

**The Kennet and Avon Canal Trust  
The Kennet and Avon Canal Trust (Enterprise) Ltd**

**FINANCE MANUAL**

CONTENTS

1. Introduction	2
2. Distinguishing between Trust and Enterprise	3
3. Budgets	4
4. Capital expenditure and projects	5
5. Incurring expenditure	6
6. Authorising and paying invoices	8
7. Income and cash handling	9
8. Banking and investment	10
9. Fundraising	11
10. Financial risk management	12
Annex 1: Business Case template	13

**THIS DOCUMENT IS NOT CONTROLLED ONCE PRINTED**

Responsible Trustee: Chris Bolt

Date approved by the Trust Council: 7 May 2019

Review Date: October 2019

## **I. Introduction**

- 1.1. This Manual sets out the main financial procedures relevant to The Kennet and Avon Canal Trust ('Trust') and The Kennet and Avon Canal Trust (Enterprise) Ltd ('Enterprise'). The procedures apply to both companies, unless specifically noted to the contrary.
- 1.2. Both Trust and Enterprise are private companies, subject to the provisions of the Companies Act 2006 and other legislation such as tax and employment law. The Trust is a charitable company, limited by guarantee, which is required in addition to meet more stringent provisions as set out in the Charities Act 2011. Each company also has to operate in accordance with its Articles.
- 1.3. As Enterprise is a wholly-owned subsidiary of Trust, its accounts are consolidated with those of the Trust for reporting purposes. In addition, the Trust Council (its Board of Directors) has rights and responsibilities as the shareholder of Enterprise, for example to review its financial performance and its effectiveness at delivering for the benefit of the Trust.
- 1.4. The procedures set out in this Manual are designed to ensure compliance with charity, tax and company law, and any other applicable legislation, but without being unduly onerous. All staff and volunteers both centrally and in branches whose duties include handling receipts and incurring expenditure and authorising invoices and expenses should be familiar with the contents of the Manual.
- 1.5. The contents of the Manual will be reviewed at least annually. Suggestions for future versions of the Manual should be addressed to the Treasurer ([cwbolt@gmail.com](mailto:cwbolt@gmail.com)).
- 1.6. Any queries about the issues covered in the Manual, or about financial matters not covered, should be addressed in the first place to the Finance Officer at the Devizes Office ([finance@katrust.org.uk](mailto:finance@katrust.org.uk), 01380 721279).

## **2. Distinguishing between Trust and Enterprise**

- 2.1. Trust and Enterprise are legally separate companies, and effective management and compliance with legal requirements within each company are the responsibility of the relevant Boards.
- 2.2. One of the requirements of the Companies Act is that a company should maintain proper accounting records. It is therefore important that all costs and revenues are recorded in the accounts of the correct company, and that any issues raised by the auditors in respect of financial controls and financial reporting are addressed.
- 2.3. The Trust is responsible for charitable activities such as running Crofton Beam Engines as a visitor attraction, maintaining archives and servicing the membership. Enterprise is responsible for trading activities such as the operation of the boat fleet, including catering sales on boats, and the contracts to operate cafés in Trust owned or leased property.
- 2.4. All donations made by visitors to Trust property, or by boat passengers, are charitable income for Trust.
- 2.5. If there is uncertainty about whether a particular activity or cost should be allocated to Trust or Enterprise, the Finance Officer should be consulted in the first place.

### **(a) Income**

- 2.6. Membership fees, entrance fees at Crofton and donations including those made on boats are income for Trust. Sealed donation boxes have been provided to all branches, and these should be returned unopened to the Devizes office, or collection arranged with the office. This is particularly important in order to demonstrate effective separation of cash received on boats as between Enterprise and Trust, in accordance with Charity Commission requirements. Donations received in this way will continue to be shown against the relevant branch in the management accounts.
- 2.7. If a Gift Aid declaration is signed, the Trust can reclaim 25% of the value of the donation from HMRC. Envelopes will be provided at Crofton and on boats for this purpose later in 2019. Guidance on their use will be provided by the Devizes office.
- 2.8. Fares for boat trips and from charters are income for Enterprise. These are zero rated for VAT purposes. Catering sales, and other retail sales other than books and maps are standard rated for VAT. To meet HMRC requirements, it is therefore essential that there is effective separation of any cash received on boats for fares, and cash received in respect of catering sales.

### **(b) Expenditure**

- 2.9. Expenditure relating to the operation and maintenance of boats and cafés is charged to Enterprise. Suppliers should be asked to invoice The Kennet and Avon Canal Trust (Enterprise) Ltd; invoices addressed to Trust will be rejected.
- 2.10. Other expenditure, including that incurred at Crofton, is charged to Trust. Suppliers should be asked to invoice The Kennet and Avon Canal Trust.
- 2.11. Detailed arrangements have been agreed with the auditors in relation to the allocation of central expenditure between Trust and Enterprise which satisfy company, charity and tax law.

### **3. Budgets**

- 3.1. The Trust exists in order to deliver its charitable objects, and has established Enterprise both to support these objects directly and to generate funds which will support them indirectly. The process of setting budgets and monitoring against them is fundamental to good financial management.
- 3.2. Budget bids for income and 'revenue' expenditure (ie costs not treated as capital expenditure, which is covered in section 4) are prepared by branches, and approved by the Trust Council or Enterprise Board as appropriate. The Trust Council will, as the sole shareholder of Enterprise, agree a budget mandate which it will expect the Enterprise Board to deliver.

#### **(a) Preparation of budgets**

- 3.3. Branches will be provided with a budget spreadsheet which identifies different types of income and expenditure, with a monthly profile. Income should be shown in the month in which it is expected to be received; expenditure should be shown in the month in which it is expected to be incurred. In the case of expenditure which is invoiced to Trust or Enterprise, or reclaimed through expenses, the timing should reflect the expected date of the invoice or expenses claim.
- 3.4. To assist with the preparation of budget bids for the following year, branches will be provided with a spreadsheet showing actual costs to date in the current year, and budgeted costs for the remainder of the current year. Medium term business plans will be developed for both Trust and Enterprise to provide additional guidance on target trends in costs and revenues.
- 3.5. Branches should identify in a commentary provided with the bid spreadsheet:
  - the effect of 'one off' items (ie costs which are not incurred every year, which may therefore increase or decrease the budget bid);
  - 'quantity' changes (for example where a change in visitor numbers is being projected);
  - changes in costs or revenues which are expected to be different to the underlying rate of inflation; and
  - any other matter likely to have a material impact on the budget.
- 3.6. Budget spreadsheets for 2020 will be issued in September 2019. Completed bids should be returned by the end of October, to allow for consideration of total bids at the Trust and Enterprise Board meetings in November. Depending on the scale of any issues to be resolved, budgets will be confirmed by early January 2020 at the latest.
- 3.7. This timing will be reviewed for 2021 in the light of experience.

#### **(b) Monitoring and review of budgets**

- 3.8. Summaries of actual income and expenditure (by Branch) as compared with budgets will be provided monthly by the Treasurer to the Trust Council and Enterprise Board.
- 3.9. Reports for individual Branches will be issued by the Finance Officer to the relevant Branch. Any issues or queries should be raised with the Finance Officer in the first place.
- 3.10. A mid-year review of all budgets will be carried out in July by the Treasurer, and reported to the relevant Board. If this results in a change to approved budgets, this will be notified to Branches by the end of July.

## **4. Capital expenditure and projects**

- 4.1. Expenditure on new assets and the replacement or enhancement (as opposed to maintenance) of existing assets are classified as capital expenditure. Maintenance expenditure and all items below £250 are treated as 'revenue' expenditure and should be included in budgets as described in section 3.
- 4.2. A Business Case must be prepared for all capital expenditure proposals (ie one-off items over £250). A template is included at Annex 1. The Treasurer can provide advice on the completion of the Business Case, and in particular the detail and supporting evidence required, which will depend on the scale of the expenditure and the benefits to the Trust.
- 4.3. No expenditure may be incurred, or firm commitments made, until the final Business Case is approved by the relevant Board and the amount requested included in the capital budget for the following year or, in respect of years beyond the following year, the Risk and Commitment Register.
- 4.4. If planning for a project requires some assurance that the financial commitment will be made, an initial Business Case should be submitted. If accepted, the estimated expenditure will be added to the Risk and Commitment Register, and funds reserved for the project. However, the provisions of paragraph 4.3 will apply until the final Business Case is approved, unless development funds are requested and approved.
- 4.5. Wherever possible, capital bids should be made, with a supporting Business Case, at the same time as other budget bids are submitted. If, exceptionally, capital expenditure approval is sought for expenditure within the current financial year, this should be notified to the Treasurer as soon as possible, in order to agree the process and timescale for developing and agreeing the Business Case.
- 4.6. Approval of capital expenditure is a matter reserved to the relevant Board. Approval can, if necessary, be given in correspondence.
- 4.7. The Business Case template may also be useful in making the case for one-off revenue expenditure proposals, such as events or consultancy.

## **5. Incurring expenditure**

### **(a) Expenditure included in approved budgets**

- 5.1. Where expenditure is included in approved revenue or capital budgets, no further approval is required before incurring that expenditure provided that one of the following apply:
- 5.1.1. the expenditure is for a regular supply of goods or services, and there is either no choice of supplier or the supply has been market tested within the last three years;
- 5.1.2. in other cases, where there are alternative suppliers, prices have been compared to ensure best value, for example by checking online, and one of the following apply
- the expenditure is under £500; or
  - the expenditure is under £1,000 and the proposed supplier has been agreed with the Trust Administrator or, in the case of boat-related expenditure, the Director, Boats (or a director nominated by the Enterprise Board for this purpose).
- 5.2. If expenditure on a single item exceeds £1,000, formal quotes should in normal circumstances be obtained from three suppliers, although it is recognised that this may not always be feasible. Where fewer than three quotes are obtained, the reasons for this must be documented. Approval of the proposed supplier and cost to be incurred must be endorsed by the Trust Administrator or the nominated director of Enterprise as appropriate, and agreement obtained from the Treasurer. The Treasurer will consult at least one other director of the relevant company where the amount involved exceeds £5,000.
- 5.3. It is recognised that the cheapest quote may not represent best value. If the cheapest quote is not accepted, the reasons for this must be documented.
- 5.4. For supplies of services, it will generally be appropriate to interview potential suppliers.

### **(b) Expenditure not included in approved budgets**

- 5.5. Approval must be sought in advance before incurring expenditure on capital or revenue expenditure items not included in budgets even where these are covered by additional income such as donations.
- 5.6. Unbudgeted expenditure up to £1,000 can be approved by the Trust Administrator after consultation with the Treasurer. Any unbudgeted expenditure over £1,000 must be referred to the Treasurer who will seek the agreement of the relevant Board, in correspondence if the expenditure is urgent.

### **(c) Invoicing**

- 5.7. Suppliers should in all cases be asked to invoice the The Kennet and Avon Canal Trust, or The Kennet and Avon Canal Trust (Enterprise) Ltd as appropriate. If payment is required in advance, either a proforma invoice should be obtained and sent, after authorisation, to the Finance Officer for payment, or the Trust Administrator and Finance Officer (who hold Trust and Enterprise debit cards) should be asked to make a card payment.

### **(d) Expenditure incurred directly by staff and volunteers**

- 5.8. For items under £50, individual volunteers may wish to pay directly and reclaim the amounts involved provided the total amount of the claim does not exceed £100. Till receipts should be provided in all cases with the claim for reimbursement. The only general exception to this limit is in respect of payment for crew medicals.

- 5.9. This limit may be increased for individual volunteers to a maximum of £250 per item, and £1,000 in total but only on the basis of a written delegation from the Treasurer. This higher individual delegation may be withdrawn by the Treasurer at any time.
- 5.10. Claim forms are available from the Devizes office. There are two forms: one for Enterprise expenditure (relating to boats and cafés), and the other for Trust expenditure.
- 5.11. Claims not supported by receipts or invoices will not be reimbursed. Claims will be paid by bank transfer to the volunteer's bank account.
- 5.12. To reduce the need for individuals to incur expenditure on behalf of Trust or Enterprise which is then reclaimed, Branch Chairmen may apply to the Finance Officer for a cash float of up to £200. No individual item above £50 may be purchased in cash. The float will only be topped up when receipts for expenditure are provided to the Finance Officer.
- 5.13. Any cash income received by the Branch must be banked (see section 7). Under no circumstances should cash income be used to meet cash expenditure, or to top up the float. This is a requirement of the auditors, and reflects Charity Commission guidance.

**(e) Staff and volunteer travel and subsistence expenses**

- 5.14. In accordance with the Volunteer Handbook, expenses are not normally paid to volunteers for travelling to and from a volunteer location, nor is food generally provided for volunteers. Claims will only be accepted where this has been agreed by Trust Council or Enterprise Board as appropriate.
- 5.15. Approved claims from volunteers, and claims from staff, should be submitted on the expenses claim form and authorised by a Branch official (for example, the Secretary, Chairman or Boat Manager), before being passed to the Finance Officer for payment.

## **6. Authorising and paying invoices**

- 6.1. Before being passed to the Finance Officer for payment, all invoices must be authorised by a Branch official (for example, the Secretary, Chairman or Boat Manager) to confirm that the supplies or services have been provided and are to the required standard.
- 6.2. Payments to staff or volunteers, for example where low value items have been purchased directly, also require authorisation. Self-authorised claims will not be accepted. Claims from volunteers and staff in Branches should be authorised by a Branch official in the same way as invoices. In the case of the Trust Administrator and Trustees or directors of Enterprise, claims should be authorised by another Trustee or director, normally the Treasurer or Chairman.
- 6.3. The person authorising the claim should where possible indicate the cost code to which the expenditure should be allocated. Any queries about the relevant cost code should be raised with the Finance Officer. Requests for additional cost codes should also be addressed to the Finance Officer.
- 6.4. Payments will wherever possible be made by bank transfer. Cheques will be used only where this is not possible.
- 6.5. All bank transfers and cheque payments require authorisation by two people named on the bank mandate. The Finance Officer will normally set up all payments and act as the first authoriser. The Trust Administrator may act as the second authoriser for payments up to £1,000. A director of the relevant company, normally the Treasurer, will act as the second authoriser. For one-off payments over £5,000, the Treasurer will consult at least one other director before authorising payment unless the payment has been identified and approved at a prior Board meeting.
- 6.6. Those authorising payment must satisfy themselves of the following:
  - that the invoice has been properly authorised, confirming that the goods or services have been provided, or that there is other evidence that the payment is appropriate (eg pay slips for salaries); and
  - that the bank payment details are correct (amount, payee account details etc).
- 6.7. Payments should not be authorised if there is any doubt about the legitimacy of the payment.

## **7. Income and cash handling**

- 7.1. Most Trust and Enterprise income is paid direct to the relevant bank account, either by direct debit, bank transfer or cheque. This includes membership subscriptions, most grant receipts (in particular from the National Lottery Heritage Fund) and pre-booked boat trips.
- 7.2. Where income is received in cash, it is particularly important to distinguish between the following:
  - 7.2.1. donations, which are charitable income for Trust;
  - 7.2.2. entrance fees at Crofton, which are charitable income for Trust and zero rated for VAT purposes;
  - 7.2.3. boat fares, and sales of books and maps, which are zero rated supplies by Enterprise; and
  - 7.2.4. catering sales, which are subject to VAT at the standard rate.
- 7.3. Any Charity Commission or VAT inspection will expect to see clear documented procedures for separating these income streams, and evidence that those procedures are being followed.
- 7.4. To ensure proper separation between charitable and trading income, all donations should be placed, normally by the donor themselves, in the donation boxes provided for that purpose, or in a sealed Gift Aid envelope. These should be returned unopened to the Devizes office, or collection arranged with the office.
- 7.5. All other cash receipts should be counted by two people, who should sign the cash book confirming both the total amount, and the amount attributable to standard rated and zero rated sales. Cash should be banked as soon as practicable in the relevant Trust or Enterprise current account (see section 8), and a record sent to the Finance Officer.

## **8. Banking and investment**

### **(a) Current accounts**

- 8.1. Trust and Enterprise each have a current account with Lloyds Bank.
- 8.2. In order to ensure proper internal financial controls, to maximise opportunities to earn income on deposits, and to minimise bank charges, branches will not normally operate their own current accounts. Exceptions to this, including retention of existing accounts, must be agreed by the Trust Council.
- 8.3. Dormant accounts should be closed to minimise the risk of fraudulent activity.

### **(b) Investments**

- 8.4. Under the terms of the Investment Policy agreed by Trust Council, balances may be held in interest bearing accounts and notice accounts. These will be managed to ensure that there are sufficient funds to meet commitments. Additional accounts will be opened where this provides financial benefit to the Trust or Enterprise and/or reduces financial exposure, and is consistent with effective cash flow management. The approval of the relevant Board is required before new accounts are opened.
- 8.5. All new accounts will, unless precluded by the terms of the account, require two people to authorise payments.
- 8.6. The current Investment Policy does not permit investment in shares. It does however permit Trust to make loans to Enterprise where this is expected to support profit-making activities which will enable the Trust to undertake further charitable activities.

## **9. Fundraising**

- 9.1. As well as complying with charity and tax law, other legislation applies to other financial matters, in particular fundraising. For example, some lotteries require approval by the Gambling Commission, and all fundraising is subject to oversight by the Fundraising Regulator.
- 9.2. All fundraising must be in the name of the Trust. Donations made on boats must be kept separate from trading income (fares, and catering other retail sales). This will normally be done by keeping sealed donation boxes, which are to be returned unopened to the Devizes office.
- 9.3. Before engaging in any new type of fundraising, the proposal must be notified to the Treasurer, who will consult other Trustees and seek legal advice as necessary to ensure compliance with all legal requirements and consistency with the Trust's charitable objects.

## **10. Financial risk management**

- 10.1. Trust Council has agreed, or will shortly agree, the following policies:
- Reserves Policy;
  - Investment Policy;
  - Risk Management Policy.
- 10.2. These policies will be published on the Trust website.
- 10.3. Under the terms of these policies, the Treasurer will maintain a Risk and Commitment Register which identifies a range of risks which might impact on the Trust, and commitments to future expenditure not included in budgets. The Trust Council will determine the minimum reserve level, and the required level of liquid funds, having considered the items on this Register.
- 10.4. The policies will be reviewed annually.
- 10.5. The Treasurer will carry out a review of Internal Financial Controls annually, and report the outcome to Trust and Enterprise Boards and to the auditors.
- 10.6. Specific investigations into financial controls may be undertaken at any time. This will include, in particular, any issues identified by the auditors in their Report to Management.

## Annex I: Business Case template

1	Company/ Branch	
2	Title	
3	Summary Proposal Description	
4	Relevant charitable objects	<p>Conservation, protection and improvement of the canal and structure</p> <p>Advancement of education on the significance of the canal</p> <p>Protection and conservation of sites and objects in the vicinity of, or associated with, the canal</p> <p>Promotion and facilitation of recreational use of the canal</p> <p>(please delete as appropriate)</p>
5	Summary business case	
6	Options appraisal: options identified, case for preferred option	
7	Costs: capital and revenue by calendar year; total commitment sought	
8	Staffing requirement: paid and volunteer	

9	Benefits	
10	Main risks including safety issues where relevant	
11	Supporting documents attached	
12	Anticipated start date and completion date	
13	Implementation: Project Manager; reporting arrangements	

Form completed by .....

Date .....

## Guidance Notes

1. Specify whether Trust or Enterprise, identify Branch putting forward the proposal
2. A short title which will be used consistently in all references to the project.
3. A fuller description which indicates the main work to be done and the main outcomes to be achieved.
4. Indicate which of the Trust's charitable objects are supported by the proposal. (More than one can be identified.)
5. Summarise the business case in terms of costs, benefits and risks.
6. Identify all options considered, which should always include the 'do nothing' option, and the main reasons for choosing the preferred option.
7. Bids for each of the years should be shown separately for each year. Figures should be in cash terms, ie including expected cost increases in future years. Capital costs should include one off project start-up funding and revenue costs to be split between pay and non-pay where relevant. Figures may be supplied in a supporting spreadsheet if preferred.
8. Identify staffing requirements, including any proposal to employ new staff (and the terms of that employment) and availability of volunteers.
9. Main service and organisational benefits to be delivered, both financial (to be specified by year) and in terms of charitable objects. Non-financial benefits should be quantified wherever possible (eg number of people benefitting from the proposal).
10. Main risks associated with delivery of the project to achieve the expected outcomes. These should include time and cost risks, safety issues etc.
11. Supporting documents should be referenced here and attached to the proforma before submission for consideration and approval. These are likely to include documents to support the assessment of costs and benefits etc.
12. The month and calendar year in which the project is expected to start and when it will finish.
13. Clearly stated arrangements for implementation including lead managerial responsibility.