

Minutes

Subject:	Finance Committee Minutes: 29 March 19
Produced by:	Tony Moore
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Present: Martin Jopp, *via Skype*, External Trustee (MJ), Jack Annand, Union Councillor (JA), C Flanagan (Student Trustee), (CF)

In attendance: T Cave, Director of Finance, (TCA), Tony Moore (Clerk)

Chair: O Gray (FTO), (OG)

Apologies: G Anush (Union Councillor),

Key Decisions

- *Agreed to continue with current credit card authorisation system but with holders and spending limits itemized*
- *Agreed to continue without a journal file*
- *Agreed to annual financial controls review*

Action Points

- Review of handling of petty cash to be completed for June meeting (TCA)
- Banking Compliance documents to be completed at June Board(TM)
- Any significant change to student buying patterns in the Shop to be reported to the Committee (TCA)
- OG to continue to meet with University finance executives with regards to capex.
- TCA to bring costs of the present staff structure to the Board Strategic Development Weekend for consideration
- List of credit card holders, which department they are in, and credit limit for each card to be compiled and reported (TCA)
- Finance Committee to conduct annual review of Financial Controls – to be standard agenda item for Spring Finance Committee meetings
- Next meeting to be arranged for the last week of term commencing 10 June (TM)

133 Chair Statements

Chair noted apologies.

Minutes from the meeting held on 18 December 18

The minutes were agreed.

Matters arising and Action Points

Chair noted the completed actions.

TCA reported that the review of handling of petty cash had not as yet been completed.

TM noted the paperwork for banking compliance would form part of the induction process for the incoming Trustees for 19-20.

134 Review of Quarterly Accounts to January 2019 and Forecast Out-turn

TCA reported that, for the first half of the year, the Union was £30K ahead of budget but this formed only part of the story: trading was £160K under on GP and a number of staff posts had not been filled.

TCA noted the key to underperformance was the Shop: margins were just below last year's and it was down on forecast revenue. TCA advised that the 'Spar Effect' had not been positive in the first half-year of operations: the key question was whether this was due to bedding-in or intrinsic to the Spar proposition. TCA noted that the view from Shop staff was that some remedial action could be taken.

MJ wondered whether there had been any consultation with students as to whether there was anything that the Union was doing in the Shop that put them off as customers or whether that had been a change in student taste that was not reflected in the offering.

Chair noted that the Campaigns and Democracy Officer had been leading on consultation with students, chairing the Retail DOB, and leading on the NPS surveys and had collected a lot of data for report.

*The Committee asked for any significant findings on trends in consumer habits to be reported. **AP***

TCA advised that an issue that had been identified was that, at the start of the relationship, Shop staff had deferred too much to Spar's experience as to what items should be stocked and too little to their own knowledge of what students wanted.

Chair noted the 80/20 aspect to the Spar contract and that the Union would be looking to expand the range of vegan and international products within the 20% it had had outright control over.

TCA highlighted the following:

- Issues over licensing might affect live music trading in the second half – but this was unquantifiable
- Cash – as normal for time of year
- Capex – spending up to the limited budget – a factor that needed to be borne in mind being that £90K of compliance work on the Waterfront would need to be done after the signing of the lease – dependent on when the lease was signed this might have to be spent in the current year – only £25K was budgeted in the current year.

CF wondered why the Charity spending was £78K higher than the previous year.

TCA advised that £68K was represented by the switch of the Comms team from Social Enterprise to the Charity and there had also been an increase in staff costs in Education and Engagement, HR and Opportunities. TCA advised this was in line with the Union's policy: to generate more income and spend more in the Charity.

MJ believed the key focus should be on the overall forecast for the year: the £32.5K variance.

TCA advised that the variance was similar to that for the previous year. TCA noted that the £32.5K variance had been reported to Management Committee who had been relaxed about the relatively small amount of the variance and had decided that remedial action would be unnecessary. TCA cautioned that there was a known unknown in that the licensing situation might mean a decline in events revenue but this would be difficult to contain within the current year's budget and might, less than ideally, have to be covered by use of the Reserves.

JA asked as to the Union's minimum Reserves.

TCA advised the policy had been changed by the Board, the previous year, to free up reserves available – the current position was that the Union had £600K ring-fenced to cover three months' staff costs and had free reserves, also, of around £600K. TCA noted that, in the policy, the Reserves should not be used to prop up continuous deficits.

135 Budget Estimates Preparatory Process

TCA noted that the present paper would form the template for the version to be submitted in May to University Council.

University Funding

TCA noted that another paper on the Union's finances projected over the next five years had formed the basis for discussion at a meeting with the University that the CEO and OG had attended.

OG noted that the purpose of the meeting had been to make the University aware of the Union's capex requirements and legacy pension liabilities over the five years and, hopefully, for the University to integrate the Union's requirements into the University's Five Year Plan.

MJ queried whether the net profit figure in the paper excluded depreciation.

TCA confirmed that it did.

MJ noted a concern over the paper that went to the University: the key objective should be to obtain a clear answer as to the request that the Union's needs be integrated into the University's plans rather than a note that the paper had been considered.

TCA agreed. TCA reported that the University had asked at the meeting for the Union to categorize the prioritization of its capex requirements. TCA believed the Union might do the work on this request only to be told that there was no money available. TCA thought a catalyst might be that it was looking like the Union would not be able to fund any capex from its income: any capex would come from the Reserves or what the University would be prepared to fund. TCA advised that, before any work was done delineating future capex, the Union would need to know: whether the University was prepared to provide funding and, if so, how much; then the Union could, usefully, work on prioritization.

Chair noted they would continue to meet with University finance executives with regards to capex. **AP**

TCA advised that an additional factor was that the University had responded to the student mental health support crisis by promising an extra £1 million funding and this would, no doubt, come from the same funding area as that for the Union.

JA wondered what the political arm of the Union might do to lobby the University to increase funding.

Chair noted that the Officer Team were constantly lobbying the University as to increasing the Block Grant but the University had been more willing to resource smaller items such as IT refurbishment and cleaning services and co-funding joint projects such as the Buddy Scheme and DSD. Chair noted the Union would be lobbying hard for extra funding to come from more of these joint projects.

CF wondered whether the Union stood more chance of obtaining increased funding if it asked for money to be spent on specific ring-fenced projects.

TCA advised that this would, undoubtedly, be the case and noted the importance of designing projects that would appeal to the University.

Budget Estimates

TCA noted that the Estimates represented the preliminary budget.

TCA noted the key factor underlying the current budget was a deficit of around £244K. TCA advised that the message to Union Council would have to be that, if the Union wanted to operate with the current staff structure, honour its legacy pension obligations and meet its capex requirements, it would have to trim around £50K from overhead spending. TCA noted an alternative would be to have a complete staff restructure and this would not be achievable before the budget was set; a further alternative being a freeze on recruitment to vacant posts. TCA noted that these were matters for the Board to discuss at its strategy

weekend: to look at what was an affordable staff structure and to stop recruitment to a demonstrably unaffordable structure.

TCA advised that, as to the issue of capex, specifically the question to be put to Council would be whether to go to the University for funding for particular projects or to dip into the reserves.

Chair asked that the above considerations be made an action for discussion at the Board's Strategic Development Weekend. **AP**

CF asked as to the currently unfilled posts.

TCA advised that they included two directorships: Director of Advocacy and Director of Social Enterprise.

JA noted that the paper referenced 'revisiting the Living Wage' and wondered as to whether this needed to be approved by Union Council.

Chair noted that this had been included at the bottom of a list of options and had been discussed at Board. Chair noted that the Living Wage was, indeed, Union policy passed by Union Council but that, if a policy threatened the Union's financial viability, it could be rejected by the Board. Chair noted that a recent change to the Bye Laws would ensure that Union Council would receive far more context before they considered options for the budget and would enable more informed decision-making on issues such as the Living Wage.

TCA advised that 90% of student wages were in Social Enterprise and, if the cost of labour remained fixed to the Living Wage, there would be an onus on management to use less of it.

Chair concluded that the Committee, the Board and Union Council would need to take another look at the Living Wage in the context of the Union's deteriorating financial situation.

Chair asked TCA to sum up their advice as to the preparatory budget.

TCA advised that due to timing it was likely that the Board would only be able to send a 'holding paper' to Union Council mapping out the situation and not the final version of the Estimates.

TCA advised that the basic message would be that the Union would not be able to generate enough funds to meet its needs.

TCA noted that the courses of action for the Board would be to:

- Freeze recruitment of SMT level staff
- To conduct a prioritization of staff activity and productivity over the summer
- Review of charitable activities
- Continuing review of Social Enterprise
- Analysis of the costs that support staff and costs that support charitable activities – bearing in mind the Board's decision to strengthen HR provision (increasing staff support costs)
- Fund capex from reserves or from earmarked funds from the University

The Committee agreed that due to the strategic importance of the paper it should go in its entirety for consideration by the full Board at its April meeting.

136 Updates on SUSS Pensions Issue

TCA referred to the SUSS Trustees' update in the papers as to the ramifications of the underpayment of pensions without any discoverable legal sanction from 1981 to 1993, previously reported to the Committee. TCA noted the SUSS Trustees would be writing to the pensioners in question and, on legal advice, making a compromise offer of compensation, in good faith. TCA advised that the Union had only one pensioner under the historic scheme and if they rejected the compromise offer the cost to the Union could be as high as £250K.

TCA advised that no action was needed: the matter was for report only and any costs would not be manifest until the next Scheme Review implementation which would be 2020-21. TCA noted that the SUSS Trustees might gain permission of the Regulator to spread the repayments over a number of years.

Chair asked if any increase had been budgeted for in the Five Year Plan.

TCA advised that the annual 5% rise in pension payments was in the Plan but the supplementary payment which would be spread over a number of years was yet not included.

The Committee acknowledged receipt of the update.

137 Financial Controls Update

TCA highlighted the following developments:

Financial Procedures Manual

TCA noted the first version was complete but it would remain a work in progress subject to regular iteration.

TCA noted that there were processes in both Bars and ENTs that needed to be added as well as documentation of the processes for stock management.

TCA noted, on purchasing processes, the codification would take a long time as the Excel software had become so intricate that it was proving difficult to add a 'gatekeeper' sign-off function. TCA advised that the options were to buy a bespoke software package which would be costly or to develop one in-house which would take a long period of time due to the limited staff resources available.

TCA advised that the above question pointed to a theme that ran through all the Audit recommendations: would the Board want to spend money on adding staff resources so the Union would be an exemplar as to financial controls or would it think the current level of controls were satisfactory for an organisation of the Union's size and risk level.

TCA advised that it was open to challenge but their personal view was that auditors always aspired to perfection and it was not a failure of duty by

management if recommendations were made in an audit report but that Trustees would need to form their own view.

Chair noted that, as an organisation, the Union was lean in staffing terms not just in finance and agreed with TCA's characterisation that: 'the Union was staffed not to fall over.'

TCA advised that a key part of the current ongoing work was to put in a place a better-defined purchasing system with clear coding and assignation of responsibility for all purchases.

Expenses Policy

TCA advised that this was a relatively minor piece of housekeeping but there was a feeling that the current policy was not explicit enough on what type of expenses representatives and staff were allowed to claim when they were away on Union business. TCA noted that HR and Finance were working on a new version.

Chair noted that, given the Union's critique of the University's expenses policy in the wake of the Concrete article, it was important that the Union's policy should be robust and beyond reproach.

Authorisation of Credit Card spending

TCA advised that the auditors had concerns as to the system the Union used and asked for the Board through the Committee to note their concerns; TCA advised this was for note but if the Committee were happy with the system as it was it would be just a case of noting the concern.

MJ thought that it would be advisable for the Committee to have a list of the cards by Department with the spending limit for each card but, with this control in place, the current system was sensible.

TCA noted that they would ask the Bank to supply the list of holders and limits which would be included in the Manual.

The Committee noted the auditors' concerns but agreed, with the above action, they were happy to continue with present credit card system.

Journal File

TCA advised that the auditors felt that the lack of a journal file left a large area of the accounts unpoliced.

TCA noted it was the view of Finance that a huge amount of journals were automatic, routine transactions that it would be an inordinate use of staff resources to file individually: TCA advised that a far-more effective method of policing was by the current method of quarterly random sampling. TCA further advised that risk was eliminated by the fact that no payments were made on the back of a journal, bank reconciliation verified every payment and every item on the balance sheet was verified by external documentation.

TCA advised that the auditors wished the Committee to note their concern but, if the Committee felt the current system to be appropriate, they would not pursue the matter.

CF wondered if the auditors had raised the matter because of a problem with any particular journal.

TCA advised they had not: they had raised it as a matter of principle and the fact that no issues had been found pointed to this not being a problematic area for concern for the Committee.

MJ wondered if the current system recorded who had processed each journal.

TCA confirmed that it did.

MJ noted no concerns as to the absence of a journal file: some organisations used them and some did not; in those that did, it seemed to be laborious paper-based exercise.

The Committee noted the auditors' concerns but agreed, they were happy to continue without the use of a journal file.

Officer Involvement in Approval of Purchases

TCA advised that the Ensor Forensic Audit had recommended that the FTOs, in their role as Trustees responsible for routine operations, should be involved in purchasing and banking authorisation.

TCA advised that the recommendation on banking appeared to be based on an outmoded cheque based system which was not relevant to the Union's online system where every payment had to be signed off with a secure token by two members of the Finance Department who had received prior authorisation. TCA advised it was not apparent what could be gained by involving FTOs in the sign-off.

TCA advised, as to purchasing, it would be good practice to establish a threshold where FTOs were involved in authorisation of one-off purchases over a certain level. TCA advised that Ensor's had recommended a threshold of £10K but this was somewhat unrealistic for an organisation of the Union's size (it would include routine goods for resale orders) and TCA would recommend a figure of £20K.

The Committee noted the recommendation and that it would go the Board for approval.

Supplier Reconciliation Statements

TCA advised that this was already current practice but it would be systematized and tightened up.

Conclusion

TCA advised that none of the auditors' recommendations had stemmed from any errors in the accounts but from general principles which they wanted the Trustees, being aware of their responsibilities, to take note of.

TCA advised that a step-forward to meet the auditors' general principles would be to conduct an annual review of the Union's financial controls.

The Committee noted the receipt of the Financial Controls Update and the above agreed actions. The Committee asked that an annual review of financial controls would be added to the Committee's Cycle of Business.

The Committee agreed that the discussion of the Update would constitute the annual review for the current year with the next annual review to take place in spring 2020.

138 AOB

There were no items raised.

139 TDP of Next Meeting

To be confirmed.