AUDIT COMMITTEE **28 November 2022**
Report No. 22-077

Analysis of the District's 2021-2022 Financial Results

Key Contact: Randall Gerrior, Associate Director, Business Operations

PURPOSE:

1. To provide to the Audit Committee, for discussion, information regarding the District's financial results for the year ended 31 August 2022.

STRATEGIC LINKS:

2. The 2019-2023 Strategic Plan is built on three culture statements: Culture of Innovation, Culture of Caring and Culture of Social Responsibility. The culture of social responsibility pillar includes the stated goal of fostering "progressive stewardship of the environment, and human and financial resources." Review and analysis of the previous year end financial results, in relation to the Board's approved budget and revised estimates helps to inform future financial planning and decision-making.

CONTEXT:

3. The District's financial results represent a significant portion of what is reported in the draft 2021-2022 Consolidated Financial Statements. An analysis of the District's results provides insight into relevant changes that occurred during the year and any significant variances from the approved 2021-2022. The narrative reflects areas discussed in forecasts presented during the year and amounts have been updated based on actual results.

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 actual results show an operating deficit of $15.6 million. Table 1 compares the deficit with the amount originally budgeted.

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Table 1 – Comparison of Actual Results and Budget

	Actual	Budget	Change	Change
	$	$	$	%
Revenues	1,029,946,890	995,997,568	33,949,322	3.4
Expenses	1,045,522,749	1,010,885,958	34,636,791	3.4
Surplus (Deficit)	(15,575,859)	(14,888,390)	(687,469)	

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 enrollment 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 an ADE of 49,363 elementary students and 23,616 secondary students (excluding high credit and adult day school enrolment, which are not included in the calculation of the per pupil funding).

The actual elementary ADE for 2021-2022 was 50,109 students, which is an increase of 746 students (1.5%) from the approved budget. Secondary day school actual enrollment ADE was 23,259 students which is a decrease of 357 students (1.5%) 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		
	Actual	Approved Budget	Change	Actual	Approved Budget	Change
				$	$	$
Elementary	50,109	49,363	746	278,744,140	274,092,287	4,651,853
Secondary	23,259	23,616	(357)	136,282,634	138,376,478	(2,093,844)
Total	73,368	72,979	389	415,026,774	412,468,765	2,558,009

Other allocations that comprise the Grants for Student Needs (GSN) are also affected by changes in enrolment and student demographics and the more significant changes are identified on Appendix A.

The Special Education allocation increased by $2.2 million. Special Education funding represents the specific funding that the Board receives to support the incremental cost of supporting students identified with special education needs.

The majority of the increase in this funding for the 2021-2022 fiscal year is attributable to increased enrollment. This funding is subject to Ministry of Education enveloping requirements, which means it is restricted to support the costs of special education programs.

The Learning Opportunities allocation decreased by $1.2 million. This program provides funding for a range of programs to help students who are at greater risk of poor academic achievement. A portion of the funding is generated based on enrollment 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 final ADE for 2021-2022 was 47 as compared to the projected 198 ADE used for budget purposes.

Appendix C compares the anticipated GSN revenue shown in the final allocations with the approved budget. The analysis includes the effect of revenue deferrals. Overall GSN funding increased by $10.0 million.

The increase in the Transportation allocation referenced in paragraph 11 and the slight increase in revenue relating to minor tangible capital assets (MTCA) is discussed in paragraph 15.

6. Priorities and Partnerships Fund Grants and Other Deferred Revenues

In addition to GSN funding, the District receives special purpose grants or funding which targets Ministry priorities. The grants are termed Priorities and Partnerships Fund (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 also not unusual 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 purposes of this analysis.

In 2021-2022, there was a significant increase in PPF grants relative to the original budget. The funding increased by $10.8 million, which more than doubles the PPF grants originally shown in the 2021-2022 Budget.

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), was $32.0 million, an increase of $17.2 million relative to the original budget. The spending impacts are discussed in more detail in the paragraphs below 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.

Much of the increase in PPF grants relates to funding announced in May 2021 related to COVID. 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 and indicated that 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.

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 staff position to support the intended work, the funds are often used to purchase goods and services or to pay for casual staff to backfill established positions while employees participate in identified priorities. In the case of the COVID-related grants, a significant portion was used for temporary staffing to support students and to promote a healthy learning and working environment. .

7. Compensation Costs

As set out in Appendix A, total compensation costs incurred in 2021-2022 were over $15 million higher than the amount reported in the revised estimates. The areas which accounted for the largest variances are discussed in more detail below.

a) **Compensation-Related Instruction Costs**

This refers to the salary and benefits costs incurred in meeting the needs of students in the classroom, including classroom teachers, school-based administrators, learning consultants and professional and support staff such as psychologists, educational assistants (EAs) and early childhood educators (ECEs).

The actual compensation-related instruction costs show an overall increase of $6.0 million in comparison to the 2021-2022 Budget amounts. A number of factors have contributed to this net cost pressure, including:

- $2.0 million net increase in additional support staff in response to increased student enrolment;
- $3.2 million 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.

b) **Occasional Teacher Costs**

Occasional teachers (OTs) provide coverage when teachers are absent from the classroom.

In 2021-2022, OT costs were $35.7 million, which is $17.1 million more than budgeted. Part of the increase is attributable to the pandemic and a portion of the cost increase will be supported by COVID-related PPF grants. It should be noted that approximately $4.0 million of the cost increase was due to a realignment of how long-term OT costs are reported, in accordance with Ministry reporting requirements. These reallocated amounts were budgeted and reported as Instruction salary and benefits prior to the in-year change. As a result of the change, only OT costs associated with staffing contract positions (i.e. not a replacement where the absent teacher is continuing to be paid) are reported in the instruction category. OT costs are an area that staff will continue to monitor closely. The District, led by People, Culture and Leadership, also continues to promote a healthy workplace that fosters employee wellbeing.

8. Non-compensation Costs

As set out in Appendix A, non-compensation actual costs were approximately $2.6 million higher than reported in the revised estimates. The variance in non-compensation costs is attributable to several areas, as outlined below in more detail.

a) International Students

The Ottawa-Carleton Education Network (OCENET) is an arm's length not-for-profit organization offering 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 anticipated revenue of over $6.3 million based on 443 students. The actual revenue for 2021-2022 was $6.4 million based on 443 students. Administrative fees paid to OCENET by the District are reported as a cost in the Instruction category. The fees increased by $55,595 to $2.5 million.

In addition to the tuition fees, the District received $1.8 million from OCENET to offset the International Student Recovery amount imposed by the Ministry. The payment reflected $556,732 for 2021-2022 and the balance related to prior years. The total payment was $1.4 million more than originally budgeted.

b) <u>Other Instruction-related Costs</u>

This refers to those costs 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 always exactly align with actual expenditures and the ultimate reporting of costs.

On a combined basis, the costs represent an overall decrease relative to the budget of $3.3 million. Similar to last year, spending by schools and central departments has been affected by the pandemic.

c) **<u>Student Transportation</u>**
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 actual costs were $430,081 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 was provided for pandemic-related costs. Transportation total expenses for 2021-2022 were $46.0 million. Increased fuel costs contributed to the decrease in projected savings but those costs were offset with $3.0 million in additional funding from the Ministry.

d) **Facility Operations**
Spending on school facilities represents the largest operating cost category outside of the instruction envelope. Compensation costs were $1.5 million under budget, which includes the additional capacity of the $1.9 million in COVID-related grants that were confirmed in December 2021. The COVID funding was budgeted to provide enhanced levels of custodial staff but labour shortages made it difficult to recruit and retain a full staff complement.

Non-compensation costs in facilities have increased by $5.8 million with the significant contributors to this amount being the following cost increases:

- PPF grant funding of $1.1 million was used to support classroom ventilation to reduce possible infections as a result of the COVID-19 virus lingering in an airborne state;
- $2.3million in additional costs to relocate portables during the year; and
- $1.7 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 future costs. 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.

e) **<u>Other Non-Instruction Costs</u>**
Other non-instruction costs relate to the activities of the Continuing Education department and other central departments, such as Financial Services, Business & Learning Technologies, Corporate Services and Human Resources.

Continuing Education programs are, for the most part, supported by specific funding sources including, for example, the funding received from the federal government and various government ministries which are used to support the adult English as a Second Language (ESL) programs.

Compensation costs were $808,100 less than budgeted while supplies and services costs were $84,086 lower.

Central departments show increased compensation costs of $472,716, which includes additional term staff employed in B&LT to support the implementation of the new student information system, as well as a new position supporting the Office of the Human Rights and Equity Advisor. Supplies and services costs show savings of $644,296, which is consistent with the previous year.

The value of PPE being provided by the MGCS was $5.1 million. This amount is shown in the "Other" category on Appendix B. An equivalent amount of in-kind revenue has been reported. A review of current and on-going litigation and other legal issues resulted in a decrease of $1.3 million in future legal costs.

f) **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 deferred capital contributions discussed above, certain capital projects are supported internally by the use of the District's accumulated surplus. Internally funded tangible capital assets are amortized into expense in the same manner as those supported by contributions from other sources, but there is no related revenue. Examples of such assets are new portables and major improvements to administration buildings.

Various capital projects were completed and a variety of capital assets were acquired during the 2021-2022 fiscal 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 standards, 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 actual results show $67.5 million in expenses which is supported by $66.4 million in revenues. Expenses increased by $5.8 million and revenues increased by $5.6 million.

9. Minor Tangible Capital Assets (MTCA)

A portion of the annual GSN is allocated through the budget 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, $170,321 previously identified for the acquisition of MTCA has instead been reported as operating revenue.

The actual results also reflect the use of $1.7 million of the accumulated surplus to support capital investments for upgrades at the 133 Greenbank Road Administration Building and the Confederation Education Centre. 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.

10. Extended Day Program

The Extended Day Program (EDP) operated by the District currently runs in 66 elementary schools. Prior to the pandemic, the program served approximately 5,500 children. Unfortunately, the programs saw a significant decrease in their enrollment during the pandemic, including during the 2021-2022 school year. The program operated with approximately 2,632 students, representing 48% 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 revenues relative to pre-pandemic operations.

For 2021-2022, revenues actually increased from the budgeted amount by $182,048, however, this increase was outpaced by the increase in salary expenses of $1.2 million. The program would have had a deficit of $5.5 million in the absence of the $4.9 million PPF grant used to support compensation costs. There is evidence to suggest attendance is recovering from the pandemic in 2022-2023. The Financial Planning division will continue to closely monitor the program in consultation with the Manager, Early Learning, to assess its capacity to operate within its current budget.

Table 3 shows the original budget and actual results by category.

Table 3 – Extended Day Program Comparative Amounts

	Actual	Budget	Change increase (decrease)
	$	$	$
Revenues			
Direct Revenues	8,631,989	8,449,941	182,048
Benefit Trust Allocation	441,823	417,687	24,136
COVID PPF Grants	4,925,926	-	4,925,926
	13,999,738	8,867,628	5,132,110
Expenses			
Compensation	13,171,059	11,980,627	1,190,432
Administrative Transfers (Comp)	588,144	588,144	-
Supplies and Services	447,478	388,151	59,327
Facility Transfers (Supplies)	333,573	333,573	-
	14,540,254	13,290,495	1,249,759
Surplus (Deficit)	(540,516)	(4,422,867)	3,882,351

11. 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 actual results by category. Similar to the EDP challenges, the revenues and expenses have both been impacted by the reduced participation following the outbreak of the pandemic. In 2021-2022, only 73 children received 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

	Actual	Budget	Change increase (decrease)
	$	$	$
Revenues			
Direct Revenues	1,629,713	1,807,664	(177,951)
Benefit Trust Allocation	47,432	53,758	(6,326)
	1,677,145	1,861,422	(184,277)
Expenses			
Compensation	1,766,587	1,949,784	(183,197)
Supplies and Services	133,228	135,000	(1,772)
	1,899,815	2,084,784	(184,969)
Surplus/(Deficit)	(222,670)	(223,362)	692

12. 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 were $404,359 lower than budgeted.

Other miscellaneous revenue adjustments account for a net revenue decrease of $35,167. The adjustments include areas such as continuing education fees, athletic recoveries, investment interest, prior year grant adjustments and solar power generation.

13. 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 was $8.9 million. However, the Ministry had 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. On that basis the District is compliant with Ministry requirements.

Table 5 presents the components of accumulated surplus and details the use of $15.6 million and the proposed alignment of accumulated surplus at the end of the year.

Table 5 – Accumulated Surplus Available for Compliance

	Actual as at 31 Aug 2022	Actual as at 31 Aug 2021	Change increase (decrease)
	$	$	$
Available for compliance			
Restricted-committed capital	11,837,900	10,696,036	1,141,864
Internally appropriated			
Extended Day Program	(1,471,265)	(708,079)	(763,186)
Budgets carried forward	2,387,089	3,773,611	(1,386,522)
Business Systems	1,000,000	1,000,000	-
Contingencies	14,000,000	16,200,000	(2,200,000)
Unappropriated	1,926,714	14,294,727	(12,368,013)
	29,680,438	45,256,295	(15,575,857)

14. Summary
The District's 2021-2022 actual results include the impact on revenues and expenditures of changes in net enrolment, staffing and other costs, supported by targeted PPF grants. It also includes fluctuations in revenues relating to a number of programs including EDP, ITP, CUS and OCENET.

The actual results show expenses of $1,045.5 million, revenues of $1,030.0 million and a deficit of $15.6 million.

RESOURCE IMPLICATIONS:

15. The District's 2021-2022 actual results showed a deficit of $15.6 million. The deficit is compliant with the Ministry's budget compliance framework.

COMMUNICATION/CONSULTATION ISSUES:

16. The 2021-2022 analysis was prepared by Finance staff in consultation with other departments.

GUIDING QUESTIONS:

17. The following questions are provided to support the discussion of this item:
- Does the analysis explain the significant changes in revenues and expenses relative to the approved budget and revised estimates?
- What steps are being taken or will be taken in future decision-making and planning to mitigate adverse financial impacts and to leverage opportunities that were identified during the preparation of the analysis?

Randall Gerrior
Associate Director, Business Operations

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