AUDIT COMMITTEE **23 November 2020**
Report No. 20-093

Analysis of the District's 2019-2020 Financial Results

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PURPOSE:

1. To provide the Audit Committee with information regarding the District's financial results for the year ended 31 August 2020.

CONTEXT:

2. The District's financial results significantly contribute to those reported in the draft 2019-2020 Consolidated Financial Statements. An analysis of the District's results provides insight into relevant changes that occurred during the year. The narrative reflects areas discussed in forecasts presented during the year and amounts have been updated based on actual results.

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 resulted in a planned deficit of $8.4 million.

   The District's 2019-2020 financial results shows expenses of $954.0 million, revenues of $951.4 million and a deficit of $2.6 million. Table 1 compares the deficit with the amount originally budgeted.

   Table 1 – Comparison of Actual Results and Approved Budget

	Actual	Budget	Change	Change
	$	$	$	%
Revenues	951,400,300	971,802,500	(20,402,200)	(2.1)
Expenses	954,009,800	980,246,000	(26,236,200)	(2.7)
Deficit	(2,609,500)	(8,443,500)	5,834,000	

   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 Partnerships Fund and Other Deferred Revenues.

4. **Centrally Negotiated Collective Agreements**

All teachers, and most administrative and support staff, are represented by either the Elementary Teachers' Federation of Ontario (ETFO) or the Ontario Secondary School Teachers' Federation (OSSTF). The collective agreements for staff represented by these unions expired on 31 August 2019. Accordingly, the collective bargaining process figured prominently during the 2019-2020 school year.

As a reminder, central negotiations are carried out by the provincial representatives of the employee (unions) and the employer (the Ontario Public School Boards' Association (OPSBA) represents the OCDSB). The government, through the Ministry of Education, also participates. Decisions about which items are negotiated locally or centrally are determined by the central table. Those items not considered "central" are then handled at a local level. Compensation was a central item.

Although the negotiation process resulted in the year being punctuated by strike action that included lost instructional days, the parties ultimately negotiated collective agreements which were centrally ratified during the year. Significant to the 2019-2020 financial reporting process was the provision in each agreement for a 1% wage increase retroactive to 1 September 2019. The wage increase was also given to the District's non-unionized staff.

The financial results reported on Appendix B include savings of $16.6 million that resulted from strike days for which staff were not paid and the increased costs of $6.3 million to reflect the accrued effect of the retroactive wage settlement.

The Ministry also adjusted the 2019-2020 salary benchmarks by 1% to provide the funding needed for the wage increase. The higher benchmarks are reflected throughout the Grants for Student Needs (GSNs) and the additional funding approximates the $6.3 million in increased costs.

5. **Enrolment and Grants**

GSNs are affected by changes in enrolment, student demographics and funding benchmark adjustments.

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).

Actual elementary ADE for 2019-2020 was 50,480 students which is an increase of 234 students (0.5%) over the approved budget. Secondary day school enrolment ADE was 22,926 students which was a decrease of 447 students (1.9%) from the approved budget.

The following highlights some of the significant changes in the individual grants that make up the GSNs:

Pupil Foundation Grant

The Pupil Foundation Grant (PFG) applies to students of the District under 21 years of age and excludes high credit and adult day school ADE. The grant provides a significant portion of the funding which supports classroom needs such as teachers, librarians, guidance counsellors, classroom supplies and learning materials. Table 2 shows that the District's PFG is $2.8 million more than budgeted.

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

	Enrolment (Pupils of the Board)			Pupil Foundation Grant		
	Actual	Approved Budget	Change	Actual	Approved Budget	Change
				$	$	$
Elementary	50,480	50,246	234	275,440,100	271,519,300	3,920,800
Secondary	22,926	23,373	(447)	112,967,600	114,102,200	(1,134,600)
Total	73,406	73,619	(213)	388,407,700	385,621,500	2,786,200

Although not shown in the table, the $2.8 million increase is actually comprised of an $880,600 reduction in funding as a result of lower enrolment and a $3.7 million increase in funding as a result of higher benchmarks to support the 1% wage increase that was provided for in the centrally negotiated collective agreements.

Indigenous Education

The District's Indigenous Education 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 $1.9 million increase relates to Indigenous studies where 2,877 pupil credits were provided as compared to the 1,300 pupil credits assumed during budget development. The increase is attributable to enrolment in compulsory English credit courses which qualify for the supplemental funding.

Language Allocation

The Language grant increased by $2.1 million beyond the amount budgeted. This grant has two components: The first part relates to enrolment in French as a Second Language (FSL) studies which provides funding based on the grade level and duration of French instruction. The second component is the English as a Second Language (ESL) amount which provides funding based on confirmed enrolment of students whose first language is not English and who have arrived in Canada since September 2014. FSL funding accounted for $561,600 of the increase while the remaining balance of $1.5 million resulted from ESL funding.

Cost Adjustment and Teacher Qualifications and Experience
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 $2.0 million reduction relative to the budget. The reduction is comprised of three amounts:

- A $2.1 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 actual placement of teachers on the salary grid for the year reflects a modest reduction in average costs;
- A $1.3 million increase in benefit trust funding in response to adjustments to contribution amounts negotiated as part of the ratified centrally negotiated collective agreements; and
- A $1.2 million reduction attributable to teacher job protection funding. The 2019-2020 Budget anticipated that 230 secondary teacher FTEs would be protected; however, actual attrition during the calculation period increased beyond projections and, when combined with the reduced enrolment at the secondary level, resulted in only 217 FTEs being protected.

Transportation
The transportation grant provides funding to deliver regular and specialized student transportation. Transportation of the District's students is facilitated by the Ottawa Student Transportation Authority (OSTA). The actual grant was $1.5 million less than anticipated in the budget; however, of this amount, $1.0 million was attributable to the Ministry's grant reduction to recognize that fuel was not being used by bus operators during the school closures that resulted from the COVID-19 pandemic.

Strike Savings
A general reduction of GSN revenue totaling $16.6 million is reflected in the financial results. The reduction is the net savings realized as a result of the labour sanctions and work withdrawals by ETFO and OSSTF staff during the collective bargaining process. The reduced funding is offset by lower compensation costs.

Minor Tangible Capital Assets
The additional revenue relating to minor tangible capital assets (MTCA) was $13.2 million. The allocation and use of the funding is discussed in Section 14.

Appendix C - Grants for Student Needs compares the GSNs with the approved budget and reflects the effect of revenue deferrals.

6. **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).

As previously noted, the effect of labour sanctions and retroactive wage settlements are included in the compensation-related instruction costs shown on Appendix B. Net savings totaled $640,700.

The main contributors to the savings are:

- Close to $14.6 million in savings as a result of the labour sanctions and work withdrawals initiated by ETFO and OSSTF during the collective bargaining process. The strike savings are offset by reduced Ministry funding;
- Increased compensation costs of $5.7 million which resulted from the retroactive wage settlements;
- Increased compensation pressures of $6.2 million for teaching staff;
- Increased costs of $1.7 million incurred as a result of higher than anticipated needs to support principals and vice-principals for reasons including absences and increased workload;
- Increased costs of $1.3 million for EAs including those positions that had been approved during the year; and
- Savings of $940,700 in office support and ECE costs.

7. **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.

Actual supply teaching costs of $18.5 million were incurred, which is $715,400 more than budgeted. The limited requirement for OTs since the start of the COVID-19 pandemic lessened the traditional overspending that is incurred for this purpose.

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. It is also important to note that OTs are used to staff vacant contract teaching positions, but that such costs are reported in the Instruction category.

8. **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 close to $12.9 million based on 846 students. The actual revenue was $11.1 million based on 809 students. Reduced enrolment of 37 students accounts for $571,600 of the revenue decrease. The balance of close to $1.2 million is attributed to the Ministry's facilities recovery fee that was announced after OCENET had set its tuition fees. The recovery fee is now incorporated into future tuition rates.

Administrative fees paid to OCENET by the District are reported as a fee in the Instruction category. These costs have decreased by $223,800 to $4.3 million.

9. **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 decrease relative to the budget of $7.7 million.

Substantial savings were experienced by both schools and central departments as a result of the COVID-19 closure. For instance, schools were unable to fully use their budgets for learning materials and office supplies. In addition, contracts for services administered by both schools and central departments were delayed. For the purpose of this analysis, this category includes reduced spending of the Priorities and Partnerships Fund and other deferred revenues totaling $964,400.

10. **Student Transportation**

Amounts reflected in the 2019-2020 Budget were based on information received from OSTA. Actual transportation costs, inclusive of compensation costs, were $6.0 million less than budgeted. The majority of the savings are attributable to reduced student transportation costs that have resulted from COVID-19 service reductions, but approximately $1.2 million relates to an anticipated need for specialized transportation services that did not materialize.

Transportation expenses of $40.2 million were reported for the year and are supported by the $42.3 million Transportation grant.

11. **Facility Operations**

Spending on school facilities represents the largest operating cost category outside of the Instruction envelope. Compensation costs have remained relatively stable and show an increase of $707,200 relative to the budget. Non-compensation costs have increased by $192,800. The significant contributors to the latter amount include:

- $602,400 for additional costs to relocate portables during the year;
- Close to $1.2 million for additional school renewal maintenance needs such as roof and floor repairs, masonry work, ventilation improvements and supporting consulting services; and
- Just over $1.6 million of savings from supplies, snow clearing, property maintenance and for natural gas and electricity.

12. **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 were $600,400 less than budgeted while supplies and services costs were $315,300 lower.

Central departments show increased compensation costs of $283,000 while supplies and services costs were $207,500 more than budgeted. Much of the increased compensation costs were the result of wage settlements and were offset by lower costs incurred for staff who were seconded to other organizations.

13. **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 (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 were completed and a variety of capital assets were 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 resulted in a significant decrease in both expenses and related revenues for 2019-2020 relative to the budget.

The approved budget projected amortization expenses and related revenues of $61.8 million. Actual expenses of $51.0 million were reported and are supported by $50.7 million in revenues. Expenses and revenues decreased by $10.8 million and $11.0 million, respectively.

14. **Minor Tangible Capital Assets**

A portion of the annual GSN is budgeted for the acquisition of MTCA such as furniture, equipment and computers. Significant investments were planned for 2019-2020, particularly for new technology including the broadband modernization project which is being undertaken as part of the District's technology roadmap. Capital investments directly supported using MTCA funds totaled $6.7 million for the year. These amounts are not reported as an operating expense; rather, they have been capitalized and are being amortized into expense over the RSL of the assets.

In addition, capital investments totaling $5.5 million were made to acquire new classroom portables and to upgrade facilities at 440 Albert Street and the Confederation Education Centre. The Ministry prevents the direct use of MTCA funding for such investments, but the funding can be flowed through operations to replenish the accumulated surplus which effectively supports the capital costs incurred. The financial results reflect the use of $5.5 million of accumulated surplus for this purpose. Again, the costs are being amortized into expense over the RSL of the assets.

In total, $13.2 million previously identified to support MTCA acquisitions was recognized as operating revenue, and of this amount, $5.5 million has been used to support projects funded using the accumulated surplus.

15. **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, prior to the onset of the COVID-19 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.

The program was significantly affected in 2019-2020. The receipt of user fee revenue ceased in March 2020 and only $10.9 million was received from normal operations. The decrease is a direct result of the COVID-19 closure and lost revenue resulting from the labour disruption experienced during the year; however, the revenue was augmented by $3.7 million in the form of a financial sustainability grant provided to the District as part of the government's efforts to support child care operations during the pandemic.

Costs of the program have also changed. A net decrease in compensation costs totaling $1.2 million was observed. The savings resulted from temporarily vacant positions that occurred during the year, lower than anticipated needs for special education supports and overall rates of compensation that were less than budgeted. The amount also includes lower costs as a result of the suspension of the summer day care program and reduced needs for replacement staff, both of which are the direct result of the COVID-19 closure. Savings from the labour disruption are also included.

The cost of supplies and services are expected to be $617,100 less than budgeted. Again, the COVID-related closure figured prominently in the cost reduction.

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

Table 3 – Extended Day Program Comparative Amounts

	Actual	Budget	Change
	$	$	$
Revenues	14,599,200	17,950,600	(3,351,400)
Expenses			
Compensation	14,496,900	15,712,300	(1,215,400)
Administrative Transfers (Comp)	588,100	588,100	-
Supplies and Services	402,700	1,026,500	(623,800)
Facility Transfers (Supplies)	340,300	333,600	6,700
	15,828,000	17,660,500	(1,832,500)
(Deficit) Surplus	(1,228,800)	290,100	(1,518,900)

16. **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.

Similar to the EDP, the suspension of child care services in response to the COVID-19 pandemic had a significant impact on revenues and only $1.2 million was received from normal operations. The revenue was augmented by $500,000 in the form of a financial sustainability grant provided to the District as part of the government's efforts to support child care operations during the pandemic.

Table 4 shows the original budget and actual results by category. The lower expenses reflect savings in casual staffing costs and operating supplies.

Table 4 – Child Care Program Comparative Amounts

	Actual	Budget	Change
	$	$	$
Revenues	1,680,000	1,791,000	(111,000)
Expenses			
Compensation	1,786,400	1,858,700	(72,300)
Supplies and Services	60,500	135,000	(74,500)
	1,846,900	1,993,700	(146,800)
Deficit	(166,900)	(202,700)	(35,800)

17. **Benefit Plan Surplus, Property Rentals and Other Net Revenue Adjustments**

The revised estimates reflected 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. Although the administrator has returned the surplus funds to the District, collective agreement provisions require that the distribution of the surplus be agreed to by the federations. The District has received confirmation from the Ministry that the distribution of the plan surplus will be finalized in 2020-2021. Accordingly, the anticipated revenue was not recognized in the current year.

Lower revenue from property leases and rentals was expected as a result of the pandemic. A revenue shortfall of $532,600 was reported and is mainly attributable to lower revenues generated from fees charged for the use of the District's schools.

Other net revenue adjustments resulted in a revenue decrease of $1.4 million. This amount includes reduced revenues from program and learning, continuing education, interest earnings, prior year grant adjustments and miscellaneous sources such as cafeteria commissions and insurance rebates.

18. **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. This amount is $8.4 million for 2019-2020. 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 alignment of the 2019-2020 net operating deficit of $2.6 million. The District is well within the 1% compliance threshold.

Table 5 – Accumulated Surplus Available for Compliance

	Actual as at 31 Aug 2020	Actual as at 31 Aug 2019	Change increase (decrease)
	$	$	$
Available for compliance			
Restricted-committed capital	7,950,700	2,742,400	5,208,300
Internally appropriated			
Extended Day Program	677,700	2,073,400	(1,395,700)
Budgets carried forward	3,938,100	1,656,100	2,282,000
Business Systems	2,000,000	2,000,000	-
Contingencies	17,200,000	17,200,000	-
Unappropriated	8,005,800	16,709,900	(8,704,100)
	39,772,300	42,381,800	(2,609,500)

19. **Summary**
The District's 2019-2020 financial results shows expenses of $954.0 million, revenues of $951.4 million and a deficit of $2.6 million. The amount reduces the District's accumulated surplus to $39.8 million. The District is in an excellent position to respond to the financial challenges expected over the coming years.

RESOURCE IMPLICATIONS:

20. The net operating deficit of $2.6 million represents a variance of 0.27% in relation to planned expenses approved in the 2019-2020 Budget. The District's accumulated surplus available for compliance is $39.8 million.

COMMUNICATION/CONSULTATION ISSUES:

21. The analysis of the District's financial results was 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 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:

23. 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 – Priorities and Partnerships Fund and Other Deferred Revenues