Low Carbon Gordano

1: Policy Title: Financial Control

2: Policy Aims: The aims of the policy are to:

2:1 Ensure the Board understands the financial consequences of its decisions, meets its financial obligations within the law and remains financially viable.

2:2 Delegate sufficient power away from the Board so that LCG can operate effectively whilst maintaining sufficient reporting to ensure the Board keeps an oversight and control.

3: Policy Approach:

3:1 It is essential that some members of staff/Board are sufficiently well versed in financial matters to give an effective oversight of the company's finances.

3:2 One Board member should be appointed to the role of Treasurer and carry out a more detailed oversight of the accounting arrangements.

3:3 The Board should ensure that the Treasurer has sufficient skills to carry out or oversee the day-to-day financial processes.

3:4 Finance management training should be provided to the Board as and when necessary.

3:5 The Board should document their requirements for regular reporting of financial performance. This should be quarterly and should include:

- Comparisons of actual with approved budgets with explanations for variances
- Implications for the year's overall result
- A balance sheet to enable assessment of the agency's overall position
- Reports against the financial checks set out below in this section.

3:6 Reserves will be such that the net current assets (current assets less current liabilities) are maintained at a level determined on a regular basis by the Board which will not be lower than the higher of:

- 3 months' expenditure, or
- the contingent liabilities (e.g. redundancy liability, photocopier lease, lease on premises)

Adherence to this policy will be reported to Board in finance reports.

3:7 The ability to pay Interest on members' shares is based on the free cash generated each year plus the cash at the bank. If there is sufficient available cash to pay 7% interest then that is paid with the remainder paid over to the Community Fund, used to repay members or transferred into reserves.

3:8 Each year, the renewable energy installation assets are revalued on a net present value basis.

3:9 Liquidity ratio is current assets/current liability. A good ratio is 2:1. This ratio will be reported on as part of the finance reports to the Board.

3:10 There should be enough available cash (working capital) to run the organisation to cover 2 months' wage costs.

3:11 Details of the Board's discussions on financial matters together with decisions and responsibilities for action should be clearly recorded in the minutes. All outstanding actions should be reviewed and followed up at subsequent meetings.

3:12 The Board will receive a report upon the achievement of non-financial outputs and identify corrective action where appropriate.

3:13 The Board should delegate the development and maintenance of systems to satisfy the requirements of funding providers or customers to a member of staff, sub-contractor, Board member or volunteer. The Board should receive regular reports on the progress of projects/contracts from the person or organisation responsible.

4: Policy Deployment

Refer to Appendix 1 for the detailed financial procedures that support this policy.

5: Policy Review:

5:1 The policy will be reviewed on an annual basis, taking into account:

- satisfaction levels with the financial information provided
- any problems experienced with financial control: E.g. Too much, like decisions not able to be made swiftly enough, or; too little, like the board not having sufficient control over financial

decisions
- financial viability.

5:2 Any changes to the policy must be approved by the LCG Board.

Appendix 1: Financial Procedures

1: Cheque signatories and BACS payments

1:1 Where "approval" is referred to in this section, this approval can be in the form of an email stating the supplier, the amount approved and the detail of the budget being used. Alternatively, approval can be written with a dated signature on or attached to the invoice.

Firstly the payment of an invoice must be approved. Approval is provided by the person with delegated responsibility for the budget related to the spend.

The Treasurer and the Bookkeeper are authorised to complete the cheques for LCG and must then get 2 authorised signatories (one of whom may be the Treasurer) to sign the cheque ensuring the invoice and budget holders approval is attached to check that both amounts tally. No cheque is to be signed by 2 members of staff.

The authorised signatories will be agreed and minuted at the Board meeting, and shall normally include the Chair, the Secretary and the Treasurer. The Bank will be informed that all cheques require 2 signatures.

Payments by BACS are preferred. Before any BACS payments are made, relevant invoices need to be approved by the budget holder and approved by the Chair, the Secretary or the Treasurer (this may be the same person). All payments will be notified to the Treasurer and bank statements to be accessed by the Treasurer using Internet Banking.

Only the Chair, the Secretary, the Treasurer and the Bookkeeper shall have access to Internet Banking. Internet Banking payments will usually be made by the Bookkeeper, notifying the Treasurer of all payments made and bank statements to be accessed by the Treasurer using Internet Banking.

1:2 Credit/Debit Cards: Credit/debit cards will be issued with the permission of the Board and a credit limit set by the Board. Any expenditure using the credit card will be approved using the standard form. This approval will be made by the Chair, the Secretary or the Treasurer.

1:3 Bank Accounts: New bank accounts must be approved by the Board.

Overdraft facilities must be approved by the Board.

2: Budget setting and approval

2:1 Budget preparation and approval: Budget preparation by the Treasurer should begin well in advance of the ensuing financial year to allow sufficient time for gathering information, analysis and submission to the Board for approval. For each activity, budgets should be prepared covering each heading on which expenditure or income is expected during the year.

Budgets for both expenditure and income should be profiled on a quarterly basis to highlight any cash flow problems.

The budget should be approved by the Board in advance of the financial year.

The Board may wish to revise their budgets formally part of the way through the year to reflect approved variations from the original.

2:2 Longer term planning: A detailed budget is necessary for the coming year but it may be useful to view this as the first stage of a 2-year rolling plan. Budgets for the subsequent year should be compiled in outline but still sufficiently detailed to provide an indication of the longer term financial position. The next years can be compiled by concentrating on the major changes expected as well as increases for inflation. Should budgets for the second year and beyond be difficult to predict due to too many trading unknowns and no plans for significant growth or shrinkage, then the Treasurer can request special dispensation from the Board and then, if granted, only budgets for the following year need to be produced.

3: Authorisation of expenditure

3:1 No expenditure may be made without authorisation except for payments to HMRC.

Authorisation must be agreed by 2 Board members, one of which must be the Chair or the Treasurer and, where appropriate, one must be the person with delegated responsibility for the budget – or a nominated deputy - related to the spend.

3:2 Authorising pay, variations and expense claims: Decisions regarding the appointment of new staff, such as rates of pay and duration of employment, and variations in respect of existing staff must be taken by the Board.

Notifications to payroll worker in respect of amendments to payroll data covering new and existing staff must be authorised by the Treasurer.

The Treasurer should approve the arrangements for authorising personal expenses to ensure that adequate segregation of duties exists. The Treasurer's expenses should be authorised by the Chair or the Secretary.

Under no circumstances should an individual authorise their own expenses claim or any amendments to their own pay.

If an external provider processes the payroll, the Treasurer will provide detailed guidance on procedures to be followed, including who is authorised to provide instructions to them by email. The Treasurer tasks will include checking the output prior to final payment and all authorisation procedures.

Payroll providers must be instructed not to accept notifications without the Treasurer's authorisation. Where the payroll is undertaken in-house, sound procedures must be implemented for authorising all inputs and verification/approval of outputs supported by suitable segregation of duties.

3:3 Income tax and National Insurance: The Treasurer must ensure that all deductions (income tax, National Insurance etc.) are paid to the appropriate bodies in full and by the due date. Payroll and mileage costs etc. should only be paid from the business bank account or through the payroll process.

3:4 Payroll checking and accounting: Prior to payment, payroll details must be reviewed by the Treasurer to ensure the totals are correct and that all temporary variations agree with the input. Once agreed and processed, details should be input promptly to the accounting system.

3:5 Pensions: Pension payment will be paid within 30 days of date within which they fall due.

3:6 Travel expenses: It is expected that, where possible, public transport is used. However, where that is not possible or the time cost is prohibitive then the mileage rate is used to claim back cost of travelling by the worker's own car – if in doubt about the most appropriate form of transport the worker must discuss the issue with the Treasurer (factors to be considered are: health and safety, cost of time v cost of travel, ability to work on the train, personal factors which need to be taken into account).

If the worker wishes to use their own transport when public transport is deemed by the Treasurer to be the more practical option, then travel cost can be reclaimed at the cost of second class public transport rather than the full mileage rate (this is recorded on the Expenses Sheet by showing the number of miles travelled and the actual amount to be claimed with a note in the details column to explain how the actual claim is calculated).

Workers are expected to find, if possible, the most cost effective way of travelling, this can include booking train tickets in advance or the use of discount cards (such as Network Railcard). The purchase of any such cards is reclaimable as an expense.

As at June 2014, the mileage rate is 45p per mile for all cars.

For calculating the number of miles to be used in a mileage claim the following rules must be followed:

- If the journey to or from an event (meeting, conference, training, networking, presentation etc) starts or ends at the office then the claimable mileage shall be the distance travelled for that part of the journey.
- If the journey is from one event to another event then the claimable mileage for the journey shall be the distance travelled for that part of the journey.
- If the journey to or from an event starts or ends at a different location (e.g. the worker's home -i.e. neither the office nor the event) then the claimable mileage for that part of the journey

shall be the shorter of either the distance between the office and the event or the distance actually travelled.

- If the journey to an event is taken outside of normal working hours (e.g. evenings or weekends) then whole distance travelled is claimable.

3:7 Subsistence: Where a worker is working away from their designated area of operation they are entitled to claim up to a maximum of *£10.00* per day towards their subsistence costs. Where an overnight stay is involved they are entitled to claim the costs of their evening meal, accommodation and breakfast. *Receipts must be provided in all circumstances.*

3:8 Other expenses: A worker is entitled to claim other reasonable business expenses (e.g. stationery).

3:9 Claiming Expenses: Claims should also be submitted on a regular and timely basis. Any expenses not claimed within 3 months of occurrence will be null and void unless there are extenuating circumstances.

Individuals authorising personal expense claims should ensure all expense items are reasonable and relate only to official business. This is particularly important for mileage claims where home to office adjustments may be necessary.

4: Cost of Living Increases

Members of staff may receive an annual increase in their salary in April. Any cost of living increase would be in line with the average of the Retail Price Index figure from the preceding October to March. This payment will be made in the May pay and backdated. This is subject to approval by the Board and may be delayed.

5: New projects

Board approval must be sought for all new projects.

6: Procurement/tendering

For goods and services up to £5,000, the Board will consider the options open to them and, if at all practical, should ask three organisations to quote.

For goods and services above £5,000 three organisations will be ask to quote.

In all instances, where possible, consideration will be given to *ethical and sustainable* purchasing from co-operatives and social enterprises

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7: Fixed asset acquisition

7:1 Definition of a fixed asset: The acquisition of a fixed asset can be done by, but is not restricted to, a cash purchase, receipt of a donation, construction, rental, license, term lease, lease purchase. An asset is owned when the full title of the asset rests with the Company. The cost of purchasing an asset includes all costs necessary to put that asset into existing use and location, including but not limited to freight, insurance, installation and legal costs.

7:2 Historical costs: The cost of an asset will be recorded as the historical cost of the asset, unless otherwise mentioned. Historical Cost can be determined by the following:

- The amount of cash paid for the entire purchase of the asset.
- The fair market value of a donated asset at the time of donation.
- The sum total of all construction costs including design of an asset.

7:3 Acquisition methods, what to capitalise and when to use each method of acquisition:

When deciding to acquire fixed assets, requirements should be assessed and available options compared.

When purchasing fixed assets the Procurement/tendering section in this Financial Policy shall apply.

One of the four acquisition methods identified below shall be used unless another method has been authorised and/or approved by the Board:

Rentals -	Temporary short-term use without ownership. Not a fixed asset.
License -	Temporary use without ownership of intellectual property or software. This is not a fixed asset.
Leasing -	Temporary use without ownership for over 6 months. This is not a fixed asset unless it is a lease purchase arrangement, in which case the asset is capitalised at a rate of (historical cost) / (length of lease in years) per annum for each year until the end of the lease and the purchase is complete. Note that the asset value and the historical cost will depreciate at the given rate for the category of asset.
Outright purchase -	Immediate ownership.

7:4 Notes on assessing which acquisition method to use: The cost of each purchase method is assessed:

Rentals -	Calculate the cost including running costs and raw materials over the proposed rental period or periods (if the hire needs to be repeated).
License -	Same as “Rental”
Leasing -	Same as “Rental” unless lease purchase when calculations for “Outright purchase” should be used.
Outright purchase -	Calculate the costs as (Cash cost of the asset) – (Disposal income) plus running costs and raw materials over the useful life of the project.

The final test is to check that the asset is required – is it value for money whatever the method of acquisition is used?

7:5 Internal controls, Fixed asset register: All fixed assets are recorded in the fixed asset book and recorded in the accounts as a capital purchase.

The fixed assets shall be recorded in accounts against the following categories:

- Renewable energy installations
- Computer & office equipment
- Computer software
- Furniture
- Buildings

The fixed asset register shall be reconciled at least annually against the capital purchases in the accounts.

Where there has been a significant increase (or decrease) in the value of an asset, that asset may be revalued either internally or by an external assessor.

Where a fixed asset’s historical cost is greater than the amount of cash paid, the balance is recorded in the accounts as an income.

7:6 Internal controls, Budgeting and asset management: A budget outlining the proposed capital purchases shall be presented to the Board at the start of each financial year (this can be presented as global budgets against each fixed asset category).

Where additional purchases are required during the year, revised budgets may be presented to the Board for approval.

7:7 Capitalisation thresholds: Different types of assets and thresholds for each:

Renewable energy installations	All renewable energy installations
Computer & office equipment	All computer & office equipment with historical cost >£200
Computer software	All software with historical cost >£200.
Furniture	All desks, chairs, filing cabinets, tables etc with historical cost >£200
Vehicles	Vehicles will not be purchased. Workers are to use their own vehicles and charge for mileage as per the expenses section

	of the finance policy document.
Buildings	All buildings.
Intellectual property	Not capitalised at present.

7:8 Depreciation and revaluation of different types of assets

Renewable energy installations	Revaluation every year on a net present value basis
Computer & office equipment	25% straight line depreciation
Computer software	25% straight line depreciation
Furniture	10% straight line depreciation
Vehicles	N/a
Buildings	Revaluation every 3 years by independent assessor with relevant qualification and accreditation
Intellectual property	N/a.

7:9 Repairs and maintaining value of assets: Repairs to assets are not capitalised but accounted for as expenditure. But where a repair maintains the value or adds to the value of the asset it shall be capitalised.

8: Credit Control and Bad debtors:

Payment terms will be 30 days. A statement of account will be sent after 30 days and subsequently every 30 days. After 90 days contact will be made and the issue referred to the Board for a decision regarding legal proceedings.

During the preparations for the audit the Board and the Treasurer will identify any debts to be written off. The Treasurer will make the final decision as to which bad debts shall be written off.

9: Audit requirements:

9: 1 External Audit: The accounts do not have to be prepared by a registered auditor until statutory limits relating to size of enterprise have been reached. However, the membership or the Board may require the accounts to be audited externally by a suitably qualified auditor. Should an audit be required, then:

- The Treasurer should review the audited accounts paying particular attention to any concerns raised by the auditor, ensuring that arrangements are put in place for any remedial action necessary.
- A copy of the audited accounts will be approved by the Board as soon as they are available. The audited accounts will be presented to the Annual General Meeting.

9:2 Internal Financial Audit: The Treasurer will keep an overview of the finances and the financial systems and will report to the Board when necessary.

The Board will need to satisfy themselves that the systems are functioning satisfactorily.

June 2014