AUDIT COMMITTEE **15 February 2023**
COMMITTEE OF THE WHOLE (BUDGET) **21 February 2023**
Report No. 23-006

2022-2023 Revised Estimates

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PURPOSE:

1. To explain changes reflected in the District's 2022-2023 Revised Estimates as compared to the District's 2022-2023 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 Board approved its 2022-2023 Budget on 14 June 2022.

   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 2022-2023 Revised Estimates include the impact of a net enrolment increase which resulted in increased Grants for Student Needs (GSN) revenues. In addition, the Ministry continues to provide COVID-related funding but it has been moved to the GSN. The Priorities and Partnerships Fund (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 revised estimates are prepared relatively early in the school year. Continuing with past practice, a conservative approach has been adopted when estimating the revenues and expenses shown. The approach limits revenue estimates to the lower value of anticipated cash inflows while the expenses use the higher end of cost estimates. The approach generally presents a worst-case scenario and history shows that the District's actual results tend to be better than reported in the revised estimates.

The additional funding from increased enrolment, combined with increased funding provided by PPF grants has offset increased salary and replacement costs resulting in the same projected deficit of $9.1 million from the original budget.

KEY CONSIDERATIONS:

4. In June 2022, the Board approved the 2022-2023 Budget authorizing expenses totaling $1,055.8 million. Funding of the expenses was provided through grants and other revenues totaling $1,046.7 million. This resulted in a planned deficit of $9.1 million.

   The District's 2022-2023 Revised Estimates provide for expenses of $1,080.1 million, revenues of $1,071.0 million and a planned deficit of $9.1 million.

   Table 1 compares the anticipated deficit reflected in the revised estimates with the amount originally budgeted.

Table 1 – Comparison of Revised Estimates and Budget

	Revised Estimates	Budget	Change	Change
	$	$	$	%
Revenues	1,070,971,937	1,046,678,295	24,293,642	2.32
Expenses	1,080,133,354	1,055,839,712	24,293,642	2.30
Deficit	(9,161,417)	(9,161,417)	-	

Changes to revenues and expenses since the approval of the 2022-2023 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 2022-2023 Budget was developed using enrolment estimates established in early 2022. Average Daily Enrolment (ADE) levels have a direct impact on funding and also affect related instructional expenses. The approved budget reflected ADE of 50,561 for elementary and 23,605 for secondary (excluding high credit and adult day school enrolment).

The revised estimates reflect elementary ADE of 51,450 students, which is an increase of 889 students (1.8%) from the approved budget. Secondary day school enrolment ADE is projected to be 24,212 students which is an increase of 607 students (2.6%) 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		
	Revised Estimates	Approved Budget	Change	Revised Estimates	Approved Budget	Change
				$	$	$
Elementary	51,450	50,561	889	289,870,170	284,627,093	5,243,077
Secondary	24,212	23,605	607	143,398,899	139,805,152	3,593,747
Total	75,662	74,166	1,496	433,269,069	424,432,245	8,836,824

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 $1.6 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 increased slightly by close to $70,000. A portion of the funding is generated based on enrolment in remedial literacy and numeracy programs for students in grades 7 to 10.

Appendix C compares the anticipated GSN revenue shown in the revised estimates with the approved budget. The analysis includes the effect of revenue deferrals. GSN funding is expected to increase by $15.6 million.

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

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.

There has been an increase in PPF funding of approximately $3.0 million over what was reported in the 2022-2023 Budget. Much of the increase relates to the Tutoring Supports program.

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 $16.4 million, an increase of $5.8 million relative to the original budget.

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.

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 $12.9 million in comparison to the 2022-2023 Budget. The main contributor to this increase is the additional student enrolment in both the elementary and secondary panels.

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 revised estimates, the District has assumed that supply teacher costs of $23.0 million will be incurred. This amount is $3.0 million more than budgeted.

The District anticipates even further increased needs due to the ongoing pandemic and other respiratory illnesses affecting the general population. Based on current trends, the expected costs will exceed the revised estimates. The most recent forecast to be reported to the Ministry is projected to be $33.0 million in OT-related costs. Some of this increase is being offset by a decrease in teacher salaries. This is due to increased use of OTs in vacant positions and the hiring of more junior teachers resulting in a lower average salary expense.

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.

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 2022-2023 Budget reflected revenue of over $8.4 million but revised estimates revenue has decreased to $8.0 million.

Administrative fees paid to OCENET by the District are reported as a cost in the Instruction category. The fees are expected to decrease by $36,400 to $1.7 million.

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 increase relative to the budget of $2.0 million. The increase is due to the Ministry allowing the remaining Tutoring Supports program PPF from 2021-2022 to be carried forward into the new year.

11. **Student Transportation**

Transportation of the District's students is provided by the Ottawa Student Transportation Authority (OSTA). Amounts reflected in the 2022-2023 Budget were based on information received from OSTA. The estimates have been updated and costs have not increased from the original budget. Transportation expenses of $47.2 million are shown in the revised estimates.

Funding for transportation costs provided by the GSN is expected to increase by $2.0 million to $46.1 million.

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 a decrease of approximately $200,000, all of which pertains to labour shortages in Ottawa.

Non-compensation costs have increased by just over $1.0 million due to increased temporary pupil accommodation costs.

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 revised estimates remain unchanged.

Central departments show increased compensation costs of approximately $820,000 due to temporary salary uplifts to groups experiencing severe labour shortages.

The anticipated value of PPE being provided by the MGCS is expected to be $2.6 million. This amount is shown in the “Other” category on Appendix B. An equivalent amount of in-kind revenue has been reported.

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 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 land assets will be acquired during the year. However, two large capital projects have been delayed due to inflation/funding issues and labour shortages which has caused an increase in portable costs.

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 $70.6 million and related revenues of $70.0 million. The revised estimates show $72.7 million in expenses which is supported by $72.0 million in revenues. Expenses have increased by $2.1 million, and revenues have increased by $2.0 million.

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.

The revised estimates also reflect the anticipated use of $700,000 of the accumulated surplus to support capital investment upgrades at the 133 Greenbank Road Administration Building. An additional $4.5 million of the accumulated surplus will be used to fund portables which are necessary to accommodate students in growing areas. 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 will be submitted for approval according to Board policy.

16. **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 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 has continued to increase as parents return to work and students return to school full-time. It is currently operating with approximately 4,334 students which represents approximately 80% of pre-pandemic participation rates.

Initially, the EDP was budgeted to be in a deficit position this school year; however, due to an increase in surplus government funding and reduced labour costs, the program is expected to have a small surplus at the end of the year.

Table 3 shows the original budget and revised estimates by category.

Table 3 – Extended Day Program Comparative Amounts

	Revised Estimates	Budget	Change increase (decrease)
	$	$	$
Revenues			
Direct Revenues	16,066,449	15,639,551	426,898
Benefit Trust Allocation	497,521	497,521	-
COVID PPF Grants	-	-	-
	16,563,970	16,137,072	426,898
Expenses			
Compensation	13,491,978	13,699,341	(207,363)
Administrative Transfers (Comp)	1,284,167	1,271,659	12,508
Supplies and Services	805,897	610,848	195,049
Facility Transfers (Supplies)	921,717	921,717	-
	16,503,759	16,503,565	194
Surplus (Deficit)	60,211	(366,493)	426,704

17. **Child Care Program**

The Infant, Toddler and Preschool (ITP) program operates at two sites and provides 88 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 revised estimates by category. The program was originally budgeted to be in a deficit position but due to additional municipal funding, the program is expected to have a surplus of approximately $160,000.

Table 4 – Child Care Program Comparative Amounts

	Revised Estimates	Budget	Change increase (decrease)
	$	$	$
Revenues			
Direct Revenues	2,048,569	1,706,225	342,344
Benefit Trust Allocation	53,244	53,244	-
	2,101,813	1,759,469	342,344
Expenses			
Compensation	1,707,862	1,803,471	(95,609)
Supplies and Services	235,516	163,246	72,270
	1,943,378	1,966,717	(23,339)
Surplus (Deficit)	158,435	(207,248)	365,683

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. As restrictions are removed, there is a return to pre-COVID activities resulting in a slight increase in revenues of $220,000.

Other miscellaneous revenue items remain constant with the original budget projections.

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 2022-2023 Revised Estimates, this amount is $9.3 million.

Table 5 presents the components of accumulated surplus and shows the anticipated use of $9.1 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 2023	Actual as at 31 Aug 2022	Change increase (decrease)
	$	$	$
Available for compliance			
Restricted-committed capital	15,575,490	11,642,460	3,933,030
Internally appropriated			
Extended Day Program	(1,471,265)	(1,471,265)	-
Budgets carried forward	2,387,089	2,387,089	-
Business Systems	1,000,000	1,000,000	-
Contingencies	2,832,267	14,000,000	(11,167,733)
Unappropriated	-	1,926,714	(1,926,714)
	20,323,581	29,484,998	(9,161,417)

The District is compliant with Ministry requirements.

20. **Summary**

The District's 2022-2023 Revised Estimates include the impact of enrolment increases, increased staff replacement costs and delays in capital projects which increase portable costs. Portable costs impact the District's available accumulated surplus.

The revised estimates show expenses of $1,080.1 million, revenues of $1,071.0 million and a projected deficit of $9.1 million.

RESOURCE IMPLICATIONS:

21. The District's 2022-2023 Budget showed a planned deficit of $9.1 million. The District's 2022-2023 Revised Estimates show the same planned deficit. The deficit is compliant with the Ministry's budget compliance framework.

COMMUNICATION/CONSULTATION ISSUES:

22. The 2022-2023 Revised Estimates were 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?

Randall Gerrior Associate Director, Business Operations	Michèle Giroux 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