University Students' Council of Western University

Memo

To: *Cathy Clarke, General Manager*

From: *Carrie Passi, Managing Director Finance and Administration*

cc: *Sophie Helpard, President, Jonathan English, Secretary-Treasurer*

Date: *June 18, 2015*

Re: *Cash flow FYI and recommendations for policy and process changes*

Overview

Cash flow has always been an important piece of financial information that the USC has paid particular attention to. There are many reasons for the need for this attention. Three of the most important reasons include: the cycle within which the USC receives activity fees, the cycle within which the USC spends money and the cycle within which renovations and large hardware purchases are made. More specifically, the USC needs to be cognizant of the fact that the organization goes three full months without any funding, other than operational revenues, coming into the organization and must also be cognizant of the fact that those same three months are the ideal time for renovations and computer hardware and software to be purchased in order to be up and running by the time school starts. Further, because the operational revenues that come in are used to offset the expenses incurred to do business, it must also be noted that revenues are decreased during the summer months due to fewer people being on campus and using our operations and services. As a result of these factors, the Senior Manager Financial Services and the Managing Director Finance and Administration pay very close attention to where our cash levels are sitting as we enter into the "slow months" and work together to ensure that necessary bills are paid on time and that our cash outflows are "managed" especially carefully during this critical time frame.

Determining expected cash flows from student activity fees is another factor that makes managing cash flow difficult at times. This is because we are not able to confirm actual numbers of students that we have received or are receiving fees from until April of each year. This makes managing cash flow difficult because while spending within the approved budget continues based on an estimated number of students throughout the year, the USC doesn't know for sure the total activity fee revenue that will be received until after the majority of the spending has been done.

Overall, between the cycles that the USC's cash comes in and goes out of the organization and the inability to ensure that our budgeted student fee revenues match what is actually *received until after the expenses have been made, the ability to predict cash flow and manage that cash flow is often a difficult task for the USC.*

Background

The management and predictability of cash flow for the USC was particularly difficult for the fiscal year ended May 31, 2015. The budgeted number of students was estimated at 30,000. This figure was provided by Western and was used against the recommendations for student numbers from General Manager and Managing Director Finance and Administration. As a note, the recommendation generally used during the budget for total number of students is a conservative estimate based on the total students as determined from the prior year reconciliation. We would only suggest increases to that estimate if there was a valid, known assumption that indicated student base was going to grow. When increases are expected, we would also verify that assumption with Western senior admin and would look to the assumptions being used by Western for their budgeting purposes.

As the year progressed and fee revenue was being received, it was noted that total fees received were not going to match those within the budget. Adding to the issue was the fact that we weren't able to confirm the difference in revenues until April 2015 when all of the big operational and PVP spending had been completed. The implication from this was that due to the cycle of when we confirm student numbers, the USC was unable to react to the change or scale back spending of any manner. Overall, the USC was "short" between 1,000 and 1,500 students from what was included in the budget. This means that based on student fee revenue alone, the USC would be short between $685,000 and $1,072,000 in the overall budget. More specifically, this meant the USC would be in a deficit position when the overall budget is reconciled with actual figures. This is not a position the USC wants to be in. This was first noted as an issue when the projections were done for the current year as part of the budget – the result at that time indicated that we would have a $500K deficit at the end of fiscal 2014-2015.

In order to be certain that the USC was not owed additional funds that would help the organization avoid a deficit position, the USC confirmed total fees received from Western and the affiliates directly from the Controller of Western. We then also received a report from the Registrar which indicated the total number of students for which the fees were received upon. The USC separately confirmed the total number of undergraduate full time students from People Soft (software used by Western to track expenses and receipts from all students, among many other things as well). The USC did this as a way to obtain a final number of students upon which we were to pay the LTC (this is always done in April). USC IT then ran a separate report comparing the report received from Registrar to the one we ran directly from PeopleSoft and it was noted that there was only a difference of 7 students. At this point, we were certain on the total number of students at main campus. The USC then went through a similar set of steps with each of the affiliates to ensure those figures as well. The overall result was that the total number of students matched those results that the USC had obtained independently which meant that the USC had received all of the activity fees that they should have. In the end, it was further confirmed that there were only approximately 28,500 students, not the 30,000 that had been budgeted for.

Further, because spending continued with the expectation that we would be receiving more money in student fees than we actually did, this made it even more important for the cash flow of the organization to be monitored extremely closely. The USC's cash position had gone from one where the organization had $3M in cash at previous year ends to one where if we *didn't recall some funds from reserves, we would be close to a zero cash position. This change in cash position occurred over a period of 3-5 years. Needless to say, when the money was recalled into our operating accounts, it prompted a full in-depth analysis of what had caused our cash position to decline and what recommendations could be made in order to ensure that we are able to maintain a healthy cash position in the years to come and to make the management of the USC's cash flow a little easier for all involved.*

When the analysis was complete, it was determined that there were two main areas that had contributed to the decline in cash on hand for the USC. Those areas were: capital spending (outlined in a separate memo) and terminations. Total cost of terminations over the past 5 years has used just over a million dollars from our cash on hand. The reason that this number is so large is that a number of the terminations were long term employees whose jobs were deemed redundant when compared to the current needs of the organization. All of the terminations were done in conjunction with our legal counsel, HR and met all employment law requirements as well. All terminations were also approved by the Board of Directors. It is important to note here that if those terminations had not been done, our current payroll would be approximately $700,000 to $800,000 higher than it is now. Given our current budgets do not show that size of a surplus, the USC would have had to either decrease overall spending by that amount to get to a balanced position or increase fees. Whenever terminations are done, they are well analyzed and planned out prior to the termination being executed so as to minimize our risk associated with the termination.

Current Situation

To add to the difficulty of managing cash flow for the organization, there were a few items that occurred in fiscal 2014-2015 that were not included in the budget and represented actual cash leaving the organization. Some examples include:

1. *CLA contribution – this amounts to $75K in one year that was not budgeted plus we were encouraged to pay the amount upfront rather than spreading it across multiple years*

2. *Multifaith renovation – the USC contributed $20K to this project which was $10K over the original recommendation made by the General Manager and the Managing Director Finance and Administration*

3. *Peer Support Network – the USC spent approximately $20K on this renovation as well.*

4. *New office space gained behind screen in McKellar room – while this was not originally an item in the capital plan, when the space was discovered it was incumbent upon the USC to make use of this office to alleviate the lack of usable office space.*

5. *There was scope creep in the McKellar room renovation as well – original plan was to move the screen and do some other small pieces but we ended up with a new screen, new side curtains and moved the projector.*

6. *Painting of back hallway – this was not originally on the capital plan but became necessary once the decision was made to have offices open up into the hallway.*

7. *The final piece that added to the decrease in cash was the large loss incurred from two concerts that took place in March. This is difficult for the USC to endure as the cash outlay occurred at a time when student revenues are not coming in.*

Overall, while the USC has had many items that have made cash management and cash preservation difficult, it is important to note that the organization is not in a crisis situation in terms of cash. The USC is in a stable position but given how dependent the USC is on student fees, and given the fluctuation we have just experienced between fee receipts vs planned spending, it is imperative for management to improve on our processes and procedures in order to ensure that the USC has the flexibility needed to ensure relevancy with students.

Recommendations

The result of this analysis has been a number of recommendations coming forward for policy, process and procedure to gain back control of when cash is being spent so that it can be better aligned with when cash is coming in. While some of the recommendations may not be ideal from a renovation stand point or implementation stand point, they are necessary in order to ensure that cash is spent responsibly and in line with expectations.

In terms of budget spending – it is important to note that when budget assumptions are proven to be incorrect we can always do a budget amendment however there are very few areas that can actually be changed to maintain a balanced bottom line even if revenues are lower than expected. Operational budgets are not likely to be changed for an amendment given that if revenues in operations are lower than expected, we cannot force people to come in and use our ops so there is very little room for those budgets to change. Corporate budgets are also unlikely to change dramatically given the majority of them are based on contracts – salary and benefits, occupancy, insurance, audit, legal etc cannot be changed. Office expenses and PD can be altered depending on the time of year. The major area that can be flexible in terms of pulling back in cash expenditures are the PVP budgets – however, that is clearly not the ideal situation. I include this piece in the report just as an FYI when recommending budget amendments to overcome budget assumption inaccuracies.

The following is a list of recommendations from management:

1. *We need to encourage all managers in all departments to be cognizant of money being spent – they need to assess if they "need" to spend the money or if the spend is just a "want".*

2. *More control over when large purchases are being made – this may mean that software and hardware are not purchased during the summer when it is slower but rather need to be purchased in August for implementation in October rather than being ready for September. This is outlined in the new purchasing policy.*

3. *We are looking at large cash outlays and seeing if we can reconfigure so that large payments are not made when we have little cash coming in. One example would be our LTC contract – we will aim to pay out the contract over 12 months rather than 9 as it is now.*

4. *We will be increasing the reporting to Board – they will now get cash flow reports quarterly in conjunction with the quarterly financial update. They will also receive capital updates quarterly as well to indicate where we are at with spending.*

5. *We will also be looking into alternate work arrangements for staff in an effort to save some money in salaries. For example, we are examining areas that could be eligible for seasonal layoffs or shut downs at certain points in the year.*

6. *We have developed a new reserve fund policy to provide recommendations for how and why our reserve funds should or can be accessed and who is to approve such access.*

Of course with the above recommendations, comes some implications as well.

- *Renovations will be stopped for this current year and potentially for the next year as well as we "catch up" from some of the additional spending*
- *The renovation process will be slowed down especially if we don't have funding to complete renovations during the summer months*
- *Capital purchases will be delayed given a new policy for the timing of purchases*
- *The USC will likely pay more money out for the same product due to not being able to take advantage of efficiencies along the way*
- *Politics should no longer be a part of capital recommendations*

Overall, the goal of the recommendations laid out above is to control spending within the organization in an effort to better predict cash flows have better cash management procedures that are more in line with industry best practice.

Next Steps

While there are many aspects that make the management of our cash flows and the predictability of our cash flows difficult, by implementing the recommendations above the end result will be more predictability and better ease of cash management for the organization.

Further, by enhancing the processes, policies and procedures around spending, it will remove all temptation to increase scope in capital projects on the fly and will ensure that when budget savings in projects are realized, that those funds roll back into the capital plan. From there they can then be saved to allow increased spending in the following year or they can be re-deployed to a new project in the current year if that is what the Board approves. This will allow for more transparency in how the money is being spent and will ensure that sound business cases exist for any additional work that is recommended.

And finally, a more predictive cash flow will enable the USC to be more proactive in solutions and to have time to provide educated plans for situations rather than being put in a position of having to be reactive when negative situations arise.

For the current year, the USC has a multi year budget that has been approved. That budget allows for 29,000 students as part of the revenue model. This is an assumption that we now know needs to be adjusted to actual – the actual is closer to 28,500. As a result, the multi year budget bottom line will be impacted in a negative manner and where we had put forward a surplus in year 1 of the multi year, it will now be a deficit. This means that the USC will need to adjust spending in the current year in order to make up the now projected deficit for the year or will need to look for new revenue streams and opportunities for the organization in order to make up the deficit. We will also be looking to update any and all projections that can be adjusted that will help to make up the bottom line. At this point, with a deficit looming, we will not be looking to add any new services.

Summary

In looking at the cash position of the organization today, we can continue to say that the USC is in a secure financial state. We can also admit that over time, administration saw the cash position of the organization being depleted over the past number of years. However, administration also knew that the spending which had led to the depletion had all been approved and were consciously entered into. We know that we need policies, process and procedure improvements in order to make the monitoring and management of our cash position more predictable and in line with the receipt of our revenues.