

Management of Working Capital by Colleges and School Districts

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

- The Ministry of Education and Provincial Treasury (Ministry of Finance) have formed a working group with school district officials to build a cash management strategy which deploys cash balances in a manner which reduces government debt and related debt service costs and centralizes investment management. Development of a working business model is targeted for December 2011.
- The Ministry of Education, in partnership with School Districts, has made progress in raising awareness of the need for more effective management of working capital. Effective April 2010, the ministry implemented a new cash disbursement model to ensure the timing of grant payments better match the cash requirements of school districts. As a result, the Ministry of Education has reduced its average yearly draw on provincial debt, potentially reducing debt servicing costs for Government. In addition, the Ministry has encouraged school districts to utilize unspent grants received from Government in prior years. Results to date indicate lower cash balances.
- 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 confirmed the college sector has multiple working groups that share information, collaborate on issues and ensure effective and efficient financial management. AVED also found the sector's cash flow requirements vary depending on an institution's 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. AVED is continuing to review this data and will work with the Ministry of Finance regarding a cash management strategy for this sector.
- AVED has also explored investment options for the Colleges' individual operating accounts with the BC Investment Management Corporation (bcIMC). While the college sector has prudent investment management practices in place, AVED is working to determine post-secondary sector best practices and will supplement the "Investment Governance: Good Practice Checklist" as appropriate.

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>Partially implemented</p>

Actions taken, results and/or actions planned

The Ministry of Education has modified the timing of grant payments to better match cash requirements of school districts. A working group of representatives from Government and the BC Association of School Business Officials (School District Secretary-Treasurers) has been struck. The purpose of the working group is to improve cash management between Government and the K-12 sector. Through this group, incentives to encourage good working capital management are being investigated.

The Ministry of Advanced Education is working with Treasury Board Staff on a review of the fiscal accountability framework for the post-secondary sector to simplify it and ensure an appropriate operating environment for the post-secondary sector once Public Sector Accounting Board standards take effect April 1, 2012. The impact on cash management will be considered as part of this review.

The Ministry of Finance will provide assistance to the Ministries of Education and Advanced Education on implementing cash management strategies.

Recommendations (Cont.)

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. **Partially implemented**

Actions taken, results and/or actions planned

Provincial Treasury (Ministry of Finance) and the Ministry of Education presented to Treasury Board and obtained a mandate to collaborate with school districts on a new liquid and safe cash management strategy which provides school districts with 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 governance, budgets and ownership of the cash and keeping districts "whole". Development of a working business model is targeted for December 2011 with Treasury Board guidance on implementation sought as necessary. Based on the results of this collaborative effort, the Ministry of Advanced Education will consider rolling it out to entities in its sector.

The Ministry of Education has taken the following actions:

- Effective April 1, 2010, Annual Facility Grants flow to school districts only when cash is required by the school district to pay for maintenance of school buildings.
- Effective July 1, 2010, Operating Grants flow to school districts on a more timely basis to better match cash requirements of school districts. This new approach to funding school districts prevents school district working capital balances from accumulating. Also other grants, such as the Pay Equity grant, are disbursed over the entire school year to match payroll expenses.

To improve understanding of college sector cash flow requirements, the Ministry of Advanced Education obtained 2010/11 cash flow information from twelve institutions. While some trend analysis is possible from the data, there are some key data challenges which hinder the ability to draw specific cash flow conclusions for the sector as a whole. For example, cash flow requirements will vary depending on an institution's 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. The current requirement for institutions to balance annual financial results influences the level of cash that must be retained in order to offset non-cash expenditures (such as amortization).

AVED is continuing to review this data. This analysis will be considered in the context of the above note cash management strategy.

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. **Partially implemented**

Actions taken, results and/or actions planned

The Ministry of Finance has developed and published "Investment Governance: Good Practice Checklist" on its website (under Treasury Board Staff, Crown Agency Resource Office, Guidelines and Publications). The checklist is a guide to assist readers with a better appreciation of prudent practices as generally applied in the investment field. The checklist has been forwarded to the attention of SUCH sector ministries and Crown corporations. The cash management strategy described in the response under Recommendation 2 above contemplates centralizing investment management of cash and temporary investments with the province.

To improve understanding of institutions' investment management practices, the Ministry of Advanced Education requested the college sector to provide details on investment policies. Some college sector institutions either have no- or low-value investments. Those that have regular long-term investments, or endowment funds, have board-approved policies in place and generally use external investment management firms. Ministry of Advanced Education staff are working with the three largest post-secondary institutions to better understand the accounting for investments and overall investment management strategies. Information from this exercise will be used to supplement the "Investment Governance: Good Practice Checklist" as appropriate.

Recommendations (Cont.)

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**

Actions taken, results and/or actions planned

The cash management strategy described under Recommendation 2 contemplates investment management of cash and temporary investments with the province, thus minimizing requirements for investment expertise. This initiative may result in banking fees increasing to cover lower cash on deposit with the banks. Provincial Treasury (Ministry of Finance) will monitor and assess opportunities with the school districts for beneficially leveraging government and sector-specific purchasing power.

The Ministry of Education has determined that many school districts currently share purchasing power. The BC Association of School Business Officials actively discusses further opportunities for school districts to share purchasing power and investment expertise. The Educational Resource Acquisition Consortium (ERAC), a consortium of BC public school districts and independent schools, works together to cooperate on learning resource evaluations and purchases, in order to realize process efficiencies to generate financial savings. Further opportunities for shared services across school districts will be investigated.

The Ministry of Advanced Education (AVED) has subsequently explored investment options for the Colleges' individual operating accounts with the BC Investment Management Corporation (bcIMC). bcIMC has advised AVED that yields on money market securities have declined considerably from the yields referenced in the OAG report. In addition, as is customary with many investment managers, bcIMC applies a minimum fee to each individual client account in order to ensure that it recovers its costs in servicing very small accounts. Given these two factors, after careful review, AVED has concluded that using bcIMC, or another investment manager, at this particular time, would not be the most cost-effective option to manage all of the individual cash accounts. AVED will continue to monitor and review their investments, seeking to maximize the return on cash balances, while taking into careful consideration liquidity requirements, risk tolerance, and efficiency of operations.

The college sector collaborates on many financial initiatives, including optimizing purchasing power through a number of working groups, organizations and sharing agreements, such as:

- Higher Education Information Technology BC (HEIT BC), which is a consortium of 23 BC public colleges and universities that negotiates and manages software licensing agreements and bulk purchasing (estimated to provide discounts ranging from 30-40%); and
- The Education Cooperative Purchasing Group (EDCO), which is a consortium of 22 school districts and post-secondary institutions in Greater Vancouver that promotes inter-institutional financial co-operation and joint supply agreements.