AUDIT COMMITTEE **22 January 2020**
COMMITTEE OF THE WHOLE (BUDGET) **3 February 2020**
Report No. 20-003

2019-2020 Revised Estimates

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PURPOSE:

1. To explain changes reflected in the District's 2019-2020 Revised Estimates as compared to the District's 2019-2020 Budget and to seek approval of the In-Year Deficit Elimination Plan (the Plan) as required by the Ministry of Education.

CONTEXT:

2. The Ministry requires that school boards approve and submit annual budget estimates by the end of June preceding the beginning of a new school year. The original budget estimates were approved by the Board on 10 June 2019.

   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 2019-2020 Revised Estimates include the impact of net enrolment changes which resulted in reduced revenue, the effect of increased attrition from classroom-based teaching positions, updates resulting from the remaining service life (RSL) review of physical assets, adjustments resulting from grants announced after the approval of the District's budget and changes identified as part of ongoing monitoring of operations. The revised estimates are prepared relatively early in the school year and, recognizing the reduced enrolment, staff continues to closely monitor resources to ensure that the planned deficit is not unexpectedly exceeded.

   The revised estimates also reflect the anticipated use of $6.2 million of accumulated surplus to support capital spending on classroom portables and administrative facilities.

KEY CONSIDERATIONS:

3. In June 2019, the Board approved the 2019-2020 Budget authorizing expenses totaling $980.2 million. Funding of the expenses was provided through grants and other revenues totaling $971.8 million. This would result in a planned deficit of $8.4 million.

The District's 2019-2020 Revised Estimates provide for expenses of $977.8 million, revenues of $969.4 million and a planned deficit of $8.4 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 (decrease)	Change
	$	$	$	%
Revenues	969,410,500	971,802,500	(2,392,000)	(0.2)
Expenses	977,803,400	980,246,000	(2,442,600)	(0.2)
Deficit	(8,392,900)	(8,443,500)	(50,600)	

Changes to revenues and expenses since the approval of the 2019-2020 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 – Priorities and Partnership Funds and Other Deferred Revenues.

4. **Enrolment Estimates and Grants**
The 2019-2020 Budget was developed using enrolment estimates established in early 2019. Average daily enrolment (ADE) levels have a direct impact on funding and also affect related instructional expenses. The approved budget reflected ADE of 50,246 for elementary and 23,373 for secondary (excluding high credit and adult day school enrolment).

The revised elementary ADE for 2019-2020 is 50,484 students which is an increase of 238 students (0.5%) over the approved budget. Secondary day school enrolment ADE is projected to be 23,060 students which is a decrease of 313 students (1.3%) from the approved budget.

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 and adult day school ADE. Table 2 shows that the District's PFG is $196,200 less than budgeted. The amount reflects increased elementary enrolment and reduced secondary enrolment.

Table 2 – Effect of Decreased 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	50,484	50,246	238	272,847,600	271,519,300	1,328,300
Secondary	23,060	23,373	(313)	112,577,700	114,102,200	(1524,500)
Total	73,544	73,619	(75)	385,425,300	385,621,500	(196,200)

Other allocations that comprise the Grants for Student Needs (GSNs) are affected by changes in enrolment and student demographics. One grant that shows relatively significant growth is 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. The $427,200 increase relates to Indigenous studies where 1,663 pupil credits are anticipated as compared to the 1,330 pupil credits assumed during budget development. The increase is attributable to enrolment in compulsory English credit courses which qualify for the supplemental funding.

Special mention must be made regarding the Cost Adjustment and Teacher Qualifications and Experience grant. The grant is used to provide funding for teacher compensation relative to the provincial benchmark that is used in the PFG. It also provides funding to cover the Ministry's contributions to employee life and health benefit trusts and, commencing 2019-2020, to provide attrition protection funding as part of the government's plan to achieve financial savings through changes to average class sizes for certain grades. The grant shows a significant reduction of $3.7 million relative to the budget. The reduction is comprised of two amounts:

- A $2.0 million reduction in the teacher qualifications and experience allocation. The 2019-2020 Budget assumed that the qualifications and experience of teachers would result in higher average compensation costs for the District. The revised estimates reflect the actual placement of teachers on the salary grid as at 31 October 2019. The change reflects a modest reduction in average costs; and
- A $1.7 million reduction attributable to teacher job protection funding. The 2019-2020 Budget anticipated that 230 secondary teacher FTEs would be protected; however, actual attrition up to 31 August 2019 increased beyond projections and, when combined with the reduced enrolment at the secondary level, resulted in only 217 FTEs being protected.

A number of other grants also changed: the School Operations grant decreased by $294,900, the Adult Education grant decreased by $552,900 and the Transportation grant decreased by $831,200.

Appendix C - Grants for Student Needs compares the GSNs with the approved budget and reflects the effect of revenue deferrals. The additional revenue relating to minor tangible capital assets (MTCA) is discussed in Section 13.

5. **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 that savings of $1.4 million are likely in comparison to the 2018-2019 Budget. Almost all of this reduction relates to classroom teachers and reflects the update of average compensation costs reflective of qualifications and experience relative to the provincial salary benchmark. The revised estimates also include anticipated compensation costs for term EA positions that were recently approved by the Board.

6. **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 supply teaching costs of $18.0 million, which is $1.0 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.

7. **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 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 2019-2020 Budget reflected revenue of over $11.4 million based on 846 students. The revised estimates reflect anticipated revenue of just over $11.0 million based on 818 students. Reduced enrolment of 28 students accounts for the $387,000 revenue decrease.

Administrative fees paid to OCENET by the District are reported as a fee in the Instruction category. These costs have decreased by $144,600 to $4.3 million.

8. **Other Instruction-Related Costs**
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 increase relative to the budget of $294,900.

9. **Student Transportation**
Transportation of the District's students is provided by the Ottawa Student Transportation Authority (OSTA). Amounts reflected in the 2019-2020 Budget were based on information received from OSTA. The estimates have been updated and costs are expected to be $29,300 more than budgeted. The additional costs relate to student transportation contracts.

Although costs are projected to be relatively stable, funding provided through the Transportation grant shows a decrease of $831,200 relative to the budget. The grant calculation incorporates the previous year's actual funding and related costs. The use of these amounts in the funding formula resulted in the reduction.

Transportation expenses of $46.1 million are shown in the revised estimates. These costs are supported by the $43.1 million Transportation grant.

10. **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 small increase of $133,500. Non-compensation costs have increased by close to $3.7 million. The significant contributors to the latter amount include:

- $1.1 million for additional costs to relocate portables during the year;
- $2.0 million for additional costs for snow clearing, property maintenance and for natural gas and electricity; and
- $606,400 for additional school renewal maintenance needs such as roof and floor repairs, masonry work and supporting consulting services.

11. **Other Non-Instruction Costs**
Other non-instruction costs relate to the activities of the Continuing Education department and central administrative 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 are $172,700 less than budgeted while supplies and services costs are $60,300 more.

Central departments show increased compensation costs of $182,600 in the revised estimates while supplies and services costs have been reduced by $138,100.

12. **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 RSL 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 into expense in the same manner as those supported by contributions from others, but there is no related revenue.

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.

During 2018-2019, the Ministry directed all school boards to review the RSL of major capital assets using a prescribed methodology. As previously noted, the RSL is used in determining the revenues and expenses reported in a year based on straight-line amortization rules. The objective of the review was to update the RSL to reflect the significant infrastructure investments that had been made since 2013-2014. The review resulted in increased RSLs for various investments (e.g., the 2014-2015 addition at Longfields-Davidson Heights Secondary School). The effect of the change is being accounted for prospectively and it has resulted in a significant decrease in both expenses and related revenues.

The approved budget projected amortization expenses and related revenues of $61.8 million. The revised estimates show $57.2 million in expenses which is supported by $56.9 million in revenues. Expenses and revenues decreased by $4.6 million and $4.9 million, respectively.

13. **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, $7.1 million previously identified as being set aside for MTCA needs will now be used to support operating costs.

The revised estimates also reflect the anticipated use of $6.2 million of the accumulated surplus to support capital investments in new classroom portables and for upgrades to the 440 Albert Street and the Confederation Education Centres. The use of accumulated surplus for these investments is compliant with Ministry requirements, but does not directly affect the amounts reported in the operating analysis. Requests to proceed with the projects and the use of accumulated surplus will be submitted for approval according to Board policy.

14. **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 65 schools and serves 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 continues to be strong. The revised estimates show only a small decrease of $61,900 in user fee revenue. This anticipated revenue is aligned with the previous year's actual results.

Costs of the program have also changed. A net decrease in compensation costs totaling $1.1 million is anticipated. The savings result from temporarily vacant positions that occur during the year, lower than anticipated needs for special education supports and overall rates of compensation that are less than budgeted.

The budget for supplies and services has also decreased by $273,300. The savings substantially relate to the computer software that will be used to manage participant registration and billing. A large portion of the project costs relate to computer hardware and this equipment was acquired near the end of the 2018-2019 school year. Lower than anticipated software licensing costs are also a factor.

Anticipated costs are in general alignment with the previous year's results. Table 3 shows the original budget and revised estimates by category. The program is expected to have a large surplus for the year.

Table 3 – Extended Day Program Comparative Amounts

	Revised Estimates	Budget	Change
Revenues	$ 17,888,700	$ 17,950,600	$ (61,900)
Expenses			
Compensation	14,597,500	15,712,300	(1,114,800)
Administrative Transfers (Comp)	588,100	588,100	-
Supplies and Services	746,500	1,026,500	(280,000)
Facility Transfers (Supplies)	340,300	333,600	6,700
	16,272,400	17,660,500	(1,388,100)
Surplus	1,616,300	290,100	1,326,200

A comprehensive analysis of the costing methodology and participation rates is nearing completion. The results of the analysis will be referenced during the 2020-2021 budget development process and reflected in the user fee recommendation for that year. The analysis will result in a better alignment of revenues and expenses.

15. **Child Care Program**

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 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 revised estimates by category. At this time, no significant changes are forecast in program revenues and expenses. Although the information would not normally be presented in the absence of a change in the estimates, the table is presented because the anticipated deficit will be fully supported using the EDP accumulated surplus.

Table 4 – Child Care Program Comparative Amounts

	Revised Estimates	Budget	Change increase (decrease)
	$	$	$
Revenues	1,791,000	1,791,000	-
Expenses			
Compensation	1,858,700	1,858,700	-
Supplies and Services	135,000	135,000	-
	1,993,700	1,993,700	-
Deficit	(202,700)	(202,700)	-

16. **Benefit Plan Surplus and Other Net Revenue Adjustments**

The revised estimates reflect a provision of $1.5 million relating to the return of funds held by the District’s former employee benefits plan administrator. The funds were being held to cover benefit claims during the windup of the former benefit plan. The funds are to be returned now that all District employees are members of provincial life and health benefit trusts. The provision is shown as a revenue increase.

Other net revenue adjustments result in a revenue decrease of $459,400, most of which relates to decreased funding from OCENET. The 2019-2020 Budget projected special purpose funding from OCENET of $1.5 million. This funding, which is separate from student fees, offsets an enrolment-based reduction in the School Operating grant that was introduced with the announcement of the 2019-2020 GSNs and relates to international students. The revised estimates anticipate funding of $1.1 million will be required to offset the reduced grant revenue.

17. **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 2019-2020 Revised Estimates, this amount is $8.5 million. Approval to use accumulated surplus in excess of this amount must be obtained from the Ministry.

Table 5 presents the components of accumulated surplus and shows the anticipated use and alignment of the projected 2019-2020 net operating surplus of $8.4 million. The District is within the 1% compliance required.

Table 5 – Accumulated Surplus Available for Compliance

	Projected as at 31 Aug 2020	Actual as at 31 Aug 2019	Change increase (decrease)
	$	$	$
Available for compliance			
Restricted-committed capital	8,604,200	2,742,400	5,861,800
Internally appropriated			
Extended Day Program	3,487,100	2,073,400	1,413,700
Budgets carried forward	1,656,100	1,656,100	-
Business Systems	2,000,000	2,000,000	-
Contingencies	17,200,000	17,200,000	-
Unappropriated	1,041,600	16,709,900	(15,668,300)
	33,989,000	42,381,800	(8,392,800)

18. **In-Year Deficit Elimination Plan**

The Ministry now requires that a board approve a plan when a district is projecting an adjusted in-year deficit. The Plan must identify how the adjusted deficit will be eliminated within two fiscal years. The District's adjusted in-year deficit is projected to be just over $8.2 million which is $169,600 less than the compliance- based deficit of close to $8.4 million. The adjustment relates to the amortization of Board-approved committed capital projects incurred between 1 September 2010 and 31 August 2019.

The District's preliminary plan submitted with the revised estimates proposes that the deficit be eliminated over two years through a combination of revenue adjustments and expense reductions. To provide for the greatest flexibility in budget planning for the coming years, the Plan identifies revenue reductions of $1.5 million in 2020-2021 with offsetting reductions in staffing costs and portable relocations. The approach effectively defers substantially all of the deficit elimination to 2021-2022. For that year, the Plan identifies that savings will be obtained through reduced investments in MTCA and by aligning school renewal operating costs with available funding. The approach recognizes that significant cyclical investments in District infrastructure will have been completed.

The proposed plan which requires Board approval is attached as Appendix E. It will be reviewed during the development of the 2020-2021 Staff-Recommended Budget.

19. **Summary**
The District's 2019-2020 Revised Estimates include the impact of net enrolment changes which resulted in reduced revenue, the effect of increased attrition from classroom-based teaching positions, updates resulting from the RSL review of physical assets and reductions in EDP operating costs.

The enrolment decrease this year has reduced revenue, but this is also offset by cost savings mainly relating to teaching staff and additional student supports.

The revised estimates show expenses of $977.8 million, revenues of $969.4 million and a projected deficit of $8.4 million. As required by the Ministry, this report includes a recommendation to approve the proposed deficit elimination plan.

RESOURCE IMPLICATIONS:

20. The District's 2019-2020 Budget showed a planned deficit of $8.4 million. The District's 2019-2020 Revised Estimates continues to show a planned deficit of $8.4 million. The deficit is compliant with the Ministry's budget compliance framework.

COMMUNICATION/CONSULTATION ISSUES:

21. The 2019-2020 Revised Estimates were prepared by Finance staff in consultation with other departments.

STRATEGIC LINKS:

22. Aligned with the 2019-2023 Strategic Plan's pillar of developing a culture of social responsibility, an effectively functioning Audit Committee and 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.

RECOMMENDATION:

THAT the Board approve the In-Year Deficit Elimination Plan attached as Appendix E to Report 20-003.

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 – Priorities and Partnership Funds and Other Deferred Revenues
Appendix E – In-Year Deficit Elimination Plan