Queen's University	**BOARD OF TRUSTEES** **Report**

To:	Board of Trustees & Capital Assets and Finance Committee	**Date of Report:** 4/12/2019
From:	Vice-Principal (Finance and Administration)	**Date of Approval:** N/A
Subject:	**Financial Projection to the Board of Trustees**	**Date of Board Committee Meeting:** 5/10/2019
Responsible Portfolio:	Vice-Principal (Finance and Administration)	**Date of Board Meeting:** 5/10/2019

1.0 PURPOSE

☐ For Approval ☒ For Information ☐ For Discussion

2.0 MOTION

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 some Affiliated Entities.

2018-19 Projected Financial Results

The Operating Fund is currently projecting a surplus of $14.3 million, a favourable variance that will increase the planned contribution to reserves by $6.0 million. This variance is due to higher revenue in the Faculties due primarily to higher international student enrolment and salary savings across the university, offset by one-time salary anomaly payments under the QUFA collective agreement for the years 2008-10.

Ancillary Operations are currently expecting a favorable variance of $2.5 million against budget ($1.7 million budgeted deficit as compared to $0.8 million projected surplus). The variance is due to higher than budgeted occupancy in residences and increased food sales combined with savings in food services contracts, continued efficiencies experienced from the CAPit energy conservation program, and a decrease in projected repairs and alterations.

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

4.0 INPUT FROM OTHER SOURCES

- Budget and Planning

5.0 ANALYSIS

Operating Budget

A summary version of the 2018-19 Operating Budget is presented in the table below.

			Amounts presented in millions
	Approved budget	Projected actuals	Variance
Student Fees	355.9	369.3	13.4
Government Grants	214.5	213.5	(1.0)
Investment Income	14.6	16.8	2.2
Other revenue*	10.5	11.5	1.0
Total revenues	595.5	611.1	15.6
Expenditures			
Faculties & Schools Allocations	360.2	371.8	11.6
Shared Services Allocations	147.7	149.1	1.4
Utilities	15.5	15.2	(0.3)
Student Aid	30.9	30.9	-
Other Allocations **	16.7	19.7	3.0
Flow through expenses, net of recoveries	11.4	11.3	(0.1)
Indirect costs of research to external entities	1.6	1.6	-
Transfer to Pension reserve	(16.0)	(16.0)	-
Unit spending greater than budget allocation	7.7	1.7	(6.0)
Transfer to capital budget	11.5	11.5	-
Total expenditures	587.2	596.8	9.6
Budget surplus	8.3	14.3	6.0
Excess funding from carryforwards	7.7	1.7	(6.0)
Contributed to pension reserve	(16.0)	(16.0)	-
Contribution to reserves	(8.3)	(14.3)	(6.0)

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

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

Revenues

The bulk of the revenues in the operating fund are driven by enrolment. Preliminary enrolment information shows that we are above target against our overall budgeted enrolment at the undergraduate level and below target at the graduate level. At the undergraduate level, the mix between domestic and international has shifted, and a higher than budgeted proportion of enrolled international undergraduate students is resulting in higher than planned student fee revenue.

Student Fees

Overall student fees are showing a positive variance of $13.4 million.

Type	Variance	Comments
		Amounts presented in millions
For Credit	12.9	Undergraduate tuition is projecting a $15.3M positive variance primarily due to higher than planned international enrolment in the Faculty of Arts and Science, offset by a $2.4M decrease in graduate tuition, primarily related to lower than expected enrolment in select professional graduate programs.
Non-credit	0.1	Non-credit tuition is projecting a modest $0.1M positive variance primarily due to increases in the Industrial Relations Centre and Education offerings which is offset by lower than expected enrolment in the Queen's Executive Development Centre programs in the Smith School of Business.
Other	0.4	Nominal increases in the Student Assistance Levy and other fees.
Total	13.4	

Government Grants

Overall government grants are showing a negative variance of $1.0 million. The Ministry has confirmed that undergraduate flow-through funding, which was received in 2017-18 as one-time only, will not continue in 2018-19. This reduction of $1.8 million is offset by an increase in the federal grant revenue received under the Research Support Fund (RSF) of $0.8 million. This stream of additional funding is referred to as the Incremental Project Grants (IPG) and is targeted for project-based funding to assist with the expenses associated with managing the research funded by the three federal granting agencies.

Investment Income

Investment income is showing a positive variance of $2.2 million as a result of higher than budgeted short-term investment returns due to both higher than budgeted interest rates and short-term cash balances. Although the Pooled Investment Fund has experienced income to date of $7.4 million as at February 28, given the volatility of financial markets only the budgeted revenue of $5.2 million has been included in the projected revenue.

Other Revenue

Other revenue is projected to be $1.0 million higher than budgeted primarily due to an increase in projected research overhead.

Expenditures

Faculties & Schools Allocations

Faculties and Schools Allocations are expected to be $11.6 million higher than budget, primarily as a result of the projected increase in tuition offset by a reduction in grant revenues. Under the budget model, tuition and grant revenues are attributed directly to the Faculties and Schools.

Shared Service Allocations & Utilities

Shared service costs are expected to be $1.4 million higher than budget primarily as a result of projected increases in centrally funded employee benefits of $0.9 million along with an increase in student debt writeoffs of $0.5 million. In addition, due to warmer than expected temperatures to the end of February, the utilities expense projection has a favourable variance of $0.3 million.

Other Allocations

The increase of $3.0 million in other allocations is due to unplanned incremental revenues flowing to the university fund. The incremental revenues include an increase in university fund contributions related to increased tuition revenue, short-term investment income and IPG grant revenue, offset by the impact of increased shared service expenses.

Unit spending greater than budget allocation

Units are projecting a drawdown of carryforwards of $1.7 million, a decrease of $6.0 million over the originally budgeted drawdown of $7.7 million. Details on these variance are reported below.

	Amounts presented in millions
	Variance
Faculties and Schools	17.1
Shared Services	4.1
Central Reserves	(15.2)
Total	6.0

Faculties and Schools are projecting to experience a $17.1 million favourable variance from their budgeted contribution to carryforward of $0.8 million. Of this variance, $12.6 million is due to stronger enrolment performance, mainly driven by higher than planned undergraduate international enrolment within the Faculty of Arts and Science. This favourable variance is compounded by approximately $4.5 million in savings relating specifically to salary and benefit expenses resulting from vacancies and delays in hiring.

Shared service units are projecting a $4.1 million contribution to carryforward funds. This is primarily due to delays in the initiation of multiple projects across the university and staff savings across a number of different shared services portfolios.

Central reserves are seeing a reduction in carryforward of $15.2-million. Approximately half of this reduction relates to allocations to Mitchell Hall from reserves that had been set aside for this purpose, which were not reserves in the budget. The remainder of the drawdown to central reserves relates to salary anomaly payments under the QUFA collective agreement for the years 2008 to 2010. In the past, the university set aside an annual allocation into a reserve to cover these retroactive payments and as the timing of the payout was unknown, it was not budgeted.

Ancillary Operations

See Appendix I for the Queen’s University 2018-19 Ancillary Financial Report.

The projected surplus for the Ancillary Operations is $0.8 million, compared with the budgeted deficit of approximately $1.8 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 $2.9 million, compared with the budgeted surplus of $0.2 million. Actual year-end surpluses will be used to finalize contributions to university operations.

Projected revenue has increased $1.1 million, due to higher than budgeted occupancy of residences and increased retail food sales.

Projected expenditures are $1.6 million lower than budget due to lower food costs, a decrease in insurance costs under the reciprocal insurance program, continued efficiencies experienced from the CAPit energy conservation program, and less repairs and maintenance requirements.

Parking

Projected revenue has increased due to higher than budgeted occupancy, and expenses are expected to increase due to an increase in snow removal.

The projected deferred maintenance expenditures reflected in the Capital Reserve are higher than budgeted. The projection includes both the 2019 planned projects as well as the 2018 planned projects, which were not completed in the prior year.

Other

Ancillary functions also include the Enrichment Studies Unit and Queen's Executive Decision Centre (QEDC). The Enrichment Studies Unit has experienced a decrease in enrolment, resulting in a decreased projected revenue over budget. The increase in projected expenses over budget can be attributed to external contractor payments associated with the QEDC program being higher than projected which is offset by staffing vacancies and a decrease in accommodation costs associated with the decrease in enrolment in the Enrichment Studies Unit. The contribution to University Operations is a one-time contribution to the Smith Graduate & Research program from the QEDC operations.

Affiliated Entities

The information below summarizes 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 pound sterling (exchange rate as at April 8, 2019; £1 = $1.74 Canadian).

	BISC			HCE			Combined BISC		
(in thousands)	Budget 2018-19	Projected Actuals 2018-19	Variance	Budget 2018-19	Projected Actuals 2018-19	Variance	Budget 2018-19	Projected Actuals 2018-19	Variance
REVENUE	£ 4,771	£ 4,752	-£ 18	£ 639	£ 663	£ 24	£ 5,410	£ 5,415	£ 4
Non-interest expenditures	£ 4,529	£ 4,475	-£ 54	£ 591	£ 595	£ 4	£ 5,121	£ 5,070	-£ 51
Interest	£ -	£ -	£ -	£ -	£ -	£ -	£ -	£ -	£ -
EXPENDITURES	£ 4,529	£ 4,475	-£ 54	£ 591	£ 595	£ 4	£ 5,121	£ 5,070	-£ 51
SURPLUS (DEFICIT)	£ 242	£ 277	£ 35	£ 48	£ 68	£ 20	£ 289	£ 345	£ 56

The decrease in the BISC revenue is due to reduced student enrolment in the summer (£440 thousand) which is offset by the net profit of a sale of property (£422 thousand). The decrease in expenses is due to staff vacancies and a reduction in repairs and alterations.

6.0 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.

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 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.

9.0 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.

ATTACHMENTS

APPENDIX I – Queen's University 2018-19 Ancillary Financial Report

APPENDIX I – Queen's University 2018-19 Ancillary Financial Report

Queen's University 2018-19 Ancillary Financial Report (000's)

	Housing and Hospitality			Parking			Other**			Total Ancillary		
	Budget 2018-19	Projected Actuals 2018-19	Variance	Budget 2018-19	Projected Actuals 2018-19	Variance	Budget 2018-19	Projected Actuals 2018-19	Variance	Budget 2018-19	Projected Actuals 2018-19	Variance
REVENUE	$ 86,886	$ 87,953	$ 1,067	$ 3,204	$ 3,526	$ 322	$ 1,305	$ 1,168	$ (137)	$ 91,395	$ 92,647	$ 1,252
Non-interest expenditures	$ 64,396	$ 62,735	$ (1,661)	$ 1,299	$ 1,621	$ 322	$ 1,300	$ 1,338	$ 38	$ 66,995	$ 65,694	$ (1,301)
Interest	$ 5,041	$ 5,042	$ 1	$ 2,432	$ 2,375	$ (57)	$ -	$ 20	$ 20	$ 7,473	$ 7,437	$ (36)
EXPENDITURES	$ 69,437	$ 67,777	$ (1,660)	$ 3,731	$ 3,996	$ 265	$ 1,300	$ 1,358	$ 58	$ 74,468	$ 73,131	$ (1,337)
Net Surplus (Deficit) before Capital and Contributions to University Operations	$ 17,449	$ 20,176	$ 2,727	$ (527)	$ (470)	$ 57	$ 5	$ (190)	$ (195)	$ 16,927	$ 19,516	$ 2,589
Deferred Maintenance	$ (8,200)	$ (8,200)	$ -	$ (525)	$ (525)	$ -	$ -	$ -	$ -	$ (8,725)	$ (8,725)	$ -
Debt Servicing - Principal	$ (6,321)	$ (6,321)	$ -	$ (902)	$ (956)	$ (54)	$ -	$ -	$ -	$ (7,223)	$ (7,277)	$ (54)
Contributions to University Operations	$ (2,738)	$ (2,738)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (2,738)	$ (2,738)	$ -
SURPLUS (DEFICIT)	$ 190	$ 2,917	$ 2,727	$ (1,954)	$ (1,951)	$ 3	$ 5	$ (190)	$ (195)	$ (1,759)	$ 776	$ 2,535

Queen's University 2018-19 Ancillary Budget (000's) Operating Reserves

OPENING RESERVE	$ 9,840	$ 6,439	$ (3,401)	$ (17,954)*	$ (18,176)*	$ (222)	$ 386	$ 622	$ 236	$ (7,728)	$ (11,115)	$ (3,387)
SURPLUS (DEFICIT) - PLANNED ALLOCATION TO (FROM) RESERVES	$ 190	$ 2,917	$ 2,727	$ (1,954)	$ (1,951)	$ 3	$ 5	$ (190)	$ (195)	$ (1,759)	$ 776	$ 2,535
CLOSING RESERVE	$ 10,030	$ 9,356	$ (674)	$ (19,908)	$ (20,127)	$ (219)	$ 391	$ 432	$ 41	$ (9,487)	$ (10,339)	$ (852)

2018-19 Ancillary Budget (000's) Capital Reserve

OPENING RESERVE	$ 11,221	$ 13,760	$ 2,539	$ 6,091	$ 5,993	$ (98)	$ -	$ -	$ -	$ 17,312	$ 19,753	$ 2,441
Planned Contribution	$ 8,200	$ 8,200	$ -	$ 525	$ 525	$ -	$ -	$ -	$ -	$ 8,725	$ 8,725	$ -
Deferred Maintenance Expenditure	$ (7,590)	$ (7,528)	$ 62	$ (655)	$ (1,665)	$ (1,010)	$ -	$ -	$ -	$ (8,245)	$ (9,193)	$ (948)
CLOSING RESERVE	$ 11,831	$ 14,432	$ 2,601	$ 5,961	$ 4,853	$ (1,108)	$ -	$ -	$ -	$ 17,792	$ 19,285	$ 1,493

* 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.

** Other is comprised of the Enrichment Studies Unit and the Queen's Executive Decision Centre.