriate fee must be paid by the non-public fund.

14.28. Personnel should not claim travel and subsistence or similar associated costs from public funds when such expenses are incurred as a result of supporting non-publicly funded activity.

Service Funds

14.29. Each branch of the Services has issued comprehensive guidance on the management of non-public Service Funds, which include direction on authorisation to proceed, on the conduct of checks on non-public bank and cash accounts, and broader audit and assurance arrangements. TLBs must ensure that suitable training is made available to personnel undertaking these duties.

Tax implications for non-public funds

14.30. If non-publicly funded bodies are not accepted as charities by the Charity Commission, it is possible they may be classified as a commercial business, and as such be liable to pay tax. It is impossible to list every scenario in this JSP, but there are many other potential instances where a non-public fund could unwittingly incur a tax liability. Service Fund managers must therefore seek advice on tax matters from the FMPA Tax Team.

Insurance

14.31. The Department is not funded by parliament to meet the cost of third party claims arising as a result of negligent acts or omissions committed by non-publicly funded activity. It follows that such activity must not rely on MOD to meet its legal obligations in this regard, and should instead purchase commercial insurance from its own funds.

14.32. TLB Directors of Resources must ensure the Department does not assume any liabilities through the non-public activities of its staff. Individuals involved on non-public activities should seek an indemnity for any personal liability from the non-public organisation.

Donations by MOD to External Bodies

14.33. MOD can contribute funding to external bodies through Grant or Grant-in-Aid where there is a specific and quantifiable benefit to the Department, that is where it contributes to the Department's objectives. It can also engage in normal commercial dealings with civil society organisations where such organisations provide outputs which the Department requires. It cannot however make donations to or subsidise any non-public organisation on purely charitable grounds. This would turn public money into non-public and amount to irregular expenditure. Further information on Grants and Grant-in-Aid is at [Chapter 13](#) - Grants and Grants-in-Aid.

14.34. Under no circumstances should MOD provide cash (or cash in kind) to any charity except where it is provided by Grant or Grant-in-Aid or other contractual arrangements. Members of staff (both Service and Civilian) who wish to support a charity should do so

in their own time using their own resources. Public money must not be used for private benefit, no matter how worthy the cause.

14.35. The rules on raising charges for goods and services provided by MOD are at [Chapter 19](#) - Charging. In accordance with MPM, the starting point for charges against Other Government Departments, Foreign Governments and other external organisations (including civil society organisations) is full costs. [Chapter 19](#) contains details, however, of circumstances in which it may be appropriate to abate charges to outside organisations because the chargeable activity has a benefit to Defence. Any abatement of charges in these circumstances (which will need approval by a finance officer with the appropriate delegated authority or by the Treasury if the public subsidy exceeds delegated authority or is novel or contentious) is to be treated as a public subsidy.

Donations to MOD

14.36. The following section considers Gifts and donations offered to MOD corporately, rather than to individual employees. For further information on the acceptance of Gifts and hospitality by Service and Civilian staff see [Part 2](#).

14.37. Care must be exercised before a Gift or donation is accepted by the Department to ensure that the Department cannot be criticised on regularity and propriety grounds and that acceptance of the Gift or donation does not lead to unprogrammed or inappropriate MOD expenditure. Any proposal by an individual or an organisation to make a Gift to the Department must be brought to the attention of the TLB D Res. Key issues for consideration are:

- a. Gifts to MOD must not be solicited (with the exception of the cases outlined below);
- b. that the donor of a Gift must not have, and will not in future, receive preferential or favourable treatment by the Department;
- c. the Department's impartiality in the award of contracts must not be prejudiced or compromised;
- d. whether the source of the Gift is likely to bring the Department into disrepute.

14.38. Where the offer raises commercial propriety issues, TLBs must consult Defence Commercial for advice.

14.39. Gifts of money to the Department constitute unplanned receipts which, under the rules of Managing Public Money, may have to be surrendered to the Consolidated Fund. To avoid this, donors could be invited to direct their generosity to an appropriate charity rather than to MOD itself.

14.40. With the exception of the circumstances outlined below, any Gift of money or equipment which the MOD intends to retain must be authorised by the Treasury and must be treated as public funds or assets.

Exceptions in relation to Donations to MOD

14.41. Exceptionally, the Treasury has agreed that where a donation is offered towards the cost of a **welfare facility** (which for these purposes includes sports facilities) which would normally be publicly through the normal supply process it may be accepted as income without the need for specific Treasury approval. Once accepted, the donation becomes public funds and should be treated and accounted for in the same way as all other public money. It follows that it should be applied only where the facility is provided for official purposes and should be subject to the same rules that apply to projects funded from the Defence budget. MOD may bid for funding from the Nuffield Trust and other Service welfare charities for this purpose but it must not initiate an approach to private individuals and/or companies to fund official welfare facilities. Charges should be raised for any non-official uses of welfare facilities funded in this way in accordance with [Chapter 19](#) - Charging.

14.42. Specific guidance on the policy to be applied when considering the use of public and non-public funds on the **Defence Estate** is at [Part 2](#).

14.43. Occasionally the MOD is offered money to fund Military equipment and services such as armoured vehicles and medical facilities. The Treasury dispensation mentioned at Paragraph [14.41](#) above does not extend to the acceptance of money for anything other than to augment public welfare funding and specific Treasury authority is required to accept other Gifts.

The Bribery Act 2010

14.44. The Bribery Act 2010 modernised the law on bribery and came into force on 1 July 2011. The Act is relevant to Service and Civilian personnel who have contact with external bodies, including commercial organisations and foreign governments.

14.45. The Bribery Act applies to all of MOD's activities (in UK, overseas and on operations) and covers all Service and Civilian Personnel, permanent, temporary and agency staff, contractors, non-executives, agents, volunteers and consultants. For further information on the Bribery Act in relation to MOD activities see [Part 2](#).

Conflict of Interest

14.46. Service Personnel and Civilian Staff who hold appointments (whether in a private or official MOD/Service capacity) in outside organisations, including charities, should avoid placing themselves in a position where a conflict of interest might arise, or be perceived to arise. For further information on conflict of interest in relation to MOD activities see [Part 2](#).

15 Official Hospitality (OH) Policy

Introduction

15.1. This Chapter sets out the regulations for the **provision of Official Hospitality (OH)** organised at public expense for a range of Defence-related visits and other activities. The rules are to be followed by all Defence Personnel involved in arranging Official Hospitality, including Defence Equipment and Support (DE&S). The policy for *acceptance* of Gifts, Rewards and Hospitality is owned by CivHR – see: [defnet/HOCS/Pages/Gifts, Rewards and Hospitality](#).

15.2. These rules apply to all hospitality financed from the Defence budget. Budget Holders, budget managers and OH hosts have specific responsibilities in applying and following these rules, but we are all accountable for how we manage and use public resource and have a responsibility to ensure that OH is open to audit and to public and Parliamentary scrutiny.

15.3. As OH can present significant reputational risks for individuals and the Department, there is a need to ensure strict adherence to the rules, especially in securing appropriate, prior authority for its provision. Any exceptions to these rules must be secured in advance from the TLB Director of Resources (or sub- delegated authority).

Subject Matter Expert

| Job Title/E-mail | Subject Matter Expert | Phone |
|--------------------------|-----------------------|------------|
| DFinStrat-FMPA-FinPol-1a | Official Hospitality | 9621 84576 |

Key Directives

What Is Official Hospitality (OH)?

15.4. OH is the provision of food and refreshments that may be offered as part of certain Defence activities and is most usually associated with visit programmes involving UK or overseas officials or dignitaries.

15.5. OH may also, in very specific circumstances, be offered to other Defence Personnel as part of, for example, a recognition and reward ceremony or to mark the deployment or return of operational front-line units. Such OH may even sometimes be extended to those immediately outside Defence, e.g. Service families invited to a passing-out parade.

15.6. Hosts should ensure that the number of invitees is kept to a minimum and the type of OH activity should be that which is most appropriate to achieve the aims of the Defence activity it supports.

15.7. OH can only be offered where it delivers a Defence benefit as part of activities that, for example, facilitate wider public understanding of the Armed Forces, enhance professional Defence contacts, further British security policy interests or meet Defence Engagement objectives.

15.8. As a guide to all Defence Personnel and to aid decisions and approvals by budget staffs and, ultimately, Directors of Resources, the most common examples of Defence activities that may justify offering hospitality at public expense are described in [Part 2 Annex 29](#).

15.9. [Part 2 Annex 30](#) lists what can and cannot be provided at public expense by way of refreshments and/or meals in support of these Defence activities.

TLB Funding and Authority

15.10. All funding for hospitality is identified within the Annual Budget Cycle (ABC) process and is, therefore, subject to scrutiny. All receipted costs of OH must be charged against the Resource Accounting Code (RAC) NJA001 covering Hospitality Costs.

15.11. Directors of Resources should sub-delegate, where they deem appropriate, the authority to approve all of the activities listed in the Annexes. They must be consulted for any proposals that run contrary to these regulations or are likely to present financial propriety or reputational issues, including the provision of alcohol at public expense where it is not automatically included in the detail of [Part 2 Annex 30](#). TLBs may obtain further advice concerning these matters either from their Corporate Governance leads or the [Subject Matter Expert](#).

Approval

15.12. For all OH requests, prior approval must be sought from the budget Holders' officially delegated authority and budget management staff must always be consulted about affordability and propriety before financial commitments are made.

15.13. The costs of any OH provided by Defence Personnel which have not secured prior approval and/or do not meet the criteria set-down in these rules are likely to have to be borne by the host(s).

15.14. The overriding requirement for anyone seeking to offer OH in support of official business is to demonstrate that the OH is:

- a. a necessary medium for delivering a specified benefit to Defence
 - b. cost-effective
- and
- c. an appropriate charge against the Defence budget.

15.15. The OH host must submit a request before any event by completing **MOD Form 1199 (Prior Authorisation and Claim for Reimbursement of OH Expenditure – at [Part 2 Chapter 15](#))**. Separate MOD Form 1199s are required for each event and type of function aligned to the event. This must include:

- a. justification for the OH activity addressing the 3 requirements above at Paragraph [15.14](#).
- b. a list of the guests to be invited.

- c. details of hosts/co-hosts.
- d. an estimate of costs utilising indicative rates in [Part 2](#) Annex 32 as appropriate.
- e. evidence of a value for money assessment of venues.

15.16. Budget managers should scrutinise the MOD Form 1199 and, if content that it complies with the rules in this JSP, confirm budgetary approval. Section 2 of the MOD Form 1199 should be completed prior to the event. After the event the Budget Manager should reconcile the final costs accounted for attributed to the event and approve Section 3 confirming method of payment.

15.17. If the requirements for a particular event change in any way (e.g. alterations to the numbers of hosts and/or guests, a switch from a formal dinner to an informal dinner etc.) an amended MOD Form 1199 should be resubmitted for the budget manager's approval. The process can, of course, be managed via e-mail but finance staffs will need to retain and verify MOD Form 1199s and related invoices, receipts etc.

15.18. Where an OH requirement includes more than one OH function, the organiser should submit a separate MOD Form 1199 for each type of function, separating out the rate per head and total cost for each function.

Issues to be Considered

15.19. As part of the requirements for OH approval detailed above, the following issues and principles must be taken into account, by both the potential host(s) and the TLB approving authority, in determining the case for, and the form of, any hospitality provided at public expense:

- a. **Moderation.** It is essential to ensure that MOD is not open to criticism for lack of restraint or moderation when planning and hosting any form of OH.
- b. **Internal Hosting.** Moderation is particularly relevant when Defence Personnel host (an)other Defence Personnel. Formal dinner parties are no longer the default position and more cost-effective methods of hosting should be arranged.
- c. **Standards.** The standard of hospitality to be provided, and the number of hosts required, must be carefully judged according to the nature of the occasion and the status of the principal guest. No attempt is to be made to compete with, or emulate the standards offered by, outside organisations.
- d. **Precedent.** Historical precedent or events traditionally held cannot be used as a sole justification for OH. Standing groups or committees meeting on a regular basis are not to assume that OH can be provided on every occasion.
- e. **Reciprocation.** Reciprocation for past hospitality is not in itself sufficient justification for the provision of OH. If reciprocation is proposed, the host must address the other overriding requirements in paragraph [15.14](#) to the satisfaction of the budget Holder's delegated authority.

f. **Frequency.** Unless specific dispensation is given in [Part 2](#) Annex 29, individuals (in the same capacity) may normally be hosted officially only once per financial year. On occasion there may be a need to host someone within the command chain more than once e.g. senior officers' personal staff members, but such hospitality should be kept to a minimum.

g. **Cultural Events.** Tickets for cultural, social or sporting events, or to pay for entrance fees to tourist (or similar) attractions, must **not** normally be purchased from public funds. Exceptions:

(i) senior overseas guest (and spouse/civil partner, where appropriate) on a programmed visit where it is demonstrated to be in the defence interest, cost effective, and tickets can be purchased in lieu of other forms of OH at public expense.

(ii) London-based Defence Attachés can be provided with tickets for The Queen's Official Birthday followed by lunch.

All such exceptions have to secure prior approval from the TLB D Res.

h. **Private or Religious Celebrations.** Functions must never be held at public expense to celebrate personal anniversaries, promotions, farewells, or Christmas or other religious festivals.

i. **Provision of Alcohol.** The provision of alcoholic drinks at public expense is to be moderate and appropriate to the Defence activity it supports. It should be restricted to those functions where it is considered appropriate in the context of achieving a desirable outcome for Defence. For example, public funds are **not** to be used for 'drinks only' functions, other than Official Receptions for overseas or UK dignitaries. Unless there are exceptional circumstances, it is not considered appropriate to provide alcohol as part of a Working Function. [Part 2](#) Annex 30 to this Chapter indicates when alcohol at public expense is or is not appropriate. Any exceptions to these rules must have specific D Res prior approval.

15.20. **ePC.** Some hosts will have delegated authority to use Electronic Purchasing Cards (ePCs) for expenditure on OH. Hosts in these circumstances must refer to Departmental and local TLB guidance for detailed procedures on the use of the ePC. Recommended best practice is to submit the MOD Form 1199 in order to protect the individual and demonstrate compliance with the rules in this JSP.

15.21. **Cases for Exemption.** Requests to override any stipulations or limits set-down in this policy must be approved in advance by D Res. Exceptions should be precisely that, granted rarely and on the basis of a fully supported business case where it can be demonstrated that OH of a lower order would be to the significant detriment of MOD business.

15.22. Any supplementary guidelines issued by TLBs must, as a baseline, be consistent with the rules in this Chapter; TLBs can strengthen the rules, as they consider appropriate for their businesses, but must not subtract from them.

Financial Issues When Seeking Approval

15.23. All events should adhere to the indicative rates, which are set out in [Part 2 Annex 32](#). Indicative rates cover OH hosted in commercial venues, messes and domestic locations, staff costs in Departmental Mess locations and Service Family Accommodation (SFAs), VAT, service charges in commercial venues. These indicative rates do not constitute automatic entitlements or allowances but are provided to assist budget managers in setting and managing budgets in their area of responsibility.

15.24. Where it is evident that the indicative rates are insufficient to cover staff costs for events hosted in Departmental or Mess locations, budget managers may exceptionally consider authorising the addition of staff costs to the indicative rates, where it is shown this offers value for money.

15.25. Where the rates are exceeded and the business can still demonstrate that the request meets the criteria set out in paragraph [15.14](#), the organiser should try to ensure that the guideline cap for that type of OH event is not exceeded.

15.26. For Defence Personnel who need to host at overseas locations, local rates may be set by budget managers based on local conditions and using the UK indicative rates as guidance. The rates must conform to the principles of regularity and propriety and all other principles outlined in these rules.

15.27. **Indicative upper cost limits** are provided as a guideline, given the headline cost and scale that may be involved in some forms of OH:

a. **Lunches.** These should not be held at a cost which exceeds £340 (Formal)/£226 (Informal) based on indicative rates and suggested ratios of hosts to guests.

b. **Dinners.** These should not be held at a cost which exceeds £400 (Formal)/£266 (Informal) based on indicative rates and suggested ratios of hosts to guests.

c. The total cost of the OH should not be exceeded unless it can be demonstrated that in exceeding the rate, the event meets the criteria set out in paragraph [15.14](#). In such circumstances organiser should ensure that costs per head are within the **indicative rates** and a **full business case** should be submitted to the D Res.

d. **Official Receptions.** Costs for these events should not exceed £2000 and should adhere to the indicative rates and suggested ratios of hosts to guests. This recognises that these events are often used to accommodate a large number of people, often for regiments returning from operational theatre or to engage local communities.

15.28. **Admissible Incidental Costs** for functions held in SFAs - provided that they have been reviewed and approved by budget managers as modest expenditure, commensurate with the aim and type of function - are: flowers, candles, place cards, laundering of table linen, printing of invitation cards, sundries (direct ancillary/related expenditure and household consumables) and the laundering of bedding for official visitors staying overnight. These costs are only admissible where they are not covered by any other allowance (e.g. domestic assistance).

15.29. Inadmissible Incidental Costs. Expenditure on the following items cannot be re-claimed from public funds:

- a. baby-sitting (unless a spouse's/civil partner's presence at functions is deemed essential in accordance with paragraph [15.36](#), or a host/co-host is a single-parent and their attendance is deemed essential).
- b. hospitality of relatives (except for a spouse/civil partner acting as a co-host) including children and personal friends.
- c. donations to, or in any way generating money for, charities (including Service and MOD charities).
- d. fees for mess guests, other than where the mess is being used as the location for the OH.
- e. party entertainers (see [Part 2](#) Chap 15 for further guidance).
- f. Gifts to staff (including cash Gifts) for assisting at events or functions when OH takes places in Service residences.
- g. breakages of personal items of crockery, crystal, etc. These are not eligible for recompense and are the responsibility of individual private insurance arrangements.

15.30. Advance Purchase of Stock for OH Purposes. There may be clear financial and convenience advantages in making purchases (e.g. drinks) in bulk and at wholesale prices in advance of official functions. Provided that any such purchase is properly authorised on MOD Form 1199, the stock is considered to be public property from the date of purchase. Any purchase of stock at private expense remains private property until consumption and insurance cover is a personal responsibility.

15.31. Unit Cohesiveness Events - Tax Liabilities. This form of OH (see [Part 2](#) Annex 29, Ser 3), is liable for Income Tax and National Insurance Contributions (NICs). Hosts of unit cohesiveness events should note that Tax and NICs increase the overall cost of these events by approximately 50% and this extra cost is borne by their TLB. To enable these Tax and NIC payments to be made on behalf of the Department, FMPA-Fin Pol requests information on Unit Cohesiveness expenditure from TLBs annually and report this to DBS to enable settlement of the associated tax bill. All other forms of OH are tax exempt.

Ratio of Hosts to Guests

15.32. All MOD Form 1199 submissions require an estimate of the numbers to be invited as guests and those required to act as hosts. All Defence Personnel and their spouses/civil partners (as appropriate – see paragraph [15.36](#)) attending an event involving OH are hosts or co-hosts to the external visitors for whom the event is arranged. The role of a co-host is to assist the host in hospitality duties. Only where the activity is explicitly arranged in order to provide a form of OH to a group of other Defence Personnel (e.g. award ceremony, passing-out parade) can that group be counted as guests.

15.33. A party of guests numbering 10 or less can be hosted on a one-to-one basis. In a party of 10 or more, hosts/co-hosts should be outnumbered by guests; a guiding ratio is one host/co-host for every five guests. The ratio between the two may vary depending upon the nature of the event and how much close networking or loose interaction is appropriate but exceeding the host/co-host ratio is subject to prior approval of the budget Holder. Exceeding the host/co-host to guests ratio should be the exception and not the rule, and the budget Holder should seek advice from the budget manager, D Res, Agency CE or Corporate Governance team on propriety.

Involvement of Non-Defence Personnel

15.34. Provision of OH to **MOD contractors** or prospective MOD contractors is not permissible, other than at unit cohesiveness events (see [Part 2](#) Annex 29) where it may be deemed appropriate for contractors who work alongside Defence Personnel at a given MOD location to be included.

15.35. When a function is co-hosted by Defence Personnel and commercial partners, the hosting arrangements and MOD's share of the costs remain subject to these regulations. Cost-sharing will be dependent on the nature of the commercial partnership and the reasons for the function. At such functions, the commercial partner's representatives should not be counted within MOD's host- guest ratio.

15.36. **Spouses/Civil Partners** may only be hosted at public expense in the following circumstances:

- a. spouses/Civil Partners or Partners of official non-MOD guests (hosted at public expense) should normally only be invited where their presence is considered essential or where failure to do so would cause offence or embarrassment to the guests. Where the spouse/civil partner or partner of the official visitor does attend, the costs of any separate programme must not be met from public funds.
- b. a spouse/Civil Partner of a host or co-host may attend a function at public expense when:
 - (i) their presence is appropriate to the stated aim of the function, e.g. a supper party held by a Commanding Officer for a distinguished guest.
 - (ii) failure to do so would cause offence or embarrassment to the guest.
 - (iii) a senior overseas guest is accompanied by his/her spouse on an official programme agreed by D Res.

When attending in this capacity, the spouse/civil partner is a co-host.

- c. **Spouses/Civil Partners of Defence Personnel Attending as Guests.** Spouses/civil partners may attend functions as guests where Commanding Officers host other front-line Defence Personnel under his/her command to enhance unit cohesiveness as described in [Part 2](#) Annex 29, Serial 3 or under the banner of reward and recognition (e.g. passing-out parades) as at [Part 2](#) Annex 29 Serial 4. The attendance of spouses/civil partners as guests at any other form of hospitality must have prior approval from D Res.

d. **Spouse-Only Events.** Spouses/civil partners may attend spouse only events when the attendance of a spouse/civil partner is considered to be exclusively and necessarily in the interest of their Service spouse's duties, even if attending without their Service spouse/civil partner. These examples are very limited, e.g. a Unit Commander's Conference where separate briefings for spouses are arranged to brief on welfare issues. All food and drink costs associated with a spouse/civil partner's attendance, subject to the limits laid down in these regulations and within current indicative rates, are to be borne by the subsistence budget through collective arrangements or paid locally via the unit Imprest/Public account.

Venues

15.37. OH will normally be provided on the Defence Estate or in official accommodation, such as Service messes and staff restaurants and canteens, SFA or other residences at stations. Factors which must be taken into account when selecting the choice of location include: cost-effectiveness, security considerations, the objectives of the hospitality and the type of hospitality offered.

15.38. When a Departmental location is considered inappropriate for OH, commercial venues, such as restaurants and hotels, may be considered. In these circumstances the cost of hiring the venue and additional costs may be met from OH funds, in addition to the indicative food and drink rates and upper cost limits for informal/formal dinners and official receptions, but only with prior approval of the D Res authorised budget manager. The host must provide that authority with an MOD Form 1199 which demonstrates a value for money assessment has been made on a range of venues.

15.39. Occasionally it may be necessary to host a conference outside of the Defence Estate. In such scenarios venues must be booked through Calder as this is the mandated route to market. The step-by-step guide to booking a venue for official business can be found at the following link - under Related Links - 'Booking a meeting/conference':

defnet/HOCS/Pages/Booking-travel

Use of Service Personnel

15.40. The use of Service personnel in support of OH is to be kept to a minimum and should utilise staff already allocated to a senior officer for associated purposes (e.g. a House Manager) before any other personnel. When hosting in an SFA, extra resources beyond dedicated or pooled staff may be required. In such circumstances it will normally be inappropriate to employ additional Service personnel. Contracted civilian staff should be employed to undertake the additional tasks in support of hospitality (e.g. preparation, cooking, waiting and cleaning). It is not appropriate to employ spouses/civil partners, partners, friends or relatives on a payment basis, in lieu of civilian contractors. Organisers must check if an appropriate enabling contract is already in place before civilian contractors are approached. Regulations for domestic assistance are in JSP 464.

Claims

15.41. Scrutiny and approval by the appropriate budget manager is required, not only in advance of the event at Section 2 of MOD Form 1199 but after it within Section 3 of MOD Form 1199 before it is submitted for payment. All claims for the reimbursement of hospitality costs must include:

- a. details of the guests hosted.
- b. details of any co-hosts.
- c. receipts or detailed invoices for all food, soft drinks and alcohol supporting the audit trail to reconcile to the final cost.
- d. costed menu.
- e. all incidentals or other additional expenditure being claimed that lacks receipts, but only if certified as a proper charge to public funds by the host.
- f. original MOD Form 1199 with signed Section 3 confirming that the event has taken place.

15.42. The original claim forms (MOD Form 1199) for reimbursement of OH costs, supporting evidence and invoices must be properly filed and archived by the budget manager for a minimum of seven years and should be available on demand for audit purposes.

15.43. Where a payment is made to a supplier for work chargeable across a number of different Resource Account Codes (RACs), every effort is to be made to determine that element of the costs associated with OH, thereby ensuring that the correct RAC is charged appropriately.

15.44. **Service Charges.** Any inclusive service charge on a restaurant bill may be reclaimed as a cost in addition to the OH cost limits/indicative rates. Similarly, where service charges are at the discretion of the host, a charge of up to 12.5% may be added to the bill providing that the host certifies that the sum claimed was actually paid. Any additional tips are the responsibility of the individual and cannot be reimbursed. Where Defence Personnel are required to entertain at overseas locations, and it is the local custom to pay a service charge in excess of 12.5%, this may be reclaimed by the host provided that the host certifies that the sum was actually paid.

15.45. **Service Properties.** Where OH is conducted by hosts in their accommodation, claims are to be supported by a costed menu to gain prior authorisation for the hospitality and receipted invoices for the claim. The costed menu will be derived from the estimated cost of items to be purchased divided on a proportional basis between the number of approved hosts and guests.

Where Different Rules Apply

15.46. This JSP is the authoritative MOD policy document for OH at public expense, but there are two areas of defence activity that have dispensation to issue guidance that can vary certain aspects of this JSP's rules:

- a. separate Instructions covering High Level Official Hospitality (HLOH) are to be used by the Protocol Office when organizing High Level Official Hospitality (HLOH) at public expense for inward visits by foreign dignitaries hosted by the Secretary of State (SofS), Ministers, the Chief of the Defence Staff (CDS), the Permanent Secretary (Perm Sec) and the Vice Chief of Defence Staff (VCDS).

These HLOH Instructions can be found in [Part 2](#) – Annex 33 entitled High Level Official Hospitality Instructions for use by the Protocol Office.

b. Security Policy and Operations Directorate issues guidance for Defence Attachés and Advisers in foreign capitals plus other Defence Personnel occupying NATO and EU international appointments.

15.47. These additional guidelines must be approved by the owners of this JSP prior to their issue or amendment.

Working Functions

Introduction

15.48. Working functions (WF) can include business meetings, lunches or dinners, receptions, conferences and seminars (including where an overnight stay is part of the itinerary). Like OH, these activities must be organised with due regard to the principles of moderation and cost-effectiveness. While there is no pre-defined budget, organisers should nevertheless use the indicative rates, at [Part 2](#) Annex 32, as a guideline. WF activities must be recorded against, non-OH RACs.

15.49. Approval for the proposed costs of food, refreshment and accommodation, for example, must be sought against the provisions of the TLB travel and subsistence budget. Where possible a WF should be held on the Defence Estate³.

Approval

15.50. In a similar vein to the arrangements described for OH, prior approval must always be sought from budget Holders for all types of working function and budget management staff must always be consulted about affordability and propriety.

15.51. The justification for the event should be set-out by the organiser prior to the event by completing MOD Form 1199A. Locally-designed forms may be developed, but they must be approved by TLB Corporate Governance teams and include the information sought on MOD Form 1199A as a baseline requirement. Separate forms must be submitted for each event.

15.52. The provision of alcohol as in the context of a Working Function is not considered to be appropriate unless exceptional circumstances can be demonstrated. Approval should be sought by way of a **business case** submitted to the D Res.

Costs and Indicative Rates

15.53. The cost of light refreshments, breakfasts, lunches and dinners at working functions must be funded under collective arrangements against subsistence RACs and not OH. The indicative cap rates and upper cost limits for OH referred to in this chapter may be used by budget managers and organisers of the events as a guide to the sums that may be spent. Indicative cap rates are also provided at Annex 32 for the various types of working function.

³ If it is necessary to hold a WF outside the Defence Estate, a business case should be submitted to D Res.

15.54. Any personal T&S costs not met through collective arrangements may be claimed by individuals who attend the function in accordance with normal Service and Civil Service T&S regulations, but these costs should be estimated in the justification seeking approval.

16 Seasonal Festivities

Introduction

16.1. Particular care should be taken during festive seasons such as Christmas to ensure that public money is not spent inappropriately. Around the Christmas period (which should be interpreted as covering the whole of December and the period of the New Year break) it is understandable that MOD managers (both Service and Civilian) should wish to send greetings to their own staff and to outside bodies and individuals and to celebrate the festivities with their staff. It is not normally appropriate for any celebrations to be funded by the taxpayer and the default position is that Christmas expenditure will fall to non-public funds or will be funded by managers or employees themselves. Expenditure at Christmas is subject to particularly close scrutiny by MPs and the media and arrangements must be made to ensure that the details of any expenditure are captured and reported transparently in response to Parliamentary Questions (PQs) and Freedom of Information (FOI) requests.

Subject Matter Experts

| Job Title/E-mail | Subject Matter Expert | Phone |
|--------------------------|-----------------------|------------|
| DFinStrat-FMPA-FinPol-2c | Seasonal Festivities | 9621 83688 |

Key Directives

16.2. Public funds must not be spent on seasonal items such as Christmas trees and decorations, nor may they be used to fund (in full or in part) staff parties, carol concerts or Christmas fairs or other entertainment. If there is a requirement, arrangements must be through non-public subscription/funds. There is one exception to this directive in that it does not apply to seasonal activities for personnel on operational deployments. For further information see [Part 2](#).

16.3. Where expenditure is incurred at Christmas from the Family Welfare Grant⁴ for family activities which enhance morale it should be recorded and reported as seasonal expenditure.

16.4. Unit cohesiveness or teambuilding events should be avoided during the Christmas season because of the risk that they will be perceived as Christmas parties at the taxpayer's expense.

16.5. Facilities and site management contracts are not to include any requirement for seasonal decorations at public expense.

16.6. Greeting cards are not to be sent at public expense to other Crown Servants (including members of the UK Armed Forces and other UK Government Departments). Furthermore, greeting cards and other festive materials are not to be produced by in-house graphics studios and digital print departments unless doing so enables the provisions of paragraph [16.7](#) below to be achieved in a more cost effective manner than purchase through more orthodox channels.

⁴ See JSP462 Part 2 for more information on the Family Welfare Grant.

16.7. Ministers, other members of the Defence Council and the Director Defence Communications may purchase and send greetings cards at public expense in pursuit of specific defence objectives, principally that of maintaining relations with other Governments. Defence attachés may send a modest number of greeting cards for the same purpose. Other Top Level Budget (TLB) Holders may send a modest number of greeting cards to selected individuals where it can be shown that this would contribute towards a clear and specific TLB objective. The scope of this activity should be agreed in advance by the TLB D Res or his/her own governance representatives. TLBs may sub-delegate the authority to send greeting cards on their behalf to Agency Chief Executives or 2* officers where they consider this would be more appropriate; there must be no delegation below this level.

16.8. TLB governance focal points are responsible for promulgating local guidance on how seasonal expenditure is to be authorised and controlled. This directive also covers Agencies under TLB control. In cases of doubt, any proposals to incur expenditure which could be viewed as using taxpayer's money for purely seasonal activities should be referred to TLB governance focal points for a ruling by the TLB D Res.

16.9. Every year, a number of PQs, FOI and media requests are received asking for details of seasonal expenditure funded by the taxpayer. TLBs must ensure that arrangements are in place to record all seasonal expenditure so that full and transparent responses can be given to such requests.

17 Third Sector Funding

Introduction

17.1. Third Sector Organisations (TSOs) are organisations belonging to neither the public nor the private sector, and which provide a wide variety of social, environmental and cultural services to the public. The Third Sector encompasses voluntary and community organisations, charities, social enterprises, mutuals and co-operatives. This chapter covers the principles governing MOD's financial relationship with TSOs when public funding is provided from MOD to the Third Sector to deliver outputs and outcomes which support the core Defence mission.

Subject Matter Experts

| Job Title/E-mail | Subject Matter Expert | Phone |
|-----------------------------|------------------------------------------------------|------------|
| DFinStrat-FMPA-FinPol-AHd-1 | Financial policy on engagement with the Third Sector | 9621 86949 |

Key Directives

17.2. Relations between the Government and the Third Sector are governed by a Compact which sets out a framework within which both parties operate. The Third Sector has agreed to maintain high standards of governance and conduct and meet reporting and accountability obligations to funders and users and, where applicable, to observe the accounting framework for charities.

17.3. Government funding for the Third Sector is based on the principles of:

- a. allocation of resources against clear criteria, including value for money;
- b. funding policies which take account of the objectives of voluntary and community organisations and their need to operate efficiently and effectively;
- c. for organisations funded by grant or grant-in-aid, common, transparent arrangements for agreeing and evaluating objectives, performance indicators and their associated targets, facilitating prompt payment, reviewing financial support, consulting upon changes to the funding position, and informing voluntary and community organisations about future funding as early as possible, normally before the end of the current grant period; and
- d. long-term, multi year funding, where appropriate, to assist longer term planning and stability.

17.4. Financial relationships between the Government and TSOs can either be based on payment of grants, payment of grants-in-aid or normal commercial contracts, also referred to as procurement. For further information on Grants and Grants-in-Aid see [Chapter 13](#) - Grants and Grants-in-Aid.

Determining the Appropriate Relationship

17.5. Where a level of service is defined and commissioned, by the funding body, outside the grants regime this forms a conventional trading relationship. Procurement is defined as being the acquisition of goods and services from third party suppliers under legally binding contractual terms where all the conditions necessary to form a legally binding contract have been met.

17.6. The main determinant of the relationship between the Government and the TSO is the nature of the intended outcomes. When the intended outcomes are relatively specific, and there are indicators available to evaluate the quality and quantity of those outcomes, a procurement process open to competition and leading to a conventional trading relationship under contract is most likely to be the most appropriate solution. This is generally referred to as 'purchasing'. Grants or Grants-in-Aid are more likely to be suited to supporting TSOs engaged in activities aligned with the Government's wider objectives and which the Government values. Grants and grants-in-aid are generally together referred to as 'funding'.

17.7. Funding bodies must be clear with recipients about the nature of the financial relationship that they are entering into, both up front and as the relationship develops. Contracts and/or Grants must be jointly agreed in writing before the work commences.

17.8. It is important that MOD is seen to be even-handed when dealing with TSOs. No preferential treatment can therefore be given to Service charities or charities with a Service interest - all TSOs should be treated equally and on the same terms.

Letters of Comfort

17.9. Funding bodies should not issue explicit or implicit letters of comfort, or oral statements of comfort, that commit the funding body (and therefore the Government) – in either moral or legal terms - to stand behind the recipient of funds if the recipient falls into financial difficulties.

Funding

17.10. There are two principles that funding bodies should consider at all stages of the funding chain:

- a. simplicity and proportionality; the funding process should be as simple as possible, and funding bodies should be mindful of being proportionate when dealing with a wide range of organisation;
- b. commonality and co-ordination; where possible funding bodies should endeavour to join up or standardise the elements of the funding chain.

17.11. It is legitimate for providers to include the relevant element of overheads in their cost estimates for providing a given service under service agreement or contract. All TSOs should always aim to recover the full cost of delivering services for public sector bodies, including overheads (and irrecoverable VAT).

17.12. Under a Grant or Grant-in-Aid regime, it is normally necessary to show that the price is reasonable related to the cost of providing the particular service in order to satisfy the funder that they are securing value for money for the taxpayer.

Length of Funding

17.13. Value for money for the taxpayer must be the overriding principle that dictates whether or not a long-term funding arrangement is appropriate. Annual funding means a considerable level of uncertainty for both funding bodies and providers, limits the ability of TSOs to engage in longer-term planning, borrowing and investment, and can put TSOs into undesirable financial difficulties. Longer term planning and funding arrangements can often represent better value for money than one year funding agreements by providing greater financial stability. Long-term contracts should include termination clauses with a period of reasonable notice (for example six months) in order to leave flexibility.

17.14. The length of the funding should be tied to the length of the objective. Historical tendency to fund for a certain period is not an acceptable reason to maintain short-term funding arrangements. Equally, there is a need to guard against advocating long-term funding for its own sake.

Timing of Payments

17.15. It is vital that the timing of payments is considered in collaboration with, and not imposed upon, an organisation providing a service. An inappropriate balance of risk in favour of the funding body (for example arrears payments) can sometimes create overly harsh incentives on the recipient of funds, comprising outcomes and value for money. In some cases it may be more appropriate for the funding body to make an advance payment and build in other incentives, or follow an interim payments method.

17.16. Four key principles apply to the payment procedure:

- a. agree payments terms at the outset of the deal and stick to them;
- b. explain the payment procedure to suppliers;
- c. pay bills in accordance with any contract agreed with the supplier, or as required by law;
- d. tell suppliers without delay when an invoice is contested and settle quickly on receiving a satisfactory response.

17.17. In general, the agreed date of payment should be set out in a financial memorandum, contract or grant conditions.

17.18. Purchasers should remember that they are bound to offer equal payment terms to all bidders and cannot give preferential terms solely to TSOs to the detriment of other suppliers.

Payment in Advance

17.19. Payment in advance will be appropriate when these five criteria are met:

- a. payment arrangements are agreed between provider and contractor, or grant maker and recipient;
- b. payment arrangements are recorded in a financial memorandum, a contract or grant conditions;
- c. payment in advance must meet an identifiable need to spend;
- d. payment in advance must not be novel or contentious – such payments always require Treasury approval;
- e. payment in advance is wholly necessary - large TSOs with liquid reserves may not need an advance payment.

Monitoring and Control

17.20. As a general principle, funding bodies should seek to minimise the monitoring and inspection burden on the recipients of funds to a level proportionate to the level of funding, and which maintains proper control of public monies. Under a grant regime, funding bodies should seek only information that is necessary for the purposes of verifying that the grant conditions have been met. Where providers find that information provided to trustees is inadequate then they should, as a condition of funding, require that standards are improved.

17.21. MOD's external and internal auditors will expect to see evidence that MOD, as the funding body, has sought the necessary assurance that the payments have been used for their agreed purpose and paid on the basis of need. Auditors will also expect to see evidence that the normal commercial procedures have been followed for purchasing from TSOs.

17.22. Public bodies must take suitable and proportionate steps to safeguard their financial interests and those of the taxpayer when giving funds to others to acquire or develop assets. The most common way of safeguarding financial assets is to include in the Grant conditions a clause that gives the funding body a charge over the asset which means that the asset cannot be sold or put to an alternative use without the prior agreement of the funder.

Further Information

17.23. For further information see [Part 2](#).

18 Consultancy

Introduction

18.1. Consultancy is an area of Departmental business attracting close attention both at senior management levels within the Department and externally from the Cabinet Office, Parliament, and through Freedom of Information Act enquiries from the public and media.

18.2. Consultancy is defined by the Cabinet Office as *‘The provision to management of objective advice relating to strategy, structure, management or operations of an organisation, in pursuit of its purposes and objectives. Such advice will be provided outside the ‘business as usual’ environment when in-house skills are not available and will be time-limited. Consultancy may include the identification of options with recommendations, or assistance with (but not the delivery of) the implementation of solutions’.*

18.3. In May 2010 the Cabinet Office introduced controls on the use of consultants across Government in reflection of the Government’s determination to reduce reliance on Consultancy and drive down expenditure in this area by reducing demand and negotiating better commercial arrangements with Consultancy providers. For further information on the Cabinet Office’s controls see [Part 2](#).

18.4. This chapter explains the Department’s policy and procedures relating to the procurement of Consultancy falling within scope of the Cabinet Office definition and compliance with Cabinet Office controls.

Subject Matter Experts

| Job Title/E-mail | Subject Matter Expert | Phone |
|---------------------------|-----------------------|------------|
| DFinStrat-FMPA-FinPol-2b | Consultancy | 9621 87063 |
| DFinStrat-FMPA-FinPol-AHd | Consultancy | 9621 80221 |

Key Directives

18.5. Consultancy is to be used only when internal options for getting the task completed have been considered first and rejected, either because the skills/resources are unavailable, or because there are clearly identifiable benefits to the MOD in terms of value for money. Before resorting to Consultancy, project managers must therefore consider whether any alternative resourcing mechanisms, for example secondment, would be more appropriate and offer better value for money. Further guidance is at [Part 2](#).

18.6. TLBs and Arms Length Bodies (ALBs) must seek advice and guidance from their nominated Consultancy Focal Point in the first instance when use of Consultancy is proposed. Managers are to engage with their TLB/ALB Focal Point to gain a clear understanding of the end-to-end process requirements and timescales for obtaining approvals and contract placement, to verify the correct Consultancy category and Resource Accounting Code (RAC) for costs to be booked to, and for assistance in preparing and submitting a Business Case in the required format for seeking the essential internal and, where appropriate, external approvals. Further information on TLB/ALB

Consultancy Focal Points and their Terms of Reference, **Consultancy categories** and **RACs** is at [Part 2](#).

18.7. Trade Unions are to be engaged regarding all Consultancy proposals. For further information regarding the appropriate level of engagement, that is informing, consulting and negotiating, see [Part 2](#).

18.8. The same principles must be applied to procurement of Consultancy as apply to the procurement of any other goods or services for the Department. These include:

- a. securing best value for money, (which is not necessarily the lowest price);
- b. ensuring probity and accountability;
- c. competing wherever possible, and;
- d. ensuring compliance with the relevant provisions of UK and EU law.

18.9. Sufficient lead time must be anticipated to permit the award of contracts by Defence Commercial. For further guidance see [Part 2](#).

18.10. To ensure the Department complies with Cabinet Office controls, it is important to be able to distinguish Consultancy from other forms of resourcing available. For further guidance on resourcing activities which are not classed as Consultancy, see [Part 2](#).

18.11. Some forms of Consultancy are exempt from Cabinet Office controls. For further information on exemptions see [Part 2](#).

Business Case Approval

Preparing and Submitting a Business Case

18.12. Irrespective of the duration of the required Consultancy contract, a Business Case must be written to obtain the appropriate internal approval(s). This is to ensure that the requirement is fully justified, and provides a record for audit purposes and to meet governance requirements. Only the Consultancy Business Case template provided in [Part 2](#) is to be used to obtain the required internal approval(s). Sufficient time must be allowed to write the Business Case and to seek approval from the appropriate authorities (see below).

18.13. The preparation of a robust Business Case at the outset will help to avoid subsequent questions at all stages and delay in contract let. The Business Case must therefore be staffed to the appropriate TLB/ALB Consultancy Focal Point, so that they have an opportunity to check the content, layout and categorisation before it is submitted for approval.

Approving Authorities

18.14. The scope, limits and authorities for approving Consultancy are currently determined by the Cabinet Office. The approving authority for each type of case, and identified below, applies to all TLBs/ALBs except Defence Equipment & Support (DE&S) and the Submarine Delivery Agency (SDA):

Consultancy - Approving Authorities

| | Proposed Consultancy expenditure of <u>UNDER £1M</u> total cost (net of recoverable VAT) whether for procuring or to award a new contract or an extension to an existing approval | Proposed Consultancy expenditure of <u>£1M OR MORE</u> total cost (net of recoverable VAT) whether for procuring or to award a new contract or an extension to an existing approval |
|----------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Approving Authority | 1. TLB D Res/Arms Length Body Chief Executive 2. DFinStrat Consultancy Review and Approval Group for all cases above £20K (net of recoverable VAT) | 1. TLB D Res/Arms Length Body Chief Executive 2. DFinStrat Consultancy Review and Approval Group, following which it will be staffed to DG Finance and then to 3. the appropriate MoD Minister before going to Cabinet Office (see para 18.18) |

18.15. Note that:

- a. further sub-delegation of the above internal approving authorities is not permitted;
- b. DFinStrat Consultancy Review and Approval Group comprises DFin Strat, Chief ComrcI Offr, DFin Plan Scrutiny and a Subject Matter Expert from the discipline for which Consultancy is being sought;
- c. the requirements and arrangements for seeking and obtaining approval and re-approval identified above apply to all TLBs/ALBs, except for **DE&S** and the **SDA** which have been granted dispensation from the requirement to gain internal approval from DG Finance. The need however to present cases to Minister (DP) for approval remains. The respective DE&S and SDA Focal Points can advise on arrangements applicable to their organisation's cases.
- d. the timescale for securing the required approvals is set out in para [18.22](#).

The Role of DFinStrat-FMPA-Finance Policy in Staffing and Approval of a Business Case

18.16. DFinStrat-FMPA-Finance Policy is the Departmental focal point responsible for staffing TLB/ALB Advisory Consultancy cases requiring the approval of the DFinStrat Consultancy Review and Approval Group, and thereafter as appropriate DG Finance, the responsible Minister (according to subject and portfolio) and the Cabinet Office, and for liaison with TLB/ALB Focal Points where clarification on content, advice on process or any other information is needed.

18.17. Following TLB/ALB Focal Point endorsement, Business Cases requiring approval **beyond** the TLB D Res/ALB CE are to be presented using the **Consultancy Business**

Case Template (see [Part 2](#) Annex 37) and sent by the TLB/ALB Focal Point by e-mail to DFinStrat-FMPA-Finance Policy, via the DFinStrat-FMPA-FinPol-ExtAsst (MULTIUSER) inbox. A minimum of 2 working days must be allowed for FMPA to review and prepare the case, including any clarifications or revisions necessary prior to staffing it.

Business Cases Requiring External Approval - Cabinet Office Expenditure Request Template

18.18. Once a Business Cases has been approved internally in accordance with paras 18.14 - 18.17 and it requires external approval by the Cabinet Office, a Cabinet Office Expenditure Request Template must be completed and submitted to the TLB/ALB Focal Point for review. For further information see [Part 2](#).

18.19. Once content, the TLB/ALB Focal Point is to forward the Template by e-mail to DFinStrat-FMPA-Finance Policy, via the DFinStrat-FMPA-FinPol-ExtAsst (MULTIUSER) inbox. DFinStrat-FMPA-Finance Policy will then prepare a submission of the case and staff it to the Cabinet Office within 2 working days, liaising with the Cabinet Office and the TLB/ALB Focal Point to obtain further information/resolve queries as necessary. DFinStrat-FMPA-Finance Policy will notify the TLB/ALB Focal Point and Business Case originator once the Cabinet Office has reached a decision.

18.20. The Cabinet Office operate within the provisions of a 28 calendar day Service Level Agreement to notify their decision on cases presented to them (see Cabinet Office Controls in [Part 2](#)). It is therefore crucial to ensure sufficient time is allowed for this phase of the approval process, especially where an extension to an existing Consultancy provision is being sought and contract expiry is a factor.

Extending an existing Approval

18.21. **Requests to extend an existing Consultancy contract must receive approval in the same way as if it were a new case.** This requires a Business Case to be submitted and approved as described above (the process may differ for DE&S and SDA), noting that the value of the extension alone and **not** the cumulative cost of the Consultancy determines the approval needed. The ability to extend or vary the terms of the existing contract must be present within its terms to enable an extension. The Business Case at this stage needs focus on the continuing validity of the requirement and impact of not proceeding, the performance and spend to date, the remaining programme of work and forecast expenditure. Additionally, a copy of the contract will need to accompany any request that requires external approval and details of the previous approval must accompany the request.

18.22. **Timescale for securing the required approvals:**

| Action | Indicative Timeframe (cumulative days) |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------|
| a. Fin Pol conducts pre-approval scrutiny before convening a review panel comprising DFin Strat, Chief Comrcl Offr, DFin Plan Scrutiny and a Subject Matter Expert from the discipline for which Consultancy is being sought. The panel is usually a 'virtual' one, normally conducting business via email to keep cases moving quickly. | 2 working days (2) |
| b. The panel gives approval or otherwise. | 5 working days (7) |
| c. The panel's decision is notified to the TLB Consultancy Focal Point and BC Sponsor by Fin Pol. If the financial delegation requires it, Fin Pol also then staff the case to DG Fin. | 2 working days (9) |
| d. DG Fin gives approval or otherwise. | 5 working days (14) |
| e. Where Cabinet Office (CO) approval is also required (i.e. for cases of £1M and above regardless of duration), Fin Pol first staffs the case to the relevant Minister for ministerial approval. | 2 working days (16) |
| f. Minister gives approval or otherwise. | 5 working days (21) |
| g. Fin Pol notifies the ministerial decision to the TLB Consultancy Focal Point and Business Case Sponsor. | 2 working days (23) |
| h. Once ministerial approval has been confirmed, the TLB Consultancy Focal Point sends a completed CO submission form to Fin Pol who staffs it to CO. | |
| i. CO gives approval or otherwise. | 28 calendar days (43) as provided for in the CO's SLA. <i>N.B. The 'clock' is paused whenever CO raises a clarification question.</i> |
| j. Fin Pol notifies TLB Consultancy Focal Point and Business Case Sponsor. | 2 working days (45) |

19 Charging

Introduction

19.1. This chapter sets out the Department's policy for charging external and internal customers for goods and services (including the provision of personnel on loan or secondment) provided to support non-core activities. However it does not relate to the generation of income through the exploitation of irreducible spare capacity which is covered in [Chapter 20](#) of this JSP. In this context, non-core refers to activities which are not funded from the main Defence Budget in support of agreed defence strategic objectives.

19.2. The chapter also covers policy for charging staff and their dependents for certain welfare related benefits, for example childcare facilities.

Subject Matter Experts

| Job Title/E-mail | Subject Matter Expert | Phone |
|-----------------------------|-----------------------|------------|
| DFinStrat-FMPA-FinPol-AHd-2 | Charging Policy | 9621 80221 |
| DFinStrat-FMPA-FinPol-2a | Charging Policy | 9621 86857 |

Key Directives

19.3. It is government policy to charge for additional goods and services provided outside of core departmental objectives. Managing Public Money, Chapter 6, states that charges should be set to recover the full costs of goods or services provided including: *'Charges within and among central government organisations should be made at full cost. To charge otherwise would risk creating unwarranted subsidies or distorting competition.'* It also makes for easier comparisons with the private sector, promotes competition and helps develop markets.

19.4. The principle to charge applies when MOD carries out non-core tasks for bodies such as foreign governments, other government departments (OGDs), Trading Funds, charities, museums, commercial companies and individuals. The guiding principle is that the MOD is not funded for these tasks and must not do them unless the Department's costs are met by the charges raised.

19.5. Certain benefits provided to MOD staff in support of wider welfare objectives are also provided with a charge to the relevant individuals or groups, although in this instance a charge below the full cost can be appropriate.

External Charging - Full Cost

19.6. The composition of full cost can be extensive and complex and can include a proportion of relevant overheads as well the direct costs of the activity. Finance staff should be involved at the outset in calculating the full cost of the service provided. Further guidance on calculating charges for the following specific, common non-core MOD activities is provided in [Part 2](#) - Guidance:

- a. supplies and services to warships and auxiliaries of Commonwealth and foreign governments.
- b. international defence training.
- c. landing and parking fees for civil aircraft.
- d. establishing a Memorandum of Understanding (MOU) for the provision of services to other governments.
- e. non-news media.
- f. charging for IPR/Crown Copyright.
- g. military assistance in the UK and Overseas.
- h. staff engaged as Official Speakers.
- i. charging Members of Parliament.
- j. charging associated with Government/MOD-arranged events.
- k. charging associated with MOD attendance at commercial events.

19.7. [Part 2](#) - Guidance also describes how to set up arrangements for loan or secondment of service and civilian personnel.

Variations on Full Cost Recovery

19.8. In most circumstances, full cost recovery is the required charge for MOD support to non-core activities. In certain circumstances, generally where there is a benefit to Defence to do so, a case may be made for charging less than full cost. Any decision to charge other than full cost should be fully justified and a clear record of the decision-making process retained:

- a. **Percentage recovery of full cost**, where the full cost of the activity has been recognised, but a case has been put forward to recover only a percentage of the full cost depending on the level of benefit the Department will receive.
- b. **Recovery of marginal cost** that is recovery of only the extra costs associated with the particular activity. This charging method involves a higher level of subsidy to the customer. The more regularly goods and services are provided, the longer the period of supply and the more dependant the customer becomes, the stronger the argument for recovering full costs.
- c. **Recovery of less than marginal cost**. This would involve the Department incurring new and additional costs and should be avoided.

Demand for MOD Goods and Services

19.9. TLBs can consider when it is appropriate to provide goods or services to meet the request of external customers, but they should also consider exploiting any surplus capacity which may be suitable for commercial use. This is generally referred to as 'Income Generation' and further guidance is provided in [Chapter 20](#) of this JSP.

19.10. As with all decisions to deploy Defence resources, the TLB Director of Resources should be certain that costs can be recovered and that the proposed activity does not have a negative impact on the Department's reputation.

Transparency

19.11. In all cases where the Department charges less than full cost, TLBs are required to calculate, record and report as a public subsidy the level of abatement agreed, that is the difference between full-cost and the actual amount charged.

Reciprocal Arrangements and Offsets

19.12. A unit may wish to undertake a reciprocal arrangement, whereby goods or services may be exchanged for others of the same financial value. This can allow faster access to goods or services when there is an urgent requirement, e.g. where foreign armed forces use MOD facilities in exchange for UK armed forces using theirs. Any such arrangements should be approved by the TLB Director of Resources and should include a proviso that full costs will be charged if there is no reciprocal action within a reasonable timeframe.

19.13. Similarly, surplus MOD equipment is occasionally exchanged for surplus equipment of equal or greater value owned by contractors. Any such transfer of MOD equipment should be authorised by the Defence Equipment & Support – Disposal Services Authority and documented. If the value of goods received is less than that given in exchange, the difference in value constitutes a Gift and rules on Gifting apply - see [Chapter 12](#), Gifting.

19.14. Costs for services provided to OGDs and outside bodies must not be abated to offset (that is cancel out wholly or in part) any payments due. The cost of goods or services provided and services received must be separately identified and accounted for in the Annual Report & Accounts (ARAc).

Delegation for Abating Full Cost

19.15. Directors of Resources have delegated authority from PUS to approve abatement from full cost of up to £1M on individual cases where there is clear benefit to Defence. No delegation is given to abate Intellectual Property Rights (IPR) and any such cases should be referred to DIPR.

19.16. Individual abatements above £1M, or if novel or contentious, should be referred through FMPA Finance Policy Deputy Head to Ministers and/or the Treasury, either on a case by case basis or for a blanket authorisation.

19.17. In cases where there is little tangible benefit to Defence or where an activity does not contribute towards Defence core outputs, abatement would be considered as a 'Gift' and dealt with in line with existing guidance in [Chapter 12](#). Any instance where a Gift of this type exceeds £300K will require prior Treasury approval and notification to Parliament before the Gift is made, in the same way as equipment Gifting.

Internal Charging

19.18. Within the Department, it is not common practice to make budget transfers or raise invoices (hard charging) between business areas for services provided, as the role of each business area in support of common Defence objectives is clearly defined. Exceptionally, if a business area needs to create a more commercial cost model or if there is value in internal business areas knowing the cost of services provided, arrangements can be set in place to support this.

Charging staff and their dependents

19.19. **Encroachments.** The term 'Encroachment' is restricted to describe the authorised temporary use of public funded MOD property (land or buildings) by Service personnel, civilians employed by MOD (including, where practicable, long term contractor's staff) and their direct dependants for off-duty welfare, recreational and sporting activities beyond agreed Service scales. Apart from any additional costs arising from authorised encroachments, it is generally the case that other costs (rent, rates, utilities, maintenance and other running costs) are not recovered. Activities operating in any way synonymous with the running of a 'business' (for example as an organisation with a Company status, trading in goods/services for revenue) or by persons whose use would outnumber those eligible to encroachment status, are not to be treated as encroachments but covered by a formal Defence Infrastructure Organisation (DIO) lease or licence. DIO is responsible for policy on Encroachments, and further guidance can be found in: [defnet/DINSJSPS/JSP 362 Chapter 14 - Encroachments](#).

19.20. **Childcare Facilities.** The Cabinet Office has delegated authority to all government departments and agencies to decide whether to provide childcare facilities for their staff. In addition, it is each department's or agency's responsibility to determine whether it is appropriate to subsidise its childcare arrangements to support recruitment and retention of staff and to decide on the level of any subsidy, on the basis of value for money. The 'Statement of Civilian Personnel Policy – Childcare' (available from DBS) contains MOD childcare policy and details about MOD's childcare support schemes. Responsibility for establishing childcare support schemes has been delegated to Directors of Resources who should determine the need for childcare facilities and provide appropriate funding where a business case exists. Childcare subsidies apply only to MOD Service and civilian parents. Non-entitled parents should be charged a commercial rate in accordance with income generation principles – see [Chapter 20](#).

Circular Contracting

19.21. The following paragraphs cover the circumstances in which MOD is contracted to supply goods or services to a defence contractor to enable it to fulfil its performance obligations to MOD under a separate MOD procurement contract. In essence the Department is acting as a sub-contractor in support of a defence Prime Contractor.

19.22. Examples of when contractors might need MOD support include where the Department possesses unique assets, e.g. certain complex weapon processing capabilities, trials facilities or if the contractor must use MOD services for security reasons.

19.23. The main features of this relationship are:

- a. MOD is a supplier of goods or services which it is under a strict contractual obligation to deliver to another party.
- b. this supply is governed by a Contract for Sale, i.e. MOD is selling its goods and/or services, not procuring.
- c. MOD's relationship to the Prime Contractor is one of both customer and supplier.
- d. MOD support to the defence contractor is essential such that failure to provide the support would compromise the fulfilment of the defence contract and MOD objective, and such support can only be provided by the Department.
- e. MOD customer and supplier are both publicly funded by the Department to meet core defence tasks. Accordingly, Trading Fund agencies are excluded from the requirements of this guidance.

19.24. The Department is not normally funded to provide services to external organisations and its costs must therefore be recovered. In deciding the basis of charging by MOD for services supplied in its role of sub-contractor, it is important to understand that there is likely to be a subsequent cost impact on the MOD business area funding the prime procurement contract.

19.25. This is because the final procurement contract price to MOD will compromise the Prime Contractor's own costs, plus elements for insurance and mark-up management fees, administration and profit. Mark-up charges are normally calculated as a percentage of the Prime Contractor's total costs, including their sub-contract costs.

Charging under Circular Contracting

19.26. Where the defence contractor has no choice other than to use MOD resources, or where there are clear benefits to the Department from a formal sub-contracted arrangement, then consideration must be given to abating the full cost charge to marginal cost in order to minimise the subsequent cost impact on MOD business area funding the prime procurement contract. Such cost abatement opportunities can only be properly considered if the MOD procurement team (as customer) and the MOD service provider organisation (as supplier) agree upon a funding and pricing strategy and also coordinate their contracting activity. See also paragraph [19.28](#) below.

19.27. Failure by the procurement team to engage with the MOD supplying unit at an early stage in the procurement cycle may well result in the supplying unit charging the defence contractor full cost price in accordance with extant charging policy. Such uncoordinated actions are not in the Department's overall interest and add cost to the procurement budget.

Internal Budgetary Transfers

19.28. In instances where the MOD service supply comprises a large proportion of a unit's activity, perhaps requiring a large attendant asset and resource base, or if the unit is reliant upon a revenue stream to cover its operating budget, payment on the basis of marginal costs alone may not provide a sufficient contribution towards the supplier unit's total operating budget. Unless a budgetary compensation has been accounted for during the unit's financial planning round, the MOD customer and supplier may also need to decide between them the most appropriate internal budgetary arrangements to ensure that the supplying unit receives adequate funding to match its financial commitments. For example, the procurement team may agree to an internal transfer of funding from their Equipment Programme budget directly to the supplying unit to cover all indirect costs. This approach will avoid a higher supply price (charged by the MOD supplier) upon which the defence contractor can charge an increased overhead.

Provision of training support

19.29. In some circumstances, often relating to the introduction of a new piece of equipment, there may be a requirement for contractor staff to have special type training to meet a requirement for Suitably Qualified and Experienced Person (SQEP) employees. On occasion MOD is the only source of this training. In such circumstances it is usual for MOD to offer the training to the contractor as 'Government Funded Training', which would avoid the circular contracting dilemma.

19.30. While this is acceptable, it is strongly recommended that the MOD Authority placing the contract should also place robust obligations on the contractor to ensure this facility is not abused and that where possible the required training can be planned and provided as efficiently as possible. Specifically, it is recommended that place availability on training courses should be limited by number per annum, be subject to booking at least 2 months in advance, and that course bookings cancelled without giving a specified, reasonable period of notice should incur a fee of, say, 50% of the course costs. Additional courses may be procured from the training provider by the defence contractor under a sales contract if this is needed.

Income Generation and circular contracting in the competitive market

19.31. It is important that MOD procurement teams and supplying units differentiate between normal Income Generation opportunities based on a competitive market (with prices charged at the full commercial rate), and genuine instances in which circular contracting applies, i.e. where MOD is the only available supplier.

19.32. Where MOD is approached by a defence contractor to provide goods or services to support a defence procurement contract, and those goods or services can reasonably be obtained in the commercial market, the potential MOD supplier should discuss the advisability of their providing the goods and services with the MOD procurement team.

19.33. Where there is a competitive market for the goods or services requested, it is not permissible to abate the charges in order to reduce the cost impact on the MOD procurement team. To do so would undercut private sector suppliers, for which MOD could be held to be in breach of competition law. Further information on Income Generation can be found in Chapter 20 of this JSP.

20 Income Generation

Introduction

20.1. This chapter sets out the Department's policy on Income Generation, which in this context can be defined as:

The exploitation of irreducible spare capacity (i.e. spare capacity that cannot be reduced by increased departmental activity and which is expected to exist for the longer term) associated with MOD resources with the primary purpose of generating financial receipts to the public purse, regardless of other incidental benefits to Defence.

20.2. It therefore involves the supply of goods/services which may include the use of MOD assets and consumables, but it does not encompass the actual disposal of assets or other categories of sales activity set out in the Exclusions section below.

20.3. The policy contained in this JSP is derived from Managing Public Money – see: [www.GOV.UK/government/publications/Managing Public Money](http://www.GOV.UK/government/publications/Managing_Public_Money) published by the Treasury.

20.4. The scope for commercially exploiting irreducible spare capacity is wide and reflects the broad range of assets and expertise owned by the Department. There is no exhaustive list of Income Generation activity, but a number of examples can be found in [Part 2](#).

20.5. MOD policy is to incentivise TLBs to undertake income generation activity by permitting them to retain the receipts.

20.6. Successful Income Generation activity typically draws on advice from multiple stakeHolders and SMEs. There should always be a 'project sponsor' to draw the team together, which as a minimum should comprise finance and commercial staff. Further guidance on the roles and responsibilities of various stakeHolders can be found in [Part 2](#).

20.7. Defence Infrastructure Organisation (DIO), Defence Commercial and Directorate of Intellectual Property Rights (DIPR) staff are to be consulted at an early stage to ascertain which is the most appropriate form of contractual agreement, i.e. contract for sale, lease or licence, or a combination of the three. Early engagement is essential because contractual negotiations can have lengthy lead-in times.

Subject Matter Experts

| Job Title/E-mail | Subject Matter Expert | Phone |
|-----------------------------|---------------------------------------|------------|
| DFinStrat-FMPA-FinPol-AHd-2 | Charging Policy for Income Generation | 9621 80221 |
| DFinStrat-FMPA-FinPol-2a | | 9621 86857 |

20.8. Commercial staff and other relevant contacts can be found in Annex 42 to [Part 2](#).

Key Directives

20.9. It is government policy to charge for goods and services provided to external bodies. Managing Public Money, Chapter 6 states: *“Charges for services provided by public sector organisations normally pass on the full cost of providing them ... Public sector organisations may also supply commercial services on commercial terms designed to work in fair competition with private sector providers. Parliament expects proper controls over how, when and at what level charges may be levied.”*

20.10. The Department continues to encourage and support business areas to make full use of and achieve maximum benefit from assets acquired with public resources. Whilst this should always be pursued without impacting on the delivery of MOD’s main objectives and activities, by realising the potential for income generation from our assets, Defence can generate additional funding for reinvestment into Departmental priorities - see Managing Public Money 7.14.4:

[www.GOV.UK/government/publications/Managing Public Money](http://www.GOV.UK/government/publications/Managing%20Public%20Money).

20.11. Income Generation goods/services are generally supplied into competitive markets, and charges for services should therefore be set at a commercial rate (or market price), thereby delivering a commercial return on the resources deployed in supplying the service. At other times, MOD may be in a dominant position, i.e. it has a monopoly or other natural advantage and should charge an appropriate commercial rate without abusing its position. See paragraphs [20.23](#) to 20.29 below.

Exclusions

20.12. The following areas of activity are excluded from the provisions of this chapter:

- a. the disposal of surplus land, equipment or other assets; rather it is the sale of services and the leasing or licensing of the use of MOD assets such as land, buildings, Intellectual Property, etc.
- b. non-news media activity (as defined in JSP 579), but only where the desired outputs are primarily to meet the Department’s communications priorities, and the generation of income is only a secondary priority. That is not to say that non-news media activity can be undertaken without charge; the provisions of [Chapter 19](#) of this JSP will still apply.
- c. certain activities involving external bodies which MOD has initiated primarily for the purpose of civil or community engagement. However, this is not to say that charges need never be raised; see paragraphs [20.36](#) to 20.38 below.
- d. sale of services between the UK and foreign governments which are the subject of a Memorandum of Understanding (see [Chapter 19](#)) or are undertaken as International Defence Training activity under the provisions of JSP 510 (although these may choose to follow the charging principles set out in this chapter).
- e. the attendance of armed forces display teams at events for the primary purpose of meeting Service, Civil or community engagement objectives (described below at paragraphs [20.36](#) to 20.38) is not classed as Income

Generation, but a degree of charging is generally required within the provisions of [Chapter 19](#) of this JSP.

f. sale of items falling into the Spend on Inventories Purchase (SOIP) category, including fuel.

g. inward sponsorship of MOD activity, e.g. display teams, is a form of Income Generation but is subject to specific rules which can be found in [Chapter 7](#) of this JSP.

h. Civilian Use of Military Airfields is a form of Income Generation but is subject to specific rules contained in the Air Command instruction at: [defnet/DINSJSPS/Use of Military Airfields by British and Foreign Civil Aircraft](#).

Reputation

20.13. Income Generation activity must always take account of the possible impact on the reputation of MOD and the armed forces. Activity should not harm the reputation of the Department or run contrary to its core values and objectives. Similarly, public perception and attitudes towards the proposed external body should be examined critically to ensure MOD is not tainted by association. Further guidance can be found in [Part 2](#).

Governance

20.14. Government departments, including MOD, are generally responsible for assessing and developing the commercial potential of their own assets. However, MOD must seek Treasury approval where the proposed activity is novel, contentious, or likely to set a precedent elsewhere: see Managing Public Money, Chapter 7, Box 7.7 [www.GOV.UK/government/publications/Managing_Public_Money](#) and [Chapter 14](#) paragraph 14.3 of this JSP.

20.15. TLBs must have in place an appropriate approvals process which confirms as a minimum that the permission of the relevant asset owner(s) has been granted; Defence Commercial and/or DIO and the Director of Resources (or their representative) have authorised the pricing regime; how risk and liability is to be addressed and the commercial arrangements to be put in place. See Annex 40 - Example of an Income Generation Project Proforma/Request for Contract Action and Annex 41 – Flowchart showing suggested Governance Process to [Part 2](#).

20.16. TLBs are responsible for maintaining satisfactory audit trails of their Income Generation activity. In particular they are to ensure that all projects involving public subsidies are reported twice yearly in accordance with FMPA instructions – see also paragraph [20.28](#) below). This return is to be completed alongside a more general return on Income Generation activity and receipts, as it is important for the Department to get a better understanding of income streams.

20.17. MOD and the external body will enter into a business relationship, so it is important that each party understands its obligations to the other, which should be set out in a binding and legally enforceable 'Contract for Sale'. Such contracts may only be entered into by licensed commercial staff, or those in possession of a specific Commercial Letter of Delegation.

20.18. Similarly, where use of land or buildings will be a part of the chargeable service, only authorised DIO staff may negotiate and complete leases and licences. However, others in receipt of a specific Letter of Delegation from DIO may agree licenses for the 'occasional use' of land and buildings where this is not novel or contentious and does not have an inherent high level of risk.

20.19. Intellectual Property licenses may only be issued by Defence Intellectual Property Rights Group (DIPR).

Insurance

20.20. The Treasury considers Income Generation to be a discretionary activity. As such it would be inappropriate for financial liabilities arising to third parties to be funded by the Department. Instead, commercial insurance arrangements are to be set in place to meet MOD's potential liabilities (see Managing Public Money Box A4.4A www.GOV.UK/government/publications/Managing_Public_Money). The cost of this insurance is a variable cost (see [Part 2](#)) of providing the service and must be included in the charge to the external body to ensure the premium is not ultimately funded by the Department.

20.21. Conversely, there is always a risk that the external body may itself become financially liable to the Department following some negligent act or omission. For this reason, external bodies must demonstrate they have adequate insurance of their own to mitigate the risk to MOD.

20.22. Further advice on insurance arrangements for Income Generation is available from DJEP-CLCP.

Calculating a price to charge for goods/services provided

20.23. It is important to emphasise the difference between 'cost' and 'price'. Cost relates to the level of resource expended by MOD in supplying the goods/services. The full cost is comprised of the sum of the fixed and variable costs which are explained in more detail in [Part 2](#).

20.24. Price is the actual amount invoiced to the external body; it is influenced by the presence or absence of market forces, and the risk associated with the activity.

20.25. The starting point for the calculation is the full cost to MOD of providing the goods/services. Full cost is defined in Managing Public Money as:

'The total cost of all the resources used in providing a good or service in any accounting period (usually one year). This includes all direct and indirect costs of producing the output (cash and non-cash costs) including a full proportional share of overhead costs and any selling and distribution costs, insurance, depreciation, and the cost of capital, including any appropriate adjustment for expected cost increases.'

20.26. Full costs are calculated by budget staff. Every endeavour should be made to calculate as accurately as possible, and sensible judgements should be made where there is uncertainty about the degree to which an overhead is applied to a particular activity.

20.27. In addition to the full cost, the price to be charged for the goods/services should also include a margin for 'profit', i.e. a real rate of return in line with the rates achieved by comparable businesses operating in the same market and facing a similar level of risk. The price will be set by commercial/DIO staff based on an assessment of what the market can bear. The price should be fair, without intent to exploit market dominance or deliberately to undercut the private sector for the sake of a sale. See [Part 2](#) for further guidance.

20.28. Any proposal to charge less than the price recommended by Commercial/DIO staff should be approved by the relevant TLB Director of Resources or their delegated representative. The difference between the full cost and the price charged is to be treated as a Public Subsidy and reported as such in accordance with DFinStrat-FMPA-FinPol instructions. In all instances the price charged should not fall below the marginal cost, i.e. the additional (variable) cost incurred in providing the service. See [Part 2](#) for further guidance.

20.29. Charges for use of intellectual property will be set by DIPR, in accordance with statutory charging rules.

Value Added Tax (VAT)

20.30. The applicability of VAT to Income Generation is complex, and further information is provided in [Part 2](#). In cases of doubt Budget Managers should take advice from their TLB Tax Focal Point.

Benefits in Kind

20.31. Proposals to supply goods/services in return for benefits in kind, e.g. items of equipment or reduced prices on MOD procurement business with the same external body, either in lieu of or in addition to cash payments for the service supplied should generally be declined. This is because of the possible applicability of procurement regulations. Any proposal of this nature should be discussed with Defence Commercial/DIO; see [Part 2](#).

Status and use of the income

20.32. Income Generation receipts are achieved by exploiting publicly funded assets. It follows that such income must be treated as public money, and that its expenditure must be limited to purchasing goods or services which could legitimately be charged to the public purse. The usual rules in respect of regularity and propriety must be followed when spending the income.

20.33. Where an activity uses the assets or services of more than one TLB, the 'lead' TLB must agree with the others how the receipts are to be divided between them.

20.34. It is for TLBs to decide how Income Generation receipts are used. While there is nothing inherently wrong in viewing Income Generation solely as an efficiency measure to bolster their wider financial position, it is nevertheless recommended that TLBs do not overlook the fact that it is a discretionary activity. TLBs should consider the extent to which they might usefully incentivise lower level Budget Holders to undertake Income Generation proactively.

20.35. There is currently no specific Resource Account Code (RAC) for Income Generation. Users are recommended to use RLB012, but a discrete RAC will be introduced for FY 2017/18.

Civil Engagement

20.36. The term Civil Engagement (sometimes referred to as Community Engagement) is used by the Services to describe activities undertaken specifically to foster positive relations with local communities, and further afield to enhance the reputation of the armed forces and develop the public's understanding of their role.

20.37. There is currently no specific tri-service definition of Civil Engagement, but for the purposes of Income Generation policy, it can be defined as:

'Any activity, whether undertaken from irreducible spare capacity or otherwise, whose primary purpose is to generate mutual understanding between the Services and civilian society, to focus support to the Service community (current, past and future), or to fulfil the Services' responsibilities to wider civilian society (Corporate Social Responsibility).'

20.38. The use of publicly funded assets for Civil Engagement without re-charging the external body is a decision to spend money, and Budget Holders must be satisfied that its use falls within the boundaries of propriety and regularity – see also [Chapter 14](#) of this JSP.

Income Generation outside the UK

20.39. There is no reason in principle why Income Generation activity should not be undertaken outside the UK. However, there are a number of important factors to consider first; see [Part 2](#) for further guidance.

Investing to make an asset more commercially viable or attractive

20.40. Managing Public Money 7.14.4 [www.GOV.UK/government/publications/Managing Public Money](http://www.GOV.UK/government/publications/ManagingPublicMoney) states that 'it is not acceptable to acquire assets just for the purpose of engaging in, or extending, commercial activity. If a public sector supplier's commercial activity demands further investment to keep it viable, reappraisal is usually appropriate. This should consider alternatives such as selling the business, licensing it, bringing in private sector capital, or seeking other way(s) of exploiting the underused potential in the assets or business.' Income Generation policy therefore allows public sector investment in relation to Income Generation activity only when that investment would be minimal relative to the asset base of the business area concerned and the anticipated return.

20.41. A private sector partner on the other hand is unlikely to be bound by such restrictions. Significant investment, for example in additional capacity, can only be made by a private sector partner. However, such an activity could still tend to undermine the need for the asset to be retained in MOD ownership. Accordingly such asset retention should always be challenged at this point.