COMMITTEE OF THE WHOLE (BUDGET) **29 May 2019**
Report No. 19-066

2019-2020 Staff-Recommended Budget

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PURPOSE:

1. To present and seek approval of the 2019-2020 Staff-Recommended Budget.

CONTEXT:

2. The Committee of the Whole (COW) Budget has had two meetings this year which have helped to inform the process for the development of the 2019-2020 Staff-Recommended Budget. To date, the Committee has received an overview of the District's financial position, the provincial outlook and possible areas of focus and investment in the coming year. In addition, members of the Committee have expressed opinions regarding priorities for the OCDSB in the coming year. In developing its recommendations, staff has considered those suggestions as well as input provided by principals and others throughout the year.

The development of a budget is always complicated because of the necessity to rely on estimates. Line items for both revenue and expenses rely on the estimates of enrolment, general price increases and trends in staff recruitment, retention and benefit costs. This year's process has been complicated by the timing of the release of information from the Ministry of Education. Memo 2019:B1, Grants For Student Needs (GSN) Funding, providing information about funding for 2019-2020 was released on 26 April 2019, the technical paper that supports the provincial announcement of changes to the GSNs has not yet been released.

On 10 May 2019, the Ministry provided access to its electronic reporting tool and this has allowed staff to proceed with the calculations necessary to finalize the budget. However, the absence of some of the technical details make it likely there will be some variances with certain funding allocations, specifically, the attrition funding related to secondary class size and the increases in special education funding.

Notwithstanding the above, staff is confident in the accuracy of the proposed budget.

As outlined further in this report, this year's budget is designed to maintain as much as possible, service to students without making large investments that may need to be amended in the future. This approach will allow the District to begin work on the changes that will be necessary over the next 3 to 4 years to manage the decreases in funding that have already been announced, as well as the likelihood of further reductions.

The District is well on the way to the approval of a new 2019-2023 Strategic Plan to guide it over the next 4 years. Throughout budget discussions, staff has made every effort to ensure decisions were guided by the spirit of the plan. The planning for the 2020-2021 Staff-Recommended Budget, which will commence in the fall of 2019, will be more clearly linked to the approved plan. A copy of the Draft 2019-2023 Strategic Plan is attached as Appendix A.

KEY CONSIDERATIONS:

3. Budget Risk

Annually, staff evaluates significant risk factors that could affect next year's financial outcomes. Variability in projected enrolments (and consequently funding) is always considered, as well as assumptions around future cost pressures in response to unforeseen service needs. Key risks include:

- enrolment variability;
- fluctuations in revenues and expenses;
- in-year budget pressures; and
- political environment.

4. Enrolment Variability

Student enrolment projections for the coming year are one of the most critical elements affecting budget development. Enrolment is measured twice each year and reflected as average daily enrolment (ADE). The enrolment projections are based on trends, knowledge of changing municipal demographics and District initiatives such as the opening of new schools, boundary and program changes, as well as the opening of new schools by other school districts. On a system basis, enrolment projections have usually been close to 1% of actuals; however, there can be larger school-by-school variances that can create staffing pressures or savings opportunities.

The District has recently experienced enrolment growth and staff is cautiously optimistic that this will continue, but it is unlikely to be as strong as what has been experienced in the past 2 years. The recommended budget shows projected 2019-2020 day school ADE of 73,619. This number represents an ADE increase of 1,370 (1.9%) relative to the 2018-2019 budgeted ADE of 72,249.

Increased enrolment is accompanied by additional funding and, potentially, additional student support costs. Should enrolment be greater than projected, staff would proceed with the mandatory teacher and early childhood educator (ECE) staffing required by the collective agreements and/or regulation. If necessary, a report identifying any additional required investments would be presented to COW during the 2019-2020 school year.

The funding associated with enrolment growth, beyond that required to provide the mandatory staffing, has been applied to offset the revenue reductions that will be faced in 2019-2020.

5. <u>Fluctuations in Revenues and Expenses</u>

The revenues and expenses in the recommended budget have been prepared based on recent experience and influenced by assumptions regarding anticipated changes. For example, the recommended budget continues to show an increase in costs associated with staff replacement. Although the increased provision is believed appropriate, there are always fluctuations in the actual patterns experienced. Most recently, the challenge has been finding sufficient replacement staff. These uncertainties and fluctuations create variances that must be monitored on a continual basis in an effort to improve budget accuracy.

The funding reductions as a result of the phasing in of the class size increase at the secondary level will not be finalized until the end of the next fiscal year. As identified during the approval of academic staffing in March 2019, the provisions of local collective agreements across the province contain conditions that limit the ability to move towards the implementation of larger classes. This has not been recognized at this time in the Ministry's calculations. Preliminary calculations estimate that this may create a gap of approximately $4.0 million next year.

6. <u>In-Year Budget Pressures</u>

From time to time, departments and schools must respond to emerging needs not specifically provided for in the annual budget. In the past, the District has had to address pressing health and safety issues and respond to extenuating weather-related maintenance needs that created spending pressures. Monitoring actual performance in relation to the Board's approved budget allows for the identification of opportunities to reallocate resources to meet such needs.

The OCDSB has experienced surpluses in past years due to a combination of factors. In order to create a balanced budget and to allow time to transition to the new fiscal reality staff has been attentive in ensuring that they have not over-estimated costs in budgeting. This approach increases the possibility that circumstances in the next year will require over-expenditure. At the time of filing the 2019-2020 Revised Estimates in December 2019, the District would need to identify its plan to eliminate that deficit within a two-year period.

7. Political Environment

The Province of Ontario Budget published 1 March 2019 has significantly reduced funding to a number of organizations in the community service, municipal and health care sectors. As those partner agencies realign service with their new funding levels, it can be expected that the District will face greater demands in responding to the needs of students and families.

8. Summary of Changes in the Operating Budget

Table 1 – Comparison of Staff-Recommended Budget to Approved Budget

	2019-2020 Recommended Budget	2018-2019 Approved Budget	Change	Change increase (decrease)
	$	$	$	%
Revenues	980,096,000	974,300,600	5,795,400	0.6
Expenses	980,096,000	974,300,600	5,795,400	0.6
Surplus	-	-	-	

9. Revenues

As illustrated in Table 1, a projected increase of $5.8 million in revenue is expected in 2019-2020. This is a 0.6% increase over the revenue budgeted for 2018-2019. The increase reflects the additional revenue generated by growth in enrolment, as well as the reductions in net funding due to the provincial announcements with respect to changes in secondary class sizes (net of attrition funding), program enhancement funding, elimination of Local Priorities Funding (LPF) and other funding adjustments. The anticipated revenues are summarized in Appendix B.

10. Expenses

The net increase in expenses for 2019-2020 in comparison to last year's approved budget is $5.8 million, which is a 0.6% increase. Staff has been extremely diligent in reviewing the assumptions and projections in the budget and this has allowed for a reduction of approximately 1.0% in estimated costs for 2019-2020, which partially offsets the other cost pressures for the next year. Appendix C provides a summary of planned expenditures by funding envelope.

The costs include changes resulting from approved academic staffing levels as presented in Report 19-037, 2019-2020 Academic Staffing which is attached as Appendix D. The changes reflect enrolment-related changes in both the elementary and secondary panels as well as adjustments resulting from the expiry of LPF.

In addition to the academic staffing changes, the recommended budget includes adjustments to the number of professional and support positions in response to emerging needs. Importantly, the retention of all positions supported by LPF is recommended as are some new positions to support various needs including those for special education.

Other changes, including those resulting from adjustments to Priorities and Partnership Funds, formerly termed Education Program Other Grants (EPOs), are included in the recommended budget. Overall, there are a number of new investments being recommended to meet specific areas of need.

The projected operating expenses are fully supported by revenues; however, proposed investments in the District's Wi-Fi network will create a need to use reserves in an amount of $8.3 million. This amount is compliant with Ministry guidelines for the use of reserves and it will not require Ministerial approval.

11. Reserves

Table 3 outlines the projected balances of the OCDSB reserves at the end of 2018-2019 as well as next year. Even with the use of approximately $8.3 million to support Wi-Fi investments, the District will still have reserves approximately equal to 3.5% of its annual operating revenue.

Table 3 – Accumulated Surplus Available for Compliance

	Projected as at 31 Aug 2020	Projected as at 31 Aug 2019	Change increase (decrease)
	$	$	$
Available for compliance			
Restricted-committed capital	1,648,200	430,000	1,218,200
Internally appropriated			
Extended Day Program	1,414,800	1,327,400	87,400
Budgets carried forward	2,149,000	2,149,000	-
Business Systems	2,000,000	2,000,000	-
Contingencies	17,200,000	17,200,000	-
Unappropriated	9,948,500	19,547,600	(9,599,100)
	34,360,500	42,654,000	(8,293,500)

RESOURCE IMPLICATIONS:

12. For 2019-2020, the recommended budget reflects the changes in the level of services to students. The reduction in funding for secondary staffing will result in approximately 120 fewer sections being available for scheduling across the District, which will impact timetabling. This impact will be partially offset in schools with the increased enrolment.

The budget also contains very modest increases in the number of specialized classes for students with special needs, increases to supports in Learning Support Services (LSS) including additional educational assistants (EA) and additional staffing to address the ongoing behavioural and mental health issues that are impacting students.

The recommended budget uses close to the maximum allowable amount of reserves which provides an opportunity for the District to develop an effective plan to address the new reduced funding levels while mitigating the impact on students and continuing in the pursuit of the District goals as identified in the Draft 2019-2023 Strategic Plan.

COMMUNICATION/CONSULTATION ISSUES:

13. The late announcement of funding details and the restrictions on the use of reserves has made this an unusual year for budget development. Opportunities for broad consultation were limited as the intent was to work on a budget that maintained as much of the status quo as possible. However, staff has continued to take into account the advice received from COW Budget, Board advisory committees, as well as principals and other staff. Information collected during the development of the Draft Strategic Plan has also been considered in formulating the budget.

Now that information on funding has been confirmed, the work on the 2020-2021 Budget will allow for the engagement of all stakeholders through budget discussions.

The 2019-2020 Budget is scheduled to be approved by the Board before the end of June 2019. A revised budget approval timeline was shared with COW Budget at the 16 April 2019 meeting. The remaining scheduled meeting dates for COW Budget are as follows:

- 29 May 2019 – Presentation of the staff-recommended budget;
- 03 June 2019 – Public delegations and debate;
- 10 June 2019 – Debate (further delegations, if required); and
- 17 June 2019 – Budget debate (if required) and recommendation to the Board.

Provision will be made for a Special Board meeting to immediately follow the COW Budget meeting, once a recommendation has been approved.

The District website includes a landing page for financial information with quick links to both the current budget and budgets for prior years. Relevant supporting information such as budget questions and answers are also available. The webpage has been updated so that focus is placed on the development of the 2019-2020 Budget. Access to all public documents, such as budget reports and presentations, is easily accessed from the webpage.

As has been done in the past, an email link for budget questions and comments has been established. While individual responses are not always possible, every effort is made to respond to questions in a timely manner. Staff has also attended meetings of the Special Education Advisory Committee (SEAC), and the Advisory Committee on Equity (ACE).

STRATEGIC LINKS:

14. The Strategic Plan's stewardship objective identifies that, by 2019, the District will optimize learning conditions for all students through the responsible and sustainable management of resources. The Draft 2019-2023 Strategic Plan focuses on creating a culture of social responsibility that continues to foster responsible stewardship of financial resources. The Board’s stewardship of the District’s financial resources continues to be one of its primary functions and the budget will set the operating plan for the coming year. An effective debate leading to approval of the budget is a cornerstone of sound governance practice. The progress made in rebuilding its accumulated surplus, and continuing to enhance services to students is a credit to the efforts of the entire District. This has allowed the OCDSB to develop a budget that mitigates some of the immediate impacts of this year’s funding reductions, allowing time for a more complete review of how to move forward in the face of decreasing resources.

RECOMMENDATION:

A. THAT the unconsolidated 2019-2020 operating budget of $980.1 million as presented in Report 19-066, 2019-2020 Staff-Recommended Budget and detailed in the 2019-2020 Staff-Recommended Budget Binder be approved; and

B. THAT the 2019-2020 capital budget of $74.5 million as presented in the 2019-2020 Staff-Recommended Budget Binder, be approved.

Mike Carson
Chief Financial Officer

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

APPENDICES

Appendix A – Draft 2019-2023 Strategic Plan
Appendix B – 2019-2020 Summary of Grants and Other Revenues
Appendix C – 2019-2020 Comparative Budget Summary
Appendix D – Report 19-037, Academic Staffing for 2019-2020