



BOARD OF TRUSTEES Report

To:	Board of Trustees & Capital Assets and Finance Committee	Date of Report: 2/12/2021
From:	Vice-Principal (Finance and Administration)	Date of Capital Assets and Finance Approval: N/A Click here to enter approval date
Subject:	Financial Projection as at December 31, 2020	Date of Board Committee Meeting: 3/1/2021
Responsible Portfolio:	Vice-Principal (Finance and Administration)	Date of Board Meeting: 3/5/2021

1.0 PURPOSE

☐ For Approval ☐ For Discussion ☒ For Information

2.0 MOTION/DISCUSSION

This report is for information only.

3.0 EXECUTIVE SUMMARY

This report provides the Board of Trustees and the Capital Assets and Finance Committee with an overview of projected financial results for both the Operating and Ancillary Funds and the Bader International Study Centre.

2020-21 Projected Financial Results

The Operating Fund is currently projecting a deficit of \$16.5 million against the budgeted deficit of \$24.0 million. The COVID-19 pandemic created conditions that led to shortfalls in key revenue streams, including international student tuition, non-credit tuition, investment income and overhead from ancillary operations. However, decisions by faculties and shared service units to postpone hiring and renovation projects resulted in savings to mitigate the revenue losses.

Ancillary Operations are currently expecting a deficit of \$17.0 million against the budgeted deficit of \$0.8 million. The variance is driven by decreased revenues related to the reduced operations in Residence, Event Services, and the Donald Gordon Centre due to the COVID-19 pandemic. The decrease in revenue has been mitigated by cost containment measures.

The Bader International Study Centre combined operations are expecting a deficit of £3.0 million against the budgeted deficit of £1.9 million. The variance is driven by decrease in the projected revenue due to the winter term being offered online, originally budgeted as in-person sessions.

Additional details are presented in the analysis section.

4.0 STRATEGIC ALIGNMENT / COMPLIANCE

A key responsibility of the Board of Trustees and the Capital Assets and Finance Committee is approval of the operating budget. The financial update provides information on projections against the approved budget and an opportunity for the Board to ask questions of management. It is an important element of Board fiduciary oversight.

4.1 EQUITY, DIVERSITY, INCLUSION, AND INDIGENIZATION

No impact.

5.0 ENTERPRISE RISK ASSESSMENT

Review of financial progress reports compared to Board approved budgets is an important mitigation factor in addressing a number of the top risks in the enterprise risk framework.

6.0 ANALYSIS

Operating Budget

A summary version of the 2020-21 Operating Budget is presented in the table below.

	Amounts presented in millions		
	Approved budget	Projected actuals	Variance
Student Fees	416.0	397.4	(18.6)
Government Grants	214.1	213.7	(0.4)
Investment Income*	17.5	13.9	(3.6)
Other Revenue**	11.4	6.0	(5.4)
Total revenues	659.0	631.0	(28.0)
Expenditures			
Faculties & Schools Allocations	401.5	387.3	(14.2)
Shared Services Allocations	163.2	163.7	0.5
Utilities	15.7	15.7	-
Student Aid	30.9	30.9	-
Other Allocations***	17.6	17.6	-
Flow Through Expenses	17.2	10.7	(6.5)
Overhead Cost Recoveries	(5.3)	(1.5)	3.8
To be Allocated / (Funded)	0.4	(11.1)	(11.5)
Indirect Costs of Research to External Entities	1.4	1.3	(0.1)
Transfer to Capital Budget	16.4	16.4	-
Total Allocations and Expenditures	659.0	631.0	(28.0)
Transfer to Pension Reserve	2.1	2.7	0.6
Unit Spending Greater than Budget Allocation	(26.1)	(19.2)	6.9
Budget (deficit)/surplus	(24.0)	(16.5)	7.5
Excess Funding from Carryforwards	26.1	19.2	(6.9)
Contributed to Pension Reserve	(2.1)	(2.7)	(0.6)
Drawdown of / (Contribution to) Reserves	24.0	16.5	(7.5)

*Pooled Investment Fund income projection is based on budget of \$5.2 million

**Other revenue is comprised of unrestricted donations, other income, and research overhead.

***Other allocations is comprised of infrastructure renewal, strategic priorities and compliance and contingency.

Revenues

Student Fees

Most of the revenue in the operating fund is derived from enrolment. The University is projecting shortfalls on graduate tuition and non-credit tuition revenue predominantly linked to effects of the COVID-19 pandemic.

Amounts presented in millions		
Type	Variance	Comments
For Credit - Undergraduate	0.4	Undergraduate tuition is projecting a \$0.4 million positive variance. Shortfalls against the budget were observed in international enrolment for the faculties of Arts & Science, Engineering and Applied Science and Health Sciences. These losses were partially offset by gains in domestic enrolment for the same faculties. The Smith School of Business exceeded their intake target for international enrolment, which contributed to an overall budget-neutral outlook in undergraduate tuition for the University.
For Credit - Graduate	(9.1)	Graduate tuition and program fees are projecting a \$9.1 million negative variance, largely due to lower-than-expected enrolment in the professional programs for the Smith School of Business, the Faculty of Law, the Master of Engineering and various PhD programs. The Smith School of Business is also projecting declines in program fees for the professional programs due to the cancellation of in-person sessions.
Non-credit	(7.5)	Non-credit tuition is projecting a \$7.5 million negative variance, primarily due to a decline in the Smith School of Business Executive Education programs and the Faculty of Arts & Science non-credit programs.
Other	(2.4)	Projected decline in Athletics & Recreation fees (rebate given to students by the University Council on Athletics & Recreation due to temporary changes in service offering as the result of COVID-19), as well as loss on late fees, which was also waived in consideration of the financial distress faced by students due to the pandemic.
Total	(18.6)	Total student fees variance

Investment Income

A significant decrease in short-term interest rates is resulting in an expected shortfall of \$3.6 million in investment income compared to budget. Given the volatility of financial markets only the budgeted revenue of \$5.2 million for the Pooled Investment Fund has been included in the projected revenue. The PIF has experienced gains to date of \$52.5 million for the period ended November 30.

Other Revenue

Other revenue is projected to be \$5.4 million below budget, mostly attributed to membership, rental and programming revenue losses for Athletics & Recreation due to the cancellation of business caused by COVID-19 restrictions. Research overhead is also projected to fall below budget primarily due to research expenditures that are covered by the Canada Research Continuity Emergency Fund being ineligible for overhead charges.

Expenditures

Faculties & Schools Allocations

Faculties and Schools Allocations are expected to be \$14.2 million lower than budgeted, due to the shortfall in for-credit and non-credit revenue discussed under the 'Student Fees' section. Under the budget model, tuition and grant revenues are attributed directly to the Faculties and Schools. This allocation reduction is offset by an allocation of \$2 million flowing to the Bader International Study Centre (BISC) to cover its projected revenue shortfall in the current year.

Flow Through Expenses

Flow through expenses are projected to decrease by \$6.5 million from a budget of \$17.2 million to \$10.7 million, due to revenue losses for Athletics & Recreation, as discussed previously in the 'Student Fees' and 'Other Revenue' sections.

Overhead Cost Recoveries

Overhead cost recoveries to the University Fund are projecting a decrease of \$3.8 million, primarily attributable to the loss of ancillary revenues from residences and event service operations.

To be Allocated / (Funded)

As a result of the effects of the COVID-19 pandemic, the University is projecting a shortfall of central university funds of \$11.1 million. This shortfall is primarily due to the lower-than-expected revenue from short-term investment income (\$3.6 million), lower overhead revenue from ancillary units (\$3.8 million), and the decision to provide in-year subvention funding to the BISC to compensate for the elimination of in-person activities (\$2.0 million), as reflected in the Faculties and Schools Allocations section.

Funding for this shortfall will be sourced from PIF investment income earned over the budgeted \$5.2 million. As reported in the Investment Income section, the PIF has experienced income to date of \$52.5 million. Any gains that materialize will be prioritized to first fund the unrestricted deficit of \$4.4 million for 2019-20 and then to cover the in-year shortfall.

Unit spending greater than budget allocation

Units are projecting a drawdown on carryforwards of \$19.2 million, compared to the originally budgeted drawdown of \$26.1 million. Details on these variances are reported below.

Amounts presented in millions			
	Budget	Projected	Variance
Faculties and Schools	14.7	2.9	(11.8)
Shared Services	11.1	11.4	0.3
Central Reserves	0.3	4.9	4.6
Total	26.1	19.2	(6.9)

Faculties and Schools are projecting an in-year deficit of \$2.9 million; this is down from the planned deficit of \$14.7 million. The \$14.2 million projected decrease in allocation resulting from tuition revenue shortfalls reported in the 'Faculties and Schools Allocations' section is being more than offset by salary savings and postponing renovation projects, as well as reductions in expenses related to program delivery.

Shared service units are projecting an in-year deficit of \$11.4 million, which represents an increase of \$0.3 million compared to their budgeted drawdowns. Despite savings from the reduction of travel and other activities as the result of COVID-19, the main causes of the increase in drawdown include:

- Losses of external cost recoveries and ancillary overhead and dividends in the Division of Student Affairs.
- Renovation projects initiated by the Library that were not initially budgeted.

The drawdown factors noted above are offset by:

- Temporary savings in ITS related to the timing of digital projects.
- Savings in undergraduate financial aid, as federal government aid programs offset the funding requirements under the Student Access Guarantee.

Central reserves are projecting a drawdown of \$4.9 million from carryforward against a budgeted drawdown of \$0.3 million, an unfavourable variance of \$4.6 million. Details are presented below.

Amounts are presented in millions	
Variance	Explanation
2.6	Funding allocations made after finalization of the 2020-21 budget to provide subvention funding from contingency reserves for the Faculty of Health Sciences and the Bader International Study Centre ¹ of \$0.6M.
2.0	COVID-19 funding of \$2M was committed when the pandemic first impacted University operations in March 2020. These funds have been used to provide support for software linked to remote delivery, campus wellness and mental health support, and supports for student mobility.
4.6	Total central reserves variance

Ancillary Operations

See Appendix I for the Queen's University 2020-21 Ancillary Financial Report.

The projected deficit for the Ancillary Operations is \$17.0 million compared with the budgeted deficit of approximately \$0.8 million.

Housing and Hospitality

Housing and Hospitality includes Residences, Community Housing, Event Services, and the Donald Gordon Centre. The total projected deficit for this group is \$14.4 million compared with the budgeted surplus of \$1.2 million, a negative variance of \$15.6 million.

Housing and Hospitality revenues are expected to be \$57.6 million lower than budget. Residence occupancy is operating at approximately 40%, and activity in both event services and the Donald Gordon Centre is substantially lower than expected due to the pandemic. The impact of the expected shortfall in revenues is partially mitigated by lower than budgeted expenditures due mainly to a decrease in the variable costs relating to the food services contract and a reduction in the staff in residences, event services, and Donald Gordon Centre due to the limited occupancy and significantly reduced operations. Overhead contributions to the operating fund, calculated as a percentage of gross revenue, were also reduced.

To further mitigate the impact of the significant revenue reductions in Housing and Hospitality Services, planned contributions from both the Residence and the Donald Gordon Centre operating funds to the capital reserves have been eliminated and contributions to the university's Operating Fund have been significantly reduced.

¹ Subvention funding to BISC of \$0.6 million is in addition to the \$2 million in funding discussed earlier in the report.

After cost mitigation measures, the net impact of the \$57.6 million variance in revenues is projected to be reduced by \$42.0 million, to a net unfavourable variance of \$15.6 million.

To retain critical financial flexibility, deferred maintenance and capital expenditure spending has also been scaled back by \$6.6 million, including only projects and furniture required for safety and critical building functions. Housing and Hospitality Services remains committed to capital renewal and expects to resume capital contributions in future years.

Parking

Projected revenue is projected to be lower than budget by \$1.6 million. Monthly parking fees were waived for faculty, staff and students from May to August 2020 due to COVID-19 and monthly permit sales have declined since fees were reintroduced in September. Offsetting the projected decrease in revenues is a reduction in overheads transferred to the university's Operating Fund due to lower revenues, and a decrease in snow removal costs. To further mitigate the impact of the revenue reductions in Parking, planned contributions to the capital reserves have been eliminated for the current year. Maintaining appropriate capital reserves remains a priority and contributions will resume in future years.

To retain further financial flexibility, projected deferred maintenance expenditures have been reduced by \$0.7 million as the planned projects have been deferred due to the decrease in revenue.

Affiliated Entities

The information summarized below represents the combined operations of the Bader International Study Centre, which include the operations of the Bader International Study Centre (BISC) and Herstmonceux Castle Enterprises Limited (HCE). The combined BISC amounts are not a full consolidation; as a result, there may be some sales and expenses between the entities, which will be eliminated through consolidation at year end. All amounts below are reported in pounds sterling.

The original 2020-21 BISC budget was balanced. The revised budget presented below is the budget approved by the BISC Board in June 2020, which reflected known impacts of the pandemic at that time, including no spring or summer enrolment, and remote fall learning plans.

	BISC				HCE				Combined BISC			
	Budget 2020-21	Projected Actuals 2020-21	Variance		Budget 2020-21	Projected Actuals 2020-21	Variance		Budget 2020-21	Projected Actuals 2020-21	Variance	
REVENUE	£ 1,964	£ 591	-£	1,373	£ 174	£ 136	-£	38	£ 2,138	£ 727	-£	1,411
Non-interest expenditures	£ 3,650	£ 3,373	-£	277	£ 381	£ 331	-£	51	£ 4,031	£ 3,703	-£	327
Interest	£ -	£ -	£	-	£ -	£ -	£	-	£ -	£ -	£	-
EXPENDITURES	£ 3,650	£ 3,373	-£	277	£ 381	£ 331	-£	51	£ 4,031	£ 3,703	-£	327
SURPLUS (DEFICIT)	-£ 1,686	-£ 2,782	-£	1,096	-£ 207	-£ 194	£	13	-£ 1,893	-£ 2,977	-£	1,084

BISC projected revenues do not include the additional \$ 2 million CAD in financial support discussed in the Faculties and Schools Allocation section of the report.

The decrease in the projected BISC revenue is due to the winter term being offered online, originally budgeted as in-person sessions for the winter term. The decrease in projected expenditures is due to a reduction in the variable costs associated with the residence operations.

7.0 FINANCIAL IMPLICATIONS

The primary purpose of the Financial Update is to report on expected financial results of the Operating Fund and ancillary operations. Maintaining a balanced operating budget is critical to Queen's financial health and its ability to meet objectives.

8.0 COMMUNICATIONS STRATEGY

This document is posted on the Queen's University website and is available to the public. See [Financial Services - Publications](#) for all reports.

9.0 INPUT FROM OTHER SOURCES

Office of Planning and Budgeting

ATTACHMENTS

APPENDIX I – Queen's University 2020-21 Ancillary Financial Report

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Queen's University 2020-21 Ancillary Financial Report (000's)										
	Housing and Hospitality			Parking			Total Ancillary			
	Budget 2020-21	Projected Actuals 2020-21	Variance	Budget 2020-21	Projected Actuals 2020-21	Variance	Budget 2020-21	Projected Actuals 2020-21	Variance	
REVENUE	\$ 94,227	\$ 36,592	\$ (57,635)	\$ 3,480	\$ 1,924	\$ (1,556)	\$ 97,707	\$ 38,516	\$ (59,191)	
Non-interest expenditures	\$ 66,246	\$ 34,742	\$ (31,504)	\$ 1,589	\$ 1,173	\$ (416)	\$ 67,835	\$ 35,915	\$ (31,920)	
Interest	\$ 4,780	\$ 6,534	\$ 1,754	\$ 2,318	\$ 2,290	\$ (28)	\$ 7,098	\$ 8,824	\$ 1,726	
EXPENDITURES	\$ 71,026	\$ 41,276	\$ (29,750)	\$ 3,907	\$ 3,463	\$ (444)	\$ 74,933	\$ 44,739	\$ (30,194)	
Net Surplus (Deficit) before Capital and Contributions to University Operations	\$ 23,201	\$ (4,684)	\$ (27,885)	\$ (427)	\$ (1,539)	\$ (1,112)	\$ 22,774	\$ (6,223)	\$ (28,997)	
Deferred Maintenance	\$ (10,700)	\$ (1,300)	\$ 9,400	\$ (525)	\$ -	\$ 525	\$ (11,225)	\$ (1,300)	\$ 9,925	
Debt Servicing - Principal	\$ (6,598)	\$ (7,665)	\$ (1,067)	\$ (1,013)	\$ (1,013)	\$ -	\$ (7,611)	\$ (8,678)	\$ (1,067)	
Contributions to University Operations	\$ (4,712)	\$ (788)	\$ 3,924	\$ -	\$ -	\$ -	\$ (4,712)	\$ (788)	\$ 3,924	
SURPLUS (DEFICIT)	\$ 1,191	\$ (14,437)	\$ (15,628)	\$ (1,965)	\$ (2,552)	\$ (587)	\$ (774)	\$ (16,989)	\$ (16,215)	

Queen's University 2020-21 Ancillary Budget (000's) Operating Reserves										
OPENING RESERVE	\$ 9,167	\$ 9,167	\$ -	\$ (22,505)*	\$ (22,505)*	\$ -	\$ (13,338)	\$ (13,338)	\$ -	
SURPLUS (DEFICIT) - PLANNED ALLOCATION TO (FROM) RESERVES	\$ 1,191	\$ (14,437)	\$ (15,628)	\$ (1,965)	\$ (2,552)	\$ (587)	\$ (774)	\$ (16,989)	\$ (16,215)	
CLOSING RESERVE	\$ 10,358	\$ (5,270)	\$ (15,628)	\$ (24,470)	\$ (25,057)	\$ (587)	\$ (14,112)	\$ (30,327)	\$ (16,215)	

2020-21 Ancillary Budget (000's) Capital Reserve										
OPENING RESERVE	\$ 15,922	\$ 15,922	\$ -	\$ 5,086	\$ 5,086	\$ -	\$ 21,008	\$ 21,008	\$ -	
Planned Contribution	\$ 10,700	\$ 1,300	\$ (9,400)	\$ 525	\$ -	\$ (525)	\$ 11,225	\$ 1,300	\$ (9,925)	
Deferred Maintenance & Capital Expenditure(s)	\$ (12,293)	\$ (5,673)	\$ 6,620	\$ (747)	\$ (19)	\$ 728	\$ (13,040)	\$ (5,692)	\$ 7,348	
CLOSING RESERVE	\$ 14,329	\$ 11,549	\$ (2,780)	\$ 4,864	\$ 5,067	\$ 203	\$ 19,193	\$ 16,616	\$ (2,577)	

* The accumulated deficit, created by the debt servicing payments, is projected to be reduced to zero 7 years after the debt servicing payments are completed. The debt will be repaid in full in fiscal 2040/41.