Minutes

Subject:	Finance Committee Minutes: 6 September 2018
Produced by:	Tony Moore
To:	Finance Committee
Status:	**Closed**
Action:	For information and approval
Paper:	FC4 18

Present: Martin Jopp, External Trustee (MJ), Charlie Flanagan, Student Trustee (CF), Martin Marko (FTO) (MM)

In attendance: T Cave, Head of Finance, (TCV), Tony Moore (Clerk)

Chair: Jenna Chapman, FTO, (JC),

Key Decisions and Action Points

- *Reserves Policy in relation to cash held in the bank to be discussed with auditors at December Board*
- *Questions for the auditor to be discussed at December Finance Committee*
- *Chair to find when ad hoc Governance and Finance audits will be presented to Trustees*
-

120 Chair Statements

JC noted apologies from Oli Gray: JC would be taking the chair for this meeting.

121 Minutes

The Committee asked for a change to the wording and numbers in the sentence on residues. With this change, the minutes were agreed.

122 Management Accounts to July 18

Analysis

TCV advised that the figures were bang in line with forecast: indeed, they might be deemed to be suspiciously close.

TCV cautioned that the figures did not include depreciation and the costs associated with the departure of the former CEO which included a severance package and the costs of the two reviews, commissioned by the Board and conducted by external consultants, into finance and into governance. TCV advised that the associated costs would be around £80K.

MJ wondered whether senior staff pay was shown separately in the accounts.

TCV advised that it was and there would be an issue around disclosure as to where the costs, particularly the costs of the two reviews, would sit. TCV advised that it was important for the Committee to be aware of the £80K costs as this would otherwise have gone into the Reserves.

TCV highlighted key factors affecting the figures for the Committee to be aware of:

- The University had taken over responsibility for the **maintenance of Union House** but this had meant a reduction in the Block Grant of £54K for the current year
- **Career staff costs** were up 10% (£200K) year on year and casual staff up 12% (£183K) which in the context of an organization struggling to generate cash was problematic. In round figures, in staffing, the Union had gone, in two years, from annual costs of £3.5 million to around £4 million. Some posts, including Head of Venues had only recently been filled and the new HR Director role had been created; the gaps and unfulfilled posts had benefited the budgetary position but had, arguably, impacted on staff well-being
- **Social Enterprises** had been underperforming, probably due to aggressive budgetary setting, and not showing growth. The main problematic area being campus venues: the Bars and the LCR; the Committee should be aware that the current budget for these was, again, optimistic.

MJ noted that it was worrying that, although there had been aggressive budgeting, there had been an actual reduction in cash income over the last year.

TCV pointed to the struggle in Retail to cover inflationary pressures as a contributory factor alongside Unio's ability to generate income. TCV also noted that MarComms was also somewhat anomalous as marketing would in the coming year be a separate cost centre in the Charity and associated activity such as sponsorship and pop-up stalls would move to Events. TCV noted that for much of the previous year Events had the costs of a Head but without any regular attendance due to ill health.

TCV reported, as to the end of year cash position, this was £1.56 million which was year on year down by £400K and was £200K short of the budgeted figure. TCV cautioned that the drop was somewhat difficult to explain but that £150K looked to be explained by a drop in advanced ticket sales and the end of year decline in stock levels in the Shop. TCV noted that there was further diminution of cash caused by the University's clawback of £50K and the University's cash grant of £150K for Union House refurbishment having been spent during the year.

MJ wondered whether the University had stated they would reduce the Block Grant for a period of time whilst the Union repaid the money advanced for the Union House refurbishment.

TCV clarified the clawback had been for maintenance services: rather than be invoiced separately for each single light bulb being changed this would be met by the Block Grant reduction of an agreed £90K a year and that had been adjusted down from a previously arrived at figure. TCV noted that the refurbishment money had been a gift in terms of additional grant. TCV noted that, in the current year, there was a similar item: a gift of £100K for the Shop refurbishment.

TCV advised that planned capex spending was down but this was balanced somewhat by a reduction in budgeted profit. TCV noted the previous year's capex had been inflated by the Union House refurbishment but only £70K had been spent against the core capex plan with the planned spend for the coming year being £90K. TCV cautioned that was in the context of an organisation which it was agreed needed an annual capex of £200K.

Reserves

TCV noted that, in the past, the Reserves had been a somewhat nebulous matter for the Union but was one that would need to be reified in future. TCV advised that the reason for a lack of definition had been that there was no fixed measure for the Reserves. TCV noted that several year ago, on the advice of the auditors, it had been agreed that the Union would hold reserves equivalent to three months' salary for permanent staff. TCV noted a complicating factor was the Clubs' and Societies' money which counted in the Union's accounts but was ring-fenced. TCV advised that when the decision had been made in July 2016 the cash shortfall in meeting the Reserves requirement had been £240K even though the Union had over a £1 million cash in the bank. TCV characterised the position as protecting all the Union's commercial creditors as well as holding three months' salaries in reserves in case of failure. TCV advised that the Board would need to have a conversation about whether this was a tenable position for the Union to hold.

TCV advised that the Board had asked for the Reserves to be replenished at a rate of £50K a year over five years. TCV advised that the problem with the replenishment plan was that it was chasing a moving target as new staff positions were added and wage rates continued to rise.

CF wondered, in light of the shortfall in income generation. whether it was viable to add £50K to the Reserves over each of the next five years.

TCV advised that there would be a paper going to September Board addressing this issue. TCV advised that the Union was entering a pivotal period with several revenue initiatives being budgeted to cover the increased Reserves number for staff salaries alongside the £50K replenishment.

Tax

Redacted

Questions from Committee Members

CF thought the key question would be over the Reserves and projected income.

TCV advised that, in reality, the Reserves were broadly in line with the level the Board had envisaged in 2016 but set against a rising demand. TCV thought it important to look at what Reserves were for. TCV contrasted the Union with a famous collapse of a charity in recent years: Kids Company. TCV noted that the charity had relied on goodwill but whose governance had been chaotic. When the charity collapsed there was no body to replace its services. TCV advised that, in contrast, in the event of a collapse of the Union, its primary services to its members would have to be covered by the University and this should be relevant to any Reserves policy. TCV advised that there would be need to be a conversation with the auditors as, if it was held to the current 'going concern' policy, the Union would never be able to touch the money it held in the bank on behalf of its net creditors. TCV noted that the Union's business model was based on: sell for cash and buy on credit and this meant it always held a large amount of money owed to commercial suppliers. TCV believed the Union was under no moral obligation to not utilise any of the money it held on account as its commercial competitors were certainly not operating under such an obligation. TCV advised that this led to the situation where commercial companies were trading risk free with the Union which TCV believed to be an absurdity as it sat uncomfortably with the need for the Union to spend its money on its charitable purpose. TCV believed that the anomaly had not been fully understood when the Board agreed to the current policy. TCV characterised the situation bluntly as: "we can't spend money on capex but we've got over a million in the bank – but we can't touch that as Carlsberg might want it".

TCV advised the above would be a conversation for the full Board to have with the auditors and would be an agenda item when the lead auditor attended the December Board. **AP**

MJ wondered when Trustees would receive the final audit report.

TCV advised that the audit took place at the end of October with the accounts, in a version that could be signed off, available for December and the lead auditor then attended December Board to answer any questions the Board might have.

The Committee agreed to MJ's suggestion that formulation of questions to put to the auditor at Board would be an agenda item for the Committee's December meeting. **AP**

Action Pack for Last Quarter

TCV advised that this had a new look which allowed a more holistic view of funding and spending and enhanced ability to project into the future.

TCV highlighted the importance on the balance sheet of the growing legacy pension deficit. TCV noted there was a slight note of optimism that, in the changed economic circumstances of Brexit ahead, there was a real possibility that interest rates might balloon thus dramatically cutting the deficit.

There were no questions as to the Action Pack.

123 AOB

TCV noted that, in the wake of the departure of the former Chief Executive, the Board had commissioned both a Finance and a Governance Audit and wondered whether these would be presented to September Board.

JC noted they were unsure of this and would ask the Chair of the Board. **AP**

MJ noted that the key points from the discussions were the position with regard to Reserves with the auditors approach to utilisation of cash held for creditors and the related matter of the year on year rise in staff costs. MJ believed that addressing the latter might mean changing the staff structure rather than adding new posts.

TCV advised that, as much as there was, awareness of the financial situation had led to a certain nervousness amongst staff and that staff had been assured that the staff structure would be unchanged for the current year. TCV believed that this holding position being viable was dependent on a strong trading performance over the year. TCV noted that because the Union's cash reserves were so strong there would be no immediate crisis and this would give the Union time to take a measured strategic response to addressing the current problems.

124 TDP of Next Meeting

Morning of 18 December. 10.30 am: venue to be confirmed.

MJ wondered whether an early indication of trading for the new academic year would be available to the meeting; TCV confirmed it would.