

FINANCIAL DIRECTIONS ISSUED UNDER SECTIONS 26 (3), (3A) AND (4) OF THE NATIONAL LOTTERY ETC. ACT 1993 (AS AMENDED)

The British Film Institute (BFI) shall comply with the requirements contained within the attached Statement of Financial Requirements, which have the status of directions under section 26 of the National Lottery etc. Act 1993, ("the Act") as amended by the National Lottery Act 1998 ("the 1998 Act"). The Statement of Financial Requirements complements BFI's Management Statement and Financial Memorandum (MS/FM), which deals with corporate management matters and with the application of non-Lottery funds, and should be read in conjunction with the MS/FM.

Signed by authority of the Secretary of State for Culture, Media and Sport

**Paul Heron
Head of Creative Industries
Department for Culture, Media and Sport**

STATEMENT OF FINANCIAL REQUIREMENTS

BRITISH FILM INSTITUTE

This Statement of Financial Requirements is effective from 1 April 2011

Introduction

1. This Statement of Financial Requirements (SFR) complements BFI's Management Statement and Financial Memorandum (MS/FM) whose provisions, unless otherwise stated in this SFR, apply to the administration of National Lottery proceeds and the costs of administering Lottery proceeds. It also complements and should be read in conjunction with the Accounts Directions issued to BFI under section 35(3) of the Act, with other appropriate guidance such as that contained in "Dear Accounting Officer" letters, and with any guidance on matters such as fraud issued from time to time by DCMS. BFI must report all suspected fraud beyond a de minimis limit of £10,000 immediately to DCMS.
2. The BFI must operate within the principles of administrative law. Lottery proceeds are public monies, and shall be used only to make grants and loans in connection with successful Lottery applications, to defray administration expenses incurred in the distribution of those funds (including those connected with delegation of Lottery distribution), or to meet the cost of non-cash grants. BFI should have regard to value for money, and to additionality principles, in all aspects of its administration of Lottery funds.
3. Risk management principles should be applied to all aspects of BFI's Lottery distribution activities. Systems of internal control deployed by BFI should be designed to manage risk to a reasonable level rather than eliminate all risk of failure to the achievement of policies, aims and objectives. Systems of internal control should be based on an ongoing process to identify and prioritise the principal risks to BFI not achieving its objectives, to evaluate the likelihood and impact of those risks and to manage them efficiently, effectively and economically.

Applications

4. BFI should make guidance on how to apply for Lottery funds widely available and should distribute funds only in response to applications. BFI may also, where it is clear that there are strategic benefits to be gained, distribute funds without the need for an open application. In such cases, BFI must allocate grants according to clear, set and transparent formulae or criteria agreed in advance by BFI's Board, which should be made publicly available. Separate internal procedures and a decision-making process, for allocating grants should be established. These procedures and processes should be designed to avoid creating a system of allocation that could be construed as being unfair, random or arbitrary and should ensure that those involved in making decisions avoid actual or perceived conflicts of interest.

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5. The BFI may co-ordinate applications with other distributing bodies and/or other organisations and may exercise as it sees fit, putting appropriate management and accountability arrangements in place, its powers under the Act to:
 - participate in a joint scheme;
 - solicit applications;
 - delegate, internally or externally, decisions as to whom Lottery money is to be distributed.
6. BFI should ensure that, where appropriate, applicants are informed of the circumstances in which they will have to satisfy European Union (EU) and World Trade Organisation (WTO) procurement rules.
7. BFI should adopt appropriate policies for the appraisal of applications, depending on the nature, size and complexity of the project proposed. These should follow the best current practice and utilise, where appropriate, the Treasury “Green Book” and the Office of Government Commerce’s Project Profile Model (PPM), used to determine the need for Gateway reviews.
8. BFI should notify the Secretary of State whenever it receives an application that falls under section 27 of the Act, and where possible should inform the Secretary of State as soon it becomes aware that such an application is likely to be made. Where BFI is minded to approve the application, it should submit a clear analysis of why the Secretary of State should not exercise section 27 powers, and should not finally approve the application until it receives written notification of the Secretary of State’s decision not to exercise section 27 powers.
9. BFI should collect what information it considers appropriate on each application it receives, and on each successful application. It should supply such information to the Secretary of State as and when requested. It should have effective measures in place to detect and counteract fraud in relation to all its distribution activities, and it should share information on applications with other distributing bodies where it judges that there is a significant risk that an applicant could fraudulently apply to more than one body. BFI should keep a record of all frauds and thefts discovered and report them to the Department as specified in any of the guidance referred to in para. 1 above.

Successful applications and payments of grant

10. The terms and conditions with which each grant or loan recipient must comply should be clearly set out. The Fund will determine the grant term and, if appropriate, the security period and the asset monitoring period by reference to the period during which it expects the grant purpose to be carried out. The grant agreement should include a provision that the grant can be clawed back if there is a change of use from the one originally intended, and/or that an appropriate proportion of the value of the asset should be repaid; and a provision that Lottery finance can be guaranteed only to the extent that the National Lottery continues to operate and the Fund continues to receive sufficient funds from it. It should also include a provision for access by the Comptroller and Auditor General; requirements for the applicant to pay to BFI a share of the

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proceeds from the disposal of assets (including their transfer to the private sector) purchased or enhanced with the assistance of Lottery funding; and for the applicant to repay the grant in full or in part if any of the grant conditions are breached, including instances where the purpose for which the grant was made is not fulfilled, or seems unlikely to BFI to be fulfilled. BFI may vary the terms and conditions of a grant or loan by written agreement with the recipient.

11. BFI may waive such requirements and 'write off' the grant if it considers that this would be appropriate having regard to all the circumstances. However, write-offs totalling £100,000 or more in a single financial year must be reported to the Secretary of State.
12. In addition, where BFI is participating in a joint scheme with other distributing bodies, the Accounting Officers of the participating bodies may, by mutual agreement, delegate grant decision-making authority, and the authority to authorise write-offs and special payments, to the Accounting Officer of one of the bodies or, where appropriate, to a suitably qualified person empowered to act for an external delegate. The person so authorised should report back to the Accounting Officers of the other participating bodies on the achievements of the joint scheme.
13. Grants paid to successful applicants must come from a separate bank account(s) maintained specifically for the transfer of funds from the NLDF to approved projects. This, the Distributing Body's Lottery Account(s) (DBLA(s)), should also be used to cover any costs incurred in administering the Lottery by BFI or any delegates.
14. BFI may hold funds for a short time in DBLA(s) (which may be an interest-bearing instant access account) but may not otherwise invest Lottery money on its own behalf. Draw down requests should reflect BFI's best estimate of the amount needed during the following week. The DBLA(s) should not be overdrawn at any time.
15. Grant distribution may also be made using non-cash methods (for example, vouchers redeemable for goods and services from an approved supplier or contractor). Grants may be made to set up or augment endowments.
16. Grants should not normally be issued to successful applicants in advance of need. However, BFI can and should have regard to the flexibility provided for in relevant DCMS and other Government advice and guidance. BFI should also bear in mind the need to release funds without undue delay so that the applicant can pay bills promptly in accordance with best commercial practice.
17. BFI should set up appropriate arrangements for monitoring and evaluating projects both while they are in progress and after completion.

General administrative & financial matters

18. The Chief Executive Officer of BFI is normally designated as the Accounting Officer for the Lottery funds under BFI's control, and the responsibilities are set out in the Chief Executive Officer's Accounting Officer designation letter. In addition to satisfying him/herself on an ongoing basis of the adequacy of BFI's internal control systems, as reflected in the annual Statement on Internal Control, the Accounting Officer should seek assurance at appropriate intervals that BFI's administrative and financial systems

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as a whole remain adequate for the purpose of discharging BFI's Lottery distribution functions. He/she should notify the Head of BFI's sponsoring division in DCMS if he/she has any concerns that this is not the case. The Accounting Officer is responsible for signing the accounts for BFI's Lottery distribution activities, and for ensuring that:

- Lottery money is distributed with due regard to regularity and propriety;
- Bodies engaged as partners or agents for the purpose of processing Lottery applications and paying funds, or delegated to make decisions on BFI's behalf, are fit and proper and have established appropriate management arrangements;
- Lottery money is used economically, efficiently, and effectively even though grant decisions may have been delegated to an outside person, organisation, committee, or are distributed under a scheme in conjunction with other distributors.
- Cases of significant fraud are reported to the police, and, as appropriate to the Serious Fraud Office and other authorities.

19. BFI will devise and implement appropriate indicators for analysing its own administrative efficiency and performance. These should be agreed with its sponsor division in DCMS. Performance measures, and targets for them, should be included in the annual business/operational plans.

20. In making forward commitments the BFI must have due regard to past and projected income flows and to the need to keep its cash balance in the NLDF to a level which is consistent with safeguarding its commitments, without being unnecessarily large. In complying with this direction, BFI should have regard to relevant guidance.