

## COMMENTARY:

### StFXAUT Response to Budget Presentation

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The administration at STFX held an information session on Tuesday, January 15<sup>th</sup>. The purpose of the meeting was to inform faculty and staff about the impending financial crisis in which the University finds itself.

#### Timing the Budget Presentation(s)

The timeline for the presentation was curiously coincident with the negotiation timeframe for the three separate unions. A mere three months ago there was a budget information session for faculty and at that meeting the budget delivered in April 2012 was re-delivered with no changes. Further, the known information, a small decline in students and a number of vacancies in residence (160 rooms), was not quantified at the October meeting. We are led to believe that in three months the financial situation had shifted significantly even though enrollment and vacancy levels had been known in October 2012.

#### Staging the Performance

The presentation of the revised budget information appeared staged. The script was prepared, the actors (aka senior administrators) were well practiced, the lights were dimmed, the video cameras were on, the audience was recruited and the presentation was carefully delivered including poignant pauses and a heartfelt pause on the word "horrible". The



presentation began with a message from the President. Although his presentation focused on dire news ("we will have to have less employment"; "40 people at \$50,000 is \$2 million"; "the current budgetary situation poses an extremely serious challenge"), the audience clapped at the conclusion perhaps clapping not because of the content of his presentation but to acknowledge the President himself. The effect was to dilute or partially deflect the message being delivered.

*1) Why was the budget information presentation taped? No other budget information session has been taped. The taping of the information session may be intimidating for some who are already uneasy about voicing opinions/ comments/ questions in such a forum.*

*2) What are the expected venues/forums for dissemination of such a taping? The taping of the budget information session is curious as the venues for its replay should be questioned. Perhaps the Board of Governors, the media, and/or government officials were the "real" and intended audience for the budget information presentation.*

3) *Why was the information scheduled in such a tight timeframe?* Although there was some time allotted for questions, the timeframe of 45 minutes to deliver the presentation and respond to any meaningful questions was very limited. The limited timeframe undoubtedly allowed for administration to control their exposure to difficult questions. Their exposure to difficult questions was further protected as no information was provided prior to the information session and thus it was difficult to digest the information in such a short and aggregated presentation.

### **Information in Aggregate**

Information was presented at a very cursory level. The revenue and expense levels were provided at an overly aggregated level and provided no real context for understanding how a near balanced budget could be managed into a \$4M or more deficit position between October 2012 and January 2013. It is perplexing how such a significant change in surplus/ deficit levels especially given the fixed cost/ contractual based structure of the University.

Although there were promises made during the budget information session that information would be made available on the STFX website for review, a review of the website provides the 2012-2103 budget (which still shows a budgeted surplus of \$2,979) and the information notes and PowerPoint for the recent information session; that recent information provides only cursory/aggregate level information.

### **Environment of Transparency?**

Although the STFX administration has previously discussed transparency, no transparency is gained through the overly aggregated dissemination of information. Questions which should have been provided (or asked) at the information session include:

1) *What are the differences (quantified) between the budget presented in October and the budget presented in January?* In order to clearly understand the differences which contributed to the reported \$4M deficit there needs to be identification and quantification of the differences from the budgeted information presented in October 2012. Some credence was given to lower residence vacancy levels and to the cost of heat and electricity however these do not add to \$4M and thus it is unclear what is really contributing to the “revised” deficit.

2) *Which of these differences have cashflow implications rather than only accrual accounting implications?* Accounting allows for flexibility in reporting. Accrual accounting allows for opportunistic managers to manage earnings even though there is no real impact on cashflow. Using accrual accounting, the earnings can be managed by using provisions and other accruals; this is called earnings management and a form of earnings management is the minimization of income which taken to the extreme is called a “big bath”.

## **Financial Crisis, Again?**

The fable of the “Boy Who Cried Wolf” is reminiscent of the current situation presented by STFX administrators. At a Faculty Budget meeting a few years ago one of our Faculty members stood up and said (paraphrased) I have been at STFX for five years and each year there is a “crisis” but yet none develops. The narrative of crisis is one that is repeated year after year. “We are in the most serious financial crisis this year in living memory” said President Riley at the budget information session on January 17, 2013. There may be a financial situation in this current fiscal year which is driven by the vacancies (160 rooms) created by a change in management policy but that does not have a \$4M price tag.

## **Administration’s Management**

We are lead to believe that the current situation is a result of external factors beyond the control of STFX administration and beyond their ability to incorporate into a financial plan. In the preamble provided by President Riley he blamed Government cutbacks and the “nursing” funding. The level of Government funding and the cuts imposed by the current government have been known for years and should have been incorporated in the administration’s planning.

*1) Which of these differences are a result of economic circumstances or a result of management policy (e.g., number of vacant residence rooms)?* Differences in the budgeted amounts are not all attributable

to external factors (e.g., government funding) but many are a direct result of management policy (e.g., change in policy in the allocation of residence rooms) and decision making. Understanding the source of the differences in budgeted amounts should allow for accountability of the administration for their decision making.

*2) Will the financial model used to generate the budget be revised so that that model is more sensitive to these “significant” changes being identified?* Financial models even in their simplest form should be predictive and should not produce budgeted forecasts which within three months in a fixed cost environment overestimate the predicted deficit by \$4M.

We have the highest paid President and the highest paid Vice President, Ramsay Duff, in Nova Scotia (ANSUT). We therefore should expect good and competent administration which focuses on the academic mission instead of eroding that mission, has the ability to plan future revenue and expenses with some precision given the University’s cost structure, allows for some flexibility in revenue and expenditures, and understands the implications of leveraging the University by \$140M. The erosion of the academic mission is occurring coincident with the erosion of collegiality and collaboration which should be our Academic Model.