



Financial Regulations

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Scottish Charity No.: SC042342 Registered Office: 55 Newtown Street, Duns, TD11 3AU

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1 INTRODUCTION

- 1.1 The Rules of the Association, along with the Standing Orders outline how the Association will be controlled and run. Trustees and Board of Directors have ultimate responsibility for ensuring that the business entity takes a responsible approach to financial management and reporting. The Financial Regulations, apply across all the group entities and need to be read in conjunction with other financial policies, and procedures. The Financial Regulations cover the arrangements for supervision and control of the finances, assets, and other resources of the BHA Group.
- 1.2 These financial regulations generally apply to all the group entities except where they relate specifically to Housing Associations. The aim is to ensure that the resources of the group are being correctly and effectively used and that activities are correctly and accurately reported.
- 1.3 The Trustees of the Association are responsible for approving and amending Financial Regulations.
- 1.4 In addition to the Financial Regulations, financial policy and procedures are also sometimes contained in a range of other policy documents prepared by the Group (e.g. the procurement policy) as well as those required by external agencies, particularly the Association's Funders, the Nationwide Building Society, RBS, and the Association's regulators; The Scottish Housing Regulator. Policies to be read in conjunction with these regulations are:

- Accounting Policy
- Anti-Fraud and Good Reputation
- Benefits and Payments
- Board Expenses Policy
- Capital Investment Policy
- Code of Conduct (both Board and Staff versions)
- Disaster Recovery Plan
- Procurement Strategy
- Treasury Management
- Rent Arrears (Current and Former Tenants) Policy
- Risk Management
- Scheme of Delegation
- Standing Orders
- Value for Money Policy
- Write Off Policy

2 POSITION OF THE TRUSTEES / BOARD OF DIRECTORS AND STAFF

- 2.1 The Trustees / Board of Directors have overall control of, and are therefore responsible for, all aspects of the BHA Group entity's work. As part of this remit, it must ensure that the entity's financial and legal responsibilities are met.
- 2.2 The Trustees / Board of Directors retains ultimate control of the BHA Group entity's finances and must ensure that the entity operates as economically and efficiently as possible within its overall objectives.
- 2.3 The Trustees / Board of Directors are ultimately responsible for ensuring that the Association and/or subsidiary has in place a system of controls that is appropriate to the various business environments in which it operates. These controls are designed to give reasonable assurance with respect to :-
 - 2.3.1 the reliability of financial information used within the association/subsidiary or for publication
 - 2.3.2 the maintenance of proper accounting records and

- 2.3.3 the safeguarding of assets (against unauthorised use or disposition)
- 2.4 Although the Board of Directors is ultimately responsible for the regulation and control of the Association's finances, this is exercised in part through the officers. Responsibility for the day-to-day financial management of the BHA Group entity lies with the Finance Director through the Chief Executive and in the case of subsidiaries, also the relevant subsidiary director.
- 2.5 In particular, the Finance Director is directly responsible to the Chief Executive for the following:
 - 2.5.1 accounting, budgeting and financial administrative matters;
 - 2.5.2 borrowing and investment;
 - 2.5.3 banking;
 - 2.5.4 insurance; and
 - 2.5.5 the ongoing review of the Financial Regulations
 - 2.5.6 ensuring all financial statutory and regulatory returns are submitted on time.

3 SUBSIDIARY COMPANIES

Subsidiary companies are managed by their own Board of Directors. Berwickshire Housing Association Limited exercises its control via an agreed corporate control document by virtue of its shareholding in the subsidiaries. There is a membership agreement in place between BHA Enterprise and Community energy Scotland Trading the two members of Berwickshire Community Renewables LLP. Any investment in a subsidiary or onward lending to a subsidiary would require BHA Board approval. Companies within the group may provide services to each other as agreed between them and these should be documented in service level agreements. Subsidiary companies need to ensure their annual board approved budgets are also approved by the BHA Board of Directors. Any item of income or expenditure which falls under the category of "Reserved Matters" would require prior written consent of the Shareholders before being included in a budget. A memorandum of understanding exists between BHA and Seton Care both of whom are charities and the intention was for the two charities to work closely together for the benefit of the mutual beneficiaries. Seton Care is in the process of shutting and the remaining activities in Seton Care were transferred to BHA as at 31 March 2017. There is a transfer of charitable undertaking between BHA and Seton Care where Seton Care will transfer its assets to BHA and in return BHA will discharge all of Seton Care's liabilities.

4 FINANCIAL RISK MANAGEMENT

The Risk Management policy should be read in conjunction with this document. Any author of a paper recommending committing expenditure (other than insurance) above £25,000 to the Trustees of BHA and/or any committee and/or any other Board should include a report of the business risks involved and the necessary supporting argument detailing the business case for that expenditure.

5 BUDGET PREPARATION, MONITORING AND VARIATION

- a. The Finance Director, in consultation with the other members of the Management Team, shall prepare an annual budget for the following financial year to be submitted for consideration first by the Finance Committee and later by the Board of Directors of BHA. The draft budget will be presented to a meeting of the Finance Committee no later than the end of January and the Finance Committee will consider the draft budget together with the results of rent consultation before making a recommendation to the Board of BHA in

regard to both i) the annual increase in rents to apply and ii) the BHA budget. A budget must be approved by the Trustees before the start of the financial year which is 1 April. . Once approved, the budget forms the Board's expenditure plans and income expectations for the year ahead. The budget can then be used as the basis for authority to incur expenditure on individual headings up to the agreed levels within individual authority limits (see Appendix A Scheme of Delegation) . There is a separate capital expenditure budget procedure as capital projects inevitably incur large monetary commitments. In addition there is a housing development proposal process and this generally requires support from the Regulator e.g. if housing grant (HAG) is required. All anticipated capital expenditure and income is included in the budget for completeness but final approval to spend may require further approval by the Board or Trustees when the full details of the project are available for approval.

- b. BHA operates a system of revised financial forecasting at the end of every quarter. After Quarter 1, the budget is updated with a financial forecast of the year-end financial position, the object being that the actual outturn and the financial forecast are as close together as possible by year end. After the first quarter, the variance reporting in the management accounts is between the actual and forecast position. At all times, the financial forecast position needs to comply with loan covenants. Managers can “release” or request additional budget at each quarter end and the Leadership team is responsible for recommending the revised financial forecast to the trustees following a process of peer review.
- c. The Trustees approve the revised forecast when reviewing the management accounts. Where budgets move between financial years, the Finance Director will in the first instance make sure that loan covenants are met and that the Trustees are aware of how the new planned expenditure compares with the original five year financial projections over a number of years.
- d. Management accounts need to be submitted to the Funders in accordance with the loan agreement(s) i.e. within 30 days of the end of a quarter and in a format that satisfies the conditions stated in the loan agreement.
- e. The Finance Director shall ensure that an audit file and draft accounts for each financial year are prepared by 30 June each year-end and produce audited accounts by 30 September each year in time for the AGM.
- f. Budgets for all subsidiary companies must be prepared and approved by the end of February for the forthcoming year. Management accounts are produced quarterly for the Boards / Trustees of all subsidiary Boards.

6 ACCOUNTING

- a. The Finance Director will be responsible for developing the accounting policies, principles and procedures to be used throughout the BHA Group after approval by the Trustees / Board of Directors. Any proposed changes to the accounting policies will be taken, in the first instance to the Audit Committee, for consultation and agreement before being finally approved by the Trustees.
- b. In allocating duties involving any financial activity segregation of duties will be promoted wherever practical, e.g. those responsible for incurring expenditure will not be responsible for payment of accounts and those responsible for raising charges will not be responsible for receiving payment of those charges. That is to separate those responsibilities or duties which if combined would enable one person to record and process a complete transaction.

- c. The Association's records will be kept in a way that complies with all statutory requirements, as well as those of external bodies i.e., Her Majesty's Revenue and Customs (HMRC) and The Scottish Housing Regulator.

7 AUDIT

- a. The Association will appoint external auditors as required by Statute and in line with the guidance issued by The Scottish Housing Regulator. Initial periods of appointment will be for no more than three years and is subject to an annual confirmation by the Board of Directors.
- b. The BHA Group will have in place an Audit Committee which should meet at least twice a year. The Committee will consist of at least three members but the chairperson will not be the Convener of the Association. It is the responsibility of the Audit Committee to supervise the work of both the internal and external auditors and receive reports on the information brought out from their work. The Audit Committee will report its conclusions to the Trustees / Board of Directors.
- c. The Finance Director will arrange for the completion of the external audit and liaison with the external auditor. The timetable will ensure that draft accounts are considered by the Board of Directors before the Annual General Meeting and that the final statements are available for adoption at that meeting.
- d. Any management letters received from the external auditors highlighting areas of concern or making recommendations for improved efficiency and control shall be copied to the Audit Committee after receiving the letter. In addition, the external auditors shall be given the opportunity to meet the Audit Committee at least once a year.
- e. At the conclusion of the annual audit, the Finance Director will make a report to the Audit Committee on the performance of the auditors for that year, including performance against timetable and proposed fees.
- f. The Association will have in place an internal audit function which will prepare an annual report commenting on the satisfactory operation or otherwise of the internal controls of the organisation that were tested in that year and the follow up of previous internal audit recommendations. The function can either be operated internally or sourced externally. If sourced externally, periods of appointment should initially be for no more than three years. The Audit Committee will ensure that the Internal Auditor carries out a rolling programme of internal reviews on the effectiveness of the internal control systems. The Audit Committee will direct internal audit reviews as informed of and as they perceive the risks facing the Association and the role of internal auditors will be to inform an up to date business risk assessment of the Association.
- g. Arrangements for external audit, internal audit and the operation of an Audit Committee shall be in accordance with all relevant publications of The Scottish Housing Regulator's.
- h. All audit appointments can be extended either by a full term (3 years) or on a year by year basis on the recommendation of the Audit Committee. Auditors are appointed at the AGM by the members for the following year.

8 BANKING ARRANGEMENTS AND CONTROL OF CASH

- a. Any bank account opened shall require the approval of the Trustees / Board of Directors. All arrangements with the Association's bankers shall be made by the Finance Director and/or Chief Executive who are authorised to represent the Association with financial institutions.

- b. All cheques drawn on behalf of the Association shall be signed by two authorised signatories in accordance with the following procedures:
- c. Cheque signatories are reviewed from time to time and changes need to be approved by the Trustee/Board of Directors. Signatories can be removed at any time but approval of new signatories will require prior Trustees / Board approval.
- d. Electronic payments are made within the finance department after payments to be made have been processed in the same way as cheque payments. When making an electronic payment 3 members of the finance team have authority to prepare electronic files for payment. The 2 most senior members of finance, none of whom can prepare a file for payments, have authority to authorise the electronic payment using the online banking system.
- e. Wherever possible, all money received by the BHA Group shall be deposited into the entity's bank account on the day of receipt. Money held on any of the BHA Group entities premises should be kept in secure facilities.
- f. All banking shall include a list of cheques being paid in and against each cheque shall be shown a reference to the payee.
- g. Petty cash floats will be held in each of the Association's and some subsidiary office premises. Small payments only will be made from this cash. Reimbursement to the float level will be made on the presentation of authorised receipts.

9 CONTRACTS

- a. The overriding aim when contracting should always be that the budget-holder is pursuing "Value for Money". The BHA Group's procurement (commitment to spend) policy should be read in conjunction with this document (authority to authorise invoices for payment). Both policies share the "Schedule of Delegation" which is embedded in the purchasing systems and detail the authority to commit to expenditure and authorise invoices.
- b. In addition there is a Procurement strategy that all purchasers need to adhere to. The Procurement strategy and Procurement procedures are not reproduced here.
- c. Any contract which results in new commitments from the BHA Group, likely to be in excess of £25,000, or expected to last longer than one year, shall require the prior approval of the Trustees / Board of Directors. This authority may be delegated in whole or in part, to an appropriate committee and will form part of that committee's remit which is defined annually following the Annual General Meeting
- d. Corporate Services will maintain a contract register containing details of all tenders received.
- e. It is usual for BHA to use Public Contracts Scotland and similar portals to achieve efficiency and effectiveness in procuring which includes an audit trail of the process and outcome.
- f. Any tender which exceeds the original estimate by more than the lower of 15% or £25,000 may not be accepted by officers without the approval of the Trustees / Board of Directors or relevant Committee. Approvals in these instances will be recorded in the Association's central contract register
- g. All maintenance and development contracts in excess of £25,000 shall include retention clauses depending on the nature of the work as determined by good practice and/or the Leadership member responsible for procuring that service / goods.

- h. In the event of a contract being re-measured to the extent that the original contract price is exceeded by 5% or more, the relevant Director, in consultation with the Chief Executive, shall seek the immediate approval of the Trustees / Board of Directors for the increased cost.
- i. The policy of value for money must always be followed and all managers must be able to demonstrate their thinking if challenged on their selection in a competitive tender situation.. .
- j. As far as is realistically possible and considered necessary, tendering for external audit, internal audit and Association Insurances, should be carried out on a 3 yearly cycle with usually only one_of the functions being tendered in any given year.
- k. All managers of the Association should be aware that Public procurement law regulates the purchasing by the Association of contracts for goods, works or services. The Public Contracts (Scotland) Regulations 2015.

The Regulations generally apply to the BHA Group when the estimated value of the contract (net of VAT) equals or exceeds the relevant financial threshold. The rules expressly prohibit deliberately splitting contracts to bring them below the thresholds.

Where the pre-conditions are satisfied a contracting authority must normally advertise the contract in the EU's Official Journal and follow the procedural rules set down in the Regulations.

10 ASSOCIATION PROPERTY, ASSETS AND FIXED ASSET REGISTER

- a. A register of all properties owned by the BHA Group will be kept recording the location, purchase details, rents payable and particulars of tenancies granted.
- b. The Association's local Solicitors, currently Hastings Legal, shall have the custody of all title deeds which are not held by the Association's Funders.
- c. The Finance Director shall be responsible for ensuring the maintaining of a fixed asset register recording the description of furniture, fittings and equipment, including computer equipment, owned or leased by the Association. On a day to day basis the Communication Manager will ensure that this is kept up to date. An annual sample check with the register shall be made and any significant discrepancies shall be reported to the Chief Executive.
- d. The depreciation policy for fixed and other assets will be prepared by the Finance Director for approval by the Trustees/Board of Directors as part of the Accounting Policies but should not be contrary to any generally accepted accounting principles.
- e. Fixed Assets register will be reconciled to the annual accounts on an annual basis.
- f. The Finance Director will ensure that a record of all housing components and the depreciation thereon is maintained to properly account for component accounting.

11 INCOME

- a. The Finance Director shall have overall responsibility for the collection of sums due from Association tenants and BHA Group customers, as well as for the

systems to be applied by all staff members involved in collection. He/she will ensure that any material changes to process or procedure are agreed with the Operations Director or subsidiary director and the Chief Executive.

- b. Officers of the BHA Group shall adhere to the rent arrears and write off policies..
- c. The Finance Director shall be responsible for the collection of all other sums due to the BHA Group through a system which shall incorporate procedures for the follow up of all outstanding accounts.
- d. Former tenant arrears are the responsibility of the Operations Director with the support of the Debt Recovery Officer.

12 INSURANCE

- a. All insurances, arrangements and levels of cover shall be reviewed annually by the Leadership Team and arrangements will be made to ensure the Association's assets and activities are adequately insured. As part of this process the Finance Director will review with all senior group managers the current insurances in place in preparation for the annual declaration of changes (including an up to date business description, turnover for past year and forecast turnover for the current year, staff number and salary costs, up to date housing office and land valuations) and will gather any input from these managers for proposed changes to the insurances. The annual declaration is an information update that is given to the insurance broker so that they can pass it on to the insurers. Some insurers will require their own form to be completed annually. We often have different insurance companies for different insurance risks but this is usually procured through the same broker.
- b. In securing value for money we may want to enter into a long term agreement (3 years) but to do so will require that we follow OJEU requirements. We will not always accept the cheapest bid as this may not necessary reflect the best value for money and a full evaluation of all bids is required. Notification of the tender proposal and any long term arrangements with a particular broker or insurer made in order to secure lower rates shall require the prior approval of the Trustees/Board of Directors or Committee to whom this authority has been delegated.

When becoming aware of a potential claim through loss, liability, damage or other cause, the member of staff involved shall submit a claim immediately through the Project Co-ordinator or a member of the finance team. The Accounts team' monitors all claims. The correct procedure for claims must be followed and with the current insurer basic notification must be within 30 days.

At least twice a year the Finance Director and Finance Manager will meet with the Insurance broker to review the workings of the insurance arrangements in place.

13 INVESTMENTS AND BORROWINGS

- a. All borrowing by the Association shall be kept within the limits recorded in the rules. There is a distinction between drawing down long term borrowings and drawing down on the revolving credit facility. A Notice of drawdown for long term borrowings shall be signed by the Chief Executive and Finance Director. Details of the drawdown should be advised to the Trustees/Board of Directors at the Trustees/ Board of Directors meeting following the drawdown.
- b. There is a Treasury Management Policy in place and treasury management procedures. Treasury update reports are produced for every Finance

Committee meeting and the Finance Committee monitors the Treasury Policy and approves Treasury management actions.

- c. All new loan agreements require the approval of the Trustees/Board of Directors and should be signed in accordance with the minute of the meeting where the loan was approved.
- d. Records shall be maintained by the Finance Director for all loan agreements to ensure that the conditions of the loan are met and that the BHA Group does not default on the agreement. If a situation of default does arise then the Finance Director will inform the Chief Executive and the Convener of the Association and chair of the subsidiary (where relevant) immediately.
- e. Where a BHA Group member requires short-term overdraft facilities, the terms of that overdraft shall require the prior approval of the Trustee/Board of Directors. The BHA Homes loan facility provides a revolving credit facility and use of this will be reported to the Trustees via the Critical Performance Indicators.
- f. The Finance Director is responsible for ensuring effective use is made of the BHA Group's cash resources, i.e. by minimising interest paid, maximising interest earned and minimising bank charges within acceptable risk parameters.
- g. Surplus cash will be invested only in higher interest instant access accounts, unless it can be demonstrated that cash is not required for a considerable period of time, when term deposit accounts may be used. Such accounts shall be with the main banks and building societies operating in the UK or with the main Funders of the Association's loans. We regularly review the credit worthiness of the financial institutions in which we have or intend to have term deposits. Any intra-group borrowing and/or lending must be on the basis of a signed loan agreement, signed by Directors of both entities and on normal commercial terms.

14 ORDERS FOR WORK, GOODS AND SERVICES

- a. Official Group orders shall be issued for all work, goods or services to be supplied to the BHA Group except for supplies of public utilities, for periodical payments such as rent and rates, or for petty cash purchases. Orders will be issued when a commitment to purchase is made.
- b. All orders will be placed using one of the group's electronic order systems i.e the housing management system for housing repairs and planned maintenance to existing housing or the purchasing ordering system (currently FIDO) used for all other non housing orders. .

15 PAYMENT OF ACCOUNTS

- a. It is Group's policy to pay its contractors as per the payment terms set out in their contracts. With the exception of petty cash, and some payments to tenants e.g. decoration allowances all payments will be made by either cheque or an electronic transfer drawn on one of the Association's bank accounts and signed or approved by the signatories authorised by the Trustees/Board of Directors.
- b. The Leadership Team members have a corporate credit card for the settlement of business expenditure but this must not include any private expenditure and the credit limit should be no more than £3,000 per individual. The card can be used by all staff by business expenditure if they follow the credit card procedure which includes authorisation from the card holder. The monthly

statements of the Finance Director must be authorised by the Chief Executive and the Chief Executive's statement by the Convener or in their absence by another Trustee.

- c. Staff members who issue an order are responsible for examining, verifying and certifying the receipt of those goods or service.
- d. We have a documented procedure for checking a request to change details of a suppliers bank account to which electronic payments are to be made. Before any changes are made we contact the supplier ourselves to confirm the written instruction we have received.
- e. Invoices that are at the ordered value or within a tolerable margin above the order value will be passed for payment when receipted. Invoices above the order value (more than the tolerable margin) will be routed to the budget holder for approval at the higher value.
- f. At least fortnightly payment runs will be made and all authorised invoices due for payment before the next payment date will be paid.

16 SALARIES, PENSIONS AND EXPENSES

- a. No permanent staff appointments shall be made outside the approved budget (in terms of both establishment and salary placing) without the prior approval of the Trustees/Board of Directors.
- b. The Finance Director shall be authorised to pay salaries and associated employment costs in line with the approved establishment.
- c. Any appointments, resignations and dismissals shall be notified by the relevant Director / manager to the Resources Director as soon as possible for action. The Resources Director is responsible for notifying payroll of changes to salaries and employee details and for ensuring that the changes are properly authorised. All matters affecting an individual's salary, i.e. sickness, overtime, shall be notified to the relevant Finance team member as soon as possible.
- d. The maintenance and control of records of superannuation, income tax and national insurance is the responsibility of the Finance Director. The maintenance and control of individual personnel records and sickness absence records are the responsibility of the Resources Director.
- e. Board members and Staff shall follow the approved policy on travel and subsistence allowances, as detailed in the staff handbook for staff and Board members Handbook for Board members in claiming expenses incurred on Group business.
- f. The Chief Executive is responsible for approving Board member expenses and line managers are responsible for approving staff members' expenses, and in so doing; they confirm their satisfaction as to the validity of the expenses claimed. All claims will be passed to the Finance team for payment who may require additional information or validation as necessary. The Convener of the Association should approve the expenses of the Chief Executive.
- g. Payments other than for salaries and expenses, i.e. compensation, gratuities or payments made to former employees other than in the normal course of business, shall be made only in consultation with the Chief Executive who may seek the advice of the Convener of the Association. All such payments shall be reported to the Trustees/Board of Directors and where appropriate will be recorded in the personnel file.

17 SECURITY

Last Reviewed: June 2017
Next Review: June 2020

- a. All Managers are responsible for maintaining proper security for all building, stocks, stores, furniture, equipment and cash under his/her control. If levels of security are thought to be defective or require improvement, this should be discussed with the Chief Executive.
- b. Maximum limits for cash holdings will be set by the Finance Director after consultation with the Association's insurers and shall not be exceeded without the Chief Executive's permission.
- c. Keys to safes are to be carried by those authorised to hold them at all times while in the office and safely stored when not in the office. The loss of any such keys must be reported to the Corporate Services Manager immediately. No keys should be marked in such a way as to make them identifiable to any person who is not authorised to hold that key.
- d. The Corporate Services Manager is responsible for maintaining proper security and privacy of information held in a computer installation and for ensuring that the information is not improperly disclosed maintaining compliance with the current data protection laws in force at the time. The Resources Director shall ensure that arrangements are in place for back-up usage of computer facilities in the event of a serious malfunction and in order to recover from a disaster.
- e. Security arrangements should satisfy current Insurance requirements i.e. Alarm requirements, window and door locks, for general and IT security.
- f. ICT systems and equipment, fixed or mobile, will be protected by PIN code and/or biometric data (fingerprint) and use two factor authentication where appropriate. The use of strong passwords is required and these are expired every six months.
- g. Access to the Association's systems is restricted using role based permissions.
- h. An IT security test will be conducted by an industry certified external consultant at least once in every three year period. Additional systems deployed within the group after the date of the latest testing, will be tested individually for both security and data protection compliance.

18 **CONSUMABLE STORES**

- a. Stocks of consumable items, i.e. stationery, computer sundries, cleaning materials etc. shall be kept in a secure place and it will be the responsibility of the Corporate Services Manager to ensure that while stocks are adequate for the Association's use, they are not excessive.

19 **CONSUMER CREDIT LICENCE**

The Director of Finance will ensure that the Association will regularly review its Consumer Credit Licence and ensure that it is registered with the correct category of licence.