

**HOW OUR FINANCES WORK
A GUIDE FOR MANAGEMENT COMMITTEE AND MEMBERS**

WHY DO WE NEED A GUIDE?

The co-op's finances are in good shape, and we have managed our money carefully over the years. However, the general financial climate is uncertain, so we need to make sure that our decisions in future are always prudent, and that we constantly take care to manage our day-to-day spending and our overall strategy. The best way to do this is to take well-informed decisions based on a good understanding of the issues.

This guide will help us, and it reminds us of the general principles of financial housekeeping. Finances should not be left to the "experts". We all have something to learn (including the author of this guide!) and we all have a responsibility to look after the organisation as best we can.

BASIC PRINCIPLES

Accounting and financial control can seem bewildering to the uninitiated, but it consists of four basic actions. These are collecting, measuring, recording and communicating.

We collect information as we conduct daily business, and this means keeping documents, receipts, invoices, and a general paper trail for all financial events (anything that has a financial implication).

We measure information by attaching a value (or cost) to it, in order to include it in our accounting system (there are rules about how to give value to items).

We record this information, in a double entry bookkeeping format.

We communicate information by using our database, to summarise things, or to extract details on a particular issue, or to produce a "snapshot" of the situation at a particular moment in time, or to look at trends over a period of time, etc. The information is for us internally, but also for external consumption, such as auditors and regulatory bodies.

ROLE OF THE FINANCE WORKER

The worker is involved in the collecting, measuring, recording, and communicating of financial information. Each week, new information is put onto our software (accounting programme), which then produces an Income

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and Expenditure report, and this in turn is reformatted for the quarterly Management Accounts, which are presented to the meeting.

Various one-off reports are produced for presentation to the meeting, for example the spending on particular contractors, rent levels and rent convergence, comparison of rent levels in other similar local co-ops, etc.

The management of individual tenant rent accounts involves sending monthly individual statements, sending arrears letters when necessary, and talking to tenants about their individual rent issues. All this is based on the weekly rent update on the system and liaison with the Housing Benefit office where necessary. The monthly rent report gives us a picture of the overall rent collection, so that we are aware of how our arrears control processes are working. There is liaison with the Rent Officer, but our rents are too low to be affected by the relevant mechanisms. Our rent levels are adjusted each year, and the worker has to use TSA guidelines which include the Cost of Living Index to calculate the appropriate amount.

Invoices to our upstairs leaseholder organisation have to be prepared and submitted, for rent and service charges, and the payments have to be processed. The rent level is based on third party independent assessment (eg Drivers and Norris Surveyors) and is renegotiated every five years. Similarly, demands for ground rent and other charges have to be prepared for our single leaseholder.

The annual audit has to be managed, and documentation has to be prepared for their visit, in consultation with the Treasurer. Recommendations from our auditors have to be enacted according to their management letter (a recent recommendation was the quarterly deposit account report which is now presented to the meeting with details of amounts deposited and interest earned). The Management Committee has to take decisions based on the information and advice from the worker and the Treasurer, regarding the choice of depositors to work with, based on the balance of safety versus financial return on investment.

The worker monitors the financial press to alert us to relevant events in the national and international economy, and takes note of changes of policy and changes in best practice in accounting, including SORP, and advises on how we should respond.

The worker has supervision meetings with the Treasurer every six months, to examine performance in post, training needs, remuneration, management support and the working environment. There are also informal meetings between the worker and the Treasurer on a weekly basis. Members' comments on the role of the worker, or indeed on any financial issue, are welcome, and can be offered to the Treasurer, who will take them up and discuss them with the worker and with the MC.

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ROLE OF THE TREASURER

INFORMATION - To keep the Management Committee and the membership fully informed of all financial matters in the organisation, and to offer advice on relevant issues. To present rent reports, quarterly management accounts, and other information to the MC according to deadlines. To ensure transparency and accountability to the organisation and its members. To chair and convene finance sub-committees when required.

FINANCE TRAINING - To conduct training sessions, with assistance from the worker, for any interested members wishing to know more about the organisation's financial procedures.

COMPLIANCE - To ensure compliance with regulatory and statutory bodies such as Tenant Services Authority, Chartered Institute of Public Finance and Accounting, SORP regulations, and our auditors. To ensure probity and good financial governance so that any profit will accrue to the organisation and not to an individual. To maintain ethical standards and the values of the organisation, financial and otherwise.

SAFEGUARDING - To safeguard the organisation's funds, ensure value for money, and facilitate relevant declaration of interests on the part of members, MC members, contractors, consultants, and other parties.

SYSTEMS - To ensure our financial administration is effective in achieving the organisation's goals and standards. Records need to be up to date, transactions properly recorded, expenditure minimised and income maximised. The finance database is secure under a password known only to the worker and the Treasurer, for security reasons. Our systems need regular review, via consultation between the finance worker and Treasurer, and these reviews will be reported annually to the AGM. Interim changes to systems can be reported to weekly meetings.

STAFF MANAGEMENT - To manage the finance worker and provide support and guidance to him on workload, procedures, reports, training, and appropriate control of the working environment. Meetings between the two take place each week, and the Treasurer conducts six-monthly supervision meetings to assess the worker's performance, and to review relevant management support.

AUDITORS - To liaise with our auditors each year and discuss the annual accounts. To enact any recommendations made by the auditors in their management letter.

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ROLE OF THE MANAGEMENT COMMITTEE

Treasury Management (financial management) is ultimately the responsibility of the organisation's governing body, the MC, with assistance and advice from the Treasurer. The MC needs to be suitably skilled to carry out its responsibility, and should have a basic understanding of financial issues.

We have financial guidance for Housing Associations from the Tenant Services Authority and the Chartered Institute of Public Finance and Accounting. What follows is a summary of that advice. The governing body (MC) must commit itself to protect the financial health of the organisation, with regard to three main areas, Strategy and Policy, Governance and Operations, and Operational Risk Management. It is worth quoting the TSA at this point - "we would obviously expect a Housing Association's risk appetite to start from a position of low risk". In plain English, we should have a low appetite for risk!

STRATEGY AND POLICY - we currently have no formal written policy, but we proceed on the basis of continuing to manage the organisation's finances with caution and prudence, and with a keen eye on financial events nationally, and the implications they may have for us. We are fortunate to have no derivative business, nor any plans for expansion, development, or merger (all of which would make it much more difficult to run the organisation).

GOVERNANCE AND OPERATIONS - we operate our systems on the basis of advice given to us by the Housing Corporation some years ago, and the advice from our auditors each year in their formal Management Letter following presentation of our yearly accounts. A considerable amount of financial information is presented regularly to meetings of the MC which enables the committee to see the overall financial picture.

FINANCIAL RISK MANAGEMENT - we have quarterly reports on our depositors' performance, in terms of financial return versus safety of lodgement. We monitor interest rate variations for a number of actual and potential depositors, and keep up to date on government underwriting of accounts (under £85,000). We must also ensure at all times that we have sufficient liquidity to meet our business requirements: we must be alert to expenditure increases, and protect our only source of income (rents). There is also counterparty credit risk (this applies to New Swift -if they were to experience financial difficulties, our rent income would be at risk).

ROLE OF THE GENERAL MEMBERSHIP

Although the general membership may take a less active role than the MC, they are encouraged to be aware of the financial situation of FPHC, as it is in their interest that things are being run properly. Comments and questions are welcomed, and any member can become better acquainted with our finances

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by approaching the Treasurer or by coming to one of the training sessions. To book a session, please contact the Treasurer.

FINANCIAL DOCUMENTS

Attached are samples of financial documents:

(A) **Management accounts** presented each quarter to the MC meeting, showing where money has been spent and why. Also shows income, and surplus/deficit.

(B) **Savings account report** each quarter, showing our depositors, amounts, and dates of account.

(C) **Audit memorandum and management letter**. This is the formal letter from our auditors which gives recommendations on our financial procedures. We always take their advice, and we adapt it to the particular circumstances of FPHC as appropriate.

(D) **Financial statement produced by the auditors**, as their response to our accounting and general financial procedures. They visit us each year to look at files and systems in order to give their approval and advice, and to see if there are any errors in our calculations. They also update issues of probity to ensure that we are complying with current best practice.

Once the whole process of auditing is completed, the accounts have to be submitted to Companies House, the Tenant Services Authority, and the Financial Services Authority. Full reports on the audit are given to FPHC meetings and relevant documents circulated on these occasions.

(E) **Treasurer's report**. This is the first of ongoing six-monthly reports on the general financial health of the co-op.

FURTHER INFORMATION

For clarification on anything in this guide, or for information on any aspect of the co-op's finances, please contact the Treasurer, or arrange a training session with him.

Mick Sullivan
FPHC Treasurer
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