**Financial policy template**

This resource is designed to help you produce a financial policy for your music group. It focuses specifically on charities. If your music group is not a charity much of the principle will still be useful but the specifics around the Charity Commission / OSCR and HMRC will not be relevant.

The template below contains suggested headings for a financial policy. The notes in each section explain what sort of thing to cover within that section along with some example wording. The wording will not be right for all groups and should be adapted to suit your needs.

# Introduction

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| **Notes:** Write a brief section setting out the aims and purpose of the policy. |

**Example wording:**

[Group name] is committed to ensuring that robust financial policies and procedures are in place to safeguard the assets of [Group name]. The aim of the policy is to:

* ensure the trustees have proper financial controls of the organisation.
* provide a clear framework for your trustees and volunteers to work with when dealing with money.
* ensure the organisation meets its legal obligations in relation to accounting and financial reporting to the Charity Commission / OSCR and HMRC.
* ensure the organisation meets the contractual obligations and requirements of funders.

# Accounting basis and record keeping

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| **Notes:** Include the basis on which you produce your accounts. For most groups this will be receipts and payments but some groups might be required to use an accruals basis. If you have been given money to spend only on specific purposes, you may need to separate your records between unrestricted and restricted funds. See our [treasurers’ resource](https://www.makingmusic.org.uk/resource/top-tips-treasurers) for more information. |

Include a brief description of the documentation and software (if applicable) you will use to ensure effective record keeping.

You could also add a line about how long you will keep records for – the example wording below is the regulatory minimum length for financial records so should not be less than this.

**Example wording:**

* The accounts will be kept on a receipts and payments / accruals basis
* Accounting records
  + A cash accounting spreadsheet analysing all the transactions appearing on the bank accounts. / software package (e.g. Xero)
  + Bank statements
  + A record of invoices received and issued
  + Receipts for payments made
  + A list of amounts owed and owing (if accounting on an accruals basis)
  + Expense claim forms
  + Cheque book stub receipts
  + A petty cash book if cash payments are being made

The financial year end date is: (e.g. 31 August)

All financial records will be kept for 6 years from the financial year end date they relate to. This can include digital storage.

# Annual accounts

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| **Notes:** A brief description of the process for producing year end accounts and the internal and external scrutiny they are subject to. The level of external scrutiny should reflect legal requirements and what is stated in your governing document. If your governing document does not cover external scrutiny and your income level is below what is required by legislation, we suggest as a minimum your accounts are examined by a person with some financial knowledge who is independent of the person keeping the records (this could be a treasurer of another group, for example). |

**Example wording:**

* Accounts must be drawn up at the end of each financial year within (e.g.) 3 months of the financial year end. These will include:
  + Final reconciliation of income and expenditure with bank statements
  + A summary of the financial position at year end
  + An income and expenditure statement
* Scrutiny of accounts
  + Accounts will be subject to (insert required level.e.g. Audit / Independent Examination / will examined by an external person with financial knowledge).
  + They will be presented for approval to members at the AGM
  + They will be sent to the relevant regulator within the relevant period after the financial year end:
    - Charity Commission - 10 months
    - OSCR – 9 months
    - Companies House – 9 months

# Budget

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| **Notes:** A brief description of budget processes and timeline for your organisation. |

You could also detail which individuals are budgets holders and their approved spending limits. This sets out what an individual is approved to commit to spend within their budget area – anything over that limit would need additional trustee approval before the expenditure is committed.

**Example wording:**

* (e.g.) 3 months before the start of each financial year, the trustees will approve a budgeted income and expenditure account for the following year.
* The trustees will review actual income and expenditure compared with the budget at least quarterly and reforecast the budget as necessary.

**Budget holders and approved spending limits**

The following trustee roles are approved to sign off expenditure within the limit detailed below. Any costs over these limits requite additional trustee approval.

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| **Budget area** | **Budget holder** | **Single item limit** |
| Music hire/purchase | Librarian / MD | Up to £X within budget |
|  | All other trustees | Up to £Y within budget |
| Rehearsal costs | Secretary | Up to £X within budget |
|  | All other trustees | Up to £Y within budget |
| Performance costs | Concert organiser | Up to £X within budget |
|  | All other trustees | Up to £Y within budget |
| Fundraising cost | Treasurer | Up to £X within budget |
|  | All other trustees | Up to £Y within budget |
| IT infrastructure (e.g. website) | Website manager | Up to £X within budget |
|  | All other trustees | Up to £Y within budget |
| Organisation infrastructure | Chair | Up to £X within budget |
|  | All other trustees | Up to £Y within budget |

# Bank account

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| **Notes:** The policy can be a useful reference place for bank account details and signatories |

**Example wording:**

[Charity Name] has a bank account with [bank name]

**Account details:**

* Account number: XXXXXXXX
* Sort Code: XXXXX

(Ideally) All payments require two signatories.

There will always be a minimum of three signatories. The current signatories are:

* [Name], Trustee, [Officer role if applicable]
* [Name], Trustee, [Officer role if applicable]
* [Name], Trustee, [Officer role if applicable]
* [Name], Trustee, [Officer role if applicable]

# Income / receiving payments

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| **Notes:** Detail the procedure for requesting, receiving, and recording payments made to the charity. The procedures should focus on making sure you have good documentation and controls to ensure money received is paid into the bank and accounted for quickly. |

**Example wording:**

The following procedures apply to all [Charity Name] trustees, volunteers and freelancers taking and making any payments on behalf of [Charity Name].

Ideally all payments due to [Charity Name] should have an accompanying invoice issued to the payee. Where this is not possible the payee should be issued with a receipt confirming payment has been made and what it was for (this could be via email or a digital scan of the receipt)

For any cheque or cash payment received:

* Report receipt of the payment to the treasurer in writing (email) as soon as practically possible. The amount and reason for payment should be recorded.
* Pay any cash or cheques into the bank account within e.g. 5 days of receipt.
* Notify the treasurer that the payment has been made to the bank in writing (email)
* An account signatory must check and confirm the amount paid into the bank has been received within 7 days.

All payments received into the bank account will be recorded and accounted for in the charity accounts within 1 month of receipt of the payment.

# Expenditure – payments made by the charity

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| **Notes:** Detail the procedure for committing to a cost and making actual payments. A key part for making payments is to consider effective dual authorisation procedures so that all payments made by the charity are approved by two trustees. |

**Example wording:**

Trustees can approve spending in line with the approved spending limits as above. Where a cost exceeds the approved limit, another trustee must approve the cost in writing (by email) before a commitment is made.

All payments made from [Charity Name] bank account will have a matching corresponding invoice, order form or expense claim form.

Where possible payments will be made by BACS (document when debit cards, cheques or cash can be used).

**Dual authorisation**

All payments made from the bank account must be authorised by 2 signatories.

* Online BACs payments must be done using the online banking dual authorisation system.

OR

* Online BACs payments must be authorised by two signatories before payment is made:
  + A signatory emails another signatory with details of the payment to be made (amount and reason)
  + The second signatory emails back to approve
  + The first signatory makes the payment form the bank account
  + The second signatory checks the bank account to ensure the correct payment has been made
  + All email correspondence saved
* All cheques must be signed by two signatories
* Blank cheques must never be signed
* Where the payment is for a signatory’s expense, the signatory claiming the expense cannot be one of the approving signatories.
* Petty cash can be available for cash payments:
  + At least two trustees must pre-approve general petty cash payments - this pre-approval can cover an extended period of time and for a range or purposes.
  + The maximum amount for a single cash payment is (e.g) £20
  + All cash payments must be recorded in the petty cash book.
  + If an individual is holding petty cash and will not have a reason to use it within 2 months, they must return the cash and any records to the Treasurer.
* All payments made from the bank account must be recorded and accounted for in the charity accounts within 1 month.

**Direct Debits and standing orders**

* All Direct Debit and standing order payments must be approved by two signatories.
* Payments must be reviewed annually.
* Any change to the amounts must be approved by two signatories.

# Claiming expenses back from the charity

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| **Notes:** it’s common for individuals to make payments from personal bank accounts and claim back the cost. This is an acceptable practice but having some clear procedures around how this works is a good idea.  If trustees claim travel expenses, it is also a good idea to set out the limits of those expenses in advance. |

**Example wording:**

**Trustees**

* Trustees are approved to make payments up to e.g. £100 from their own personal accounts on behalf of the charity without approval from a signatory.
* They must submit a written request for a reimbursement of payment within 10 days of making the payment. This must include:
  + Reason for making the payment on behalf of the charity
  + Evidence of the item or service received.
  + Evidence of a receipt for the payment
* Payments must then be approved online (see the expenditure section above).
* If a trustee expects to make a payment e.g. over £100, they must get prior written approval from another trustee.

**Staff, freelancers and other volunteers**

* All non-trustees must seek approval from a trustee before making payments from their personal account on behalf of the charity.
* They must submit a written request for a reimbursement of payment within 10 days of making the payment. This must include:
  + Reason for making the payment on behalf of the charity
  + Evidence of the item or service received.
  + Evidence of the payment
* Payments must then be approved online (see the expenditure section above).

**Travel expense policy**

Travel expenses can be claimed for trustees’ meetings or any other event you attend in your capacity as a trustee.

* Rail Travel: cheapest form of standard class rail (e.g. please make use of advance fares)
* Car travel: 45p per mile if a private car is used. Insurance, breakdown cover, MOT, parking fines & other such penalties are the responsibility of the individual driver and cannot be reclaimed.

# Fixed assets

The trustees have agreed that assets costing more than (e.g.) £1,000 are treated as capital expenditure, recorded as fixed assets on the balance sheet and depreciated (the cost spread) over the estimated useful life of the asset class (e.g.) five years.

# HMRC and tax

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| **Notes:** Where a charity is trading to achieve its primary purpose, it is exempt from paying income and corporation tax. A typical example of primary purpose trading for a music group is selling event tickets. An example of non-primary purpose trading might be selling advertising space.  If a charity is trading outside its primary purpose, it would be liable to pay tax on income related to that activity, if the income exceeds certain limits. We think it is very unlikely Making Music members would be trading over those limits. [You can find more in our Trustees handbook](https://www.makingmusic.org.uk/resource/trustee-handbook) and in government guidance on [charities and trading](https://www.gov.uk/guidance/charities-and-trading).  The wording below is based on a charity not expecting to pay tax or having to register for VAT ([read more about VAT here](https://www.makingmusic.org.uk/resource/value-added-tax-vat)).  Gift aid: if you claim Gift Aid for your group, it is useful to detail some key information here. You might want a separate more detailed procedure on the process of claiming. Find out more in our [Gift Aid guidance](https://www.makingmusic.org.uk/resource/how-claim-gift-aid-your-group).  If you have any questions about your charity and tax, [please contact us.](https://www.makingmusic.org.uk/about-us/contact-us) |

**Example wording**

[Group name] is a charity and can claim the charity tax exemption on activities related to its primary activity. Any trading that is secondary to its primary activity is expected to be below the exempt trading limit and registration limit for VAT and so will also be exempt from tax.

As such [Group name] does not have to submit an annual tax return to HMRC or register for VAT.

However, if:

* HMRC request we file a corporation tax return we must comply and can apply a charity tax exemption.
* Non-primary trading activity exceeded taxation limits then a tax return would need to be filled and tax may be due.
* Business income exceeded VAT registration thresholds, the charity must register for VAT.

**Gift Aid**

[Group name] claims Gift Aid on donations received form the public and on membership subscriptions paid by members. It can also claim Gift Aid on cash received under the Gift Aid Small Donations scheme (GASDS).

All Gift Aid claims related to donation and membership subscriptions must be supported by an appropriate Gift Aid declaration.

Gift Aid is claimed (e.g.) twice during the financial year, once in February and once in August.

An annual assessment on the eligibility of membership subscriptions for Gift Aid is carried out in (e.g.) September of each year.

# Review

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| **Notes:** It is best practice to review your financial policy annually (it can be just to confirm no changes are needed) or sooner if a change is required before the annual review. |

**Example wording:**

This policy will be reviewed on an annual basis unless the trustees deem it necessary to review the policy sooner.