

Update on Changes to Financial Accountability, Budgeting and Reporting

OASBO Finance Workshop

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Financial Analysis and Accountability Branch



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Introduction

- ❑ The Ministry of Education will be implementing changes to financial compliance and reporting in 2010-11 to improve transparency and consistency

- ❑ SB & B memos covering these changes are forthcoming

- ❑ Key areas of changes are:
 1. Updating Budget Compliance to Public Sector Accounting Standards (PSAB)
 2. Expense Exceptions to PSAB Compliance
 3. Accounting Treatment for Capital Funding (Deferred Capital Contributions - DCC)
 4. Wrap-up of the Capital Funding Model
 5. Treatment of Capital Debt and Reserves

1. Updating Budget Compliance to PSAB

- ❑ Compliance is moving from modified cash to PSAB. Levers that boards had in the past will remain, except with certain terminology changes:
 - Reserves to be included in Accumulated Surplus or treated as Deferred Revenues (external restriction)
 - Accumulated Surplus can be internally restricted; similar to reserves in the past

- ❑ Boards still required to pass balanced budget; if there is an in-year deficit it cannot exceed the lesser of:
 - Board's Accumulated Surplus and
 - 1% of the board's operating revenue

- ❑ Boards that fall into deficit or are of high risk of falling into deficit will now have to complete financial recovery plans.

2. Expense Exceptions to PSAB Compliance

❑ Benefits

- PSAB expense for benefits includes a benefit component for future cash costs for both current and retired employees
- Currently, there is an estimated \$3 billion unfunded future employee benefit liability
- PSAB budget compliance definition for 2010-11 and 2011-12 excludes the gap between the cash cost and the PSAB expense with the exception of benefit enhancement changes

❑ Interest and Vacation Accrual

- Current compliance excludes interest and vacation accruals
- New legislative compliance model will continue to exclude interest accrual to accommodate timing differences
- Vacation accruals will be phased into compliance starting in 2011-12

3. Accounting Treatment for Capital Funding

- ❑ PSAB currently requires boards to report their Tangible Capital Assets (TCA) as well as their amortization. This will be implemented starting in 2009-10 financial statements.
- ❑ For transparent financial reporting that avoids large swings between surpluses and deficits the Province will be requiring boards to follow a policy of Deferred Capital Contribution (DCC) for capital grants.

Example: \$10M funding for a new elementary school

- ❑ Without DCC there is \$10M in revenue in the first year, only \$250K expense (\$10M divided by 40 year useful life) resulting in a surplus of \$9.75M that cannot be spent, followed by 39 years of deficits equal to \$250K each year.
- ❑ DCC avoids these distortions

4. Wrap-up of the Capital Funding Model

- ❑ The New Pupils Places (NPP) grant worked well for boards with enrolment growth but created an unsupported debt if enrolment projections came in lower than expected.
- ❑ Most boards are experiencing declining enrolment and the grant is used mainly for debt support
- ❑ NPP model will be wrapped-up through:
 - One-time grant recognition on existing capital debt as of August 31, 2010 supported by existing capital programs (NPP, GPL, Capital Priorities etc.)
 - Grant recognition on eligible capital expenditures after August 31, 2010.
- ❑ Still generates funding for new construction for small number of boards that will be protected (estimated at \$272M)

5. Capital Debt and Reserves

- ❑ To avoid double funding (recognizing all eligible capital expenditure and associated debt), amounts previously flowed sitting in reserves will be recovered.
- ❑ Pupil accommodation reserves as of August 31, 2010 will be recovered through offsets against amounts owing for future capital grant entitlement or against cash payable to school boards for supported debt servicing costs
- ❑ Transfers from reserves up to August 31, 2010 to be for eligible debt servicing costs only, unless supported by a specific board motion prior to memo sent by Ministry

Next Steps

- ❑ Specified procedures on capital debt balances and pupil accommodation reserves as of August 31, 2010.
 - Will be based on capital liquidity template information.
 - Will assist in determining some capital related information (e.g. eligible capital debt) for 2010-11 estimates preparation
- ❑ March training sessions focused on 2010-11 estimates and incorporate new reporting model (TCA reporting), new budget compliance model, and implementation of DCC.
- ❑ Ministry to issue SB memo on specified procedures and confirm timing
- ❑ Develop new accountability measures on capital, project specific ideally leveraging SFIS