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Recommendation #3: Managing expenses associated with fringe benefits
Issue number: O-05

Background

General University fringe benefit costs have been managed using a central pool in order to “smooth” fluctuations in fringe benefit expenses between units. Unit budgets do include fringe benefit costs based on average fringe benefits rates for each employee classification. However, at the beginning of each fiscal year the fringe benefits allocations are directed to a central fund rather than departmental accounts. Allocations are made throughout the fiscal year from the central fringe benefits pool to departmental accounts to cover actual fringe benefit expenses.

A somewhat controversial aspect of this policy is that fringe benefits savings which result from vacant positions during the year remain in the central pool and are distributed by the President as part of year end allocations typically for building repair projects. College deans and other unit administrators have tended to view this as an onerous “tax” on their base budget.

Recommendation

The central pooling of fringe benefit expenses for General University units should be discontinued for fiscal year 2009. Centrally managing, of what is essentially a direct expense for a resource unit, is inconsistent with the Resource Management Model principles. Therefore, budgeting for fringe benefit expenses and the management in the variance between budgeted and actual fringe benefit expenses should be the responsibility of each resource unit. Any savings resulting from vacant positions during the year will remain within the respective resource unit.

Projected fringe benefit costs should be taken into consideration for the development of the resource units’ fiscal year 2009 budgets. In practice, the fringe rates do vary by unit and therefore using the average university fringe rate for budgeting a unit’s fringe benefit expense will not be an appropriate budgetary assumption for all units. Actual fringe benefit expenses for each unit will need to be available to unit administrators to appropriately budget for their unit’s fringe benefits expense. Any balance in the fiscal year 2008 fringe benefit pool will be distributed to the President.