



COMMITTEE OF THE WHOLE (BUDGET) AUDIT COMMITTEE

**16 April 2019
22 May 2019**

Report No. 19-040

2018-2019 Updated Financial Forecast (February)

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

PURPOSE:

1. To present for information the District's 2018-2019 Updated Financial Forecast as of 28 February 2019.

CONTEXT:

2. Financial forecasts are prepared periodically during the year to show the District's anticipated year-end position.

The 2018-2019 Revised Estimates that were submitted to the Ministry of Education in December 2018 served as the first forecast of the year. They reflected the impact of increased enrolment on compensation costs and related revenue streams, adjustments resulting from grants announced after the passing of the District's budget and changes identified as part of ongoing monitoring of operations.

The updated forecast is based on year-to-date experience up to 28 February 2019 and information gathered during the preparation of this report. Explanations provided in the revised estimates are repeated and additional commentary explaining further changes has been provided.

KEY CONSIDERATIONS:

3. In June 2018, the Board approved the 2018-2019 Budget authorizing expenses totaling \$974.3 million. Funding of the expenses was provided through grants and other revenues totaling \$974.3 million. This resulted in a balanced budget.

The District's 2018-2019 Updated Financial Forecast provides for expenses of \$972.3 million, revenues of \$980.1 million and a planned surplus of \$7.8 million.

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

Table 1 – Comparison of Updated Forecast and Budget

	Updated Forecast	Budget	Change	Change
	\$	\$	\$	%
Revenues	980,139,200	974,300,600	5,838,600	0.6
Expenses	972,354,400	974,300,600	(1,946,200)	(0.2)
Surplus	7,784,800	-	7,784,800	

Changes to revenues and expenses since the passing of the 2018-2019 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.

4. **Enrolment Estimates and Grants (Unchanged)**

The 2018-2019 Budget was developed using enrolment estimates established in early 2018. Average daily enrolment (ADE) levels have a direct impact on funding and also affect related instructional expenses. The approved budget reflected ADE of 49,296 for elementary and 22,954 for secondary.

Actual elementary ADE for 2018-2019 Revised Estimates purposes was 49,685 students which is an increase of 389 students (0.8%) over the approved budget. Secondary day-school enrolment was revised to reflect ADE of 23,054 students which is an increase of 100 students (0.4%) over the approved budget. This enrolment continues to be reflected in the updated forecast.

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 expected to be \$2.7 million more than budgeted.

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

	Enrolment (Pupils of the Board)			Pupil Foundation Grant		
	Updated Forecast	Budget	Change	Updated Forecast	Budget	Change
				\$	\$	\$
Elementary	49,685	49,296	389	270,612,100	268,558,500	2,053,600
Secondary	23,054	22,954	100	137,276,800	136,678,200	598,600
Total	72,739	72,250	489	407,888,900	405,236,700	2,652,200

Other allocations that comprise part of the Grants for Student Needs (GSNs) are affected by changes in enrolment and student demographics. Of these, the funding change relating to the Special Education grant was most affected and increased by over \$1.8 million while the School Operations grant increased by \$726,900.

Special mention must be made regarding the Indigenous Education grant. The District's grant is comprised of a base amount to support the Board's action plan on indigenous education, a per pupil amount reflective of the enrolment of indigenous students and an indigenous studies amount which provides funding based on student enrolment in qualifying secondary panel courses. Almost all of the \$1.5 million increase relates to indigenous studies where 1,631 pupil credits are anticipated as compared to the 375 pupil credits assumed during budget development. The increase is generally attributable to enrolment in compulsory English credit courses which qualify for increased funding.

Appendix C - Grants for Student Needs compares the revised GSNs with the approved budget.

5. **Compensation-Related Instruction Costs (Changed)**

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, exclusive of specific amounts totaling \$1.0 million and discussed in sections 6 and 7, show that savings of \$11.2 million are likely in comparison to the 2018-2019 Budget. Almost all of this reduction relates to classroom teachers.

A review was initiated to identify the factors giving rise to the significant savings. The review confirmed an anomaly related to the compensation of new teaching staff. Teachers that leave the District normally have significant qualifications and experience and, accordingly, are compensated at the high end of the salary scale. Teachers filling the vacated positions are generally compensated at lower rates of pay which reflect their more recent entry into the teaching profession.

Actual trends show that the qualification and experience levels and, consequently, the rates of pay are less than originally provisioned in the budget. Revenue provided by the Qualification and Experience grant has also decreased by \$1.6 million given that teachers are starting at lower rates of pay as compared to the salary benchmark.

The assumptions underlying compensation are being reviewed as part of the District's 2019-2020 budget development cycle.

6. **Enrolment-Related Compensation Adjustments (Unchanged)**

As previously mentioned, the revised estimates reflect increased enrolment in both the elementary and secondary panels. There has also been increased enrolment of international students. The additional enrolment, as influenced by site-specific enrolment needs, has resulted in changes in the number of teaching staff required by the District.

The revised estimates reflected the addition of 9.5 FTE elementary teachers beyond the approved complement to meet enrolment-driven needs. The increase is offset by savings of 9.0 FTE secondary teaching assignments. Although enrolment at the secondary level increased, teaching assignments were accommodated within approved staffing levels. The cost adjustments associated with the positions result in a modest increase of \$29,900. Additional information on the academic staffing changes is available in Memo 19-006, Staffing Update.

Recognizing that the increased enrolment would include recent immigrants, a provision of \$500,000 has been established to meet incremental needs to support English language learners.

7. Special Education Costs (Unchanged)

The District continues to experience increased demand for supports provided by EAs. This group of employees has also experienced increased pressure as it relates to absenteeism. Accordingly, the revised estimates have been updated to reflect additional costs totaling \$377,600 to meet increased casual EA staffing needs. Also, an additional \$100,000 has been provided for behavioural analyst supports.

Spending on supplies and services relative to the budget is expected to be \$362,200 more than planned. This amount is part of the net instruction-related costs discussed in Section 10. The increased costs will be funded using the Special Equipment Amount (SEA). The SEA grant is a specific funding envelope within the special education envelope.

8. Teacher Absences (Changed)

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 identified supply teaching costs of \$19.8 million, which is \$2.9 million more than budgeted. The increased cost reflects current experience and reporting. 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.

Although the use of OTs has a financial impact, the effect on student learning is also a primary consideration. Accordingly, OT use will continue to be monitored as will the continued promotion of a healthy workplace that fosters employee well-being.

9. International Students (Changed)

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 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 2018-2019 Budget reflected revenue of over \$10.6 million based on 817 students. The revised estimates reflected anticipated revenue of just over \$10.9 million based on 846 students. Increased enrolment of 29 students accounts for the \$379,000 revenue increase. This increased enrolment continues to be used in the updated forecast.

Administrative fees paid to OCENET by the District are reported as a fee in the Instruction category. These costs have increased by \$147,600 to \$4.3 million.

10. Other Instruction-Related Costs (Changed)

Other instruction-related 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 decrease relative to the budget of \$1.9 million. The decrease is primarily the result of planned spending that will ultimately be considered to be capital as well as reduced spending on professional development activities.

11. Student Transportation (Unchanged)

Transportation of the District's students is provided by the Ottawa Student Transportation Authority (OSTA). Amounts reflected in the 2018-2019 Budget were based on information received from OSTA. The estimates have been updated and costs are expected to be \$677,300 more than budgeted. The additional costs relate primarily to the driver retention mitigation strategy intended to reduce bus driver turnover which was approved by the OSTA board in June 2018. These costs are partially offset by additional funding totaling \$276,500.

Transportation expenses of \$42.1 million are shown in the forecast. These costs are supported by the \$41.7 million Transportation grant.

12. Facility Operations (Changed)

Spending on school facilities represents the largest operating cost category outside of the instruction envelope. Projected compensation costs have increased by \$544,500 which reflects the increased use of casual staff. Non-compensation costs have increased by close to \$1.8 million. This cost increase is comprised of three amounts:

- a provision of \$1.0 million to address property lease costs retroactive to the 2014-2015 school year and inclusive of a potential retroactive rate increase;
- \$1.2 million for anticipated additional costs to relocate portables during the year; and
- net cost reductions of \$390,600 which relate primarily to spending that will be reported as a capital expense.

13. **Other Program Grants and Deferred Revenues (Changed)**

In addition to GSN funding, the District receives special funding which targets Ministry priorities. The grants are termed Educational Program Grants-Other (EPO) 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 EPO grants in March at the same time as the GSNs; however, it is common practice to receive additional funding during the school year.

The District reports EPO grants as deferred revenue. Revenue from these 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, for this analysis, are also referred to as EPO grants.

It is important to highlight that EPO grants are temporary, and often project-based, meaning that the funding may not be received in subsequent years. Although some grants may require the creation of a position, most often the funds are used to purchase goods and services or to pay for casual staff to backfill established positions while employees participate in identified priorities.

The forecasted amounts reflect adjustments to EPOs including those announced by the Ministry in December 2018. In addition, remedy payment funding has been updated to correspond with associated costs. The net adjustment relative to the budget is \$589,200. Most of the expenses relating to EPO funding are shown in the Instruction category in Appendix B - Comparative Summary of Expenses, but remedy payment costs totaling \$622,400 are reported in the Other category based on Ministry directive.

The District's 2018-2019 Budget reflected EPO grants totaling \$10.5 million. Appendix D – Other Program Grants shows that anticipated funding for the year is expected to be \$11.1 million. Most of the expenses relating to EPO funding are shown in the Instruction category in Appendix B - Comparative Summary of Expenses.

14. **Remedy Payments and Legal Provisions (Changed)**

New costs totaling \$2.7 million relating to remedy payments and legal provisions have been reported in the updated forecast.

Costs totaling \$622,400 relating to a settlement that 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) are expected. The ruling determined that the PSFA was a violation of the Canadian Charter of Rights and Freedoms. The costs are fully supported by Ministry EPO grants.

A provision of \$2.0 million has been established to address potential costs relating to legal claims filed by former students in regards to sexual assault allegations. The provision is in addition to the \$2.5 million established in 2017-2018. The provision will be monitored on a continuing basis and adjusted as needed.

Additional legal costs of \$56,200 have been incurred on other matters so far this year.

15. Other Non-Instruction Costs (Changed)

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

On a combined basis, the compensation costs are expected to exceed the budget by a modest \$22,900. For supplies and services, significant savings of just over \$1.0 million are expected. The supplies and services budgets of central departments will be reviewed during the development of the 2019-2020 Budget.

16. Deferred Capital Contributions and Amortization Expenses (Changed)

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 are expected to be completed and a variety of capital assets acquired. 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 and related revenue of \$53.4 million. The updated forecast amount is just over \$56.1 million for both. Expenses and revenues increased by \$2.7 million, respectively.

17. Minor Tangible Capital Assets (Changed)

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.

The updated forecast reflects anticipated capital spending to advance specific initiatives relating to information technology and student furniture renewal. In total, \$6.4 million previously identified as operating revenue will instead be used to support MTCA acquisitions. Requests to proceed with significant acquisitions were approved by the Board in January 2019 in accordance with policy.

18. **Extended Day Program (Changed)**

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 close to 5,500 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, ECEs who staff the EDP, before and after school, also partner with teachers during the core day to provide the kindergarten program.

Increased program participation has been observed this year which has resulted in additional revenue of \$804,300 being reported in the forecast.

Costs of the program have also changed. A decrease of \$112,300 in compensation costs is projected for the year. The savings are attributable to temporarily vacant positions that occur during the year.

Spending on supplies and services is expected to be \$132,000 less than budgeted. A review of spending on snacks and program supplies resulted in the identification of a \$168,000 cost pressure for the year. This is offset by the anticipated savings of \$300,000 relating to the purchase of computer software to manage participant registration and billing. The savings reflect that software project costs will not be incurred until next year.

Table 3 shows the original budget and forecast by category. The program is expected to have a significant surplus of over \$655,100 for the year of which \$300,000 relates to the deferral of software costs. The surplus will be used to offset the \$214,000 deficit that is anticipated in the Child Care Program.

Table 3 – Extended Day Program Comparative Amounts

	Forecast	Budget	Change
	\$	\$	\$
Revenues	17,450,300	16,646,000	804,300
Expenses			
Compensation	15,280,500	15,392,800	(112,300)
Administrative Transfers (Comp)	576,400	576,400	-
Supplies and Services	608,000	740,000	(132,000)
Facility Transfers (Supplies)	330,300	330,300	-
	16,795,200	17,039,500	(244,300)
Surplus (Deficit)	655,100	(393,500)	1,048,600

19. **Child Care Program (Changed)**

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 (ITP) 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 in an effort to stabilize the program's financial performance.

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. Projected GO funding of \$200,000 was reflected in the budget, but the City of Ottawa has since confirmed that it will provide \$390,000 for the year, which is an increase of \$190,000. This amount accounts for all of the program's increased revenue shown in the revised estimates.

Costs have also been updated. Compensation costs are expected to be \$73,000 less than budgeted which is generally attributable to net savings that result from temporarily vacant positions and the use of casual staff who are compensated at a lower rate of pay relative to permanent staff. The costs of supplies are also expected to be \$25,000 less than budgeted due to savings on snacks and meals.

Table 4 shows the original budget and forecast by category.

Table 4 – Child Care Program Comparative Amounts

	Forecast	Budget	Change increase (decrease)
Revenues	\$ 1,785,000	\$ 1,597,000	\$ 188,000
Expenses			
Compensation	1,914,000	1,987,000	(73,000)
Supplies and Services	85,000	110,000	(25,000)
	1,999,000	2,097,000	(98,000)
Deficit	(214,000)	(500,000)	(286,000)

The anticipated deficit is expected to be fully supported using the EDP surplus.

20. **Accumulated Surplus (Changed)**

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 2018-2019 Revised Estimates, this amount is \$8.6 million. Approval to use accumulated surplus in excess of this amount must be obtained from the Ministry. That said, the District's 2018-2019 Budget was balanced meaning that no reliance was placed on the use of the accumulated surplus.

Table 5 presents the components of accumulated surplus and shows the anticipated increase and alignment of the projected 2018-2019 net operating surplus of \$7.8 million.

Table 5 – Accumulated Surplus Available for Compliance

	Projected as at 31 Aug 2019	Actual as at 31 Aug 2018	Change increase (decrease)
	\$	\$	\$
Available for compliance			
Restricted-committed capital	430,000	471,600	(41,600)
Internally appropriated			
Extended Day Program	1,327,400	886,300	441,100
Budgets carried forward	2,149,000	2,149,000	-
Business Systems	2,000,000	2,000,000	-
Contingencies	17,200,000	15,000,000	2,200,000
Unappropriated	19,547,600	14,362,300	5,185,300
	42,654,000	34,869,200	7,784,800

It is important to highlight that with the approval of the 2017-2018 Consolidated Financial Statements, the Board appropriated \$17.0 million to be used to respond to revenue shortfalls or increased expenses relative to the budget. This appropriation was categorized as “Contingencies” and included \$2.0 million for use in modernizing business systems used to manage student, financial and human resources needs. As at 31 August 2018 the \$2.0 million is now shown separately under the Business Systems category. A portion of the anticipated surplus is proposed to be used to increase the contingency provision.

21. Summary

The District’s 2018-2019 Updated Financial Forecast includes the impact of increased enrolment, enhanced spending authority provided through the use of targeted Ministry grants, the effects of in-year changes to programs and increased costs relating to remedy payments to eligible staff.

The enrolment increase this year has added revenue, but this is also offset by costs mainly relating to teaching staff and additional student supports.

Staff continues to evaluate where additional resources may be required to respond to student needs. In addition, consideration is being given as to how the projected surplus could be used during the current year to mitigate future financial pressures. Approval will be sought in compliance with Board policies, as necessary.

The District’s 2018-2019 Updated Financial Forecast provides for expenses of \$972.3 million, revenues of \$980.1 million and a planned surplus of \$7.8 million.

RESOURCE IMPLICATIONS:

22. The District’s 2018-2019 Budget was balanced. The District’s updated forecast for 2018-2019 presents a surplus of \$7.8 million, which is compliant with the Ministry’s budget compliance framework.

COMMUNICATION/CONSULTATION ISSUES:

23. The 2018-2019 Updated Financial Forecast was prepared by Finance staff in consultation with other departments.

STRATEGIC LINKS:

24. An effective 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:

25. 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

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 Expenses
Appendix C – Grants for Student Needs
Appendix D – Other Program Grants