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Modernizing the Financial Accountability Framework for School Boards

OCSTA

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Purpose

- The Ministry has been reviewing the financial accountability framework in the Education Act and regulations. Changes proposed to modernize this framework are:
  - Update budget requirements to align with a boards financial statements;
  - Establish new financial controls on reserves; and
  - Allow for multi-year deficit management strategies and recovery plans.

Why are changes proposed: PSAB and the Education Act

- School boards financials have been on PSAB (Public Sector Accounting Board) since 2003-04. Further updates to the standards require implementation in 2009-10.
- The Education Act operates on a different basis (modified cash accounting method).
- This means that:
  - The bottom line of a board's budget (under the Education Act) is inconsistent with a boards' audited financial statements (under PSAB).
  - Financial decisions can impact the budget and financial statements quite differently.
  - There is a lack of transparency.
- This is why changes are being proposed to the financial accountability framework starting in 2010-11.

Change 1: Alignment of Accounting Standards

- The Ministry is proposing to update the budget requirements, currently on a modified cash basis, to the provincial accounting standards, PSAB.
  - Changes budgeting and reporting in areas like capital, reserves and employee benefits.
  - Capital assets will be shown on the boards' financial statement for the first time in 2009-10.

Benefits:

- Eliminates existing burden of financial statements that are different from the Education Act compliance statement.
- Improves transparency by eliminating inconsistent messages from multiple measurement standards.

Change 1: Accounting Standards continued

Issue - Capital

- There is an important issue being discussed between the provinces and PSAB pertaining to the treatment of capital.
- We'll use the example where you get a $10m grant for a new school.

PSAB Treatment

- You record the revenue when you receive it, so you show the $10m in the first year. The expense is amortized over 40 years. Therefore, in year one there is a large surplus followed by 39 years of deficits.

Current Provincial Approach

- The revenue is deferred and recognized to match the expense. There is no surplus or deficit in any year.
- All provinces in the country are actively working to get this approach recognized by PSAB.

Change 2: Financial Controls (Reserves)

- The Ministry is proposing to place a limit on the use of operating reserves (current terminology) or accumulated surplus (PSAB terminology).
  - Using reserves obscures a board's actual financial health.
    - Although technically "balanced" under current legislation, adding to reserves means a board has an in-year surplus, and using reserves means a board has an in-year deficit.
  - Boards can draw 1% of their operating budget from reserves. Any draw in excess of 1% would require Ministry approval.

Benefits:

- In-year surplus or deficit is more transparent.
- Minimizes unsustainable spending patterns, reducing financial risk.
- Allows for earlier intervention.

Change 3: Multi-year deficit recovery plans

- The Ministry is proposing to permit multi-year deficit management strategies and recovery plans, triggered if:
  1. spending is unsustainable
  2. an in-year deficit is forecast, or
  3. an unplanned deficit occurs in excess of defined tolerances or approvals.

Benefits:

- Recovery plan triggered at any point board forecasts a deficit, allowing intervention, preventing concerns from becoming large problems
- Recognizes that the recovery of all deficits in one year may place programs and student achievement goals at risk.
- Consistent with current realities and practices.

Concluding Remarks

What this Means to You:

- The budget process for a board should not change.
  - A board should still plan for a balanced budget
  - Unspent funds that went into reserves are now part of accumulated surplus. The surplus can still be restricted for specific purposes, similar to reserves.
- Key difference is that when considering financial implications, it's not the cash being paid that matters but the costs being incurred.
  - For example, a benefits decision that applies to retirees as well.

Next Steps

- Further presentations & training for boards will be scheduled as well as additional presentations at workshops and conferences.
- Changes are being planned for the 2010-11 Budget and the 2009-10 Financial Statements