

November 7, 2006

IMPORTANT NOTICE:

UWOFA General Meeting,
Thursday, November 9, from 3:00 – 5:00 pm,
McKellar Room, UCC
Agenda (see <http://www.uwofa.ca/meetings/agen061109.htm>)

Negotiations in a Time of Financial Plenty: If Not Now, When?

The Good News: UWO's Overall Financial Picture

Western's financial picture is stronger now than it has been in years. According to Western's Combined Statement of Operations, since 2003 Western's operating revenues have increased by 30%, generating large financial surpluses. In each of the past three years revenues have exceeded expenditures by more than \$40 million (Table 1), for an accumulated surplus of \$143 million.

Table 1: UWO's Financial Surpluses from Operations (million dollars)

	2004	2005	2006	Three-Year Total
Excess of Revenues over Expenditures	\$55.7	\$44.4	\$42.6	\$142.7

Source: UWO Combined Financial Statements (2004, 2005, 2006). Available at <http://www.uwo.ca/finance/finstate/index.html>.

The Bad News: Crying Poor at the Bargaining Table

Despite these surpluses, to date the employer's salary proposals leave Western's full-time salaries near the bottom among comparable Ontario universities. In addition, the employer's health benefits proposals, while advanced as cost neutral, would increase out-of-pocket costs to faculty. Its proposals for those who choose to work past 65 are harsh and punitive: for example, over half of such full-time members would lose the 8.5% employer pension contribution immediately.

The employer maintains that the surpluses do not reflect actual money available for operating purposes and that Western has limited cash resources. Our negotiating team hears that the size of the "pie" is fixed, and that UWOFA is limited to negotiating, and only to some extent, how that pie is divided among the components of our compensation package. A close examination of Western's financial statements raises some questions about these arguments.

What Happened to the Surpluses?

It is true that surpluses do not reflect actual cash available; indeed, accountants know that cash available may be much higher. The relationship between a surplus and cash available can be hidden in accrual entries in the Financial Statements, so accountants typically look at the Statement of Cash Flows to see where cash comes from and where it goes.

Table 2 below summarizes information from UWO's Combined Statement of Cash Flows for the past three years. The financial surpluses from operations shown in Table 1 are only part, albeit a large part, of total cash available. What happens to this cash? Most of it has gone to increase investments and to purchase capital assets. Over the last three years \$155 million has been transferred from operations, and most has gone into increased investment in financial instruments and physical capital.

Table 2: UWO's Cash Flows (million dollars)

	2004	2005	2006
Total Cash available	\$127.3	\$173.6	\$139.3
Where Cash is Used			
Increase in investments	\$29.4	\$80.4	\$26.9
Purchase of capital assets	\$95.1	\$91.4	\$105.4
Improvement in Cash Position	\$2.8	\$1.8	\$7.0

Sources: Statement of Cash Flows (Combined) http://www.uwo.ca/finance/finstate/2005_06/stmnt4.pdf and http://www.uwo.ca/finance/finstate/2004_05/stmnt4.pdf.

Thus when the employer cries poor, it is saying that it prefers to use its available cash on investments, buildings, and equipment and not on operational needs. Investment in the University's human capital is an operational need. Why transfer cash out of operations to purchase investments or capital assets rather than improve faculty salaries and benefits, and so enhance the University's human capital?

A Few Additional Questions

The employer also argues that the vast majority of University funds are reserved or restricted for specific purposes and so not available for increases in faculty compensation. Where exactly do such restrictions come from? A fund can be restricted by an outside entity or internally by the Board of Governors. Internally restricted funds (IRFs) are under the control of the Board of Governors, which should have the authority to redirect these funds so as to best meet the needs of the University.

In 2006 Western's IRFs totaled \$121 million. A large portion of IRFs was in Departmental Carry Forwards, which are monies budgeted to Faculties but unspent and carried forward to the next budget year. UWO's internal rules permit Faculties to "keep" such unspent funds. The employer suggests that IRFs such as these are not "available" for increases in salaries or benefits. While carry forwards serve a purpose, questions arise when they increase year after year. At Western they have done so dramatically, rising from only \$4 million in 2001 to \$47.5 million in 2006. Perhaps their continual growth signals that it is time to make use of these IRFs, rather than leave them in "slush funds" available only to Deans.

Faculty members should also know how Western's financial statements treat employee benefits. The employer levies an internal payroll tax on Faculties and other units at a rate of 27.5% (13% for part-time employees) to finance employer contributions to pensions and benefits. Yet actual pension and benefit costs are lower. The resulting over-taxation of Faculty and unit payrolls has increased from less than \$1 million in 2001 to \$7 million in 2006, and over the last four years has totaled \$23 million. This brings some possibilities to mind. First, if the amount collected for benefits was actually spent on benefits, the employer could improve our benefits. Second, if the employer collected only what was needed to cover benefits costs, then substantial monies could be directed towards salaries and catch up.

Let's return to our question: Where does the money go? We see it going where the employer wants it to go. Accounting rules and categories are not objective constraints imposed on the employer, although the employer may present them as such. UWOFA's position is that the University's improved finances provide an opportunity to make needed improvements in faculty compensation. With strong support from the membership, we can take advantage of this opportunity.