Queen's University

# BOARD OF TRUSTEES Report

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| **To:** | Board of Trustees & Capital Assets and Finance Committee | **Date of Report:** 11/16/2022 |
| **From:** | Vice-Principal (Finance and Administration) | **Date of** Choose Committee or enter **Approval:** N/A |
| **Subject:** | **Financial Projection as at September 30, 2022** | **Date of Board Committee Meeting:** 12/9/2022 |
| **Responsible Portfolio:** | Vice-Principal (Finance and Administration) | **Date of Board Meeting:** 12/9/2022 |

## 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.

**2022-23 Projected Financial Results**

The Operating Fund is currently projecting a deficit of $35.8 million against the budgeted deficit of $43.5 million. Ongoing effects from the pandemic including changes in financial circumstances for prospective students, visa processing delays, and the stress associated with global effects on the pandemic created barriers for prospective students and have led to revenue shortfalls, mainly in international tuition fees. As a result, student fees are $38 million lower than budget which has been primarily offset by lower budget allocations to the Faculties and Schools leading to cost containment measures. The PIF has experienced losses to date of over $30 million, which are not reflected in the above deficits. Given the volatility of financial markets, budgeted revenue of $5.2 million for the Pooled Investment Fund (PIF) remains in the projected revenues. Projected investment income will be reduced to zero in the March 2023 projection if financial markets do not recover.

Ancillary Operations are currently expecting a surplus of $2.1 million, which is in-line with the budgeted surplus of $2.4 million. Lower than expected revenues for both Event Services and the

Donald Gordon Centre due to labour market challenges and client loss, respectively, are being partially mitigated by lower than budgeted expenditures.

Bader College is expecting a surplus of $0.7 million against the budgeted surplus of $1.6 million. The variance is driven slightly lower enrolment than originally budgeted and an increase in expenses. Bader College has now repaid the full $3.4 million cash advance that was provided in fiscal 2021-22. Revenue transfers in excess of actual 2021-22 enrolment revenue ($1.1 million) are scheduled to be repaid in February 2023.

Additional details are presented in the analysis section.

## 4.0 STRATEGIC ALIGNMENT / COMPLIANCE

Approval of the operating budget is a key responsibility of the Board of Trustees and the Capital Assets and Finance Committee. The financial update provides information comparing 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 INDIGENIZATION, EQUITY, DIVERSITY, INCLUSION, ACCESSIBILITY, AND ANTI-RACISM

No impact.

## 5.0 ENTERPRISE RISK ASSESSMENT

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

## 6.0 ANALYSIS

# Operating Budget

A summary version of the 2022-23 Operating Budget is presented in the table below.

| | | | Amounts presented in millions |
|---|---|---|---|
| | Approved budget | Projected actuals | Variance |
| Student Fees | 459.6 | 421.5 | (38.1) |
| Government Grants | 214.2 | 214.2 | - |
| Investment Income* | 13.8 | 18.6 | 4.8 |
| Other Revenue** | 10.3 | 9.4 | (0.9) |
| Total revenues | 697.9 | 663.7 | (34.2) |
| Expenditures | | | |
| Faculties & Schools Allocations | 418.3 | 381.8 | (36.5) |
| Shared Services Allocations | 181.1 | 180.9 | (0.1) |
| Utilities | 19.3 | 20.5 | 1.2 |
| Student Aid | 30.3 | 30.3 | - |
| Other Allocations*** | 18.4 | 18.4 | - |
| Flow Through Allocations | 17.5 | 17.2 | (0.3) |
| Overhead Cost Recoveries | (5.6) | (5.5) | 0.1 |
| To be Allocated / (Funded) | 2.3 | 4.1 | 1.8 |
| Indirect Costs of Research to External Entities | 0.9 | 0.6 | (0.3) |
| Transfer to Capital Budget | 15.4 | 15.4 | - |
| Total Allocations and Expenditures | 697.9 | 663.7 | (34.1) |
| Transfer to Pension Reserve | 5.0 | 5.0 | - |
| Unit Spending Greater than Budget Allocation | (48.5) | (40.8) | 7.7 |
| Budget (deficit)/surplus | (43.5) | (35.8) | 7.7 |
| | | | |
| Excess Funding from Carryforwards | 48.5 | 40.8 | (7.7) |
| Contributed to Pension Reserve | (5.0) | (5.0) | - |
| Drawdown of / (Contribution to) Reserves | 43.5 | 35.8 | (7.7) |

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

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

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

## Revenues

### Student Fees

Most of the revenue in the operating fund is derived from enrolment.

| Amounts presented in millions | | |
|---|---|---|
| Type | Variance | Comments |
| For Credit - Undergraduate | (25.1) | Undergraduate tuition is projecting a $25.1 million negative variance.<br><br>Shortfalls against the budget were observed in international enrolment ($30.1M) primarily for the Faculty of Arts & Science, Faculty of Engineering and Applied Science, and Faculty of Health Sciences. The majority of the decline in expected international enrolment is the result of lower than budgeted intake, as well as lower than planned retention across various programs, predominantly in the Faculty of Arts and Science.<br><br>The shortfalls in international tuition are being partially offset by increases in domestic enrolment ($5.0M) primarily in the Faculty of Engineering and Applied Science and Faculty of Health Sciences. |
| For Credit - Graduate | (12.6) | Graduate tuition is projecting a $12.6 million negative variance primarily due to lower enrolment across many of the Smith School of Business programs ($9.5 million). A decline in graduate program applications overall is also contributing to lower in-year enrolment across most of the remaining Faculties' research-based and professional master's programs. PhD enrolment is projected to be on target. The School of Graduate Studies and Postdoctoral Affairs is collaborating with Faculties/Schools and programs on enhancing recruitment efforts to address the current enrolment challenges. |
| Non-credit | (0.8) | Non-credit tuition is projecting a $0.8 million negative variance primarily related to a decrease in non-credit programs in the Faculty of Health Sciences. |
| Other | 0.4 | Projected small increases in Athletics & Recreation fees, late payment fees, student health fees and student assistance levy. |
| Total | (38.1) | Total student fees variance |

### Government Grants

Overall government grants are forecast to be on budget.

### Investment Income

The Pooled Investment Fund (PIF) has experienced losses to date of $35.7 million as of September 30, 2022, however given the volatility of financial markets, budgeted revenue of $5.2 million for the Pooled Investment Fund (PIF) has still been included in the projected revenue. Projected investment income will be reduced to zero in the March 2023 financial projection if financial markets do not recover. Investment income on short-term cash balances is showing a positive variance of $4.8 million because of higher than budgeted interest income further to the substantial increase in interest rates.

## Expenditures

### Faculties & Schools Allocations

Faculties and Schools Allocations are expected to be $36.5 million lower than budgeted, due to the shortfall in for-credit revenue discussed under the ‘Student Fees’ section. Under the budget model, tuition and grant revenues are attributed directly to the Faculties and Schools.

### To be Allocated / (Funded)

The University is projecting an increase in central university funds of $1.8 million compared to budget. This increase is primarily due to projected increases in short term investment revenue.

### Unit spending greater than budget allocation

Units are projecting a drawdown on carryforwards of $40.8 million, compared to the originally budgeted drawdown of $48.5 million. Details on these variances are reported below.

| 2022-23 Projected Deficit / (Surplus); Amounts presented in millions | | | |
|---|---|---|---|
| | Budget | Projected | Variance |
| Faculties and Schools | 32.1 | 32.4 | 0.3 |
| Shared Services | 11.9 | 7.8 | (4.1) |
| Central Reserves | 4.5 | 0.6 | (3.9) |
| Total | 48.5 | 40.8 | (7.7) |

Faculties and Schools are projecting an in-year deficit of $32.4 million against a budgeted deficit of $32.1 million. In anticipation of soft international enrolments, Faculties and Schools budgeted contingencies of approximately $11 million. These contingencies partially offset the $36.5 million reduction in Faculty and Schools Allocations described in the previous section. Accordingly, most of the remaining $25.5 million reduction in Faculty and School allocations is offset by salary and benefit savings associated with deferral and delayed hiring of faculty and staff, deferral in renovation and alteration projects, unbudgeted revenue as well as further reductions in expenses related to materials, scholarships, program delivery and in-residence costs largely in the Smith School of Business professional programs, offsetting the loss in for-credit revenue.

Shared service units are projecting an in-year deficit of $7.8 million, which represents a decrease of $4.1 million compared to their budgeted drawdowns. The main causes of the decrease in drawdown include:

- Savings in digital planning projects
- Spending delays in IT infrastructure projects and Software Licensing Fees due to delays in rollout to users.
- Salary and benefit savings from staff vacancies across various units.

- Lower than projected 2022-23 graduate award allocations due to lower than targeted Queen’s Graduate Award funding-eligible enrolment, primarily in research-based masters programs.

The drawdown factors noted above are offset by:

- Additional wellness initiatives to support staff through the continued strain of the pandemic
- Lower than budgeted project management fee recoveries resulting from the operational decision to outsource project managers for the largest capital projects on campus

Central reserves are projecting a drawdown of $3.9 million less than budget, which is attributed to the positive variance on short-term investment returns.

## Ancillary Operations

See Appendix I for the Queen’s University 2022-23 Ancillary Financial Report.

The projected surplus for the Ancillary Operations is $2.1 million compared with the budgeted surplus of $2.4 million.

**Housing and Hospitality**

Housing and Hospitality includes Residences, Community Housing, Event Services, and the Donald Gordon Centre. The total projected surplus for this group is $3.8 million compared with the budgeted surplus of $4.2 million.

Housing and Hospitality projected revenues are $1.7 million lower than budget. Residence revenue is slightly lower than projected due to revised estimates of deferred flex usage (from credits issued as part of COVID-19 refunds) and retail food sales. Event Services has experienced labour market challenges in housekeeping and catering which have slowed the return of some summer accommodations business as well as summer and fall catering. The Donald Gordon Centre losing a large group client this fiscal year resulted in lower than budgeted revenue.

The impact of the projected shortfall in revenues is mitigated by lower than budgeted expenditures of $1.3 million due mainly to a decrease in related variable costs for Events Services and the Donald Gordon Centre. Residence is offsetting the lower revenues with lower salary and wages, mainly due to delays in filling vacant positions.

**Parking**

Parking operations, both revenue and expenses are projected to come in on budget.

**Affiliated Entities**

The information summarized below represents the combined operations of Bader College (formerly The Bader International Study Centre), which include the operations of Bader College (Bader) and Herstmonceux Castle Enterprises Limited (HCE). The combined Bader College 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 Canadian dollars.

| | Bader | | | HCE | | | Combined Bader College | | |
|---|---|---|---|---|---|---|---|---|---|
| | Budget 2022-23 | Projected Actuals 2022-23 | Variance | Budget 2022-23 | Projected Actuals 2022-23 | Variance | Budget 2022-23 | Projected Actuals 2022-23 | Variance |
| **REVENUE** | $ 11,557 | $ 11,231 | $ (326) | $ 1,328 | $ 1,189 | $ (139) | $ 12,885 | $ 12,420 | $ (465) |
| **EXPENDITURES** | $ 9,954 | $ 10,532 | $ 578 | $ 1,325 | $ 1,187 | $ (138) | $ 11,279 | $ 11,719 | $ 440 |
| **SURPLUS (DEFICIT)** | $ 1,603 | $ 699 | $ (904) | $ 3 | $ 2 | $ (1) | $ 1,606 | $ 701 | $ (905) |

Projected Actuals & Budget figures pre presented in Canadian dollars at budgeted exchange rate of 1.7000

Bader College combined operations are expecting a surplus of $0.7 million against the budgeted surplus of $1.6 million. The variance is driven largely by Bader College operations.

The decrease in the projected Bader College revenue is due to slightly lower enrolment for the fall term compared to budget. The expenditures are projecting to be higher than budget due to increases in food costs and irrecoverable value-added taxes.

Bader College has now repaid the full $3.4 million cash advance that was provided in fiscal 2021-22. Revenue transfers in excess of actual 2021-22 enrolment revenue ($1.1 million), are scheduled to be repaid in February 2023.

## 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 2021-22 Ancillary Financial Report

# APPENDIX I – Queen’s University 2022-23 Ancillary Financial Report

**Queen's University 2022-23 Ancillary Financial Report (000's)**

| | Housing and Hospitality | | | Parking | | | Total Ancillary | | |
|---|---|---|---|---|---|---|---|---|---|
| | Budget 2022-23 | Projections 2022-23 | Variance | Budget 2022-23 | Projections 2022-23 | Variance | Budget 2022-23 | Projections 2022-23 | Variance |
| **REVENUE** | **$ 102,331** | **$ 100,631** | **$ (1,700)** | **$ 3,854** | **$ 3,854** | **$ -** | **$ 106,185** | **$ 104,485** | **$ (1,700)** |
| Non-interest expenditures | $ 66,480 | $ 64,947 | $ (1,533) | $ 1,763 | $ 1,762 | $ (1) | $ 68,243 | $ 66,709 | $ (1,534) |
| Interest | $ 5,577 | $ 5,842 | $ 265 | $ 2,112 | $ 2,117 | $ 5 | $ 7,689 | $ 7,959 | $ 270 |
| **EXPENDITURES** | **$ 72,057** | **$ 70,789** | **$ (1,268)** | **$ 3,875** | **$ 3,879** | **$ 4** | **$ 75,932** | **$ 74,668** | **$ (1,264)** |
| **Net Surplus (Deficit) before Capital and Contributions to University Operations** | **$ 30,274** | **$ 29,842** | **$ (432)** | **$ (21)** | **$ (25)** | **$ (4)** | **$ 30,253** | **$ 29,817** | **$ (436)** |
| Deferred Maintenance | $ (12,775) | $ (12,775) | $ - | $ (525) | $ (525) | $ - | $ (13,300) | $ (13,300) | $ - |
| Debt Servicing - Principal | $ (8,361) | $ (8,300) | $ 61 | $ (1,205) | $ (1,205) | $ - | $ (9,566) | $ (9,505) | $ 61 |
| Contributions to University Operations | $ (4,945) | $ (4,926) | $ 19 | $ - | $ - | $ - | $ (4,945) | $ (4,926) | $ 19 |
| **SURPLUS (DEFICIT)** | **$ 4,193** | **$ 3,841** | **$ (352)** | **$ (1,751)** | **$ (1,755)** | **$ (4)** | **$ 2,442** | **$ 2,086** | **$ (356)** |

**Queen's University 2022-23 Ancillary Budget (000's) Operating Reserves**

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| OPENING RESERVE * | $ (7,584) | $ (7,768) | $ (184) | $ (27,111) | $ (27,328) | $ (217) | $ (34,695) | $ (35,096) | $ (401) |
| SURPLUS (DEFICIT) - PLANNED ALLOCATION TO (FROM) RESERVES | $ 4,193 | $ 3,841 | $ (352) | $ (1,751) | $ (1,755) | $ (4) | $ 2,442 | $ 2,086 | $ (356) |
| **CLOSING RESERVE** | **$ (3,391)** | **$ (3,927)** | **$ (536)** | **$ (28,862)** | **$ (29,083)** | **$ (221)** | **$ (32,253)** | **$ (33,010)** | **$ (757)** |

**2022-23 Ancillary Budget (000's) Capital Reserve**

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| OPENING RESERVE | $ 14,518 | $ 14,777 | $ 259 | $ 5,611 | $ 5,592 | $ (19) | $ 20,129 | $ 20,369 | $ 240 |
| Planned Contribution | $ 12,775 | $ 12,775 | $ - | $ 525 | $ 525 | $ - | $ 13,300 | $ 13,300 | $ - |
| Deferred Maintenance & Capital Expenditure(s) | $ (12,481) | $ (9,137) | $ 3,344 | $ - | $ (180) | $ (180) | $ (12,481) | $ (9,317) | $ 3,164 |
| **CLOSING RESERVE** | **$ 14,812** | **$ 18,415** | **$ 3,603** | **$ 6,136** | **$ 5,937** | **$ (199)** | **$ 20,948** | **$ 24,352** | **$ 3,404** |

* The accumulated deficit for Parking, 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.