

# Financial Management and Reserves

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The Trustees of Little Pippins are ultimately responsible for ensuring that the finances comply with relevant regulations. They are also responsible for ensuring that legal requirements are met, finances are managed in accordance with our governing document (Memorandum and Articles of Association) and that appropriate systems and controls are in place.

Little Pippins employs an Office Manager (bookkeeper) to carry out the routine financial administration.

The Treasurer's role is to ensure that accurate financial accounting records are maintained and that the committee is made aware of financial matters and requirements.

## FINANCIAL MANAGEMENT

Internal financial controls reduce, but do not eliminate, the risk of losses through theft and fraud, bad decisions, human error, breaches of controls, management override of controls and unforeseeable circumstances. If any of these things do happen, then internal financial controls should also help the trustees to find out sooner and take necessary action. The aims of internal financial controls are:

- To protect the charity's assets;
- To identify and manage the risk of conflicts of interest, loss, waste, bribery, theft or fraud;
- To ensure that financial reporting is robust and of sufficient quality; and
- To ensure that the trustees comply with charity law and regulation relating to finance.

Details of financial controls in place are detailed below. The effectiveness of the following financial controls will be reviewed every January.

## Income Procedures

The Office Manager is responsible for the invoicing and collection of fees and other receipts.

- Cheque and cash receipts are promptly recorded in the Receipts cashbook spreadsheets and then stored in a lockable cash tin that is kept in a locked cabinet to which only nominated people have a key.
- The cash and cheque receipts, less any cash retained to reimburse petty cash, are banked regularly – at least by the end of each month.
- Parents are requested to pay childcare fees, where possible, via a bank transfer. The bank account is checked regularly for receipts and all receipts are recorded in the Receipts cashbook spreadsheet.
- All fees receipts are promptly recorded on the child's account in the fees administration spreadsheets and reminders are issued in accordance with timescales stated in our Admission and Fees Policy.
- Records of cheques, cash and remittances received directly into the bank account are checked against the bank statement on a monthly basis by the Treasurer.

## **Expenditure procedures**

Little Pippins aims to ensure that all expenditure is in respect of the charity's business and is properly authorised and that this can be demonstrated.

The Pre-School Manager is responsible for the Pre-School activity resources and equipment budgets. The Office Manager manages the cleaning, stationery and other operational and building expenses budgets.

- Payments are only made upon receipt of invoices.
- All payments are recorded promptly in the Payments cashbook spreadsheets and a file of invoices paid is kept in the office.
- All records of payments from the bank accounts and petty cash are checked against the bank statements on a monthly basis by the Treasurer.
- The Office Manager and Treasurer monitor the operational costs on a monthly basis.
- The Office Manager is responsible for settling all bills promptly as well as paying staff wages and paying tax and National Insurance due to the HMRC.

**Cheque payments** are signed by two authorised bank signatories - signatories should never sign blank cheques. Supporting documents are provided to the signatories before signing cheques.

**Payments by Direct Debit** are only set up after written authorisation from the Treasurer, with the original direct debit mandate signed by two authorised bank signatories.

**Electronic payment** of invoices by Lloyds Bank online banking is the preferred method of paying day-to-day operational expenses, including staff expenses claims. Payments less than £100 may be made by the Office Manager. Invoices/supporting documents for payments over £100 must be signed off either by two of the authorised signatories or by the Office Manager and one other authorised signatory before payment is made.

**Debit cards** are available to the Treasurer, Manager and Office Manager who have a need to incur expenditure on a regular basis. Staff should not use their own money to purchase items or services on behalf of Little Pippins. Purchases up to £100 may be made without additional authorisation. Purchases over £100 per transaction must first be authorised either by two of the authorised bank signatories or by the Office Manager and one other authorised signatory.

Card holders agree to:

- only use the company debit card for business use and authorised expenditure;
- not use the company debit card for any personal expenditure, obtain cash advances or guarantee or support the encashment of cheques;
- keep their PIN safe; and
- keep the original invoices or receipts of purchases for submission to the Office Manager and Treasurer.

The Chair will review bank statements on a regular basis to make sure card use is consistent with the above guidelines. The Treasurer has access to the transactions and statements online, so can monitor transactions before bank statements are received.

## **Staff Expenses and Petty Cash controls**

Staff are not required to use their own cash to purchase supplies for the Pre-school, however, it is accepted that there may be occasions when this is unavoidable for small amounts, upon which the following procedures should be followed:

- Staff should claim reimbursement for expenses monthly using an Expenses Claim form.
- Expenses will be paid at the end of each month by internet banking transfer. Interim payments may be made for large amounts, or if delay would cause hardship.
- The Office Manager administers a petty cash system to reimburse small amounts (up to £10 per transaction) to staff. Larger amounts must be paid by bank transfer
- The total amount held in petty cash will not exceed £100 and is kept in a separate lockable cash tin in a lockable drawer to which only a few people have access to the key.
- Receipts must be provided for all claims for reimbursement of expenses and payments from petty cash
- All cash transactions are recorded in the petty cash spreadsheets which shows the balance held in cash at any time.
- The Treasurer will check payments and monitor expenditure from petty cash monthly and periodically check the cash balance.
- The petty cash balance may be reinstated from cash receipts received; the accounting records must record the full details of all income received in the receipts cash book spreadsheet and the amount transferred to petty cash.

## **Staff pay and overtime**

Trustees must ensure that salaries, taxes, national insurance, pensions and other deductions are calculated accurately and that deductions are paid to the appropriate body.

- The Office Manager calculates staff monthly pay, including holiday pay, on a spreadsheet showing the staff hours based on the rota provided by the Manager.
- The pay calculations are periodically checked by the Treasurer.
- Additional staff hours required must be agreed in advance with the Manager, then claimed on an overtime form and authorised by the Manager.
- The gross amounts payable are submitted to our payroll service provider who calculates deductions and staff net pay along with payments to HMRC for PAYE and NI and to NEST for pension contributions.
- Copies of the payroll reports are checked by the Office Manager and the Treasurer.
- Staff wages, PAYE and NI are paid by a CAF Bank Faster Payment transfer requiring dual authorisation.
- Payments to NEST are made by Direct Debit the following month.

## **Bank accounts**

Charity current and deposit (interest earning) accounts are held at Lloyds Bank and CAF Bank. Little Pippins will not use any other bank or financial institution or use overdraft facilities or loan without of the agreement of the trustees.

There are usually four bank account authorised signatories: the Treasurer, Chair, Secretary and Manager (employee).

- Bank signatories are agreed by the committee. Any changes will require a new bank mandate to be submitted to the bank as soon as possible.
- Bank statements are received monthly at the Pre-school address.
- The bank account is reconciled monthly, generally by the Office Manager.
- The bank statements and the monthly reconciliations are signed off by the Treasurer.

## **Internet banking controls and procedures**

Electronic payments are used for staff wages (CAF Bank) and other purchases (Lloyds Bank) as it is a convenient and efficient way of managing transactions.

- The Treasurer, Chair, Secretary and Office Manager have access to online banking in order to monitor the bank accounts and to set-up and authorise payments. Each person has their own user login; passwords and PINS are kept secret.
- Payment of invoices less than £100 may be made by the Office Manager without additional authorisation.
- Payments over £100 must first be authorised by two of the authorised bank signatories or by the Office Manager and one other authorised signatory.
- All electronic payments of staff wages and payroll deductions through the CAF Bank require a second authorisation online.
- All computers with access to online banking facilities are secure and up to date with anti-virus, spyware and firewall software.
- The Treasurer reviews the bank statements, along with the bank reconciliations and cash books and petty cash spreadsheets to make sure all payments and receipts agree with the bank statement.

## **ACCOUNTING AND REPORTING**

### **Budgets and budget monitoring**

Regular planning is essential to ensure Little Pippins can continue to operate and can develop its activities as desired.

- A break-even budget where income covers expenditure is set by the trustees during the three months prior to the start of the financial year.
- If possible, the Pre-school works towards a small surplus that can be set aside for unexpected events or planned growth.
- Any assumptions that have been made are documented.
- Financial progress compared to the budget is regularly monitored and action to identify potential savings will be taken if a deficit is forecast.

- An annual cash flow forecast is prepared to aid budget monitoring and forecasting. It is updated every month to include actual expenditure and income to date as well as including realistic estimates of future income and expenditure.
- If variations arise because assumptions have changed, a revised budget will be approved by the committee.

### **Monthly accounts**

The Office Manager prepares end-of-month accounts at the beginning of the following month from the cashbook spreadsheets for Receipts and Payments. The Treasurer reviews these along with the bank statement and supporting documents to make sure all payments and receipts agree with the bank statement. Each month, a summary of receipts and payments and a balance sheet will be emailed to the committee by the Treasurer.

### **Treasurer's report**

The Treasurer's report, compiled by the Office Manager and Treasurer, is distributed to the committee members in advance of committee meetings and presents bank account balances, the actual monthly income and expenditure, as well as a comparison between the budget and forecast with explanations for any increase/decrease in actual/forecast income or expenditure. The reports will also include a summary of balances of all reserves and special (restricted) funds.

### **Annual accounts**

The financial year runs from 1<sup>st</sup> January to 31<sup>st</sup> December. The final accounts are produced by the Office Manager, reviewed by the Treasurer and sent to an independent examiner appointed by the Trustees. The accounts and Independent Examiner's report are presented at the AGM, as well as being submitted to Companies House and the Charity Commission within legal deadlines.

## **RESERVES POLICY**

The Little Pippins Pre-school Committee reviews the need for reserves in line with guidance issued by the Charity Commission (CC) and the Early Years Alliance (EYA). We recognise that planning and financial management is important for the future security of our setting. However, we also recognise that as a charity, we need to balance this with our duty to spend our income on charitable activity within a reasonable timescale to further the aims and objectives of the Pre-school.

### **General Reserves**

Little Pippins holds sufficient financial reserves in order to:

1. Ensure continuity of service provision and meet future needs by:
  - a) Meeting unexpected costs, e.g. staff cover for illness or maternity leave.
  - b) Covering running costs during periods of reduced income, e.g. lower numbers, adjusting to government funding changes or following reduced fundraising totals.
  - c) Funding planned commitments that cannot be met by future income alone, e.g. plans for a major asset purchase or new project.

- d) Replacing equipment as it wears out.
- 2. Meet redundancy liabilities should the Pre-School have to close.
- 3. Assist families with payment of fees in certain circumstances.

Our reserves may consist of:

- General contingency reserves equal to 3 months essential expenditure.
- Specific funds for future projects and major asset/improvement expenditure as required.
- Funds to replace equipment.
- A redundancy reserve to meet statutory redundancy liabilities.
- The Help a Village Child Fund - to assist village families with payment of Pre-school fees in certain circumstances (See Help a Village Child Fund policy).

### **Restricted Funds**

Occasionally, funds or grants are received from a funding provider for specific purposes and these will be held as restricted funds. Those funds that are restricted will not be used in the Reserves.

### **Procedures**

- The committee will calculate the target amount of any reserves according to the definition of reserves given within this Policy on an annual basis.
- Where possible, the target level of reserves shall be held in a separate quick-access interest-earning deposit account.
- The committee will monitor the actual level of reserves and compare with the target level no less than once a year. Any significant shortfall or excess in reserves against the target set will be explained.
- A contingency plan to bring reserves into line with the target will be implemented as soon as possible, i.e. to restore the reserves by increasing fundraising, increasing earned income or reducing expenditure; or aim to eliminate an excess by spending money to enhance the quality of Pre-School provision or otherwise further the aims of the Pre-School, or by reducing fundraising.
- Information about the reserves policy and the level of reserves held will be included in the Trustees' Annual Report.

This policy was adopted at a meeting of Little Pippins Pre-School

Held on: 17<sup>th</sup> May 2021

Signed on behalf of the Management Committee *K Dee*  
Role of signatory: Chair

Review date: 2022

### **Related Policies**

Help a Village Child  
Admission and Fees