

## Financial Policy and Procedures

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**Communication** This policy is principally communicated on the TAP website and induction, referred to in board and management meetings.

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## 1. Introduction

The purpose of this manual is to document the finance related policies and procedures which underpin the financial management system in place at The Activation Project. This is to ensure that the financial statements conform to generally accepted accounting principles, assets are safeguarded, guidelines of donors are complied with and finances are managed with accuracy, efficiency, completeness and transparency.

All staff with a role in the management/review of finances and procurement are expected to comply with these policies and procedures.

This manual must be reviewed at least annually by the Head of Finance and approved by the Board periodically.

### Background information

- The Activation Project's year end is 31 December.
- The accounting system used is Xero, a cloud based system (see [www.xero.com](http://www.xero.com)).

### Related policies (over time more policies will be linked to this and this policy will be reviewed)

- Governance manual
- Conflicts of interest policy
- Risk management policy Travel and expenses policy and procedures

### Related forms

- Staff expenses claim form
- Credit card form

### Appointed accountants

- The appointed accountants for The Activation Project are Dafferns LLP.

## 2. Bank accounts

The Activation Project has the following bank accounts:

Account name	Currency	Sort code	Account number
Barclays Current Account	GBP	20 73 48	****4623
Barclays Reserve Account*	GBP	To set up	

\*The reserve account is to hold a minimum reserve amount for the organisation which is to be determined.

All bank accounts must be in the name of the organisation, not an individual.

New accounts may only be opened by a unified decision by all the Directors.

The Barclays bank mandate requires two signatories to approve all transactions and changes to bank accounts.

Current bank signatories are:

1. Simon Gardner (Director)
2. Phil Davies (Director)
3. Nick Fawcett (Director)

Bank accounts may be accessed online via Barclays.co.uk. The following people have access:

1. Melissa Gardner (Finance Manager) – System administrator: prepare and approve
2. Simon Gardner (Director) – System administrator: prepare and approve

All bank accounts are reconciled to the accounting system at least monthly and the month-end reconciliation is reviewed by an independent person, typically the Director.

### 3. Petty cash

We don't use, or perceive the need to use, petty cash.

### 4. Fixed assets

All assets costing more than £50 and with an expected useful life exceeding one year are capitalised.

Depreciation is charged annually at the following rates in order to write off assets over their useful economic life:

- Computer equipment: 33.33% per annum – straight line
- Fixtures and fittings: 20% per annum – straight line

An inventory of all assets held is maintained by the finance team. This includes all assets and equipment regardless of whether they are classified as fixed assets for accounting purposes. The inventory is used to monitor the whereabouts of assets (e.g. computers) and for insurance purposes.

Staff are responsible for any physical assets assigned to them. Staff must report loss or damage of any asset to the Finance Manager as soon as possible.

### 5. Debtors, creditors, accruals and prepayments

Typically the only debtors are investors, partners, clients and customers. Outstanding amounts are monitored at least monthly by the Finance Manager.

The only creditors are trade creditors. They are paid in line with stated payment terms.

Accruals and prepayments are reviewed and posted annually as part of the year-end process.

### 6. Income

Income is recognised when the organisation has successfully won funding from a recognised entity; had a costed project or programme proposal accepted; or has received a Purchase Order for the supply of a specified service; receipt is probable and the amount can be reliably measured.

Funding income is recognised on a receivable basis.

No income is received in cash or by cheque.

### 7. Procurement policy

Procurement is the purchase of works, assets, goods and services for the organisation.

The objectives of this policy are to ensure that:

- The correct goods or services are purchased, in terms of the correct quality and specification.
- Best possible value for money is achieved.

- The process is safe, i.e. risk of fraud is minimised.
- The process is fast enough to meet programme needs.
- Funding body and grant conditions are complied with.

**Principles**

As we are a Not for Profit organisation with few procurement needs we don't have an approved supplier list or a formal procurement committee. However, in buying or commissioning goods and services, The Activation Project must conduct itself in a fair, open and transparent manner in accordance with the following principles:

- Value for money is achieved; this takes into account quality, timing, ethics and environmental considerations as well as cost.
- Competition - procurement should be through open competition unless there are exceptional reasons, such as uniqueness of the service or accepted defacto standard (Microsoft Office).
- Conflicts of interest - any real or perceived conflict of interest is declared in line with the conflicts of interest policy.
- Payment on time - suppliers must be paid on time in accordance with contractual arrangements.
- Ethical standards - procurement must be undertaken to highest ethical standards, and fairness to suppliers.
- Legal aspects - contracts must be in writing (email is fine) and be fair and non-discriminatory.
- Environmental impact - suppliers must consider environmental impacts and aim to minimise adverse effects.
- Local - goods and services should be procured from local sources when possible, but without compromising competition.

**Procedures**

1. Prepare the specification for the goods/service to be procured.
2. Check the available budget.
3. Obtain authorisation from the appropriate person (see Delegated authority limits) to go ahead with the procurement.
4. Obtain quotes according to the following criteria.

<b>Value of purchase including VAT</b>	<b>Action required</b>
£1,000 and under	Minimum of 1 quote
£1,001 - £5,000	Minimum of 2 written quotes
£5,001 - £10,000	Minimum of 3 written quotes
Greater than £10,000	Formal tender required (i.e. request for tenders published and advertised appropriately)

N.B. this is our company approach unless it is a requirement of a client/funder/project to follow different process/thresholds

5. To identify potential suppliers ask colleagues for contacts, search online or advertise as appropriate. If the supplier is related/known to the person running the procurement process, this must be declared and a second opinion must be obtained before committing to the purchase (see conflicts of interest policy).

6. Ensure the quoted cost is within budget (and that the budget is monitored before, during and after the procurement process).
7. Select the supplier based on the principles above. The decision must be made in line with delegated authority limits and the rationale for the decision must be documented.
8. When goods are received ensure that they are of the correct quality and quantity.
9. Send the invoice to [financeteam@theactivationproject.org](mailto:financeteam@theactivationproject.org) in line with normal finance procedures.

## 8. Expenditure processing

All payments are made by bank transfer.

We do not use cheque books.

Policies and procedures in relation to credit cards, staff advances and staff expenses are covered in the Travel and Expenses policy and procedures.

### Approvals process

For all approvals (i.e. payments/expenses/credit cards) the process is as follows:

- The requester emails the approver attaching the supporting documents (e.g. invoice, contract/agreement, bank details) and including the details in the table below:

Project/funding	
Outcome (if applicable)	
Purpose/description	
Date payment required	

- If the approver is happy to approve it they reply to the requester and copy in [financeteam@theactivationproject.org](mailto:financeteam@theactivationproject.org) stating that this is the case. This email address is monitored by the Finance Manager and, in their absence, the Director.
- If the approver is not happy to approve the document they should reply to the requester giving reasons for their concerns.

The approver must check:

- The amount is correct.
- The amount is within budget.
- The work has been performed/goods delivered satisfactorily and payment is due.
- The expense is a valid expense of the organisation (i.e. wholly, exclusively and necessarily incurred for business purposes).

If bank details are not on the invoice/payment request, please ask the supplier/consultant to provide them to avoid delays in payment.

### Payment of invoices

We do a monthly payment run at month end. In exceptional circumstances payments can be made at other times but this should be minimised for efficiency reasons. All payments are processed through Xero and online banking.

Staff expenses are included in the monthly payment run.

The steps involved in a payment run are:

1. Save all invoices, approval emails and other supporting documents which have been sent to the [financeteam@theactivationproject.org](mailto:financeteam@theactivationproject.org) email address.

2. Enter invoices and related bank transactions into Xero.
3. Set up payments on Barclays.co.uk.
4. Remittances are sent to suppliers on request (no remittances are required for payroll as payslips are provided by The TAP Accountants for this purpose).

## 9. Staff reward

All UK staff (permanent and temporary) must be paid at least the local living wage.

Pay is reviewed annually in December/January (as part of the budget process). Any changes are effective from 1 March. Salaries may be reviewed on an ad hoc basis at other times of year.

All changes to staff pay must be approved by the Directors. Changes to the senior management team's pay must be approved in line with the Governance manual. Appropriate evidence to support all changes is filed on the payroll file.

Payroll processing is outsourced to The TAP Accountants. Changes are notified to them by the Finance Manager each month. The Finance Manager checks the accuracy of the payroll reports in the client portal (Open Space) and confirms the payroll with The TAP Accountants. These payments are then reconciled in Xero.

Salaries are paid on the 25<sup>th</sup> of the month (or previous working day if the 25<sup>th</sup> is not a working day). Payroll related payments such as payments to HMRC, pension provider and childcare vouchers are set up at the same time.

## 10. Reserves

The reserves policy is disclosed in our financial statements and is reviewed annually as part of the year-end process.

The reserves policy aims to ensure that reserves are sufficient to support the company during gaps in funding and funding rounds, assuring business continuity, sustainability, and job security.

The organisation aims to hold unrestricted reserves amounting to a minimum of three months' and a maximum of six months' expenditure.

## 11. Budgeting

### Organisation budget

The annual budget approval process is as follows:

1. Draft budget prepared by a nominal Director in October/November;
2. Draft budget is reviewed by the Directors and approved for submission to the Board;
3. Final budget is approved by the Board before the start of the financial year to which it relates.
4. The original approved budget may be revised during the year. For example, in Q1 after end of year accounts review, adjustments may be required in relation to timing differences across the year end. Budget revisions must be approved by the Directors.

The budget must be broken down by month and by fixed/variable costs. It must include a list of the assumptions made and any sources of the information used. It also needs to include budgeting expectations or requirements of funded programmes or clients.

Performance against the approved budget is monitored and reported in the management accounts to the Directors quarterly (see reporting section below).



## 12. Reporting

### Quarterly

Quarterly Xero reports showing income and expenditure against budget will be circulated to all the Directors within 7 working days of the quarter end.

Directors should review them and raise any issues ASAP. Things to look for include:

- Are all payments you expected to see included?
- Is there any expenditure allocated to the fund/client/project which you didn't expect to see?
- Has all anticipated income been recorded?
- Are we on track to meet the budget? I.e. are any over/underspends expected?

### Half Yearly

Management accounts are prepared for the Board half yearly. These must include:

- a breakdown and comparison of actual to budget income and expenditure with narrative explanations for significant movements; and
- forecast income and expenditure for the rest of the financial year.

## 13. Cash flow

Cashflow is monitored at a high level by the Finance Manager on a monthly basis and reported on monthly to the Directors.

More detailed cashflow reports are prepared as required.

## 14. Accounts Review

We have an external accounts review annually by The TAP Accountants. They have been in place since the year ended 31 December 2019. They help to produce the published accounts.

Due to our small size The Activation Project does not have an internal audit function and has not undertaken any internal audits in recent years. The Directors review the controls in place and may request an internal audit be carried out at any time.

## 15. Insurance

Appropriate insurance policies are in place to cover:

- Employer's liability, Professional indemnity, Directors' liability, office contents and legal expenses

An inventory of all physical assets owned by The Activation Project is maintained.

## 16. Timesheets

Funded projects and Funding bodies are increasingly asking for timesheets to verify time spent. We will routinely record what our time is spent on through timesheets.

A template timesheet is available.

## Appendix 1: Delegation limits

### Internal authorisation of expenditure

Who	Transactions which are in the budget approved by the Board/confirmed donor budget	Transactions which are NOT in the budget approved by the Board/confirmed donor budget i.e. unapproved expenditure from reserves
Directors	<£1,000	< £500
Team/Project Managers	<£500	£nil
All Staff	<£100	£nil

- The limits apply to the total amount committed to, not individual transactions e.g. in the case of a contract, it is the total amount payable over the duration of the contract, regardless of the payment schedule.
- No-one can authorise payments to themselves (except contractual salary payments).

### Internal authorisation of income

The Directors must approve all contracts for income.

All proposed and signed contracts for income will be discussed and reviewed in Board meetings.

## Appendix 2: Checklist of regular tasks

Task	Date	Who
<b>Weekly</b>		
Pay suppliers	According to 30 day payment terms	FM
Review bank accounts on Barclays.co.uk	Tuesday	FM
<b>Monthly</b>		
<b>Credit cards</b>		
Statements circulated to card holders	15-20 <sup>th</sup>	FM
All receipts received and approved	By 6 <sup>th</sup> working day of month	FM
<b>Payroll</b>		
Review payroll for the month, notify payroll provider of any changes since previous month	20 <sup>th</sup>	Director
Payroll payment	Value date 25 <sup>th</sup> (or previous working day)	FM
HMRC payment	Value date 19 <sup>th</sup> of following month (or previous working day)	FM
Cash Flow report for Directors	By 6 <sup>th</sup> working day	FM
<b>Bank recs</b>		
Main (GBP)	as at last day of month	FM
Reserves (GBP)	as at last day of month	FM
Process bank recs in Xero	By 6 <sup>th</sup> working day of month	FM
Contractor invoices (against payment terms)	End of month	FM
<b>Quarterly</b>		
Prepare financial report for Directors		FM
Update forecast income and expenditure for current financial year		Director
<b>Annual</b>		
Electricity & Gas contract renewal	October	FM
Prepare organisation budget and cash flow forecast	October/November	Director
Review staff salaries and send letters	February/March	Director
Renew health & travel insurance	March	FM
Renew office and liability insurance	March	FM
Policies review	TBC – review schedule	Director
<b>Long term</b>		
Fix rate trademark renewal	TBC	Director
Office rent review	Determined by contract	Director/FM

## Appendix 3: Full cost recovery policy

As a Not For Profit we must never be a For Loss organisation. This would put the organisation and its delivery in significant short term and long term risk. Therefore, it is vitally important that we recover all our costs through full cost recovery.

### **What is full cost recovery?**

'Full cost recovery' means that all costs of the organisation are covered by the income that is received, via all funding and revenue streams.

Any uncovered costs must be met from reserves; therefore in order to be a financially sustainable organisation full cost recovery must be achieved.

### **What are our costs?**

Our costs fall into two broad categories:

1. Direct costs of a programme and its delivery, e.g. provision of materials, expenses such as travel, staff related direct costs, SME/subcontractor costs, etc. These costs must always be fully covered by the grant/project budget.
2. Indirect costs (also called overheads, support costs, etc), e.g. a proportion of office rent and other office costs, reporting, performance management, etc. A portion of these costs must be allocated to every programme or project.

NB Indirect costs may also include the development of new IP or methodologies when outside of programmes or projects. These are defined in strategic and yearly plans of the organisation.

### **How do we ensure that all our indirect costs are covered?**

When preparing a proposal or budget for a programme or project, these costs need to be included,

To do this the following guidelines must be followed:

1. Ensure that all direct programme and project related costs are included in the proposal or application. These will not be labelled as overheads.
2. Every proposal must include an element of both office costs and non-project staff costs. An individual judgement must be made for each proposal to ensure we maximise the contribution to core costs.

NB: all people-based costs will be their full business cost, including salary, pensions, tax and national insurance contributions.

For the benefit of doubt, we recognise that different clients or funding bodies will have different rules and requirements that must be followed so we must make sure we understand the implications of these. In some cases this may lead to a documented risk assessment. However, we will always strive to be consistent and transparent in our approach when submitting proposals and applications for funding, particularly from the same client organisation or body.