

CODE OF PRACTICE – FOLLOWING THE PUBLIC POUND: ABERDEENSHIRE FINANCE PROCEDURES

1. Scope of the Procedure

- 1.1 This procedure covers all external bodies who receive a grant from Aberdeenshire council. “Grant” does not include payments made under a straightforward contract for goods or services.
- 1.1 The level of financial checks required will correlate with the funding given to each organisation, to minimise the risk to the council and also to ensure that the requirements on small organisations are not too onerous.
- 1.3 In setting out the checks required, the following funding bands will be used:
- annual funding in excess of £50,000
 - annual funding between £10,000 and £50,000
 - annual funding less than £10,000
- 1.4 The council will identify for all organisations who receive such grants:
- the budget holder within the service
 - the accountant responsible
 - the budgeted contribution.
- 1.5 The chief accountant will ensure the list is kept updated. A pro-forma is attached at Appendix A.

2. Where Annual Funding is Greater than £50,000 per annum

2.1 Information Required from the Funded Organisation

- 2.1.1 The following list determines the minimum information requirements of Aberdeenshire council and the timescales in which these are required.
- Detailed one year business plan and summary three year business plan provided at least three months before the commencement of Aberdeenshire’s financial year.
 - Detailed monthly cash flow forecasts for year 1 as above.
 - Quarterly management accounts to be submitted no later than six weeks after the period end to which they relate.
 - Signed audited accounts, audited by an professionally qualified auditor, to be submitted no later than six months after the organisation’s year-end.

2.1.2 In addition to the minimum requirements as set out above, other appropriate information will be sought as good practice, for example:

- regular performance against pre-defined targets i.e. visitor numbers.
- copies of minutes of the board of directors or trustees' meeting.

2.2 Financial Checks to be completed by Aberdeenshire Finance

2.2.1 The following list details the financial checks that must be carried out by Aberdeenshire finance and the timescales for completing these checks.

2.2.2 *Checks required every three years:*

- ensure the organisation has adequate rules in place to govern the way their finances are handled
- ensuring that sound accounting policies have been adopted which comply with all relevant accounting standards and that adequate accounting and external audit arrangements are in place.

2.2.3 *Annual checks:*

- check that the projections in the business plan are realistic and achievable. This should be completed by checking projections with past performance and extrapolation of current trends
- check that enough cash exists to ensure the monthly cash flow projections can be financed
- check that adequate provision has been made for depreciating fixed assets
- ensuring that the organisation has adequate insurance cover to meet all known risks
- check that any other material sources of external funding is secure. This should be completed by writing to external funding organisations.

2.2.4 When the above checks have been completed to the satisfaction of the accountant an annual risk analysis should be carried out on the organisation's business plan. The purpose of the risk analysis is to give an indication on how changes in income and expenditure will impact upon the organisations future viability.

The risk analysis should cover the following:

- impact of an increase of 5% in the organisation's running costs. The organisation should have the ability to meet an increase as above within its available financial resources

- impact of a reduction of 10% on the organisation's variable income (and associated variable costs). Again the organisation should have the ability to meet this within its available financial resources.

2.2.5 An example risk analysis is attached as Appendix B. The organisation must be able to demonstrate that it has adequate financial resources to meet both the risk criteria set out above.

2.2.6 Where the organisation does not meet the risk analysis criteria, the chief accountant, budget holder and relevant representatives of the organisation will be informed. Revisions to the business plan will be required which are robust and will result in tangible changes in income or expenditure.

2.3 Ongoing checks

2.3.1 *The following should be completed on an ongoing basis:*

- check the quarterly management accounts to ensure that there is sufficient cash to meet the organisations outgoings for the forthcoming year. Should there be insufficient funds to meet the organisations projected cash flow, or where a request for additional funding is submitted, the chief accountant should be informed in the first instance
- prior to any payment being made to an organisation, checks must be made to ensure no sundry debts, council tax or non-domestic rates are owed by the organisation. If any such debts are due and are past the first stage in the recovery process (i.e. first reminder), then this debt must be deducted from the next payment to the organisation.

3. **Where Annual Funding is between £10,000 and £50,000 per annum**

3.1 Information Required from the Funded Organisation

3.1.1 The following determines the minimum information requirements of Aberdeenshire council and the timescales in which these are required.

- Signed audited accounts, audited by any responsible person, to be submitted no later than 6 months, after the organisation's year-end.

3.1.2 In addition to the minimum requirements as set out above, other appropriate information will be sought as good practice, for example:

- regular performance against pre-defined targets i.e. visitor numbers.

3.2 Financial Checks to be completed by Aberdeenshire Finance

3.2.1 The following details the financial checks that must be carried out by Aberdeenshire finance and the timescales for completing these checks.

3.3 *Annual checks:*

- check that adequate provision has been made for depreciating fixed assets
- check that sufficient cash exists to ensure the viability of the organisation throughout the course of the financial year

3.4. Ongoing checks

3.4.1 *The following should be completed on an ongoing basis:*

- prior to any payment being made to an organisation, checks must be made to ensure no sundry debts, council tax or non-domestic rates are owed by the organisation. If any such debts are due and are past the first stage in the recovery process (i.e. first reminder), then this debt must be deducted from the next payment to the organisation.

4. **Where Annual Funding is less than £10,000 per annum**

4.1 Information Required from the Funded Organisation

4.1.1 The following determines the minimum information requirements of Aberdeenshire council and the timescales in which these are required.

- Where funding is less than £10,000 per annum accounts need be submitted to Aberdeenshire council, but these may be unaudited.

5. **Payments**

5.1 A schedule of payments will be agreed with the receiving organisation prior to the commencement of the financial year. The payments should be tailored to meet the cash flow projections, per the business plan. Payments in excess of £10,000 per annum should be in no less than four instalments per financial year and preferably made monthly to minimise the council's exposure in the event of the organisation encountering financial difficulties.

5.2 No payments will be made to the organisation until all financial checks have been completed to the satisfaction of Aberdeenshire finance, and all information submitted as required by the organisation.

6. Service Agreement

6.1 All organisations covered within the scope of this procedure must have a service agreement (SA) where the funding from the council is substantial (generally greater than £10,000 per annum), or a letter setting out the conditions of the grant where a lower level of funding is given. The length and detail of any service agreement will vary depending upon the nature and size of the funding given. The SA should be completed at least one month before the commencement of the financial year.

6.2 This agreement will include non-financial targets and information, but as a minimum the following must be included.

- Detailed schedule of deficit funding from the council, specifying when each payment will be made.
- The requirement for information to be submitted to the council as per the above procedures and a clear statement that should this not be received, no additional payment will be made to the organisation concerned.
- Ability of the council to deduct any debts due to the council prior to making any further grants
- Access by Aberdeenshire finance including internal audit to the accounting records of the organisation.
- Procedures for cancelling the service agreement.

APPENDIX A

ORGANISATIONS MEETING THE CRITERIA OF
FOLLOWING THE PUBLIC POUND

<u>Organisation</u>	<u>Service Budget Holder</u>	<u>Accountant</u>	<u>Budgeted Contribution</u>

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APPENDIX B

EXAMPLE RISK ANALYSIS

Attached is a simple risk analysis which should be completed by the accountant.

ABC Ltd Business Plan:

Income

Government grants	5,000	
Visitor income	150,000	
Sales	45,000	
Other Income (donations)	<u>3,000</u>	
		203,000

Expenditure

Salaries & wages	200,000	
Cost of sales	20,000	
Depreciation	3,000	
Running costs	85,000	
Miscellaneous	<u>2,000</u>	
		310,000

Net Operating Loss 107,000

Deficit funding provided 107,000

Balance Sheet

Fixed assets	100,000	
Stocks	3,000	
Debtors	13,000	
Cash	8,000	
Less: Creditors	<u>(5,000)</u>	
		<u>119,000</u>

Financed by

Capital Grants	<u>119,000</u>
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Risk Analysis Criteria

- a. Running costs increase by 5% - is the business plan still achievable?

<u>Income</u>		
Government grants	5,000	
Visitor income	150,000	
Sales	45,000	
Other	<u>3,000</u>	
		203,000
<u>Expenditure</u>		
Salaries & wages	210,000	
Cost of sales	21,000	
Depreciation	3,000	
Running costs	89,250	
Miscellaneous	<u>2,100</u>	
		325,350
Operating loss		<u>122,350</u>
Deficit funding		107,000
Shortfall		15,350
Net current assets (ex-stock)		16,000
Cash available		650

An increase in expenditure by 5% can be contained within the organisation's financial resources, therefore the risk criteria has been met.

b. Variable income drops by 10% - is the business plan still achievable?

<u>Income</u>		
Government Grants	5,000	
Visitor Income	135,000	
Sales	40,500	
Other	<u>2,700</u>	
		183,200
<u>Expenditure</u>		
Salaries & Wages	200,000	
Cost of sales	18,000	
Depreciation	3,000	
Running costs	85,000	
Miscellaneous	<u>1,800</u>	
		307,800
Operating loss		<u>124,600</u>
Deficit funding		107,000

Shortfall	17,600
Net current assets (ex-stock)	16,000
Cash shortfall	1,600

A 10% reduction in variable income will result in the organisation being unable to meet its commitments for the forthcoming year and therefore this risk criteria has not been met and amendments will be required to the business plan.