Financial Impact of Cost-Recovery Activity

BUDGET PRINCIPLE

New Brunswick Community College (NBCC)'s budget framework commits the College to, 'long-term planning with a focus on financial sustainability'.

Cost-recovery activity inherently includes financial profiles, risks and rewards which are different than the College's primary instructional activity funded by an annual operating grant and tuition fees approved by the Province of New Brunswick.

It is incumbent upon the College to consider such profiles, risks and rewards when setting financial goals, measurement, and evaluation criteria regarding the impact of ancillary activity so as to ensure no undue impact on financial sustainability.

PURPOSE

To provide clarity with regard to the goals, measurement, and evaluation criteria regarding cost-recovery activity.

SCOPE AND LIMITATIONS

Applies to a transaction or group of similar transactions exceeding $2,000 in a fiscal year which would be considered cost-recovery activity.

1.0 DEFINITIONS

Cost-recovery activity

- cost-recovery (including profit-oriented activity) which are mainly[1] funded by sources other than the annual operating grant and student tuition approved by the Province of New Brunswick. Examples include but are not limited to entrepreneurial activities such as contract, customized or professional development training, bookstores, cafeterias, print shops, vending machines etc. as well as cost-recovery activities such as apprenticeship, responsiveness/special admissions deliverables, research deliverables, etc.

2.0 IMPLEMENTATION

2.1 General

The following general principles relate to College cost-recovery activity:

2.1.1 Financial impacts include but are not limited to revenue, expenditure/expense, cash flow requirements, capital investment (including space, furniture, and equipment).

2.1.2 The development and implementation of financial goals, measurement and evaluation criteria shall not be customized to a specific transaction.

[1] For the purposes of this document, "mainly" is defined as 50% plus $1.

2.1.3 Common financial goals, measurement and evaluation criteria should apply to groups of transactions (i.e. each type of cost-recovery activity) and be applied consistently across the College regardless of their physical location or placement within the organizational framework.

2.1.4 While financial goals, measurement and evaluation criteria may evolve over the long term, consistent application should exist during the short and medium term.

2.1.5 Financial Goal(s) should include but not be limited to:

2.1.5.1 Cost-recovery activity should not detract from the primary mandate of the College as outlined by s. 6 of the New Brunswick Community Colleges Act assented to March 26, 2010.

2.1.5.2 Cost-recovery activity should fairly apportion cost-recovery (revenue requirement) without arbitrariness or inequity to NBCC's various funders including the Province of New Brunswick and public taxpayers, tuition and fee-paying students of our 'regular programs' as well as those who specifically benefit, access and/or pay for cost-recovery activities.

2.1.5.3 Wherever possible, cost-recovery activity should recover the full cost including direct costs (e.g. both salary and non-salary) to deliver the activity as well as indirect costs of the organization (e.g. overhead) reasonably related to the provision of the cost-recovery activity.

2.1.5.4 Capital investment related to cost-recovery activity should be planned in advance and should, wherever possible, be funded from earnings (net) of prior years which have been internally restricted in net assets (i.e. cost-recovery fund[2]).

2.1.5.5 New cost-recovery activity or major changes to existing business cases of cost-recovery activities should be accompanied by a business case. Such business case must be reviewed and recommended by proposed managers for the activity's day-to-day operations, Finance & Administration including the relevant Team Finance Budget Liaison and Director of Finance before evaluation and approval by College senior management (i.e. Senior Executive Team).

2.1.6 Measurement criteria should include but not be limited to:

2.1.6.1 Annual budgeted revenue less expense both before and after any increases (decreases) to net assets internally restricted for specific purposes (i.e. cost-recovery fund).

2.1.6.2 Annual actual revenue less expense both before and after any increases (decreases) to net assets internally restricted for specific purposes (i.e. cost-recovery fund).

2.1.6.3 Annual 'targets' may be set which detail expectations of the College's senior management that a cost-recovery activity provides a defined dollar contribution (i.e. excess of annual revenue over expense) to the College.

[2] Currently known as "ancillary fund".

2.1.6.4 Alternately, College senior management may set an annual ‘target’ which limits a cost-recovery activity to a defined subsidy on an extraordinary basis.

2.1.6.5 Such other key financial health indicators as may be set from time to time.

2.1.6.6 Efficiency and/or effectiveness measures (e.g. achievement of outcomes, quality) should be established and evaluated where applicable.

2.1.7 Evaluation criteria

2.1.7.1 Cost-recovery activity should be budgeted annually on a balanced basis or to provide a positive net contribution to the College.

2.1.7.2 Actual annual results should also balance or contribute a positive net contribution to the College. Any relevant annual targets should be achieved, and the feasibility of continued operations assessed.

2.1.7.3 Only in extraordinary circumstances should budgeted or actual revenue less expense require subsidy from the College’s annual operating grant, tuition or fees annually approved by the Province of New Brunswick related to students of ‘regular’ programs.

2.1.7.4 For cost-recovery activity, the evaluation of financial performance including but not limited to achievement of ‘targets’ (on an annual basis as well as over time) shall carry greater weight than other key financial health, efficiency and effectiveness indicators.

2.1.7.5 Those requesting, accessing, and/or utilizing cost-recovery activity should reasonably bear the burden of costs related to the provision of the cost-recovery activity.