



**AUDIT COMMITTEE
Report No. 18-102**

19 November 2018

Analysis of the District’s 2017-2018 Financial Results

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PURPOSE:

1. To provide the Audit Committee with information regarding the District’s financial results for the year ended 31 August 2018.

CONTEXT:

The District’s financial results significantly contribute to those reported in the draft 2017-2018 Consolidated Financial Statements. An analysis of the District’s results provides insight into relevant changes that occurred during the year. The narrative reflects areas discussed in forecasts presented during the year and amounts have been updated based on actual results.

KEY CONSIDERATIONS:

2. In June 2017, the Board approved the 2017-2018 Budget authorizing expenses totaling \$928.1 million. Funding of the expenses was provided through grants and other revenues totaling \$928.1 million. This resulted in a balanced budget.

The District’s 2017-2018 financial results show expenses of \$937.2 million, revenues of \$952.3 million and a surplus of \$15.1 million. Table 1 compares the surplus reflected in the updated forecast with the amount originally budgeted.

Table 1 – Comparison of Actual Results and Approved Budget

	Actual	Approved Budget	Change	Change
	\$	\$	\$	%
Revenues	952,309,000	928,126,900	24,182,100	2.6
Expenses	937,171,900	928,122,900	9,049,000	1.0
Surplus	15,137,100	4,000	15,133,100	

Changes to revenues and expenses since the passing of the 2017-2018 Budget are expanded upon in Appendix A - Analysis of Changes in Revenues and Expenses. Costs by program area for the current and prior year are presented in Appendix B - Comparative Summary of Expenses. Additional detail regarding grants is provided in Appendix C - Grants for Student Needs and a list of special purpose grants is provided in Appendix D - Other Program Grants.

3. **Enrolment Estimates and Grants**

The 2017-2018 Budget was developed using enrolment estimates established in early 2017. Average daily enrolment (ADE) levels have a direct impact on funding and also affect related instructional expenses. The approved budget reflected ADE of 48,011 for elementary and 22,235 for secondary.

Actual elementary ADE for 2017-2018 was 49,091 students which is an increase of 1,080 students (2.2%) over the approved budget. Secondary day-school enrolment ADE was 22,351 students which is an increase of 116 students (0.5%) over the approved budget.

As previously mentioned, enrolment has a direct impact on various grants and in particular the Pupil Foundation Grant (PFG). This grant applies to students of the District under 21 years of age and excludes 'high credit' ADE. Table 2 shows that the District's PFG is \$6.3 million more than budgeted.

Table 2 – Effect of Increased Average Daily Enrolment on Pupil Foundation Grant

	Enrolment (Pupils of the Board)			Pupil Foundation Grant		
	Actual	Approved Budget	Change	Actual	Approved Budget	Change
				\$	\$	\$
Elementary	49,091	48,011	1,080	260,962,100	255,375,900	5,586,200
Secondary	22,351	22,235	116	131,416,100	130,736,500	679,600
Total	71,442	70,246	1,196	392,378,200	386,112,400	6,265,800

Other allocations that comprise the Grants for Student Needs (GSNs) are affected by changes in enrolment and student demographics. One grant that had significant growth was the Language grant which increased by \$3.7 million beyond the budgeted amount. This grant has two components: The first part relates to enrolment in French as a Second Language (FSL) studies which provides funding based on the grade level and duration of French instruction. The second component is the English as a Second Language (ESL) amount which provides funding based on confirmed enrolment of students whose first language is not English and who have arrived in Canada since September 2013. FSL funding accounted for \$571,300 of the increase while the remaining balance of \$3.1 million resulted from ESL funding. The Language grant amount is part of the Net Other line on Appendix A – Analysis of Changes in Revenues and Expenses.

A number of other grants also had significant increases. The Special Education grant increased (net of revenue deferrals) by \$1.3 million, the Transportation grant increased by \$1.1 million and both the School Operations grant and the

Learning Opportunities grant increased by \$1.2 million. The latter amount is included in the Net Other line shown on Appendix A.

Appendix C - Grants for Student Needs compares the GSNs with the approved budget and reflects the effect of revenue deferrals.

4. **Employee Future Benefits**

As part of the ratified centrally bargained collective agreements for unionized employees and ratified central discussions with the principals and vice-principals associations, employee life and health trusts (ELHTs) were established in 2016-2017 for the following employee groups: ETFO, OSSTF, OSSTF-EW, and non-unionized employees including principals and vice-principals. The ELHTs provide health, life and dental benefits to eligible District staff and retired individuals. ELHTs are governed jointly by the bargaining/employee groups, the school board trustees' association and the Government of Ontario. The trusts are funded through a combination of employee and employer contributions as well as with transitional funding provided by the Ministry of Education.

The District's elementary and secondary teachers, as well as unionized education workers, transitioned to the ELHTs effective 1 November 2016. Principals and vice-principals transitioned on 1 April 2018 and other non-unionized employees transitioned on 1 June 2018.

The District's budget provided for its share of employee benefit plan costs including those for ELHTs. With regard to ELHTs, the budget was determined in accordance with Ministry requirements and reflected an amount per full-time equivalency (FTE) based on 2014-2015 actual benefit costs plus inflationary increases for subsequent years.

The transition to ELHTs has had an effect on the amount of benefit costs to be reported for the year. Prior to the date of transition, the District was responsible for costs relating to premium waivers for individuals receiving long-term disability (LTD) benefits and amounts had been reflected in the budget to support these costs. As of the date of transition, the liability became the responsibility of the respective trust and there is no requirement to transfer equivalent assets to the trusts. The effect of this change for LTD-related employee future benefits (EFB) is the reduction of associated benefit costs totaling \$2.3 million.

The savings that resulted from the transition to ELHTs were partially offset by increased costs of \$880,300 relating to retirement gratuities and compensated absences which are also considered to be EFB. Net EFB savings relative to the budget were slightly more than \$1.4 million.

5. **Workers Safety Insurance Board**

Amendments to Workers Safety Insurance Board (WSIB) programs have introduced benefits to support work-related chronic mental stress. WSIB describes work-related chronic mental stress as an appropriately diagnosed mental disorder that has been predominantly caused by a substantial work-related stressor or series of stressors. A work-related stressor would generally be considered substantial if it is excessive in intensity and/or duration compared with the normal pressures and tensions experienced by people working in similar

circumstances. The legislative change was effective 1 January 2018 and provided for retroactive application to 29 April 2014.

The District contracts with School Board Cooperative Inc. (SBCI) to assist with the management of WSIB claim costs. Based on information provided by SBCI, a provision of \$2.4 million was reflected in the revised estimates to support costs relating to incidents occurring during the current school year or that may be eligible for retroactive coverage.

Actual WSIB costs were confirmed as part of the actuarial valuation prepared at the end of the school year. The valuation showed that the anticipated costs related to chronic mental stress claims did not materialize. In fact, the liability actually decreased by the end of the year. The decrease was recognized as a \$1.2 million reduction in overall instruction-related benefit costs reported for the year.

6. **Special Education Needs**

Staff costs relating to special education increased by \$221,300 when compared to the budget. Spending on regular teaching staff was on target while vacancies in administrative positions provided savings that, in combination with additional funding, supported increased costs of educational assistants and professional support staff.

Spending on supplies and services relative to the budget was \$563,000 less than planned. This amount is part of the net instruction-related savings discussed in Section 16. Of the amount, \$425,700 relates to savings on the cost of equipment and supports funded using the Special Equipment Amount (SEA). The SEA grant is a specific funding envelope within the special education envelope. Funds not used in the current year are carried over for use in subsequent years.

The cost of occasional teachers (OTs) assigned to meet special education needs increased by \$505,900 relative to the budget. This amount is also supported by the increased grant, but for this analysis the costs are grouped with other OT costs and discussed in Section 14.

7. **Student Transportation**

Transportation of the District's students is provided by the Ottawa Student Transportation Authority (OSTA). Amounts reflected in the 2017-2018 Budget were based on information received from OSTA. The year-end results show that costs were \$322,900 less than budgeted, of which \$213,900 relates to supplies and services while the balance of \$109,000 is attributable to compensation.

Transportation expenses of \$39.8 million are reported which are supported by the \$40.0 million Transportation grant. Although not quantified, some of the savings may relate to efficiencies associated with school learning and accommodation planning reviews.

8. **Minor Tangible Capital Assets**

A portion of the annual GSN is budgeted for the acquisition of minor tangible capital assets (MTCA) such as furniture, equipment and computers. If the funds are not required for capital purposes, they are reported as operating revenue and support overall operating costs.

Actual results show that a realignment of spending between operations and capital was required. In total, \$1.1 million previously identified as an operating cost is now expected to be classified as MTCA acquisitions. Instruction costs have been reduced by this amount as has related operating revenue.

9. **Deferred Capital Contributions and Amortization Expenses**

Funding received for the purpose of acquiring or developing a depreciable tangible capital asset is termed a deferred capital contribution (DCC). Such contributions are recognized as revenue at the same rate as the related tangible capital asset is amortized into expense. Amortization is based on the expected useful life of the asset.

In addition to the contributions discussed above, certain capital projects are supported internally through the use of the District's accumulated surplus. Internally supported tangible capital assets are amortized in the same manner as those supported by contributions from others, but there is no related revenue.

During the year, various capital projects were completed and a variety of capital assets were acquired. These items have increased the net value of the tangible capital assets managed by the District. In accordance with accounting requirements, the amortization of an asset's value commences immediately upon completion of the capital project. This has had a direct impact on both revenues and expenses.

The approved budget projected amortization expenses of \$45.8 million and related revenue of \$45.8 million. Both expenses and related revenues increased by \$2.8 million.

10. **Other Program Grants**

The Ministry announces special purpose grants throughout the year. The grants are targeted to support Ministry priorities and are termed Educational Program Grants-Other (EPO). These grants augment the District's budget; however, funding is tied to actual spending for the specified purpose. Amounts not spent are recovered by the Ministry or, if the funding agreements permit, are carried forward for use in the subsequent year. The District reports EPO grants as deferred revenue. Revenue from these grants is recognized in an amount equal to the associated expenses. Grants from other ministries and non-government organizations are treated in a similar manner and for this analysis are also referred to as EPO grants.

The District's 2017-2018 Budget reflected EPO grants totaling \$7.8 million. An additional \$8.2 million has been added to this amount. Of this amount, \$4.9 million relates to remedy payments which are discussed in the next section and

the remaining \$3.3 million is for a variety of initiatives as shown in Appendix D – Other Program Grants.

EPO-related revenues and expenses reflected in the financial results both equal \$16.0 million. With the exception of the EPO supporting remedy payments, almost all of the expenses relating to EPO funding are shown in the Instruction category in Appendix B - Comparative Summary of Expenses.

11. **Remedy Payments**

In February 2017, a settlement was reached between the Ontario Secondary School Teachers' Federation (OSSTF) and the Province as a remedy for the Ontario Superior Court ruling in April 2016 on the *Putting Students First Act, 2012* (PSFA). The ruling determined that the PSFA was a violation of s.2(d) (freedom of association) of the Canadian Charter of Rights and Freedoms.

The remedy was provided to eligible staff in three parts:

- a payment to compensate for lost or reduced retirement gratuities;
- a lump sum payment to reflect half of the loss created by the grid movement delay in the 2012-2013 and 2013-2014 school years; and
- one paid day off to permanent OSSTF-represented teachers (excluding long-term OTs) who were employed in the 2016-2017 school year.

For 2017-2018, remedy payments totaled \$4.9 million. In accordance with Ministry requirements, these costs have been reported as a non-operating expense and are shown in the Other category on Appendix B. The costs are supported by equivalent grant revenue as reported in section 10.

12. **International Students**

The Ottawa-Carleton Education Network (OCENET) is a not for profit organization that offers international students the opportunity to learn alongside the District's students. OCENET helps prospective students to submit their applications and fees and also supports their transition into the school and community. Fees collected cover OCENET's administrative costs but most of the fee is remitted to the District.

The District's 2017-2018 Budget reflected revenue of over \$8.3 million based on 698 students. Actual results show revenue of just over \$10.4 million based on 804 students. Increased enrolment of 106 students accounts for more than \$2.0 million in additional revenue.

Administrative fees paid to OCENET by the District are reported in the Instruction category. These costs have increased by \$779,400 to \$4.1 million based on the increased enrolment.

13. **Enrolment-Related Compensation Adjustments**

As noted in section 3, growth in enrolment was seen in both the elementary and secondary panels during 2017-2018. This growth resulted in the need for additional resources which was funded by increased grants. Expectations were that 57.0 FTE elementary teachers and 15.3 FTE secondary teachers would be

needed at an incremental cost of \$7.4 million. This pressure was presented in the 2017-2018 Revised Estimates.

A review of actual staffing levels indicates that the number of additional secondary FTEs was in line with expectations; however, elementary staffing was less than expected and only 41.4 FTE were added to the budgeted complement. The less than expected growth in the number of elementary teachers indicates that some of the additional enrolment was accommodated within established staffing provisions.

The combined incremental cost of teaching staff due to enrolment growth was approximately \$5.8 million.

14. Teacher Absences

OTs provide coverage when teachers are absent due to illness or to attend medical appointments. In addition, OTs provide coverage when teachers are attending certain professional development and student support activities on a school day.

For 2017-2018, the District shows that supply teaching costs of \$18.4 million were incurred, which is \$2.0 million more than budgeted. The additional cost is attributable to the increase in teaching staff in response to increased enrolment and overall needs experienced during the year.

Improvements in the attendance support program in terms of both effectiveness and efficiency continue to be pursued. The changes are focused on reducing OT cost pressures and enhancing the learning environment. A key element for 2018-2019 efforts will be the continued promotion of a healthy workplace. An important step in the strategy is the engagement of staff in a manner that fosters employee well-being.

15. Other Instruction-Related Compensation Costs

Aside from items already discussed, significant instruction-related compensation savings totaling \$11.5 million were realized. The amount was significantly larger than anticipated during the forecasts and staff continue to investigate the factors that contributed to the variance.

A preliminary analysis suggests that newly hired staff are starting at rates of pay lower than that reflected in the budget. In addition, casual staff who may be fulfilling the duties pending completion of staffing processes are generally compensated at a lower rate of pay which would further inflate the savings. A third factor that is being assessed is how benefit cost models may have been affected as a result of the transition to ELHTs.

Staff expect to be in a position to provide more information as part of the finalization of the 2018-2019 Revised Estimates.

16. Other Instruction-Related Non-Compensation Costs

Other instruction-related non-compensation costs are those that are not specifically identified elsewhere in the report, but form part of the overall spending classified as Instruction. These costs represent an overall savings

relative to the budget of \$1.0 million. Of this amount, \$425,700 is attributable to funds not immediately required to support the acquisition of specialized equipment used by students with special needs. The remaining balance of \$611,200 has resulted from overall variances relative to budget provisions.

A comparison of instruction-related non-compensation costs shown on Appendix B to the related budget amount indicates that a budget alignment issue exists. Staff will be performing a comprehensive review during 2018-2019 to improve budget alignment. This will assist staff with preparing timely variance analyses in the future.

17. Facility Operations

Spending on school facilities represents the largest operating cost category outside of the Instruction envelope. Compensation costs were \$687,600 more than budgeted and generally relate to the increase in the minimum wage and other service needs in schools.

Overspending on supplies and services totaled \$2.7 million. Demographic shifts and overall programming needs resulted in significantly higher demand for portable relocations. The budget established for portable relocations was \$900,000 which aligns with the available funding. Actual costs incurred were \$3.5 million. The resulting budget variance of close to \$2.6 million accounts for almost all of the reported overspending.

18. Extended Day Program

The Extended Day Program (EDP) commenced operations in 2010. Significant growth in the program ensued and it now operates District-run programs in 63 schools and serves over 5,000 children. The program, which is an integral part of the Early Learning strategy, is closely tied to the operations of the District's kindergarten programs. In fact, early childhood educators that staff the EDP, before and after school, also partner with teachers during the core day to provide the kindergarten program.

A modest increase of \$58,100 in program revenue relative to the budget was recognized for the year. This change is generally attributable to the flexibility of the program and fluctuating participation rates.

More significantly, costs of the program were lower than budgeted and this has contributed to the program's positive year-end position. Direct compensation costs are \$433,300 less than budgeted while compensation transfers decreased by \$127,300 to reflect a refinement in how internal support costs that are allocated to the program are determined. As previously discussed, reasons for the positive variance may be differences in starting rates of pay, use of casual staff pending the results of staffing processes, and a general need to reassess how benefit cost estimates have been affected by the transition to ELHTs.

The budget for supplies and services has decreased by \$286,600. This amount is consistent with past forecasts. The savings reflect that the planned purchase of computer software to manage participant registration and billing was delayed until 2018-2019.

The EDP's \$905,300 operating surplus has been used to fully support the deficit incurred by the Child Care Program. The net surplus of \$673,200 has been added to the \$213,100 of accumulated surplus that resulted from last year's EDP activities. The net accumulated surplus of the two programs as at 31 August 2018 was \$886,300. The funds will be used to acquire computer software and to offset deficits that may occur in subsequent years. Table 3 compares the EDP's actual results with the original budget.

Table 3 – Extended Day Program Comparative Amounts

	Actual	Budget	Change Increase (Decrease)
	\$	\$	\$
Expenses			
Compensation	14,299,700	14,733,000	(433,300)
Compensation Transfer	569,600	696,900	(127,300)
Supplies	566,000	852,600	(286,600)
Supplies Transfer	327,000	327,000	-
	15,762,300	16,609,500	(847,200)
Less: Revenues	16,667,600	16,609,500	58,100
Surplus	905,300	-	905,300

19. **Child Care Program**

In September 2013 the District assumed the operations of four child care centres that had previously been run by the Ottawa School Day Nursery. The Infant, Toddler and Preschool Child Care program operated at four sites and was intended to operate on a cost recovery basis. Changes to cost structures in relation to revenues resulted in the program operating at a deficit.

As part of the 2017-2018 Budget, the Board approved the closure of two underutilized sites and increased user fees. This, combined with clarification from the City of Ottawa that the District is eligible for general operating (GO) funding, has helped limit growth in the program's recurring deficits. In addition, expense savings relative to the budget were obtained during the year which further contributed to a better than planned year-end position.

Table 4 compares the actual results with the original budget.

Table 4 – Child Care Program Comparative Amounts

	Actual	Budget	Change Increase (Decrease)
	\$	\$	\$
Expenses			
Compensation	1,791,500	1,858,100	(66,600)
Supplies	82,900	124,500	(41,600)
	1,874,400	1,982,600	(108,200)
Less: Revenues	1,642,300	1,576,000	66,300
Deficit	232,100	406,600	(174,500)

20. **Other Non-Instruction Costs**

Other non-instruction compensation costs relate to the activities of the Continuing Education department and central administrative departments, inclusive of staff secondments.

Continuing Education programs are supported by specific funding including funding from the federal government and various government ministries. Growth in the program resulted in increases in both compensation and supplies and services relative to the approved budgets. Compensation costs were \$868,800 more than budgeted while supplies and services costs were \$383,600.

Central departments collectively showed expenses that exceeded the budget by just over \$1.0 million. Of this amount, \$572,400 is attributable to compensation and includes the incremental costs that resulted from the approval of the executive compensation framework as well as those that resulted from the transition of non-unionized employees to ELHTs. The remaining \$461,700 relates to supplies and services which includes the transfer of interest earned on school generated funds bank balances to individual schools.

The District pays the salaries of staff seconded to other organizations. The costs are recovered and reported as revenue in accordance with Ministry requirements. Costs in this area were \$863,800 less than budgeted. The latter amount is included as a component of the Other Net Revenue Adjustments line shown on Appendix A. Residual costs related to staff on loan total \$320,000 and reflect contractual obligations that limit the amounts recoverable from teacher federations. Obligations relating to legal matters represent the balance of the budget overage.

21. **Other Net Revenue Adjustments**

Other net revenue adjustments showed a decrease relative to the budget of \$3.0 million.

Two significant revenue items contributed to the reduction. Staff expected that funds totaling \$1.5 million and held as a reserve by the former benefits carrier would be returned during the year. This amount is now expected to be returned in 2018-2019. The District also planned for a contribution from OCENET totaling \$1.5 million, but given the projected positive results this was deferred to a future year.

22. **Accumulated Surplus**

An accumulated surplus is the excess of revenues over expenses that has resulted over time. The *Education Act* allows the Board to use its accumulated surplus to balance its operating budget, but it also restricts the use in any school year to 1% of the operating grants provided by the Ministry. The 2018-2019 Budget showed this amount as \$8.5 million. Approval to use accumulated surplus in excess of this amount must be obtained from the Ministry.

In past years, the District had experienced budget challenges that resulted in the development of a Multi-Year Financial Recovery Plan (MYFRP). The plan, which was approved in June 2016, responded to the Ministry’s two articulated objectives for 2017-2018:

- A balanced budget, such that the Board was compliant as per section 231 of the *Act*, including any use of unrestricted accumulated surplus to balance the budget; and
- An overall accumulated surplus balance for compliance purposes that was between 0.5% and 1.0% of the District’s operating allocation, after accounting for amounts that have been encumbered as a result of legally binding commitments including amounts for committed capital, and growing to 2% in subsequent years.

On 6 April 2018, the OCDSB was advised by the Ministry that it was being released from the terms of the MYFRP, as it had exceeded the Ministry’s requirement for an accumulated surplus, had strong financial results for 2016-2017 and projected similar results for 2017-2018. At the same time, Ministry staff expressed the view that the District would still need to be cautious as there were still significant cost pressures, such as expenditures on replacement staff, and the uncertainty around funding upon the expiry of the extension agreements at the end of 2018-2019.

Table 5 presents the components of the accumulated surplus and shows the increase resulting from the 2017-2018 operating surplus of \$15.1 million.

Table 5 – Accumulated Surplus Available for Compliance

	Actual as at 31 Aug 2018	Actual as at 31 Aug 2017	Change increase (decrease)
	\$	\$	\$
Available for compliance			
Restricted-committed capital	471,600	513,200	(41,600)
Internally appropriated			
Extended Day Program	886,300	213,100	673,200
Budgets carried forward	2,149,000	2,211,800	(62,800)
Contingencies	17,000,000	16,000,000	1,000,000
Unappropriated	14,362,300	793,900	13,568,400
	34,869,200	19,732,000	15,137,200

The \$17.0 million internal appropriation as at 31 August 2018 and noted as “Contingencies” has been identified to respond to revenue shortfalls or increased expenses relative to the budget. The amount is aligned with the Ministry recommendation that a provision equal to 2% of the annual operating allocation be established. Of the amount, \$5.0 million has been identified for potential costs relating to gratuity payments and WSIB claims and \$2.0 million has been provisioned for the replacement of business systems. The remainder has not been assigned to a specific need.

23. **Summary**

The District's 2017-2018 financial results include the impact of increased enrolment, enhanced spending authority provided through the use of targeted Ministry grants, the effects of in-year changes to programs, increased costs resulting from portable relocations and the extraordinary (but funded) costs which resulted from a settlement reached between OSSTF and the Province as a remedy to the violation of charter rights.

The District's 2017-2018 financial results show expenses of \$937.2 million, revenues of \$952.3 million and a surplus of just over \$15.1 million. The amount increases the District's accumulated surplus to \$34.9 million which places the District in an excellent position to respond to the financial challenges expected over the coming years.

RESOURCE IMPLICATIONS:

24. The District's surplus of close to \$15.1 million is substantially more than the modest surplus approved by the Board with the passing of the 2017-2018 Budget.

COMMUNICATION/CONSULTATION ISSUES:

25. The analysis of the District's financial results was prepared by Finance department staff in consultation with other departments.

STRATEGIC LINKS:

26. An effectively functioning Audit Committee and approach to risk management is a key component of the focus on sustainably allocating resources, in particular by enhancing operational practices to effectively and responsibly manage human and financial resources in support of students. Monitoring actual performance in relation to the Board's approved budget allows staff to identify opportunities to reallocate resources to address emerging needs and to respond to changes in revenue streams and expense patterns.

GUIDING QUESTIONS:

27. The following questions are provided to support the discussion of this item by the Committee:
- Does the analysis explain the significant changes in revenues and expenses?
 - Is staff taking steps to mitigate any adverse financial impacts and to leverage opportunities that were identified during the preparation of the analysis?

Mike Carson
Chief Financial Officer

Jennifer Adams
Director of Education and Secretary of
the Board

Appendices:

- Appendix A – Analysis of Changes in Revenues and Expenses
- Appendix B – Comparative Summary of Expenses
- Appendix C – Grants for Student Needs
- Appendix D – Other Program Grants