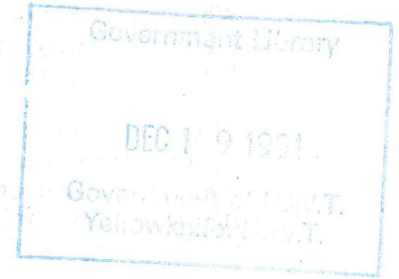




FUNDING TO DIVISIONAL BOARDS OF EDUCATION

EXTRACT FROM

THE REPORT TO THE LEGISLATIVE ASSEMBLY
OF THE NORTHWEST TERRITORIES
OTHER MATTERS

for the year ended March 31, 1990

Pages 24-27 inclusive

2. Funding**Introduction**

Most boards rely entirely on funding from departments. We reviewed the methods departments use to calculate annual contributions, the date when they notify boards of the amount of contributions, and the timing of contribution payments. We noted that boards do not know the amount of their Government contribution until a fiscal year has begun. We also noted significant differences in the timing of contribution payments by Health and Education.

Date When Departments Notify Boards

The Government and most Boards have a March 31 year end. Both Health and Education Boards have significant fixed costs. For example, Boards have a large number of employees so salary costs are the bulk of their budgets. To allow for meaningful budgeting and prudent management, it is desirable that boards learn what their actual contributions from the Government will be as far in advance as possible. It would be best to know what the contribution is well before a fiscal year begins, so that staff levels can be adjusted accordingly.

For the 1989-90 fiscal year, the Legislative Assembly approved main estimates on March 16, 1989. Boards were not informed of their actual contributions until June.

Discussions with both Health and Education indicate that they plan to inform Boards of their 1991-92 contributions before the beginning of the fiscal year.

Timing of Contributions

Both Health and Education pay contributions to Boards in instalments. We compared the timing of their contribution payments.

When recipients of contributions receive payments in advance of their cash needs, they temporarily have excess cash which they can invest and earn interest on. Instalment profiles are compared in EXHIBIT 6.

This exhibit illustrates that Education Boards receive a large portion of their annual contributions at the beginning of the fiscal year. In addition, they receive their quarterly contributions in advance. The Department of Education notes that the large contribution at the beginning of the year is made to allow Boards to pay teachers their summer vacation pay.

Health Boards receive monthly contributions which approximate their budgeted cash flows.

EXHIBIT 9 compares the interest income to total income for nine Education and five Health Boards. The average Education Board receives 2.8 percent of total income from interest. The average Health Board receives 2.2 percent of total income from interest. Earning interest on payments made in advance of need illustrates good financial management by Boards. But it presents a problem for the Assembly's approval of Contributions.

Parliamentary tradition holds that the Legislative Assembly should approve all expenditures. If payments are made far enough in advance of need that Boards can earn significant interest, in effect this interest represents a contribution not approved by the Assembly.

Another way of viewing this is as a transfer of interest revenue from the Government to the Board. If the contribution payments were not made early, then the Government would have the excess cash and earn the interest itself.

Resolution of this problem is not as simple as 'taking away' Board's interest revenue by changing the timing of contribution payments. Departments must determine the actual needs of each Board. The Assembly should be basing its decisions on the actual needs of the Boards.

The Financial Management Board has approved a policy that contributions not be made in advance of need. Education is studying the impact of this policy on its contributions. It expects this review to be completed by March 1991. Decisions concerning payment schedules will be made after the review.

Conclusion

Boards do not know the amount of their Government contributions at the beginning of a fiscal year. This handicaps their financial management. There are significant differences in the amounts of interest revenue earned by Boards. This interest revenue constitutes expenditures by the Government which are not approved by the Assembly.

Recommendations

1. Departments should notify Boards of the amounts of their contributions as soon as is practicable.
2. The timing of contributions to Boards should be determined by their needs. Alternatively, estimated expenditures presented to the Legislative Assembly for approval should include the amount of interest earned by Boards on contributions made in advance of need.

Exhibit 6

Typical Timing of Contribution Payments

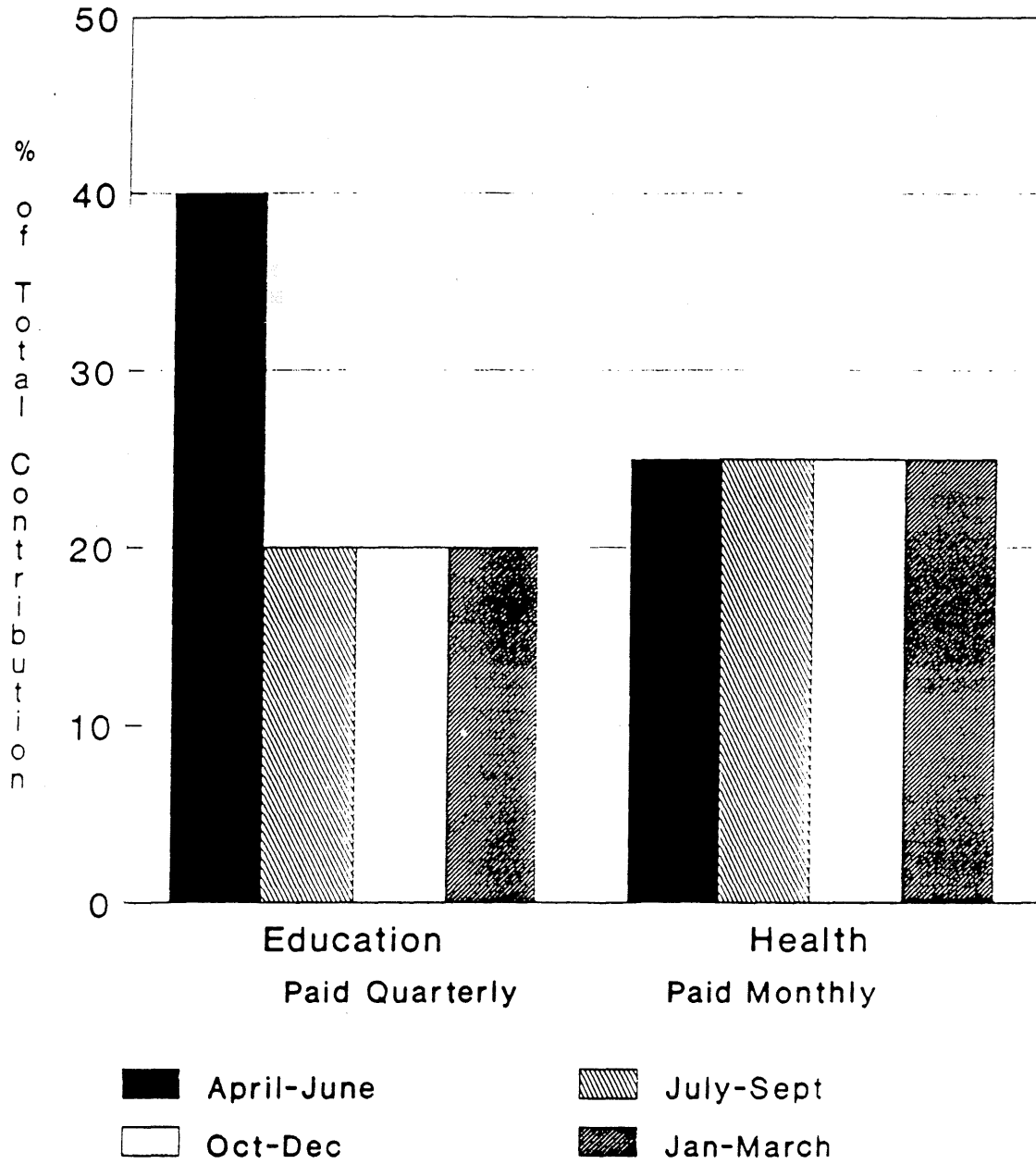


Exhibit 9
Results of Review of Boards' Financial Statements

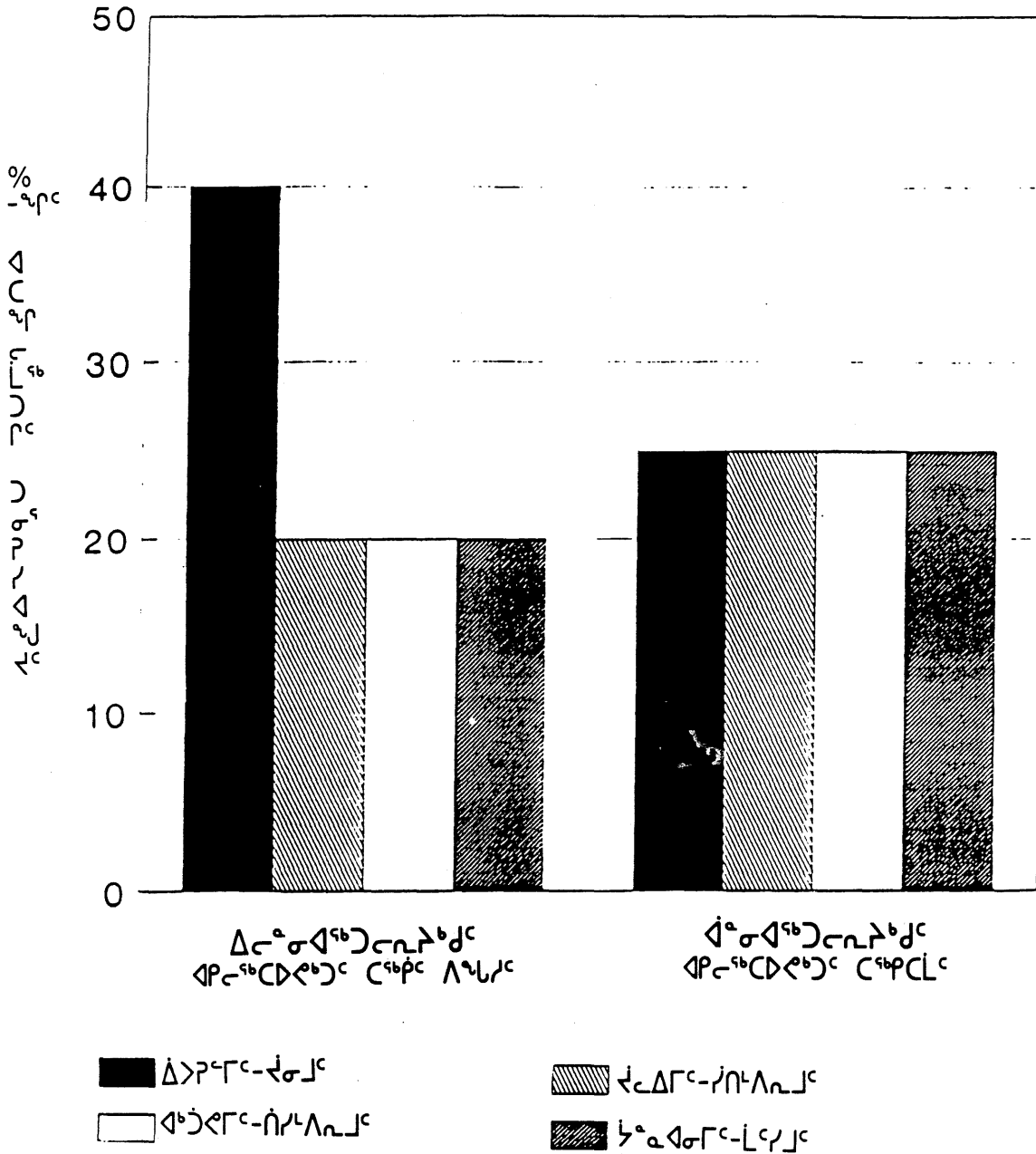
Interest Revenue

	Type of Board	Fiscal Year End Examined	Interest Income	Total Income	Interest as % of Total
E1.	Education	March 31, 1990	509,100	22,058,000	2.3 %
E2.	Education	March 31, 1990	99,600	6,330,000	1.6 %
E3.	Education	June 30, <1989>	130,400	3,356,200	3.9 %
E4.	Education	March 31, 1990	103,540	6,174,400	1.7 %
E5.	Education	March 31, <1989>	216,500	11,227,700	1.9 %
E6.	Education	March 31, 1990	322,700 (Note 1)	9,719,200 (Note 1)	3.3 %
E7.	Education	March 31, 1990	44,300	4,313,900	1.0 %
E8.	Education	June 30, <1989>	504,800	9,506,600	5.3 %
E9.	Education	June 30, <1989>	248,200	5,994,100	4.1 %
	Total Education		2,179,140	78,680,100	2.8 %
H1.	Health	March 31, 1990	213,600	22,804,000	0.9 %
H2.	Health	March 31, 1990	27,700	4,438,800	0.6 %
H3.	Health	March 31, <1989>	225,600	14,720,200	1.5 %
H4.	Health	March 31, 1990	214,000	5,522,200	3.9 %
H5.	Health	March 31, 1990	598,300	11,019,800	5.4 %
	Total Health		1,279,200	58,505,000	2.2 %

Note 1 - This Board uses a different method of recording interest from other Boards. We have adjusted to make it the same.

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Δ1	የገንዘብ ስራ ስርዓት ለመጠናቀቅ የሚያስፈልገው	ገንዘብ ስራ ስርዓት ለመጠናቀቅ የሚያስፈልገው	509,100	22,058,000	2.3%
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Δ7	የገንዘብ ስራ ስርዓት ለመጠናቀቅ የሚያስፈልገው	ገንዘብ ስራ ስርዓት ለመጠናቀቅ የሚያስፈልገው	44,300	4,313,900	1.0%
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