**BOARD OF TRUSTEES**
**Report**

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|---|---|---|
| **To:** | Board of Trustees & Capital Assets and Finance Committee | **Date of Report:** 4/14/2020 |
| **From:** | Vice-Principal (Finance and Administration) | **Date of** Choose Committee or enter **Approval:** N/AClick or tap to enter a date. |
| **Subject:** | **Financial Projection as at March 31, 2020** | **Date of Board Committee Meeting:** 5/8/2020 |
| **Responsible Portfolio:** | Vice-Principal (Finance and Administration) | **Date of Board Meeting:** 5/8/2020 |

## 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.

**2019-20 Projected Financial Results**

The Operating Fund is currently projecting a deficit of $13.7 million against the budgeted deficit of $17.8 million. The favourable variance is primarily due to significant one-time utilities savings, along with strong undergraduate enrolment, offset by lower than planned investment income. Given the volatility of financial markets no projected revenues from the Pooled Investment Fund (PIF) have been included against the budgeted revenue of $5.2 million. The PIF has experienced losses to date of $28.6 million as of March 31, 2020, which are not reflected in the above deficits.

Ancillary Operations are currently expecting a deficit of $4.9 million against the budgeted deficit of $1.2 million. The variance is driven by reduced revenues related to the early departure of students from campus as a result of the COVID-19 pandemic.

Additional details are presented in the analysis section of this report.

## 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 2019-20 Operating Budget is presented in the table below.

| | | | Amounts presented in millions |
|---|---|---|---|
| | Approved budget | Projected actuals | Variance |
| Student Fees | 378.3 | 379.4 | 1.1 |
| Government Grants | 214.3 | 214.7 | 0.4 |
| Investment Income | 16.2 | 12.4 | (3.8) |
| Other revenue* | 11.3 | 11.8 | 0.5 |
| Total revenues | 620.1 | 618.3 | (1.8) |
| Expenditures | | | |
| Faculties & Schools Allocations | 377.0 | 377.9 | 0.9 |
| Shared Services Allocations | 153.2 | 154.9 | 1.7 |
| Utilities | 15.7 | 7.6 | (8.1) |
| Student Aid | 30.9 | 30.9 | - |
| Other Allocations ** | 18.3 | 21.2 | 2.9 |
| Flow through expenses, net of recoveries | 10.6 | 11.5 | 0.9 |
| Indirect costs of research to external entities | 1.6 | 1.5 | (0.1) |
| Transfer to Pension reserve | (6.4) | (6.4) | - |
| Unit spending greater than budget allocation | 24.2 | 20.1 | (4.1) |
| Transfer to capital budget | 12.8 | 12.8 | - |
| Total expenditures | 637.9 | 632.0 | (5.9) |
| Budget (deficit)/surplus | (17.8) | (13.7) | 4.1 |
| | | | |
| Excess funding from carryforwards | 24.2 | 20.1 | (4.1) |
| Contributed to pension reserve | (6.4) | (6.4) | - |
| Drawdown of / (contribution to) reserves | 17.8 | 13.7 | (4.1) |

*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

Most of the revenue in the operating fund is derived from enrolment. The University is above target against overall budgeted enrolment at the undergraduate level and below target at the graduate level. The graduate shortfall is primarily within the School of Business professional master's programs, notably due to a delayed launch of the Global Master of Management Analytics program. Also contributing to the shortfall is lower than expected enrolment in various research-based master's programs in the Faculty of Arts & Science. At the undergraduate level, we are projecting a higher number of Full Time Equivalents (FTE's) for both domestic and international enrolment, resulting in an increase in student fee revenue.

**Student Fees**

Overall student fees are showing a positive variance of $1.1 million.

| Amounts presented in millions | | |
|---|---|---|
| Type | Variance | Comments |
| For Credit | 3.6 | Undergraduate tuition is projecting a $7.5 million positive variance, primarily as the result of higher than expected domestic and international enrolment in the Faculty of Arts & Science and the Faculty of Education. This is offset by a $3.9 million negative variance in graduate tuition revenue, which is due to lower than expected enrolment in the School of Business professional programs and various research-based master's programs. |
| Non-credit | (2.1) | Non-credit tuition is projecting a $2.1 million negative variance, primarily due to a decline in the Smith School of Business (SSB) Executive Education programs due to the cancellation of sessions in the final part of the year as a result of the COVID-19 pandemic. The decline in the SSB programs are partially offset by increases in the Faculty of Arts & Science non-credit programs. |
| Other | (0.4) | Variance is due primarily to projected decline in the Student Assistance Levy, largely due to students opting out of the fee as part of the Student Choice Initiative. |
| | 1.1 | Total student fees variance |

**Government Grants**

Overall government grants are showing a positive variance of $0.4 million.

| Amounts presented in millions | |
|---|---|
| Variance | Comments |
| (0.7) | The Federal Research Support Fund (RSF) and the Provincial Research Overhead Infrastructure Envelope (ROIE) are projected to be $0.7 million below budget. This is the result of the decline in the University's system share of Tri-Council funding received. |
| (0.6) | A shortfall of $0.6 million is being projected on the operating grant, mainly as the result of missing graduate master's enrolment targets established with the Ministry of Colleges & Universities (MCU) for Strategic Mandate Agreement 2 (SMA2). The decrease in projected graduate master's enrolment are largely coming from research-based programs in the Faculty of Arts & Science. |
| 1.7 | Variance is due primarily to an additional $1.1 million in funding for the Regional Assessment Resource Centre and a one-time special purpose grant of $0.4 million for operational needs arising from the COVID-19 pandemic. |
| 0.4 | Total government grants variance |

**Investment Income**

Investment income is projected to be $3.8 million less than budgeted, resulting from higher than budgeted revenues for short-term investments, offset by a lower than budgeted revenues for the PIF due to market volatility spurred by the COVID-19 pandemic. Given the volatility of financial markets no projected revenues from the PIF have been included against the budgeted revenue of $5.2 million. The PIF has experienced losses to date of $28.6 million as of March 31, 2020, which are not reflected in the projected investment income.

**Other Revenue**

Other revenue is projected to be $0.5 million higher than budgeted due to an increase in projected unrestricted donations and bequests, and research overhead. These increases are partially offset by unfavourable projections for student health fees and athletic fee revenue.

## Expenditures

**Faculties & Schools Allocations**

Faculties and Schools Allocations are expected to be $0.9 million higher than budgeted, primarily as a result of the projected increase in tuition and research overhead, offset by a reduction in government grants. Allocations have declined from the previously quarterly update largely due to the decline in non-credit student fees. Under the budget model, tuition and grant revenues are attributed directly to the Faculties and Schools.

**Shared Service Allocations and Utilities**

Shared service costs and utilities are expected to be $6.4 million below budget primarily due to a projected $8.1 million rebate on utilities. The one-time rebate is being received through the

Ontario Renewable Energy Credit (OREC) and the Global Adjustment (GA) modifier programs. New replacement legislation for the programs, effective November 1, 2019, disallows universities from participation in the program going forward. The savings on utilities are offset by a net loss of $1.1 million related to the loan forgiveness with BISC[1] reported in the operating fund and $0.6 million overspend on various central finance expenses.

**Other Allocations and Flow through expenses, net of recoveries**

The increase of $2.9 million in other allocations is funded primarily by a combination of savings on utilities and surplus revenue from unrestricted donations and overhead income, offset by decreases in investment income and revenues for athletics and health services.

**Unit spending greater than budget allocation**

Units are projecting a drawdown on carryforwards of $20.1 million, compared to the originally budgeted drawdown of $24.2 million. Details on these variances are reported below.

| Amounts presented in millions | | | |
|---|---|---|---|
| | Budget | Projected | Variance |
| Faculties and Schools | 8.0 | 4.2 | (3.8) |
| Shared Services | 15.8 | 8.5 | (7.3) |
| Central Reserves | 0.4 | 7.4 | 7.0 |
| Total | 24.2 | 20.1 | (4.1) |

Faculties and Schools are projecting an in-year deficit of $4.2 million; this is down from the planned deficit of $8.0 million. As noted previously in the 'Faculties & Schools Allocations' section, $0.9 million of this variance is due to a projected net increase in revenue. The remaining $2.9 million budget improvement is mainly the result of salary savings from faculty and administrative vacancies, as well as delayed renovations.

Shared service units are projecting an in-year deficit of $8.5 million, which represents a reduction of $7.3 million from their budgeted drawdowns. Savings are primarily due to changes in the timing of spending on projects in Information Technology Services and University Relations, strategic optimization of financial aid strategy, as well as salary savings from administrative vacancies and externally contracted work for various shared services units. These savings are partially offset by projected increases in custodial and grounds expenditures, disbursement of emergency bursaries to students impacted by COVID-19, transfers into the research fund by the VP Research Portfolio, Workplace Safety & Insurance Board (WSIB) claim adjustments, self-insurance, Graduate Student Support and unbudgeted investment in capital projects in the Library.

[1] *The impact of the loan forgiveness is eliminated in the consolidated financial statements of the University, which include BISC.*

Central reserves are projecting a drawdown of $7.4 million from the carryforward against a budgeted drawdown of $0.4 million, an unfavourable variance of $7.0 million. Details are presented below.

| Amounts are presented in millions | |
|---|---|
| Variance | Explanation |
| 10.0 | Variance is due to additional contingency related expenses. The various commitments from cash reserves vary in both amount and purpose; however, the funding is largely to invest in facility maintenance efficiencies, joint capital developments with the hospitals and funding to support capital improvements for research. |
| 3.4 | Reduction in funding to the University Fund primarily due to the losses in investment income and overhead from ancillary operations |
| 1.7 | Increase in shared services expenditures |
| (8.1) | One-time utilities savings |
| 7.0 | Total central reserves variance |

**Ancillary Operations**

See Appendix I for the Queen's University 2019-20 Ancillary Financial Report.

The projected deficit for the Ancillary Operations is $4.9 million compared with the budgeted deficit of approximately $1.2 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 $1.9 million compared with the budgeted surplus of $0.7 million.

Projected revenue has decreased $8.7 million due to the impacts of COVID-19. The early closure of the residence buildings resulted in $4.9 million in room refunds and $3 million in deferred flex dollar credits. The retail outlets also closed a month early resulting in further reductions to the revenue and the deferral of $0.8 million in purchased flex dollar credits.

Projected expenditures are $2.0 million lower than budget which is mainly due to early closure of retail operations and reduced use of mandatory and optional meal plans.

The planned contribution from the Residence operating fund to the capital reserve has been reduced by $4.0 million. The reduction to the planned contribution is to ensure that the Residence unit does not end the fiscal year in a deficit carry forward position and to provide more flexibility for 2020-21 operational impacts.

**Parking**

Projected revenue is lower than budget due to decreased sales as a result of COVID-19 which resulted in student parking passes being returned early and temporary parking sales being down. Additionally, projected expenses are higher than budgeted due to an increase in the projected snow removal costs in comparison to the budgeted amount.

**Queen's Executive Decision Centre (QEDC)**

The QEDC is in the process of changing the business model associated with this program. This has resulted in a decrease in the revenues, which are now based on a royalty fee, as compared to the revenue sharing model which was previously in place. The current year expenses, payments to the suppliers associated with the previous revenue sharing operations, are higher than originally anticipated due to higher sales under the revenue sharing program. Additionally, QEDC is contributing $0.1 million to the Smith School of Business operations. The Smith School of Business is responsible for covering any deficit accumulated in QEDC.

**Affiliated Entities**

The information summarized below are 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.

Amounts presented in thousands

| | BISC | | | HCE | | | Combined BISC | | |
|---|---|---|---|---|---|---|---|---|---|
| | Budget 2019-20 | Projected Actuals 2019-20 | Variance | Budget 2019-20 | Projected Actuals 2019-20 | Variance | Budget 2019-20 | Projected Actuals 2019-20 | Variance |
| **REVENUE** | £ 4,833 | £ 3,501 | -£ 1,332 | £ 635 | £ 534 | -£ 101 | £ 5,468 | £ 4,035 | -£ 1,433 |
| Non-interest expenditures | £ 5,222 | £ 5,257 | £ 35 | £ 597 | £ 621 | £ 24 | £ 5,819 | £ 5,878 | £ 59 |
| SURPLUS (DEFICIT) | -£ 389 | -£ 1,756 | -£ 1,367 | £ 38 | -£ 87 | -£ 125 | -£ 351 | -£ 1,843 | -£ 1,492 |
| Loan forgiveness | £ - | £ 5,433 | £ 5,433 | £ - | £ - | £ - | £ - | £ 5,433 | £ 5,433 |
| Additional funding | £ - | £ 589 | £ 589 | £ - | £ - | £ - | £ - | £ 589 | £ 589 |
| **SURPLUS (DEFICIT)** | -£ 389 | £ 4,266 | £ 4,655 | £ 38 | -£ 87 | -£ 125 | -£ 351 | £ 4,179 | £ 4,530 |

The decrease in the BISC revenue is due to significantly reduced student enrollment, cancellation of events, and expected student refunds. The increase in operating expenses is due to a possible value added tax (VAT) liability identified by the external auditor which the University is working with BISC to mitigate. This increase has been partially offset by lower than budgeted salaries and wages due to lower enrolment combined with a recovery from the United Kingdom government associated with COVID-19. During the year Queen's University forgave an outstanding loan with BISC in the amount of £5.4 million and provided additional one-time funding of £0.6 million which was not originally budgeted.

## 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

- Budget and Planning

**ATTACHMENTS**

APPENDIX I – Queen's University 2019-20 Ancillary Financial Report

# APPENDIX I – Queen's University 2019-20 Ancillary Financial Report

| Queen's University 2019-20 Ancillary Financial Report (000's) | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Housing and Hospitality | | | Parking | | | Queen's Executive Decision Centre | | | Total Ancillary | | |
| | Budget 2019-20 | Projected Actuals 2019-20 | Variance | Budget 2019-20 | Projected Actuals 2019-20 | Variance | Budget 2019-20 | Projected Actuals 2019-20 | Variance | Budget 2019-20 | Projected Actuals 2019-20 | Variance |
| **REVENUE** | **$ 90,075** | **$ 81,351** | **$ (8,724)** | **$ 3,514** | **$ 3,300** | **$ (214)** | **$ 325** | **$ 140** | **$ (185)** | **$ 93,914** | **$ 84,791** | **$ (9,123)** |
| Non-interest expenditures | $ 64,190 | $ 62,059 | $ (2,131) | $ 1,597 | $ 1,846 | $ 249 | $ 310 | $ 668 | $ 358 | $ 66,097 | $ 64,573 | $ (1,524) |
| Interest | $ 4,644 | $ 4,765 | $ 121 | $ 2,318 | $ 2,318 | $ 0 | $ - | $ - | $ - | $ 6,962 | $ 7,083 | $ 121 |
| **EXPENDITURES** | **$ 68,834** | **$ 66,824** | **$ (2,010)** | **$ 3,915** | **$ 4,164** | **$ 249** | **$ 310** | **$ 668** | **$ 358** | **$ 73,059** | **$ 71,656** | **$ (1,403)** |
| **Net Surplus (Deficit) before Capital and Contributions to University Operations** | **$ 21,241** | **$ 14,527** | **$ (6,714)** | **$ (401)** | **$ (864)** | **$ (463)** | **$ 15** | **$ (528)** | **$ (543)** | **$ 20,855** | **$ 13,135** | **$ (7,720)** |
| Deferred Maintenance | $ (9,400) | $ (5,400) | $ 4,000 | $ (525) | $ (525) | $ - | $ - | $ - | $ - | $ (9,925) | $ (5,925) | $ 4,000 |
| Debt Servicing - Principal | $ (6,546) | $ (6,598) | $ (52) | $ (1,013) | $ (1,013) | $ - | $ - | $ - | $ - | $ (7,559) | $ (7,611) | $ (52) |
| Contributions to University Operations | $ (4,611) | $ (4,408) | $ 203 | $ - | $ - | $ - | $ - | $ (100) | $ (100) | $ (4,611) | $ (4,508) | $ 103 |
| **SURPLUS (DEFICIT)** | **$ 684** | **$ (1,879)** | **$ (2,563)** | **$ (1,939)** | **$ (2,402)** | **$ (463)** | **$ 15** | **$ (628)** | **$ (643)** | **$ (1,240)** | **$ (4,909)** | **$ (3,669)** |

| Queen's University 2018-19 Ancillary Budget (000's) Operating Reserves | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| OPENING RESERVE | $ 7,674 | $ 7,087 | $ (587) | $ (20,127)* | $ (20,226)* | $ (99) | $ 490 | $ 626 | $ 136 | $ (11,963) | $ (12,513) | $ (550) |
| SURPLUS (DEFICIT) - PLANNED ALLOCATION TO (FROM) RESERVES | $ 684 | $ (1,879) | $ (2,563) | $ (1,939) | $ (2,402) | $ (463) | $ 15 | $ (628) | $ (643) | $ (1,240) | $ (4,909) | $ (3,669) |
| **CLOSING RESERVE** | **$ 8,358** | **$ 5,208** | **$ (3,150)** | **$ (22,066)** | **$ (22,628)** | **$ (562)** | **$ 505** | **$ (2)** | **$ (507)** | **$ (13,203)** | **$ (17,422)** | **$ (4,219)** |

| 2018-19 Ancillary Budget (000's) Capital Reserve | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| OPENING RESERVE | $ 14,665 | $ 16,804 | $ 2,139 | $ 4,854 | $ 4,809 | $ (45) | $ - | $ - | $ - | $ 19,519 | $ 21,613 | $ 2,094 |
| Planned Contribution | $ 9,200 | $ 5,350 | $ (3,850) | $ 525 | $ 525 | $ - | $ - | $ - | $ - | $ 9,725 | $ 5,875 | $ (3,850) |
| Deferred Maintenance Expenditure | $ (10,237) | $ (6,654) | $ 3,583 | $ (747) | $ (747) | $ - | $ - | $ - | $ - | $ (10,984) | $ (7,401) | $ 3,583 |
| **CLOSING RESERVE** | **$ 13,628** | **$ 15,500** | **$ 1,872** | **$ 4,632** | **$ 4,587** | **$ (45)** | **$ -** | **$ -** | **$ -** | **$ 18,260** | **$ 20,087** | **$ 1,827** |

* 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.