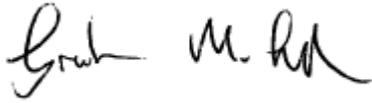

Transport Scotland

MANAGEMENT STATEMENT / FINANCIAL MEMORANDUM FOR CALEDONIAN MARITIME ASSETS LIMITED - March 2015

INTRODUCTION

1. This Management Statement and associated Financial Memorandum (MS/FM) has been drawn up by the Transport Scotland's Aviation Maritime Freight and Canals Directorate (the sponsor Directorate) in consultation with Caledonian Maritime Assets Limited. The Management Statement sets out the broad framework within which Caledonian Maritime Assets Limited will operate while the Financial Memorandum sets out certain aspects of the financial framework in greater detail. The MS/FM does not convey any legal powers or responsibilities.
2. The MS/FM shall be reviewed and updated periodically by the sponsor Directorate, normally at least every 2-3 years.
3. Caledonian Maritime Assets Limited, or the sponsor Directorate, may propose amendments to the MS/FM at any time. Any such proposals by Caledonian Maritime Assets Limited shall be considered in the light of the Scottish Ministers' strategic objectives and policy aims, operational factors and the track record of Caledonian Maritime Assets Limited itself. The guiding principle shall be that the extent of flexibility and freedom given to Caledonian Maritime Assets Limited shall reflect both the quality of its internal controls and its operational needs. The sponsor Directorate shall determine what changes, if any, are to be incorporated in the MS/FM. Legislative provisions shall take precedence over any part of the MS/FM.
4. Caledonian Maritime Assets Limited shall satisfy the conditions and requirements set out in the MS/FM, together with all relevant requirements in the Scottish Public Finance Manual (SPFM) and such other conditions as the Scottish Ministers / sponsor Directorate may from time to time impose. Caledonian Maritime Assets Limited are subject to the requirements of the Freedom of Information (Scotland) Act 2002. Any question regarding the interpretation of the MS/FM shall be resolved by the sponsor Directorate after consultation with Caledonian Maritime Assets Limited.

5. Copies of the MS/FM have been placed in the Scottish Parliament Reference Centre and published on the Scottish Government website. Copies shall also be made available on the Caledonian Maritime Assets Limited website and on request.

A handwritten signature in black ink, appearing to read 'Graham M Laidlaw'.

Graham M Laidlaw
Head of Ferries
Aviation Maritime Freight and Canals Directorate
Transport Scotland

May 2015

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PART 1: MANAGEMENT STATEMENT FOR CALEDONIAN MARITIME ASSETS LIMITED

1. FUNCTIONS, DUTIES AND POWERS

1.1 Founding legislation; status

1.1.1 Caledonian Maritime Assets Limited is established as a company limited by shares under the Companies Act. The objectives for which the Company is established are set out in Section 3 of the Company's Memorandum and Articles of Association a copy of which is available via the Caledonian Maritime Assets Limited website, www.cmassets.co.uk. Caledonian Maritime Assets Limited does not carry out its functions on behalf of the Crown.

1.2 The functions, duties and powers of Caledonian Maritime Assets Limited

1.2.1 The functions, duties and powers for which the Company is established are as set out in the company's Memorandum and Articles of Association.

1.3 Classification

1.3.1 For policy/administrative purposes Caledonian Maritime Assets Limited is classified as a public corporation.

1.3.2 For national accounts purposes Caledonian Maritime Assets Limited is classified to the public corporations sector.

1.3.3 References to Caledonian Maritime Assets Limited include, where appropriate, all its subsidiaries and joint ventures that are classified to the public sector for national accounts purposes. If such a subsidiary or joint venture is created, there shall be a document that follows the principles set out in this document and (where practicable) the procedures set out here noting the arrangements between it and Caledonian Maritime Assets Limited.

2. AIM(S), OBJECTIVES AND TARGETS

2.1 Overall aim

2.1.1 The overall aim of Caledonian Maritime Assets Limited is;

“To provide safe, reliable, efficient and cost effective vessels, harbours and associated port infrastructure for operators, communities and users in and around Scotland and, through consultation and involvement of all stakeholders and robust strategic planning, advise Scottish Ministers on future developments and improvements.”

2.2 Objectives and key targets

2.2.1 The sponsor Directorate determines Caledonian Maritime Assets Limited's performance framework in the light of the Scottish Government's strategic objectives/priorities and core purpose of achieving sustainable economic growth. Caledonian Maritime Assets Limited's objectives and key targets shall be agreed within Caledonian Maritime Assets Limited's corporate planning process (Section 4 below).

2.2.2 The Scottish Ministers have identified the following objectives for Caledonian Maritime Assets Ltd. These may be subject to variation by letter:

1. Ensuring that the company is aligned to the Scottish Government's purpose of sustainable economic growth and the national outcomes;
2. Working in partnership with Transport Scotland, David MacBrayne Ltd and other stakeholders to implement the Ferries Plan;
3. Successful delivery of new vessels and harbour infrastructure projects that support lifeline ferry services;
4. Building CMAL's reputation at the cutting edge of ferry design, particularly designs which reduce costs and tackle emissions;
5. Achieving internal and operating efficiencies.

3. RESPONSIBILITIES AND ACCOUNTABILITY

3.1 The Scottish Ministers

3.1.1 The Scottish Ministers are ultimately accountable to the Scottish Parliament for the activities and performance of Caledonian Maritime Assets Limited. Their responsibilities include:

- approving Caledonian Maritime Assets Limited's strategic objectives and the policy and performance framework within which Caledonian Maritime Assets Limited will operate (as set out in this Management Statement and associated Financial Memorandum (MS/FM));
- keeping the Parliament informed about Caledonian Maritime Assets Limited's performance;
- approving Caledonian Maritime Assets Limited's corporate plans;
- approving the budget for loans for new vessels, capital grant in relation to piers and harbours administered by Caledonian Maritime Assets Limited and securing the necessary Parliamentary approval;
- carrying out responsibilities specified in the Memorandum and Articles of Association including Non-Executive appointments to the Board, approving the terms and conditions of Board members, appointment of the Chief Executive, approval of terms and conditions of staff, and laying of the annual report and accounts before the Scottish Parliament.

3.2 The Portfolio Accountable Officer

3.2.1 The Chief Executive of Transport Scotland is designated by the Principal Accountable Officer for the Scottish Administration as the Agency Accountable Officer for Transport Scotland. This includes the sponsor Directorate for Caledonian Maritime Assets Limited. The responsibilities of an Accountable Officer are set out in detail in the Memorandum to Accountable Officers from the Principal Accountable Officer - see Annex 1 of the section on Accountability in the Scottish Public Finance Manual (SPFM). The Accountable Officer is supported in this role by the Transport Scotland Audit and Risk Committee.

3.2.2 In particular the Accountable Officer shall ensure that:

- Caledonian Maritime Assets Limited's strategic aim and objectives support the Scottish Ministers' wider strategic aims;
- the financial and other management controls applied by the sponsor Directorate to Caledonian Maritime Assets Limited are appropriate and sufficient to safeguard public funds and for ensuring that Caledonian Maritime Assets Limited's compliance with those controls is effectively monitored ("public funds" include not only any funds provided to Caledonian Maritime Assets Limited by the Scottish Ministers but also any other funds falling within the stewardship of Caledonian Maritime Assets Limited, including income, gifts, bequests and donations);
- the internal controls applied by Caledonian Maritime Assets Limited conform to the requirements of regularity, propriety and good financial management;
- he/she is accountable to the Parliament for the issue of capital grant to Caledonian Maritime Assets Limited and for ensuring any funding provided to Caledonian Maritime Assets Limited is within the scope and the amount authorised by Budget Act.

3.3 The sponsoring team in the sponsor Directorate

3.3.1 Within the sponsor Directorate, the Ferries Unit's Finance, Infrastructure and Sponsorship Team is the sponsoring team for Caledonian Maritime Assets Limited. The sponsoring team, in consultation as necessary with the Portfolio Accountable Officer, is the primary source of advice to the Scottish Ministers on the discharge of their responsibilities in respect of Caledonian Maritime Assets Limited, and the primary point of contact for Caledonian Maritime Assets Limited in dealing with the sponsor Directorate. The sponsoring team shall carry out its duties under a senior officer who shall have primary responsibility for overseeing the activities of Caledonian Maritime Assets Limited and who shall conduct the Chairman's annual performance appraisal.

3.3.2 The sponsoring team shall advise the Scottish Ministers on:

- an appropriate framework of objectives and targets for Caledonian Maritime Assets Limited in the light of the Scottish Ministers' wider strategic aims;
- the corporate plans submitted by CMAL for approval by Scottish Ministers;
- an appropriate budget for capital grant to Caledonian Maritime Assets Limited in the light of the Scottish Minister's overall public expenditure priorities;
- how well Caledonian Maritime Assets Limited is achieving its strategic objectives and whether it is delivering value for money.

3.3.3 In support of the Accountable Officer the sponsoring team shall:

on performance and risk management -

- monitor Caledonian Maritime Assets Limited's activities on a continuing basis through an adequate and timely flow of information from Caledonian Maritime Assets Limited on performance, budgeting, control and risk management, including early sight of Caledonian Maritime Assets Limited's Statement on Internal Control;
- address in a timely manner any significant problems arising in Caledonian Maritime Assets Limited, whether financial or otherwise, making such interventions in the affairs of Caledonian Maritime Assets Limited as is judged necessary;
- ensure that the activities of Caledonian Maritime Assets Limited and the risks associated with them are properly and appropriately taken into account in the Scottish Government's risk assessment and management systems;

- ensure that appointments to the Board are made timeously and in accordance with The Office of the Commissioner for Public Appointments in Scotland Code of Conduct.

on communication with Caledonian Maritime Assets Limited -

- inform Caledonian Maritime Assets Limited of relevant Scottish Government policy in a timely manner; advise on the interpretation of that policy; and issue specific guidance to Caledonian Maritime Assets Limited as necessary;
- bring concerns about the activities of Caledonian Maritime Assets Limited to the attention of the full Board, and require explanations and assurances from the Board that appropriate action has been taken.

3.4 The Chair of Caledonian Maritime Assets Limited

3.4.1 The Chair is appointed by the Scottish Ministers in line with the Code of Practice issued by the Commissioner for Ethical Standards in Public Life in Scotland.

3.4.2 The Chair is responsible to the Scottish Ministers. The Chair shall aim to ensure that Caledonian Maritime Assets Limited's policies and actions support the purpose and national outcomes of the Scottish Ministers; and that Caledonian Maritime Assets Limited's affairs are conducted with probity. The Chairman shares with other Board members the corporate responsibilities set out in paragraph 3.5.2, and in particular for ensuring that Caledonian Maritime Assets Limited fulfils the aim and objectives set by the Scottish Ministers.

3.4.3 The Chairman has a particular leadership responsibility on the following matters:

- formulating the Board's corporate strategy;
- ensuring that the Board, in reaching decisions, takes proper account of guidance issued by the Scottish Ministers;
- promoting the efficient and effective use of staff and other resources;
- encouraging high standards of propriety and regularity;
- representing the views of the Board to the general public.

3.4.4 The Chair shall also:

- ensure that all members of the Board, when taking up office, are fully briefed on the terms of their appointment and on their duties, rights and responsibilities, and receive appropriate induction training, including on the financial management and reporting requirements of public sector bodies and on any differences which may exist between private and public sector practice;
- advise the Scottish Ministers in a timely manner of the needs of Caledonian Maritime Assets Limited when Board vacancies arise, with a view to ensuring a proper balance of professional and financial expertise;
- assess the performance of individual Board members on a regular basis.

3.4.5 For those bodies not covered by the provisions of the ethical standards framework the Chairman shall ensure that members uphold the requirements of the Companies Act or the principles set out in the Nolan Report as regards ethical standards.

3.4.6 Communications between the Board and the Scottish Ministers shall normally be through the Chair. The Chair shall ensure that the other Board members are kept informed of such communications.

3.5 Caledonian Maritime Assets Limited's Board

3.5.1 The Chair and non-Executive Directors are appointed by the Scottish Ministers and in line with the Code of Practice issued by the Commissioner for Ethical Standards in Public Life in Scotland. Board Members are appointed in line with that set out in 3.4 above.

3.5.2 The Board has corporate responsibility for ensuring that Caledonian Maritime Assets Limited fulfils the aim and objectives set by the Scottish Ministers and for promoting the efficient and effective use of staff and other resources by Caledonian Maritime Assets Limited in accordance with the principles of Best Value - see relevant section of the SPFM. To this end, and in pursuit of its wider corporate responsibilities, the Board shall:

- establish the overall strategic direction of Caledonian Maritime Assets Limited within the policy, planning and resources framework determined by the Scottish Ministers;
- ensure that the Scottish Ministers are kept informed of any changes which are likely to impact on the strategic direction of Caledonian Maritime Assets Limited or on the attainability of its targets, and determine the steps needed to deal with such changes;
- ensure that any statutory or administrative requirements for the use of public funds (i.e. all funds falling within the stewardship of Caledonian Maritime Assets Limited) are complied with; that the Board operates within the limits of its statutory authority and any delegated authority agreed with the sponsor Directorate, and in accordance with any other conditions relating to the use of public funds; and that, in reaching decisions, the Board takes into account relevant guidance issued by the Scottish Ministers;
- ensure that the Board receives and reviews regular financial information concerning the management of Caledonian Maritime Assets Limited; is informed in a timely manner about any concerns about the activities of Caledonian Maritime Assets Limited; and provides positive assurance to the sponsor Directorate that appropriate action has been taken on such concerns;
- demonstrate high standards of corporate governance at all times, including by setting up and using an independent audit committee - in accordance with the guidance on Audit Committees in the SPFM - to help the Board to address the key financial and other risks facing Caledonian Maritime Assets Limited. The Board is expected to assure itself on the effectiveness of the internal control and risk management systems.
- provide commitment and leadership in the development and promotion of Best Value principles throughout the organisation;
- appoint a Chief Executive to Caledonian Maritime Assets Limited and, in consultation with the sponsor Directorate, set performance objectives and remuneration terms linked to these objectives for the Chief Executive which give due weight both to the proper management and use of public monies, to the delivery of outcomes in line with Scottish Ministers' priorities and to pay policy guidelines in force.

3.5.3 Individual Board members shall act in accordance with their wider responsibility as Members of the Board - namely to:

- comply at all times with the Code of Conduct (paragraph 3.4.5 above) that is adopted by Caledonian Maritime Assets Limited and with the rules relating to the use of public funds, conflicts of interest and confidentiality;
- not misuse information gained in the course of their public service for personal gain or for political profit, nor seek to use the opportunity of public service to promote their private interests or those of connected persons or organisations;
- comply with the Code of Conduct or for those bodies not covered by the provisions of the Ethical Standards framework, the Board's rules on the acceptance of gifts and hospitality, and of business appointments;

- act in good faith and in the best interests of Caledonian Maritime Assets Limited.

3.6 Caledonian Maritime Assets Limited - Chief Executive

3.6.1 The Chief Executive of Caledonian Maritime Assets Limited is personally responsible for safeguarding the public funds (i.e. all funds falling within the stewardship of Caledonian Maritime Assets Limited) for which he/she has charge; for ensuring propriety and regularity in the handling of those public funds; and for the day-to-day operations and management of Caledonian Maritime Assets Limited. He/she should act in accordance with the terms of the MS/FM and within the terms of relevant guidance in the SPFM and other instructions and guidance issued by the Scottish Ministers).

3.6.2 The Chief Executive has a duty to secure Best Value, which includes the concepts of good corporate governance, performance management and continuous improvement. Guidance on what organisations should be able to demonstrate in fulfilment of the duties which make up a Best Value regime is included in the Best Value section of the SPFM.

3.6.3 The Chief Executive shall exercise the following specific responsibilities:

on planning, performance management and monitoring -

- establish Caledonian Maritime Assets Limited's Corporate and Operating Plans in the light of the Scottish Ministers' aims, objectives and plans;
- establish a robust performance management framework which supports the achievement of Caledonian Maritime Assets Limited's aim and objectives as set out in the Corporate and Operating Plans; and which enables full performance reporting to the Board, the sponsor Directorate and the wider public;
- inform the sponsor Directorate of Caledonian Maritime Assets Limited's progress in helping to achieve the Scottish Minister's policy objectives and in demonstrating how resources are being used to achieve those objectives;
- ensure that timely forecasts and monitoring information on performance and finance are provided to the sponsor Directorate; that the sponsor Directorate is notified promptly if overspends / under spends are likely or if performance targets are at serious risk and that corrective action is taken; and that any significant problems, whether financial or otherwise, and whether detected by internal audit or by other means, are notified to the sponsor Directorate in a timely fashion;

on advising the Board -

- advise the Board on the discharge of its responsibilities as set out in this document and in any other relevant instructions and guidance issued by the Scottish Ministers / sponsor Directorate;
- advise the Board on Caledonian Maritime Assets Limited's performance compared with its aim and objectives;
- ensure that financial considerations are taken fully into account by the Board at all stages in reaching and executing its decisions, and that standard financial appraisal techniques as set out in the Green Book are followed as far as this is appropriate and practical;
- take action if the Board, or its Chairman, is contemplating a course of action involving a transaction which the Chief Executive considers would infringe the requirements of propriety or regularity or does not represent prudent or economical administration or efficiency or effectiveness;

on managing risk and resources -

- ensure that a system of risk management is embedded in the organisation to inform decisions on financial and operational planning and to assist in achieving objectives and targets;
- ensure that an effective system of programme and project management and contract management is maintained;
- ensure that the funds falling within the stewardship of Caledonian Maritime Assets Limited are used for the purpose intended, and that such monies, together with Caledonian Maritime Assets Limited's assets, equipment and staff, are used economically, efficiently and effectively;
- ensure that adequate internal management and financial controls are maintained by Caledonian Maritime Assets Limited, including effective measures against fraud and theft;
- maintain a comprehensive system of internal delegated authorities which are notified to all staff, together with a system for regularly reviewing compliance with these delegations;
- ensure that effective human resource management policies are maintained and that strategic human resource planning is related to Caledonian Maritime Assets Limited's objectives;

on accounting for Caledonian Maritime Assets Limited's activities -

- sign the accounts and be responsible for ensuring that proper records are kept relating to the accounts and that the accounts are properly prepared and presented in accordance with any directions issued by the Scottish Ministers;
- sign a Statement on Internal Control regarding Caledonian Maritime Assets Limited's system of internal control, for inclusion in the annual report and accounts;
- ensure that an effective complaints procedure is in place and made widely known;
- give evidence when summoned before the Scottish Parliament on the use and stewardship of public funds by Caledonian Maritime Assets Limited.

3.6.5 The Chief Executive may delegate the day-to-day administration of his/her responsibilities to other employees in Caledonian Maritime Assets Limited. However, he/she shall not assign absolutely to any other person any of the responsibilities set out in this document.

4. PLANNING, BUDGETING AND CONTROL

4.1 The Corporate Plan (3 year)

4.1.1 Key performance targets should align with the operational and strategic targets set out by the Scottish Government through the National Outcomes and the Government Economic Strategy. Consistent with the timetable for public spending reviews, Caledonian Maritime Assets Limited shall submit to the sponsor Directorate a draft of Caledonian Maritime Assets Limited's Corporate Plan covering the spending review period. This document shall adopt the outcome based approach to corporate planning and shall be aligned with the Scottish Government's strategic priorities/objectives and the core purpose of achieving sustainable economic growth. Caledonian Maritime Assets Limited shall have agreed with the sponsor Directorate the issues to be addressed in the plan and the timetable for its preparation. The plan, or elements thereof, shall be updated annually.

4.1.2 The Corporate Plan shall reflect Caledonian Maritime Assets Limited's functions and, within those functions, any priorities set from time to time by the Scottish Ministers.

4.1.3 The Corporate Plan shall set out:

- Caledonian Maritime Assets Limited's key objectives, expenditure plans and associated key performance targets for the following three years, and its strategy for achieving those objectives;
- a review of Caledonian Maritime Assets Limited's performance in the preceding financial year accepting that more detailed review and comparison financial data is contained with the Annual Report and Accounts;
- alternative scenarios to take account of factors which may significantly affect the execution of the plan but which cannot be accurately forecast;
- other matters as agreed between the sponsor Directorate and Caledonian Maritime Assets Limited.

4.1.4 The main elements of the plan - including the key performance targets - shall be agreed between the sponsor Directorate and Caledonian Maritime Assets Limited in the light of the sponsor Directorate's decisions on policy and resources taken in the context of the Scottish Ministers' wider public expenditure plans and decisions. The plan shall be submitted, via the Sponsor Directorate, for approval by Scottish Ministers. The timetable for such submission will be agreed with the sponsor Directorate as required.

4.2 The Operating Plan (1 year)

4.2.1 The Operating Plan for the year immediately ahead shall be consistent with the agreed Corporate Plan. Key performance targets should align with the operational and strategic targets set out by the Scottish Government through the National Performance Framework and Government Economic Strategy. The Operating Plan shall be updated annually by Caledonian Maritime Assets Limited to include key targets and milestones for the forthcoming year and shall be linked to budgeting information so that resources allocated to achieve specific objectives can readily be identified by the sponsor Directorate. A copy of the Operating Plan shall be submitted to the sponsor Directorate for information (and comment where considered appropriate) prior to the beginning of the financial year in question.

4.3 Publication of plans

4.3.1 Subject to any commercial considerations a summary of the Corporate and Operating Plans shall be made available on the Caledonian Maritime Assets Limited website. The summary version shall also be made available to staff.

4.4 Reporting performance to the sponsor Directorate

4.4.1 Caledonian Maritime Assets Limited shall operate management information and accounting systems which enable it to review in a timely and effective manner its financial and non-financial performance against the budgets and targets set out in its, Corporate and Operating Plans.

4.4.2 Caledonian Maritime Assets Limited shall take the initiative in informing the sponsor Directorate of changes in external conditions which make the achievement of objectives more or less difficult, or which may require a change to the budget or objectives set out in the Corporate or Operating Plans. If any changes involve an increase in expenditure, cumulatively, of more than £500,000, or individual elements, of more than £250,000 then approval of the sponsor Directorate is required.

4.4.3 Caledonian Maritime Assets Limited's performance in helping to deliver Ministers' policies, including the achievement of agreed key objectives, shall be reviewed twice yearly by the sponsor Directorate. Additionally, Caledonian Maritime Assets Limited shall meet with the sponsor Directorate every three months to discuss progress against agreed objectives. The appropriate Cabinet Secretary / Scottish Minister shall meet the Board formally each year to discuss Caledonian Maritime Assets Limited's performance, its current and future activities and any policy developments relevant to those activities.

4.4.4 Caledonian Maritime Assets Limited's performance against key targets shall be reported in Caledonian Maritime Assets Limited's annual report and accounts, see Section 5.1 below. Other forms of reporting performance to the public should also be considered.

4.5 Budgeting procedures

4.5.1 Caledonian Maritime Assets Limited's budgeting procedures are set out in the associated Financial Memorandum.

4.6 Audit Committee

4.6.1 Caledonian Maritime Assets Limited shall set up an audit committee in accordance with the guidance on Audit Committees in the SPFM.

4.6.2 In addition, Caledonian Maritime Assets Limited shall forward to the sponsor Directorate an annual report on fraud (including theft) suffered by Caledonian Maritime Assets Limited; notify any unusual or major incidents as soon as possible; and notify any changes to its audit committee's terms of reference or its Fraud Policy and Fraud Response Plan.

5. EXTERNAL ACCOUNTABILITY

5.1 The annual report and accounts

5.1.1 After the end of each financial year Caledonian Maritime Assets Limited shall publish an annual report of its activities together with its audited annual accounts. The report shall also cover the activities of any subsidiary or joint venture under the control of Caledonian Maritime Assets Limited.

5.1.2 Caledonian Maritime Assets Ltd shall produce accounts, including group accounts if necessary, in accordance with the Companies Act. While the Companies Act takes precedence, the accounts will, so far as appropriate, comply with the Scottish Government Finance Manual and with any accounts direction or other relevant guidance issued by the Scottish Ministers. With effect from 2010-11 Caledonian Maritime Assets Ltd will present accounts on the basis of International Financial Reporting Standards.

5.1.3 The report and accounts shall be submitted in draft to the sponsor Directorate for comment by 1 August in any given year and the final version shall be laid before the Parliament later that year by the Scottish Ministers in keeping with the timetable as advised by the sponsor Directorate. The accounts must not be published before they have been laid. Caledonian Maritime Assets Limited shall be responsible for the publication of the report and accounts, including any requirement to lodge same at Companies House, e.g. on Caledonian Maritime Assets Limited's website.

5.2 External audit

5.2.1 Caledonian Maritime Assets Limited's accounts are audited by auditors on the recommendation of the Board. Caledonian Maritime Assets Limited shall submit the audited accounts to the Scottish Ministers, who shall lay them, together with the annual report, before the Parliament.

5.2.2 Caledonian Maritime Assets Limited shall include copies of all management letters (and correspondence relating to those letters) and responses in the audit committee papers which will be shared with the sponsor Directorate in the normal course of business.

5.3 VFM / 3E examinations

5.3.1 Caledonian Maritime Assets Limited agrees that the Auditor General Scotland (AGS) may carry out examinations into the economy, efficiency and effectiveness with which Caledonian Maritime Assets Limited has used its resources in discharging its functions.

5.3.2 In addition, Caledonian Maritime Assets Limited shall provide, in conditions to grants and contracts, for the AGS to exercise such access to documents held by grant recipients as may be required for these examinations; and shall use its best endeavours to secure access for the AGS to any other documents required by the AGS which are held by other bodies.

6. STAFF MANAGEMENT

6.1. Within the arrangements approved by the Scottish Ministers, Caledonian Maritime Assets Limited shall have responsibility for the recruitment, retention and motivation of its staff. To this end Caledonian Maritime Assets Limited shall ensure that:

- the recruitment of its staff is based on fair and open competition and equal opportunities;
- the level and structure of its staffing, including grading and numbers of staff, is appropriate to its functions and the requirements of efficiency, effectiveness and economy;
- the performance of its staff at all levels is managed effectively and efficiently; they are satisfactorily appraised; and Caledonian Maritime Assets Limited's performance appraisal and promotion systems are reviewed from time to time;
- its staff are encouraged to acquire the appropriate professional, management and other expertise necessary to achieve Caledonian Maritime Assets Limited's objectives;
- proper consultation with staff takes place on key issues affecting them;
- adequate grievance and disciplinary procedures are in place;
- whistle blowing procedures consistent with the Public Interest Disclosure Act are in place;
- a code of conduct for staff is in place based on the document *Model Code for Staff of Executive Non-Departmental Public Bodies*.

7. REVIEWING THE ROLE OF CALEDONIAN MARITIME ASSETS LIMITED

7.1 The role of Caledonian Maritime Assets Limited shall be reviewed periodically in accordance with the business needs of the Scottish Government and of Caledonian Maritime Assets Limited, normally at least every 5 years.

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PART 2: FINANCIAL MEMORANDUM FOR CALEDONIAN MARITIME ASSETS LIMITED

1. CALEDONIAN MARITIME ASSETS LIMITED FUNDING

1.1 Contracts Fees & Charges

1.1.1 Caledonian Maritime Assets Limited obtain funding from a number of sources including revenue from pier and harbour charges, grant for pier and harbour upgrading/enhancing, loans to fund vessels and revenue from the ferry operator under the Fleet Charter Agreement as set out in the Public Service Contract covering delivery of the Clyde and Hebrides Ferry Service.

1.1.2 Grant for pier and harbour works will be paid to Caledonian Maritime Assets Limited in instalments, on the basis of a written application from Caledonian Maritime Assets Limited showing evidence of need. The application shall provide the sponsor Directorate with, as a minimum, information, which will enable the satisfactory monitoring by the sponsor Directorate of:

- Caledonian Maritime Assets Limited's cash management;
- actual and forecast outturn of expenditure of Grant;
- actual and forecast outturn of expenditure / consumption.

1.1.3 Grant for piers and harbours should not be paid out in advance of need.

1.2 Fees or charges for services

1.2.1 Fees or charges for services or goods supplied by Caledonian Maritime Assets Limited, including pier and berthing charges, should be determined in accordance with the Scottish Public Finance Manual, the Clyde and Hebrides Ferry Services Public Service Contract (PSC) and the Principal contracts meaning: the Fleet Charter Agreement, the Trade Mark Licence Agreement, the Heraldic Device Agreement, the Property and Equipment Licence and the Tripartite Agreement and should be set to recover full costs unless the Sponsor Directorate agrees otherwise. In setting fees and charges Caledonian Maritime Assets Limited shall:

- set fees in accordance with the PSC and Principal Contracts referred to above;
- set fees in accordance with the Scottish Public Finance Manual;
- have due regard to its duty as a public body and to the public purse, bearing in mind that those charges will have implications for other public sector expenditure (e.g. subsidy for lifeline ferry services);
- seek the approval of the Scottish Ministers to proposed charges.

1.3 Authority to spend

1.3.1 Caledonian Maritime Assets Limited shall have authority to incur expenditure / consume resources in accordance with the, Corporate and Operating Plans without further reference to the sponsor Directorate, on the following conditions:

- Caledonian Maritime Assets Limited shall comply with the specific delegations set out in the attached Appendix A. These delegations shall not be altered without the prior agreement of the sponsor Directorate;
- Caledonian Maritime Assets Limited shall seek agreement of the sponsor Directorate for any increase in cumulative expenditure above £500,000 beyond that detailed in Corporate and Operating Plans, or individual elements, of more than £250,000. Caledonian Maritime Assets Limited shall comply with the conditions set out in this Financial Memorandum regarding novel, contentious or repercussive proposals and with any relevant guidance in the Scottish Public Finance Manual (SPFM); and
- Caledonian Maritime Assets Limited shall provide the sponsor Directorate with such information about its operations, performance, individual projects or other expenditure as the sponsor Directorate may reasonably require.
- Caledonian Maritime Assets shall establish and agree with the sponsor Directorate a comprehensive system of internal delegated authorities which should be notified to all staff, together with a system for regularly reviewing compliance with these delegations

1.4 Bad Debt and Impairments

1.4.1 Write-off of bad debt and impairments is subject to the delegated limit set out in the attached Appendix A.

2. CALEDONIAN MARITIME ASSETS LIMITED'S INCOME

2.1 Borrowing

2.1.1. All borrowing by Caledonian Maritime Assets Limited - excluding agreed overdrafts - shall be from the Scottish Ministers in accordance with guidance in the Borrowing, Lending & Investment section of the SPFM.

2.2 Maximising income from other sources

2.2.1 Caledonian Maritime Assets Limited shall seek to maximise income from other sources provided that this is consistent with Caledonian Maritime Assets Limited's main functions and its Corporate Plan as agreed by the Scottish Ministers. Proposals for new sources of income or methods of fundraising should be cleared with the sponsor Directorate.

2.3 EU Funding

2.3.1 Caledonian Maritime Assets Limited should seek funding from the EU as appropriate and ensure that the sponsor Directorate is informed. See the guidance in the EU Funding section of the SPFM.

2.4 Proceeds from Disposal of Assets

2.4.1 Disposals of land and buildings are dealt with in Section 7 below.

2.5 Gifts, bequests and donations

2.5.1 Caledonian Maritime Assets Limited is free to retain any gifts, bequests or similar donations. Before proceeding in this way Caledonian Maritime Assets Limited shall consider if there are any associated costs in doing so or any conflicts of interests arising. Caledonian Maritime Assets Limited shall keep a written record of any such gifts, bequests and donations and of their estimated value and whether they are disposed of or retained.

3. CALEDONIAN MARITIME ASSETS LIMITED EXPENDITURE: GENERAL PRINCIPLES

3.1 Delegated Authority

3.1.1 Caledonian Maritime Assets Limited shall not, without prior approval of the sponsor Directorate, enter into any undertaking to incur any expenditure not previously approved via the, Corporate or Operating Plans, which falls outside the specific limits on Caledonian Maritime Assets Limited's delegated authority as set out in the attached Appendix A.

3.2 Appraisal and Evaluation

3.2.1 All expenditure proposals shall, so far as appropriate, be subject to the guidance in the Appraisal and Evaluation section of the SPFM.

3.3 Procurement

3.3.1 Caledonian Maritime Assets Limited's procurement policies shall, so far as appropriate, reflect relevant guidance in the Procurement section of the SPFM. Procurement should be treated as a key component of achieving Caledonian Maritime Assets Limited's objectives, as well as a means of finding the most cost-effective method for securing the quality of assets and/or services. Caledonian Maritime Assets Limited shall also ensure that it complies with any relevant EU or other international procurement rules.

3.4 Competition

3.4.1 Contracts shall be placed on a competitive basis and tenders accepted from suppliers who provide best value for money overall. Proposals to let single-tender or restricted contracts above the relevant delegated limit in the attached Appendix A must be submitted to the sponsor Directorate for approval.

3.5 Value for money

3.5.1 Procurement by Caledonian Maritime Assets Limited of works, equipment, goods and services shall be based on value for money, i.e. quality (in terms of fitness for purpose) and delivery against price. Where appropriate, a full option appraisal shall be carried out before procurement decisions are taken.

3.6 Timeliness in paying bills

3.6.1 Caledonian Maritime Assets Limited shall pay all matured and properly authorised invoices in accordance with the guidance provided in the SPFM on Expenditure and Payments or within 10 days as provided for within the Payments section of the SPFM.

3.7 Novel, contentious or repercussive proposals

3.7.1 Caledonian Maritime Assets Limited shall obtain the approval of the sponsor Directorate before:

- incurring any expenditure for any purpose which is or might be considered novel or contentious, or which has or could have significant future cost implications, including on staff benefits;
- making any significant change in the scale of operation or funding of any initiative or particular scheme previously approved by the sponsor Directorate;

- making any change of policy or practice which has wider financial implications (e.g. because it might prove repercussive among other public sector bodies) or which might significantly affect the future level of resources required.

3.8 Risk Management

3.8.1 Caledonian Maritime Assets Limited shall ensure that the risks, which it faces, are dealt with in an appropriate manner, in accordance with relevant aspects of best practice in corporate governance, and shall develop a risk management strategy, in accordance with the Risk Management section of the SPFM.

3.8.2 Caledonian Maritime Assets Limited shall adopt and implement policies and practices to safeguard itself against fraud and theft, in line with the Fraud section of the SPFM.

3.8.3 Caledonian Maritime Assets Limited shall take all reasonable steps to appraise the financial standing of any firm or other body with which it intends to enter into a contract or to give grant.

4 EXPENDITURE ON BOARD MEMBERS

4.1.1 Remuneration, allowances and expenses paid to Board Members must comply with specific guidance on such matters issued by the Scottish Ministers.

5 EXPENDITURE ON STAFF

5.1 Staff costs

5.1.1 Caledonian Maritime Assets Limited is responsible for determining the number of staff required and the most appropriate organisational structure to deliver its remit economically, efficiently and effectively within the resources available to it. However, any significant changes in staff numbers or organisational structure must be approved in advance by the sponsor Directorate.

5.2 Pay and conditions of service

5.2.1 Caledonian Maritime Assets Limited shall submit to the sponsor Directorate for approval (normally annually unless a multi-year deal has been agreed) a pay remit within the terms and conditions set out in the Scottish Government's Public Sector Pay Policy and negotiate a pay settlement by the 1st October in any given year within the terms of the subsequently agreed remit. Proposals on non-salary rewards must comply with the guidance in the Non-Salary Rewards section of the SPFM. Caledonian Maritime Assets Limited shall comply with the EU directive on contract workers, Fixed Term Employees Regulations (Prevention of Less Favourable Treatment). The terms and conditions of the Chief Executive are subject to a separate approval exercise, the remuneration elements of which are subject to Scottish Government approval at the outset and annually, in line with the Scottish Government's Public Sector Pay Policy for Senior Appointments.

5.3 Pensions, redundancy / compensation

5.3.1 Superannuation arrangements for staff are subject to the approval of the sponsor Directorate. Caledonian Maritime Assets Limited's staff shall normally be eligible for entry to the Caledonian MacBrayne Pension Scheme.

5.3.2 Staff may opt out of the occupational pension scheme provided by Caledonian Maritime Assets Limited. However, the employer's contribution to any personal pension arrangement, including stakeholder pension, shall normally be limited to the national insurance rebate level.

5.3.3 Any proposal by Caledonian Maritime Assets Limited to move from existing pension arrangements, or to pay any redundancy or compensation for loss of office, requires the approval of the sponsor Directorate. Proposals on severance payments must comply with the guidance in the Severance etc section of the SPFM.

6 NON-STAFF EXPENDITURE

6.1 Capital expenditure

6.1.1 Subject to being above the Scottish Government's capitalisation threshold as set out in the published Scottish Government consolidated accounts all expenditure on the acquisition or creation of fixed assets shall be capitalised on an accruals basis. Expenditure to be capitalised shall include the (a) acquisition, reclamation or laying out of land; (b) acquisition, construction, preparation or replacement of buildings and other structures or their associated fixtures and fittings; and (c) acquisition, installation or replacement of movable or fixed plant, machinery, vehicles and vessels.

6.1.2 Proposals for large-scale individual capital projects or acquisitions will normally be considered within Caledonian Maritime Assets Limited's corporate planning process and within the context of its long-term estate strategy. Any such project shall be subject to the guidance in the Major Investment section of the SPFM and, where appropriate, the Construction Procurement Manual published by the Scottish Government's Construction Procurement Policy Unit.

6.2 Lending, guarantees, indemnities, contingent liabilities, letters of comfort

6.2.1 Caledonian Maritime Assets Limited shall not, without the sponsor Directorate's prior consent, lend money, charge any asset or security, give any guarantee - excluding a guarantee of a standard type given in the normal course of business - or indemnity or letter of comfort, or incur any other contingent liability (as defined in the Contingent Liabilities section of the SPFM or in International Financial Reporting Standards), whether or not in a legally binding form.

6.3 Gifts, losses and special payments

6.3.1 Proposals for making gifts or other special payments (including write-offs) outside the delegated limits set out in the attached Appendix A must have the prior approval of the sponsor Directorate. Any such proposals should address the considerations listed in the Losses & Special Payments section of the SPFM. Gifts by management to staff are subject to the guidance in the Non-Salary Rewards section of the SPFM.

6.4 Leasing

6.4.1 Prior sponsor Directorate approval must be secured for all property, vessel and finance leases and other transactions, which are in substance borrowing. Before entering into any lease (including an operating lease) Caledonian Maritime Assets Limited must demonstrate that the lease offers better value for money than purchase.

6.5 Public / Private Partnerships

6.5.1 Caledonian Maritime Assets Limited shall seek opportunities to enter into Public/Private Partnerships where this would be more affordable and offer better value for money than conventional procurement. Where cash flow projections may result in delegated authority being breached Caledonian Maritime Assets Limited shall consult the sponsor Directorate. Before entering into any such partnership, Caledonian Maritime Assets Limited must consider the accounting and budgeting implications of the International Financial Reporting Standards and must obtain the approval of the sponsoring Directorate. Also, before committing to a partnership of this nature, Caledonian Maritime Assets Limited must obtain the agreement of their External Auditors to the proposed accounting treatment. See also the guidance in the Public / Private Partnerships section of the SPFM.

6.6 Subsidiary companies and joint ventures

6.6.1 Caledonian Maritime Assets Limited shall not establish subsidiary companies or joint ventures without the express approval of the sponsor Directorate. In judging such proposals the sponsor Directorate will have regard to the Scottish Ministers' wider strategic aims and objectives.

6.6.2 With effect from 1 October 2006 any subsidiary company or joint venture controlled or owned by Caledonian Maritime Assets Limited shall be consolidated with it in accordance with International Financial Reporting Standards.

6.7 Financial investments

6.7.1 Caledonian Maritime Assets Limited shall not make any financial investments without the prior approval of the sponsor Directorate, nor shall it aim to build up cash balances or net assets in excess of what is required for operational purposes consistent with the Corporate and Operating Plans. Equity shares in ventures, which further the objectives of Caledonian Maritime Assets Limited, shall equally be subject to sponsor Directorate approval unless covered by a specific delegation. Caledonian Maritime Assets Limited shall not invest in any venture of a speculative nature.

6.8 Unconventional financing

6.8.1 Unless otherwise agreed with the sponsor Directorate, Caledonian Maritime Assets Limited shall not enter into any unconventional financing arrangement.

6.9 Commercial insurance

6.9.1 Caledonian Maritime Assets Limited shall take out commercial insurance, with the prior approval of the sponsor Directorate, and broadly in accordance with the guidance in the Insurance section of the SPFM.

7 MANAGEMENT AND DISPOSAL OF FIXED ASSETS

7.1 Register of assets

7.1.1 Caledonian Maritime Assets Limited shall maintain an accurate and up-to-date register of its fixed assets, including vessels.

7.2 Disposal of assets

7.2.1 Caledonian Maritime Assets Limited shall dispose of assets which are surplus to its requirements and in accordance with its long-term corporate strategy. Assets shall be sold for the best price, taking into account any costs of sale and in accordance with the guidance in the Disposal of Tangible Fixed Assets section of the SPFM. The Scottish Government's Property Division should be notified of relevant proposed disposals of property at the earliest opportunity and at least 3 months prior to them being advertised on the open market.

7.3 Recovery of grant-financed assets

7.3.1 Where Caledonian Maritime Assets Limited has financed expenditure on capital assets by a third party, Caledonian Maritime Assets Limited shall use its best endeavours that any such assets above an agreed value are not disposed of by the third party without Caledonian Maritime Assets Limited's prior consent. Caledonian Maritime Assets Limited shall therefore ensure that such conditions are sufficient to secure the repayment of its due share of the proceeds - or an appropriate proportion of them if the grant was for less than the whole cost of acquisition or improvement.

7.3.2 Caledonian Maritime Assets Limited shall also ensure that if the assets created by grants made by Caledonian Maritime Assets Limited cease to be used by the recipient of the grant within five years from the date of completion for the intended purpose an appropriate proportion of the value of the asset shall be repaid to Caledonian Maritime Assets Limited.

8 BANKING

8.1.1 Caledonian Maritime Assets Limited's Chief Executive is responsible for ensuring that Caledonian Maritime Assets Limited's banking arrangements safeguard public funds and are carried out efficiently, economically and effectively.

**PART 2: FINANCIAL MEMORANDUM FOR CALEDONIAN MARITIME ASSETS LIMITED
- APPENDIX A**

SPECIFIC LIMITS ON DELEGATED AUTHORITY

Single-tender contracts	£10,000
Claims waived or abandoned	
	£5,000
Write-off of bad debt and impairments	
	£5,000
Special Payments	
	£1,000