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The Lord Green of Hurstpierpoint
Chair
Natural History Museum
Cromwell Road
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3 March 2016

Dear Stephen,

Spending Review 2015

I am writing to inform you about the outcome of the 2015 Spending Review for my Department. DCMS's overall settlement maintains the current resource budget in cash terms over the Spending Review period. In real terms, this represents a 5% reduction to the resource budget by 2019/20. In addition, DCMS will make £1.6 billion of capital investment across the Spending Review period.

This is a very positive settlement. DCMS is rightly contributing to reducing the deficit but this settlement reflects the Government's continued strong support for the economic and social benefits provided by the culture, media and sport sectors, and will allow DCMS to focus on its vision of driving growth and enriching lives. We will do this through our core work of promoting culture, heritage and sport, and driving economic growth by supporting the creative industries, tourism, broadband rollout and the digital economy. It will also enable the Department and its Arm's Length Bodies to achieve our strategic objectives and deliver the Government priorities set out in our Single Departmental Plan. DCMS will also ensure that the UK continues to project itself as a global cultural powerhouse, promoting and protecting British values. Museums and galleries contribute greatly to Britain's cultural offer and drive growth through their wide-reaching appeal.

In light of the Government's aim of achieving a structural budget surplus by 2019/20, this settlement is also conditional on a number of efficiency objectives that will enable us to deliver even more value for taxpayers' money.

I am keen to take this opportunity to build on the work of the last five years by further transforming the relationship between DCMS sectors and Government, and enabling them to deliver services with increased efficiency and effectiveness. Over the next five years, therefore, Government support for DCMS sponsored bodies will be focused on helping them to become more resilient, independent and entrepreneurial.

Whilst this is a very good settlement for DCMS, I also recognise that it will be challenging in some areas.

This letter sets out the funding settlement for the Natural History Museum covering the financial years 2016/17 to 2019/20 on resource and 2020/21 on capital. The total resource grant-in-aid budget will be £158.1 million over four years and the total capital grant-in-aid budget will be £18.8 million over five years.

The Department has a capital allocation of £1.6 billion for the period 2016/17 to 2020/21. To ensure this funding is spent most effectively, we will be putting in place measures that will allow Ministers, with the support of the DCMS Finance Committee, to actively manage the portfolio of major projects across the Group.

Details of your settlement are set out at Annex A with further guidance on specific aspects at Annex B.

Within this settlement I expect you -

- to ensure that free entry to the permanent collections of the Natural History Museum will continue to be made available;

- to protect the world-class collections and front-line services of the museum;

- to continue to pursue commercial and philanthropic approaches to generating revenue which will complement grant-in-aid funding, and to seek innovative cost-sharing solutions with other Arm's Length Bodies to maximise these additional sources of income;

- to take a strategic approach to partnership working and to seek out increased opportunities to work across the UK with other museums, cultural and third sector partners, including through the loaning of items, touring of exhibitions, and sharing of expertise;

- to prioritise access to arts and culture for disadvantaged young people and communities;

- to work with DCMS to engage internationally, especially with high priority countries as indicated by Government. For your organisation, this will include making use of and contributing to the GREAT Britain Campaign, helping us to boost tourism, education and business;

- to give a high priority to supporting the delivery of the outcomes of the Culture White Paper which will set out the direction for arts and culture policy for this Parliament.

In addition, I expect you to work with DCMS to deliver the Department's allocated Government priorities for this Parliament as set out in DCMS's Single Departmental Plan.

The package of operational and financial freedoms granted to museums and galleries in 2013 will now be made permanent and extended to include an exemption from the requirement to enrol new starters in the Civil Service Pension Scheme. I encourage you to make the most of these flexibilities, including through considering ways in which capital projects can create income-generating opportunities, making them suitable for loan financing. To encourage museums and galleries to develop creative new exhibitions and display their collections for a wide audience, the Government will explore with the sector the case for introducing a new tax relief for museums and galleries and we will be in touch separately to discuss this.

In conclusion, I hope you are as pleased as I am with the Government's continued support for the Department and the importance of the work we do for the nation and its citizens. My Ministerial Team and I look forward to working with you over the next five years.

Yours ever

John

The Rt Hon John Whittingdale OBE MP

Secretary of State for Culture, Media and Sport

Annex A

Budgetary control totals

The control totals against which the Natural History Museum's net expenditure will be monitored and the grant-in-aid that DCMS will pay in each year are set out in the tables below. The key controls are the administration budget, non-ring-fenced resource budget, the overall resource budget and the overall capital budget.

Natural History Museum (£m)		15/16	16/17	17/18	18/19	19/20	20/21
Total Cash Grant-in-Aid (G+P)	-	-	49.115	41.815	41.815	41.815	tbc

The control totals are shown in the green shaded cells. See below for a more detailed breakdown.

The approach I have taken in setting these allocations is to commit most of the Department's resources to the bodies that we fund and to keep only very limited funds back at the centre. This necessarily means that I am left with very little flexibility to deal with risk, for example, to meet unforeseeable changes in circumstances and priorities that will arise, particularly in the latter years of the Spending Review period. So, while these allocations set out my firm plans for the next five years, they cannot be immutable. I must ask you to build into your own plans some flexibility and ensure that you have contingency plans to find at least 5% which may need to be drawn back into the Department.

Resource DEL Budget

The resource DEL budget is split into three sub-totals. The administration budget is the amount available for net expenditure on administration and management of your organisation. Should you wish to go further in reducing administration costs to enable a larger portion of the funds provided to be used at the front line, you will not be penalised and you have the authority to use any underspend on administration in the programme or depreciation budgets, according to its nature, instead.

In contrast, the depreciation budget is operated as a one-way ring-fence. This means that, after your net depreciation and impairment charges have been set against it, any overspend must be covered by a reduction in expenditure on either the programme or administration budgets, according to its type. Should there be an underspend against the depreciation budget however, no additional expenditure is permitted in other areas. The depreciation charged against the DEL budget excludes depreciation on assets funded by lottery grants, donations or the private sector.

Recognising the difficulty of aligning depreciation, resource and capital budgets to the timescales of a Spending Review, HM Treasury has taken a more considered approach, setting all depreciation budgets over the Parliament at the same cash value as in 2015/16. HM Treasury is running a process to agree final depreciation budgets for all years over the Parliament on the basis of firm allocations to conclude by Main Estimates in 2016/17. Your Finance Director has already been contacted about this and an updated settlement letter will be issued to reflect any changes arising from this exercise.

The programme budget is simply all other resource expenditure not already captured in the administration and depreciation budgets.

Non-Ringfenced RDEL (£m)			15/16	16/17	17/18	18/19	19/20	20/21
Baseline Non-Ringfenced Resource DEL	Programme	A	39.515	39.515	39.515	39.515	39.515	-
	Admin	B	0.000	0.000	0.000	0.000	0.000	-
	Total (A+B)	**C**	**39.515**	**39.515**	**39.515**	**39.515**	**39.515**	**-**
Non-Baseline Non-Ringfenced Resource DEL*	Programme	D	-	0.000	0.000	0.000	0.000	-
	Admin	E	-	0.000	0.000	0.000	0.000	-
	Total (D+E)	**F**	**-**	**0.000**	**0.000**	**0.000**	**0.000**	**-**
Non-Ringfenced Total (C+F)		**G**	**39.515**	**39.515**	**39.515**	**39.515**	**39.515**	**-**

The control totals are shown in the green shaded cells. Funding in 2015/16 is shown to illustrate the figures from which percentage changes have been calculated, and may not represent your organisation's total spending in 2015/16.

Depreciation / Ringfenced RDEL (£m)			15/16	16/17	17/18	18/19	19/20	20/21
Ringfenced Resource DEL (Depreciation)	Programme	H	13.273	13.273	13.273	13.273	13.273	-
	Admin	I	0.000	0.000	0.000	0.000	0.000	-
	Total (H+I)	**J**	**13.273**	**13.273**	**13.273**	**13.273**	**13.273**	**-**
RDEL (G+J)		K	-	52.788	52.788	52.788	52.788	-
Admin (B+E+I)		L	-	0.000	0.000	0.000	0.000	-

Capital DEL Budget

The capital DEL budgets are also separated into three distinct control totals.

Specific funding for a major project is shown separately. It is not permissible to switch funding from that project to other areas of capital expenditure without the permission of the Department. You are expected to control expenditure on the project and plan to ensure that the project conforms to the budgetary limits shown. I wish to be quite clear that any slippage in the project that requires the deferral of expenditure to a later year will only be approved if the Department's overall budget has sufficient headroom to accommodate it. If it does not, you will be expected to re-phase the project to conform to the profile shown. I would encourage you to ensure that any contracts you sign or agreements that you enter into are flexible enough to accommodate this. As per your Management Agreement, capital funding for major projects is subject to business case approval.

Capital grants are also given a separate heading within the capital DEL budget. This is only for grants given to third parties and may not be used on any capital projects or schemes by the ALB itself.

The last category is core capital. This captures all other capital expenditure and might include smaller capital projects, maintenance and replacement work. The Department will look kindly upon proposals to use the budget allocated for core capital expenditure on either increasing the value of capital grants distributed or on assisting with the re-profiling of major projects; however, you still require Departmental approval to change the nature of the expenditure.

Your capital budgets for 2016/17 to 2020/21 are set out below. We are putting in place a portfolio management process which will allow for twice yearly updates of capital allocations where we will seek to accommodate any changes in your capital requirements. My officials will write to you separately with details of how this process will work. Although we will seek to accommodate your requests through this process, we are constrained by the funding available to DCMS. Our CDEL settlement is much reduced in the later years of the period. I therefore encourage you to bring forward expenditure to the early years of the period wherever possible, and to invest in projects in the early years which will reduce your capital requirement in the later years.

Non-Ringfenced CDEL (£m)			15/16	16/17	17/18	18/19	19/20	20/21
Non-Ringfenced Capital DEL	Core Capital	M	-	9.600	2.300	2.300	2.300	2.300
	Major Projects	N	-	0.000	0.000	0.000	0.000	0.000
	Capital Grants	O	-	0.000	0.000	0.000	0.000	0.000
	Total (M+N+O)	**P**	**-**	**9.600**	**2.300**	**2.300**	**2.300**	**2.300**

Capital expenditure on any project above your delegated limit is subject to approval of the business case by the DCMS Finance Committee. We are reviewing current delegated limits for capital expenditure and any amendments will be incorporated into your Management Agreement.
Please note that your capital allocations do not include any voted loans.

Financial Matters

Following each year-end we issue a formal assessment of the accuracy of your forecasting through the year and how this compared to the subsequent outturn. This reflects the importance we place upon accuracy of forecasting in order to manage the overall DCMS expenditure within the control totals. Should forecasting be inaccurate, then we would look to increase the engagement and scrutiny of the financial reporting.

Following the introduction of the 2010 European system of Accounts (ESA10), expenditure on research and development (R&D) is treated as capital within the National Accounts. It has been agreed in principle that departmental budgets should reflect this new treatment and the Treasury will implement this change from 2016/17. Your Finance Director has already been contacted about this and you will receive a revised settlement in due course 2016.

The above allocations do not include budgetary cover for reserves, and arrangements for providing access to this funding will continue as before under the Cultural Freedoms measures.

Your Management Agreement will need to be revised in the light of this settlement and officials will be in touch to discuss this shortly.

Annex B

Further Conditions

We expect that bodies will meet the costs of any restructuring necessary as a result of this settlement, and any costs incurred through the National Living Wage. You will also be expected to meet the commitment to end pay progression in your organisation by March 2018, and to share your plans for doing so.

The Government will continue to modernise public sector terms and conditions to move to a more efficient and productive state. This will include taking forward targeted cross-public sector reforms in areas where the public sector still has more generous rights than the private sector. The Chief Secretary to the Treasury issued guidance on 5 February 2016 reminding Departments and their Arm's Length Bodies of the rules that are in place on pay and conditions, and the government's expectations on public sector employees.

Bodies with staff in public sector pension schemes should ensure that in line with the Public Service Pensions Act 2013, pension reforms are in place by 1 April 2018. These reforms must be agreed by the Department and the Treasury. Where reforms are not made by 1 April 2018, the Department in line with Treasury policy, will consider recovering amounts equivalent to the savings we consider have been foregone from Arm's Length Bodies.

The apprenticeship levy on larger employers announced in the Summer Budget will be introduced in April 2017. It will be set at a rate of 0.5% of an employer's paybill. Each employer will receive an allowance of £15,000 to offset against their levy payment. This means that the levy will only be paid on any paybill in excess of £3 million and that less than 2% of UK employers will pay it. The levy will be paid through Pay As You Earn. Employers in England who pay the levy and are committed to apprenticeship training will be able to get out more than they pay into the levy, through a top-up to their digital accounts. All employers who do not pay the levy will be able to access Government support for apprenticeships. The Government will establish a new employer-led body to set apprenticeship standards and ensure quality. The body will be independent of Government and will also advise on the level of levy funding each apprenticeship should receive. Funding caps will be significantly higher for programmes which have high costs and are of high quality. We expect you to pay the levy from within your RDEL settlement. We will work with you to confirm how this applies to you.

The Government Property Unit has initiated the New Property Model programme. The initiative involves transferring to the Government Property Unit non-office property assets in the Government estate that are identified as having unrealised commercial opportunities. We will discuss with you whether the property assets that you manage fall within the scope of this initiative.

From 1 May 2016, all Departments and Arm's Length Bodies are required to include the following anti-lobbying clause in the terms and conditions of all grant agreements:

“The following costs are not Eligible Expenditure:- Payments that support activity intended to influence or attempt to influence Parliament, Government or political parties, or attempting to influence the awarding or renewal of contracts and grants, or attempting to influence legislative or regulatory action”.

All DCMS Arm's Length Bodies are expected to comply with this clause, both when spending Grant-in-Aid funding, and when issuing grants to third parties. Any exemptions or qualifications to this clause will require the approval of the Secretary of State.

Efficiency Savings

As part of the Government-wide effort to eliminate the deficit, DCMS and its Arm’s Length Bodies demonstrated strong leadership by finding efficiencies over the last Parliament. Reform and rationalisation has contributed to the significant change in our sectors’ delivery model, reducing spending and increasing productivity.

Much good work has already been done. However, in order to deliver further savings for the taxpayer, minimise the impact on services, and build resilience in the sector, greater efficiencies must remain a priority. These efficiencies may include more effective use of estates, the sharing of back office functions or developing new commercial models to generate alternative revenue. I am particularly interested in exploring smarter ways to share services across the sector, either through corporate services such as finance and HR, or through activities more specific to our sectors, such as museum storage.

I therefore expect all DCMS bodies to engage actively with this agenda, working creatively across the sector to identify, record and benefit from efficiency savings. Each body will need to find an efficiency saving of at least 1% year-on-year, calculated against their RDEL grant-in-aid funding for that year, across the Spending Review period, which can be recycled into frontline services. If your organisation does not meet this target during any year, the balance of efficiency savings which are not made will be deducted from your grant-in-aid funding for the following year, so I would encourage you to find ways to achieve efficiencies which release funds to support your service provision.

Officials have been in touch asking you to write to the Permanent Secretary by the end of February 2016 with an update of your efficiency plans, demonstrating how you will make savings across the Spending Review period. As part of this, you are asked to provide a list of all shared services/ joint contracts already engaged by your organisation, as well as the most likely areas where shared services may benefit your organisation in the future.

This work will help us to develop a collective efficiency narrative for our sectors, as well as demonstrate how taxpayers’ money is being saved.

Research and Evidence

As we continue to deliver under increasingly challenging financial conditions it is important that we use evidence to support our delivery objectives. We must understand the impact and outcomes of the activity we undertake. To help support this DCMS is looking for greater collaboration across DCMS and its Arm's Length Bodies, so we can learn from each other, avoid duplication and increase understanding of our sectors. We would welcome your support in this ambition.

As part of the development of our Single Departmental Plan, which will set out DCMS's priorities, measures of progress and success, and timetables for delivery, we are defining the metrics which will track our performance. Your sponsor leads will ensure that you are kept informed about how these metrics align with the performance data you provide.

The Government's digital ambition sets out that public bodies should use common platforms and central services where possible and where they provide the best value for money for Government, including Common Technology Services, and common platforms such as Verify. Suitability for using common services and platforms will be determined on a case by case basis by the Government Digital Service, the Treasury and the Department. We expect you to consider using these platforms and services as part of your own digital projects and can support you in engaging with the Government Digitial Service where appropriate.