

Management of Working Capital by Colleges and School Districts (Aspects of Financial Management)

Released: [August 2010](#)

1st Follow-up: [October 2011](#)

2nd Follow-up: [March 2012](#)

Discussed by the Public Accounts Committee: [October 20, 2010](#)

Self-assessment conducted by the Ministry of Education and the Ministry of Advanced Education

Ministry of Education

The Ministry of Education and Provincial Treasury (Ministry of Finance) have formed the Effective Cash Management Working Grouping with school district officials to build a cash management strategy which deploys cash balances to reduce government debt and related debt service costs and centralizes investment management. The business model for supporting this strategy has been developed and was presented to School District Secretary-Treasurers throughout the province in December 2011. It is currently being tested by a pilot project, leading to a staged roll-out to ultimately all school districts.

Ministry of Advanced Education

In response to the OAG's report, the Ministry of Advanced Education (AVED) has conducted additional research into the college sector's cash-flow requirements, cash management and investment policies.

AVED has taken steps to strengthen the sector's accountability framework and ensured effective investment policies are in place. The sector has reduced excess liquidity and is optimizing collective purchasing power.

Recommendations addressed in previous follow-up(s):

RECOMMENDATION	SELF-ASSESSED STATUS
Recommendation 4: Government should consider pursuing opportunities to allow colleges and school districts to share purchasing power and investment expertise they do not all have at present.	Alternative action taken

SELF-ASSESSED PROGRESS IN IMPLEMENTING RECOMMENDATIONS

Outstanding Recommendations

RECOMMENDATION AND SUMMARY OF PROGRESS	SELF-ASSESSED STATUS
<p>Recommendation 1: Government should review how the accountability frameworks and the mechanisms for delivering funds interact to influence decision making in colleges and school districts around working capital management. The framework should be designed so that appropriate incentives are in place to encourage good working capital management.</p> <p>Actions taken, results and/or actions planned</p> <p>Ministry of Education:</p> <p>Through the work of the Effective Cash Management Working Group -- with representatives from the Ministry of Education and Provincial Treasury (Ministry of Finance) and School District Secretary-Treasurers -- incentives to encourage good working capital management are investigated. For example, the Group has developed a new cash management strategy which provides school districts with the ability to deposit their cash with the province in exchange for compensation. The objective is to reduce the province's debt burden without impacting school district governance, budgets and entitlement to the cash, and thereby offer appropriate incentives for good cash management.</p> <p>Ministry of Advanced Education:</p> <p>The Ministry of Advanced Education has built a strong accountability framework that focuses on student outcomes. The Ministry and the public-post secondary institutions annually collect feedback from former students, who report high levels of satisfaction with the relevance of the skills and knowledge they gained and the positive impact their education had on their readiness for the labour market. In addition, the Government Letter of Expectations with each college has been strengthened to include accountabilities that influence effective working capital management by aligning financial resources with Government's priorities, and working collaboratively to create efficiencies and maximize investments in post-secondary education.</p>	<p>Fully or substantially implemented</p>
<p>Recommendation 2: Government should pursue opportunities to access and reduce excess liquidity in colleges and school districts. For example, the timing of payments could be aligned with forecasted operating cash flow requirements and excess cash could be deposited with central government in order to improve investment returns or reduce government borrowing costs.</p> <p>Actions taken, results and/or actions planned</p> <p>Ministry of Education:</p> <p>Further to the response to Recommendation 1 above, in December 2011 the Effective Cash Management Working Group presented its new cash management strategy and details for implementing the supporting business model to School District Secretary-Treasurers in the province. As a result, a pilot project with sample School Districts has started to test the model with the objective of a staged roll-out to ultimately encompass all school districts. The strategy is fully functional and the pilot project will be used to ensure a smooth implementation for roll-out of the strategy to all school districts. Currently there is about \$20 million of school district cash on deposit centrally with government.</p> <p>Ministry of Advanced Education:</p> <p>Data collected by the Ministry of Advanced Education has shown that cash flow requirements will vary depending on an institutions' size, geographic location, number of campuses, regional economy and reliance on provincial funding. Individual institution's tuition and other revenue collection policies also significantly influence when revenues are received. As tuition revenues account for approximately 25% of total revenues, they naturally create cash balance ebbs and flows: during high tuition revenue periods (approximately four months of the year) institutions deposit excess cash in short-term investments. During the remainder of the year they are either drawing down cash balances and short-term investments, or sourcing additional funds through short-term borrowing. In addition, the current requirement for institutions to balance annual financial results influences the level of cash that must be retained at fiscal year-end in order to offset non-cash expenditures (such as amortization). Since the OAG report in 2008/09, the sector has better aligned liquid assets to meet current liabilities by reducing the current ratio from 1.42 to 1.21 in 2010/11. AVED has also implemented a just-in-time cashflow system to institutions for one-time health program payments.</p>	<p>Fully or substantially implemented</p>

Outstanding Recommendations (Cont.)

Recommendation 3: Government should pursue opportunities to improve investment management either by centralizing the management of investments or by providing clear direction and support to colleges and school districts.

Fully or substantially implemented

Actions taken, results and/or actions planned

Ministry of Education:

The cash management strategy implemented by the Ministry of Education, described in the response to Recommendations 1 and 2, has established a mechanism for centralizing investment management of cash and temporary investments with the province.

Ministry of Advanced Education:

Ministry of Advanced Education (AVED) research shows that 64% of the institutions have board-approved investment policies in place, which cover 97% of total investments in the sector. In order to ensure best-practices in investment management are being used within the sector, on December 20, 2011, correspondence was sent from AVED to all public post-secondary institutions which contained valuable investment policy information and guidelines, and requested institutions to ensure they have implemented board-approved investment management policies that reflect best-practices, by March 31, 2013.