

Executive Summary

The Cambridge University Students' Union (CUSU) experienced a transitional year among transitional years in FY 2006/7, recovering from a series of serious institutional crises which had undermined many beneficiaries' faith in the organisation during 2005/6. However, the pouring of monetary personnel resources (especially the man-hours of the Services VP) into promotional activities and new projects took its toll on the Union's balance sheet.

The organisation ran a nominal operating loss of about £30,000 against a budgeted £0; this was offset somewhat by roughly £10,000 in unexpected bad-debt recovery. The deficit has raised serious questions about internal operating practice, some of which are addressed in general form in this report.

The CUSU's overall financial position, however, remains one of strength, especially in the context of other students' unions (i.e., Oxford) that lack consistent, central funding. The organisation has completed its office move well under-budget and may be able to hold back on some planned outlays related to its new premises.

The Union has also begun implementing a new strategic reserve plan as part of its updated financial policy, which was drawn up during the 2006/7 cycle. It remains safely within the planned boundaries of contingency reserves, though we must remain mindful that this fund may need to grow as operational scale increases.

FY 2007/8 has gotten off to a promising start profit/loss-wise and is also seeing the beginning of renewed focus on line-management of routine spending throughout the organisation's department. I remain wary of the problems that the last team has encountered but generally bullish on the CUSU's near-term financial prospects.

Report Performance in Context

Authoring the annual CUSU financial audit report is an awkward recurring task: by nature, it is done by someone who was directly involved in few, if any, of the actual transactions and decisions that formed the tone of the fiscal year. In a sense, the CUSU VP (Services) undertakes an internal audit of the documentation left from his or her predecessor rather than reporting first-hand experiences directly to the external auditors.

For this reason, the report is inevitably best structured around a process of working backward from ostensibly problem budget headings and liaising with those persons involved, however few, who are still readily available. The most obvious weakness created by this situation is that it becomes difficult to recognise when a seemingly nominal figure arose due to abnormal circumstances. This leaves the organisation especially vulnerable to year-on-year complacency on business revenue, leading to overly optimistic budgeting practices that grow out of bumper years.

Understanding the Deficit: Income-generating activity

The fiscal year 2006-7 appears to have fallen victim to several examples of the above-mentioned trap, with the budget left for my predecessor providing for an overly rosy picture of what entertainments revenue could easily be gleaned from a normal year's operating environment. There can also be considerable fluctuations in available advertising revenue for *The Cambridge Student* newspaper and in the skill of the Business Manager in acquiring sponsors – the expected scale of *TCS* income was substantially off-target (about £10,000) from what was actually achieved in 2006/7.

The role of internal communication during the progression of the financial year is also highlighted by the 2006/7 experience. To the credit of the VP (Services) at the time, substantial efforts were made at the beginning of the academic year to adjust expectation figures (e.g., entertainments revenue targets were adjusted up, and later down, in response to a venue move).

But the major organisational failure within CUSU appears to have been careful real-time tracking of income performance throughout the year and subsequent adjustment of expenditure. Income trajectories for several business activities, notably CUSUents and *TCS*, would have looked low throughout the year (as best as I can tell in retrospect). However, no trustee to whom I have spoken, including the President and the VP (Services), was aware of any shortfall at all until they were informed several weeks after their departure, as the draft accounts were being prepared.

This lack of awareness is expressed most notably in the Entertainments business, where promotional overspends on main nights often approached several multiples of the budgeted figures. My understanding is that there was little oversight exercised in regard to a number of promotional expenditures. However, there is certainly also a case to be made for the idea that income based on the budgeted expenditure was unrealistic, and therefore such additional outlay was necessary to achieve the income targets. Since it was not the practice of the previous Entertainments Manager to produce a detailed business plan for such an overspend, there cannot be a definitive conclusion to this question. I do think it would be fair to assume, however, that CUSU's promotional expenditure on entertainments was operating well into the realm of diminishing (and likely negative) marginal returns.

The issue of *The Cambridge Student's* advertising revenue (< £53k of a budgeted £63k) is slightly murkier. It is unclear to what extent the marketing environment for the publication was less favourable than in previous years. From a personnel standpoint, the application of time and effort on the part of the main advertising salesperson to *TCS* is thought to have slackened prematurely early in calendar year 2007. As a comparative benchmark, the 2007/8 Business Manager hit the FY2007/8 target of £58k around the end of October 2007 and expects a significant amount of extra revenue to be available.

Understanding the Deficit: Expenditure

Spending discipline within the Union's range of charitable activities was robust during 2006/7, with additional funding routinely secured to cover unexpected overspends and

most part-time volunteer budget-holders adhering solidly to ceilings on outlay. There were, as usual, a number of budget headings that were not utilised at all during the fiscal year.

As a general note, it is recognised that the cultural imbalance in over-budget spending that exists between the Union's income-generating charity activities and its other operations needs to be rectified. The VP (Services) in 2006/7 took steps on one side of the issue, encouraging CUSU Executive members to make more extensive use of their allocated budgets.

But this encouragement needs to become more disciplined and formalised and also needs to be matched by a commitment to greater oversight of income-generation. (i.e., there should not be a situation in which underspend on operations is routinely anticipated as the offset to below-budget revenue). CUSU needs to focus on driving forward the goals behind budget allocations made by its Council (or scrapping them) rather than trading extra money between budget headings, some of which are being overused and some of which are being ignored. This is partly an issue of annual efforts in the formation of the budget, but mid-course corrections also need to be considered more seriously on an ongoing basis.

And, most importantly, the income-generation side of operations needs to be brought in line, with the VP (Services) demanding detailed justifications for overspends and early warnings of revenue shortfall. This will allow adjustments on the "pure spending" side of operations to be made both formally in terms of budget revisions and informally in terms of urging restraint. The CUSU must continually recognise that its charitable function is, *a priori*, to spend money toward objectives and not to blacken its balance sheet.

Notes on Specific Discrepancies (>£1k) with Anticipated Operations

CUSU's three main staple entertainment nights were marked by significantly higher promotional spending than had been anticipated (a total of ~£38k against a budgeted £16.5k). This is partially explained by the need to move venues and re-advertise one of the nights, but it is largely the result of promotional overreach on the part of the 2006/7 Entertainments Manager that was not reigned in by higher management. Income on those nights was on the same order of magnitude as forecast (£80k against a budgeted £85k), though a failed new venture ("Eclectix") generated close to £2,000 in losses late in the year.

Internet ticket sales and Freshers' Week events income were not accounted in their own headings, as the budget anticipated, but rather were spread over their respective nights. The net result of this is that the nights can be seen to have performed about £7,000 worse on balance than their individual lines show.

Income on the Oxford and Cambridge Careers Handbook came in about £2,500 below expectations; these sales are made by the Oxford University Students' Union and are not directly part of CUSU operations.

There appears to have been a gross underestimation of the scale of reprographics work that would be done in the office, with the credit from customers being about a third of what was budgeted. However, the balance sheet in this area actually performed at a credit of several hundred pounds (as compared to a forecast deficit of £250).

The Societies' Fair outperformed its budget targets by around £6k; this is expected to recur in 2007/8. The Union should consider more optimistic budget revisions in the event for the future and build in a better cushion for contingency during the year (as opposed to using the better-than-budget fair to subsidise other shortcomings on a regular basis).

2006/7 Sabbatical Officers worked less extra time at the end of the handover period for 2007/8 than had been expected, saving several thousand pounds in salary costs.

Budget line 6340 was a scheduled outlay of £2,200 but was not spent. To our organisation's embarrassment, no one currently in the office seems to have any idea what it was meant to be. Needless to say, there must be an organisational commitment to clearly identifying expenditure in the budgetary process.

Web development and computer supplies cost roughly double their combined estimates (about £6,400 v £3,200). CUSU appears not to have anticipated the antiquation of some equipment and also encountered unexpected hurdles in the launching of an electronic voting system for the University. During 2007/8, many capital IT costs are going into the outfitting of new premises and appear to be coming in well within budget.

The CUSU has not apparently received an expected grant of £5,500 from an external organisation related to sexual health activity; it appears the budget credit was mistakenly placed based on an archaic funding situation. There was also a shortfall of £1,500 (60% of the £2,500 target) in responses to the solicitation of contributions from Cambridge colleges to CUSU's Shadowing Scheme, which brings students from non-traditional backgrounds to the University to experience life and instruction first-hand with students.

The most significant positive mitigating factor in the CUSU's balance sheet for 2006/7 was the retrieval of some £10k in bad debt that had previously been written off as part of the 2005/6 – 2006/7 handover. This was pursued largely during overtime hours worked by the present CUSU financial administrator.

Reserves Position

Prior to the CUSU's relocation (scheduled for 2005/6 but completed in 2007), substantial reserves in the £200,000 range had been accrued whose stated purpose was to assist with future building costs. Since CUSU's move will now likely cost a maximum of £46,000, reserves are now to be held for rainy-day purposes as per the new Financial Policy. The benchmark chosen is roughly four to six months of operating costs; it should be held in mind, however, that seasonal fluctuations can mean great disparities between different iterations of a four to six month operating period for the CUSU.

Between the operations of 2006/7 and the building move, CUSU's balance-sheet reserve levels should now fall confidently into the £150k-£175k range. Given the operating scale of the organisation, this level should be adequate to our policy aims. It does not represent a fully topped-up disposition; however, the zero-revenue contingency on which the Financial Policy operates is practically unlikely, and any charity should be wary of accumulating excess inactive funds.

Outlook

The jury remains out on the question of whether recent income performance points to the need for a medium-term budget position that trims the size of charitable operations in order to offset pessimism on income.

Advertising activities have sold very strongly in the first quarter of 2007/8, with *TCS* revenue expected to exceed even the ambitious 2006/7 target. Entertainments revenue for 2007/8 is harder to judge, with some shifts occurring in the relationship between the CUSU and its main commercial partners and modestly successful performance in the first month of activities.

At the moment, my disposition remains observational, with a layered contingency plan of mid-term cuts drawn up over the summer and no immediate plans for a substantial scaling-down of the 2008/9 budget, to be submitted in spring 2008.

Negotiations with the University of Cambridge on the subject of more reliable central funding have become more promising in recent weeks and months. There has also been increasing hope that the organisation will sooner rather than later be in the position to hire a professional general manager. This institutional step, while challenging to implement, could bring substantial returns in terms of defeating cyclical problems of oversight, memory, and business competence.

The Oxford and Cambridge Careers Handbook joint venture is also poised to ramp up its contribution to the CUSU's financial position. A new internet-based project is already attracting five-figure revenues as it launches, and production organisations appear interested in arrangements with the current print edition of the Handbook that could bring the CUSU an extra roughly £30,000 per year.

I remain optimistic that the underlying strength of CUSU as an institution, coupled with the greater financial clarity of the post-2006/7 environment and better communication within our head office, bodes well for the Union's short and medium-term prognosis.

Adam Colligan
CUSU VP (Services) 2007/8