Building Brighter Futures Together at the Ottawa-Carleton District School Board

AUDIT COMMITTEE **18 May 2022**
COMMITTEE OF THE WHOLE (BUDGET) **25 May 2022**
Report No. 22-031

2021-2022 Updated Financial Forecast (March)

Key Contact: Mike Carson, Chief Financial Officer, 613-596-8211 ext. 8881

PURPOSE:

1. To explain changes reflected in the District's 2021-2022 Updated Financial Forecast as compared to the District's 2021-2022 Budget.

STRATEGIC LINKS:

2. The 2019-2023 Strategic Plan calls for the development of a culture of social responsibility with the stated goal of fostering "progressive stewardship of the environment, and human and financial resources." Development and approval of an annual budget is a key component of strong governance and financial stewardship. 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.

CONTEXT:

3. The Ministry of Education requires school boards to approve and submit annual budget estimates by the end of June preceding the beginning of a new school year. The COVID-19 pandemic continued to influence the timing of the 2021-2022 budget process. The provincial government, along with organizations such as school boards and municipalities, was still focused on responding to the evolving challenges presented by the pandemic. Consequently, the Ministry announced the Grants for Student Needs (GSN) funding on 4 May 2021, which represented a slight delay relative to normal years. Despite the late announcement, the Board approved its 2021-2022 Budget on 15 June 2021.

   The Ministry also requires that the approved budget estimates be revised after the start of the school year to reflect the financial impact resulting from actual enrolment levels. Changes in revenues and expenses not related to enrolment are also included. The update to the board approved budget is referred to as the revised estimates.

The changes reflected in the revised estimates included the impact of a net enrolment increase which resulted in increased GSN revenues. In addition, the Ministry continued to provide COVID-related funding through Priorities and Partnerships Fund (PPF) grants. The PPF grants support salary-related expenses such as mental health initiatives, student re-engagement and reading assessments, transportation needs and enhanced staffing. School operating costs are also supported by these grants.

The updated forecast is based on year-to-date experience up to 31 March 2022. Significantly, additional funding has been provided by the Ministry as part of the continued effort to address the many challenges resulting from the COVID-19 pandemic. The majority of the new funding is for tutoring supports.

Explanations provided in the revised estimates are repeated and additional commentary explaining further changes has been included.

The updated forecast anticipates the use of $14.1 million of accumulated surplus to support operations.

KEY CONSIDERATIONS:

4. In June 2021, the Board approved the 2021-2022 Budget authorizing expenses totaling $1,010.9 million. Funding of the expenses was provided through grants and other revenues totaling $996.0 million. This resulted in a planned deficit of $14.9 million.

The District's 2021-2022 Updated Forecast provides for expenses of $1,032.4 million, revenues of $1,018.3 million and an anticipated deficit of $14.1 million.

Table 1 compares the anticipated deficit reflected in the updated forecast with the amount originally budgeted.

Table 1 – Comparison of Updated Forecast and Budget

	Updated Forecast	Budget	Change	Change
	$	$	$	%
Revenues	1,018,313,303	995,997,568	22,315,735	2.24
Expenses	1,032,405,312	1,010,885,958	21,519,354	2.13
Surplus (Deficit)	(14,092,009)	(14,888,390)	796,381	

Changes to revenues and expenses since the approval of the 2021-2022 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 Operating Expenses by Program Area. 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 - Priorities and Partnerships Fund and Other Deferred Revenues.

5. **Enrolment Estimates and Grants**

The 2021-2022 Budget was developed using enrolment estimates established in early 2021. Average Daily Enrolment (ADE) levels have a direct impact on funding and also affect related instructional expenses. The approved budget reflected ADE of 49,363 for elementary and 23,616 for secondary (excluding high credit and adult day school enrolment).

The updated forecast reflects elementary ADE of 50,310 students, which is an increase of 947 students (1.9%) from the approved budget. Secondary day school enrolment ADE is projected to be 23,132 students which is a decrease of 484 students (2.1%) from the approved budget.

Table 2 presents the changes in enrolment by panel and shows the effect on the Pupil Foundation Grant.

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

	Enrolment (Pupils of the Board)			Pupil Foundation Grant		
	Updated Forecast	Approved Budget	Change	Updated Forecast	Approved Budget	Change
				$	$	$
Elementary	50,310	49,363	947	279,769,002	274,092,287	5,676,715
Secondary	23,132	23,616	(484)	135,542,379	138,376,478	(2,834,099)
Total	73,442	72,979	463	415,311,381	412,468,765	2,842,616

Other allocations that comprise the GSN are affected by changes in enrolment and student demographics, those with the more significant changes are identified on Appendix A.

The Special Education allocation increased by $1.0 million. The majority of the increase is attributable to increased enrolment. This funding is subject to Ministry enveloping requirements and it will be used to support the costs of special education programs.

The Learning Opportunities allocation decreased by $1.1 million. A portion of the funding is generated based on enrolment in remedial literacy and numeracy programs for students in grades 7 to 10. Participation in these programs has been significantly affected by the pandemic and accounts for substantially all of the revenue reduction. The updated forecast anticipates 45 ADE as compared to the 198 ADE used for budget purposes.

Appendix C compares the anticipated GSN revenue shown in the updated forecast with the approved budget. The analysis includes the effect of revenue deferrals. GSN funding is expected to increase by $260,848.

The increase in the Transportation allocation is referenced in Section 11 and the decrease in revenue relating to minor tangible capital assets (MTCA) is discussed in Section 15. The MTCA funding is the only change in comparison to the revised estimates.

6. **Priorities and Partnerships Fund Grants and Other Deferred Revenues**

In addition to GSN funding, the District receives special funding which targets Ministry priorities. The grants are termed PPF grants and the funding received must be used 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. In recent years, the Ministry has announced the majority of PPF grants at the same time as the GSN; however, it is common practice to receive additional funding throughout the school year.

The District initially reports PPF grants as deferred revenue. Revenue from the grants is recognized in an amount equal to the associated expense. Certain grants from other ministries and non-government organizations are treated in a similar manner and they are reported alongside the PPF grants for this analysis.

A significant increase in funding from PPF grants and other deferred revenues is shown in the updated forecast. The funding increased by $11.9 million, which is close to double the PPF grant shown in the 2021-2022 Budget. This includes the recently announced tutoring supports grant of which close to $2.5 million will be used during the current year.

Much of the increase relates to funding announced in May 2021. At that time, the Ministry announced conditional funding of $15.4 million to support pandemic costs; however, the Ministry committed to only providing $7.7 million representing 50% of the amount. The balance would only be released if circumstances warranted. The emergence of the Omicron variant prompted the Ministry to release the balance of this funding in December 2021. An additional $244,282 has also been provided to support air filtration and to cover future costs for special education summer learning programs. COVID-related PPF grants total $15.6 million.

Appendix D presents the amounts originally budgeted and the in-year changes. Total PPF grants and deferred revenues, inclusive of the estimated value of personal protective equipment (PPE) being provided by the Ministry of Government and Consumer Services (MGCS), is expected to be $30.6 million, an increase of $15.8 million relative to the original budget. The spending impacts are reflected in the changes shown in subsequent sections. Also shown in the appendix for information is the supplemental GSN funding received in support of pandemic measures.

It is important to highlight that PPF grants are temporary, and often project-based, meaning that the funding may not be received in subsequent years. Although the grants may require the creation of a position, they quite often are used to purchase goods and services or to pay for casual staff to backfill established positions while employees participate in identified priorities. That said, the COVID-related grants have added significant temporary staffing to support students and to promote a healthy workplace.

7. **Compensation-Related Instruction Costs**

Compensation-related instruction costs are those incurred in meeting the needs of students in the classroom. Examples of staff whose costs are reported in the Instruction category include classroom teachers, school-based administrators, learning consultants and professional and support staff such as psychologists, educational assistants (EAs) and early childhood educators (ECEs).

The forecast of compensation-related instruction costs shows an overall increase of $6.2 million in comparison to the 2021-2022 Budget. A number of factors have contributed to this net cost pressure:

- $2.2 million net increase in classroom teachers and additional support staff in response to increased student enrolment;
- $3.2 in additional PPF grants to be used for professional development, student tutoring and other supports; and
- $813,384 in enhanced COVID PPF grants to support special education, mental health and student engagement.

8. **Teacher Absences**

Occasional teachers (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 the updated forecast, the District has assumed that supply teacher costs of $25.4 million will be incurred. The amount is $6.7 million more than budgeted. The District anticipates increased needs due to the pandemic and some of the cost increase will be supported by COVID-related PPF grants.

It is important to note that OTs are also used to staff vacant contract teaching positions, but that such costs are reported in the Instruction category.

OT use will continue to be monitored as will the continued promotion of a healthy workplace that fosters employee well-being and improved student outcomes. Monitoring will also help differentiate between COVID and non-COVID costs.

9. **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. It also supports their transition into the school and community. Fees collected cover OCENET's administrative costs and approximately 60% of the fee is remitted to the District. The percentage is an estimate of the amount of tuition fees necessary to support instruction-related costs.

The District's 2021-2022 Budget reflected revenue of over $6.3 million based on 443 students. The updated forecast reflects anticipated revenue of just over $6.4 million based on 453 students. Increased enrolment of 10 students accounts for a $141,500 revenue increase. Administrative fees paid to OCENET by the

District are reported as a cost in the Instruction category. The fees are expected to increase by $55,595 to $2.5 million.

In addition to the tuition fees, the District anticipates a $1.3 million increase in payments from OCENET most of which is a return of equity.

10. **Other Instruction-Related Costs**

Other instruction-related costs are those that are not specifically identified elsewhere in the report, but which form part of the overall spending classified as Instruction. It is common practice to combine the spending reported under the Staff Development, Supplies and Services category with the Fees, Contractual and Rentals category. Combining the categories recognizes that the budget traditionally does not align with the ultimate reporting of costs.

On a combined basis, the costs represent an overall decrease relative to the budget of $695,425. Similar to last year, spending by schools and central departments has been affected by the pandemic.

11. **Student Transportation**

Transportation of the District's students is provided by the Ottawa Student Transportation Authority (OSTA). Amounts reflected in the 2021-2022 Budget were based on information received from OSTA. The estimates have been updated and costs are expected to be $1.8 million less than budgeted. This amount includes PPF funding of approximately $3.0 million to assist with the safe transportation of students. Of the PPF amount, $2.7 million is for pandemic-related costs. Transportation expenses of $44.4 million are shown in the updated forecast.

Funding for transportation costs provided by the GSN is expected to increase by $258,001 to $43.7 million. This amount will be augmented by $3.0 million in PPF grants. The projection is unchanged from the revised estimates.

12. **Facility Operations**

Spending on school facilities represents the largest operating cost category outside of the instruction envelope. Projected compensation costs have remained relatively stable and show an increase of $217,761, which includes the additional capacity of the COVID grants that were confirmed in December 2021. The funding is being used to maintain the enhanced levels of custodial staff.

Non-compensation costs have increased by $2.2 million, which is the same as reported in the revised estimates. The significant contributors to this amount are the following cost increases:

- PPF grant funding of $697,683 will be used to support classroom ventilation to reduce possible infections as a result of the COVID-19 virus lingering in an airborne state;
- $87,671 in additional costs to relocate portables during the year; and
- $1.4 million for additional school renewal maintenance needs such as roof and floor repairs, masonry work and supporting consulting services.

A review of the costs in this area may provide an opportunity to reduce the projected deficit. For example, school renewal projects may be deemed as operating or capital expenses depending on the nature of the work. Changes to the work plan to ensure that more of the planned projects qualify as a capital expense will relieve the anticipated increase in operating costs and make greater use of capital funding allocations.

13. **Other Non-Instruction Costs**

Other non-instruction costs relate to the activities of the Continuing Education department and central departments.

Continuing Education programs are supported by specific funding, including funding from the federal government and various government ministries. Compensation costs shown in the updated forecast are $416,388 less than budgeted while supplies and services costs remain unchanged.

Central departments show increased compensation costs of $242,608 and include a new position supporting the Office of the Human Rights and Equity Advisor. Supplies and services costs show savings of $634,136, which is consistent with the previous year.

The anticipated value of PPE being provided by the MGCS is expected to be $3.9 million. This amount is shown in the “Other” category on Appendix B. An equivalent amount of in-kind revenue has been reported. Also included in this category are extraordinary legal expenses of $180,000.

14. **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. Straight-line amortization expense is based on the remaining service life of the asset.

In addition to the contributions discussed above, certain capital projects are supported internally by the use of the District’s accumulated surplus. Internally supported tangible capital assets are amortized into expense in the same manner as those supported by contributions from others, but there is no related revenue. Examples of such assets are new portables and major improvements to administration buildings.

Various capital projects will be completed and a variety of capital assets will be acquired during the year. In addition, adjustments to incorporate prior year actual results are reflected. These items increase 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 a direct impact on both revenues and expenses.

The approved budget projected amortization expenses of $61.7 million and related revenues of $61.3 million. The updated forecast shows $66.9 million in expenses which is supported by $66.4 million in revenues. Expenses have increased by $5.2 million and revenues have increased by $5.1 million. This is unchanged from the revised estimates.

15. **Minor Tangible Capital Assets**
A portion of the annual GSN is budgeted for the acquisition of 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. In total, $2.9 million previously identified as operating revenue will instead be set aside for the acquisition of MTCA. Most investments relate to the acquisition of technology such as Chromebooks.

The updated forecast also reflects the anticipated use of $2.3 million of the accumulated surplus to support capital investments in new classroom portables and for upgrades at the 133 Greenbank Road Administration Building, the Confederation Education Centre and Stittsville Depot. The use of accumulated surplus for these investments is compliant with Ministry requirements, but it does not directly affect the amounts reported in the operating analysis because they are reported as a capital expense. Requests to proceed with underlying projects and the use of accumulated surplus are submitted for approval according to Board policy.

16. **Extended Day Program**
The EDP commenced operations in 2010. Significant growth in the program ensued and it now operates District-run programs in 66 schools and, prior to the pandemic, served approximately 5,500 children. The program is closely tied to the operations of the District’s kindergarten programs. In fact, ECEs who staff the EDP, before and after school, also partner with teachers during the core day to provide the kindergarten program.

Participation in the program continued to be strong prior to the pandemic. Unfortunately, a significant decrease in the number of students attending the program has occurred following the outbreak and this has continued into the current year. The program is currently operating with approximately 3,141 students representing 57% of pre-pandemic participation rates. The reduction in student participation, including lower participation on days where full care is provided, has substantially contributed to the reduction in program revenues relative to pre-pandemic operations.

Revenues are expected to increase by $63,059; however, this is outpaced by the increase in salary expenses of almost $431,076. The program would have a deficit of $4.7 million in the absence of the $4.6 million PPF grant that will be used to support compensation costs.

Table 3 shows the original budget and updated forecast by category.

Table 3 – Extended Day Program Comparative Amounts

	Updated Forecast	Budget	Change increase (decrease)
	$	$	$
Revenues			
Direct Revenues	8,513,000	8,449,941	63,059
Benefit Trust Allocation	441,823	417,687	24,136
COVID PPF Grants	4,614,417	-	4,614,417
	13,569,240	8,867,628	4,701,612
Expenses			
Compensation	12,411,703	11,980,627	431,076
Administrative Transfers (Comp)	588,144	588,144	-
Supplies and Services	342,552	388,151	(45,599)
Facility Transfers (Supplies)	333,573	333,573	-
	13,675,972	13,290,495	385,477
Surplus (Deficit)	(106,732)	(4,422,867)	4,316,135

17. **Child Care Program**

The Infant, Toddler and Preschool (ITP) program operates at two sites and provides 96 licensed child care spaces.

The ITP program is eligible for general operating (GO) funding. GO funding is the grant provided to licensed not-for-profit child care programs by the City of Ottawa and covers direct operating, pay equity, and wage enhancement grants. The program also derives revenue from user fees and child care subsidies.

Table 4 shows the original budget and updated forecast by category. Similar to the EDP challenges, the revenues and expenses have both been updated to reflect the impact of reduced participation following the outbreak of the pandemic. Currently, 66 children are receiving services which accounts for the revenue loss. The District is also pursuing additional financial sustainability funding to support the program.

Table 4 – Child Care Program Comparative Amounts

	Updated Forecast	Budget	Change increase (decrease)
	$	$	$
Revenues			
Direct Revenues	1,568,000	1,807,664	(239,664)
Benefit Trust Allocation	51,395	53,758	(2,363)
	1,619,395	1,861,422	(242,027)
Expenses			
Compensation	1,807,895	1,949,784	(141,889)
Supplies and Services	136,055	135,000	1,055
	1,943,950	2,084,784	(140,834)
Deficit	(324,555)	(223,362)	(101,193)

18. **Other Net Revenue Adjustments**
Community Use of Schools (CUS) oversees the public's after-hours use of school facilities such as gymnasiums and sports fields. The pandemic continues to result in a significant revenue loss due to the cancellation of these activities and revenues are expected to be $402,281 less than expected.

Other miscellaneous revenue adjustments account for a net revenue increase of $207,335. The adjustments are in the areas of continuing education fees, athletic recoveries, investment interest, prior year grant adjustments and solar power generation. The amount also includes one-time revenue from to the return of surplus funds relating to the long-term disability plan that operated prior to the establishment of employee life and health trusts.

19. **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. For the 2021-2022 Revised Estimates, this amount is $8.9 million. However, the Ministry has allowed the use of an additional 1% to respond to COVID-related needs. Approval to use accumulated surplus in excess of 2% must be obtained from the Ministry.

Table 5 presents the components of accumulated surplus and shows the anticipated use of $14.1 million and the proposed alignment of accumulated surplus at the end of the year.

Table 5 – Accumulated Surplus Available for Compliance

	Projected as at 31 Aug 2022	Actual as at 31 Aug 2021	Change increase (decrease)
	$	$	$
Available for compliance			
Restricted-committed capital	12,372,018	10,704,714	1,667,304
Internally appropriated			
Extended Day Program	(1,139,366)	(708,079)	(431,287)
Budgets carried forward	2,500,000	3,773,611	(1,273,611)
Business Systems	1,000,000	1,000,000	-
Contingencies	9,200,000	16,200,000	(7,000,000)
Unappropriated	7,240,312	14,294,727	(7,054,415)
	31,172,964	45,264,973	(14,092,009)

The District is compliant with Ministry requirements.

20. **Summary**
The District's 2021-2022 Updated Financial Forecast includes the impact of net enrolment changes, changes in staffing and other costs supported by targeted PPF grants, and changes in revenues relating to a number of programs including EDP, ITP, CUS and OCENET.

The updated financial forecast show expenses of $1,032.4 million, revenues of $1,018.3 million and a projected deficit of $14.1 million.

RESOURCE IMPLICATIONS:

21. The District's 2021-2022 Budget showed a planned deficit of $14.9 million. The District's 2021-2022 Updated Financial Forecast shows a planned deficit of $14.1 million. The deficit is compliant with the Ministry's budget compliance framework.

COMMUNICATION/CONSULTATION ISSUES:

22. The 2021-2022 Updated Financial Forecast was prepared by Finance staff in consultation with other departments.

GUIDING QUESTIONS:

23. The following questions are provided to support the discussion of this item:
    - Does the analysis explain the significant changes in revenues and expenses?
    - Are steps being taken to mitigate adverse financial impacts and to leverage opportunities that were identified during the preparation of the analysis?

Mike Carson
Chief Financial Officer

Camille Williams-Taylor
Director of Education and Secretary of the Board

Appendices:
Appendix A – Analysis of Changes in Revenues and Expenses
Appendix B – Comparative Summary of Operating Expenses by Program Area
Appendix C – Grants for Student Needs
Appendix D – Priorities and Partnerships Fund and Other Deferred Revenues