BOARD OF TRUSTEES
Report

To:	Board of Trustees & Capital Assets and Finance Committee	**Date of Report:** 4/17/2023
From:	Vice-Principal (Finance and Administration)	**Date of** Choose Committee or enter **Approval:** N/A
Subject:	**Financial Projection as at February 28, 2023**	**Date of Board Committee Meeting:** 5/12/2023
Responsible Portfolio:	Vice-Principal (Finance and Administration)	**Date of Board Meeting:** 5/12/2023

1.0 PURPOSE

☐ For Action ☐ 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 Bader College.

2022-23 Projected Financial Results

Operating Fund

The Operating Fund projection reflects student fee revenue that is $45.7 million lower than budget. This is primarily the result of lower undergraduate international student enrolment as well as lower enrolment in professional graduate programs. This has resulted in a projected deficit of $24.6 million, which will result in a draw-down of reserves. Consistent with prior years, the projected deficit is lower than budgeted ($43.5 million) primarily due to deferral of renovations and delayed hiring as well as planned contingencies reflecting anticipated revenue shortfalls. The Pooled Investment Fund (PIF) has experienced gains to date of $18.5 million as at March 31, 2023, which are not reflected in the above projections. Given the volatility of financial markets, projected revenue for the PIF remains at the budgeted amount of $5.2 million.

Ancillary Operations

Ancillary Operations are currently expecting to break even compared with the budgeted surplus of $2.4 million. Residences is expecting lower revenues due to lower than budgeted retail food sales. Event Services is also experiencing lower than budgeted revenues due to labour market challenges which slowed the return of some summer accommodations business as well as summer and fall catering. The decrease in revenue is being mitigated by lower than budgeted expenditures.

Bader College

Bader College combined operations are expecting a surplus of $0.1 million against the budgeted surplus of $1.6 million, before debt forgiveness and capital grants. The variance is driven largely by an increase in expenses, particularly repairs and alterations.

In response to sustained cash flow pressures at Bader College the University has forgiven $2.6 million in amounts owing to Queen's. The forgiven debt relates to the cash advance of $1.3 million provided in late December, and $1.3 million relating to the revenue transfers in excess of actual enrolment for the last two years.

The University is also providing a capital grant of $2.3 million for capital projects being planned for 2023-24.

Additional details are presented in the analysis section.

4.0 ALIGNMENT WITH UNIVERSITY STRATEGY

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

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	413.9	(45.7)
Government Grants	214.2	214.9	0.7
Investment Income*	13.8	20.3	6.5
Other Revenue**	10.3	10.0	(0.3)
Total revenues	697.9	659.1	(38.8)
Expenditures			
Faculties & Schools Allocations	418.3	377.9	(40.4)
Shared Services Allocations	181.1	180.6	(0.5)
Utilities	19.3	22.5	3.2
Student Aid	30.3	30.3	-
Other Allocations***	18.4	18.4	-
Flow Through Allocations	17.5	16.9	(0.6)
Overhead Cost Recoveries	(5.6)	(5.9)	(0.3)
To be Allocated / (Funded)	2.3	2.6	0.3
Indirect Costs of Research to External Entities	0.9	0.4	(0.5)
Transfer to Capital Budget	15.4	15.4	-
Total Allocations and Expenditures	697.9	659.1	(38.8)
Transfer to Pension Reserve	5.0	5.1	0.1
Unit Spending Greater than Budget Allocation	(48.5)	(29.7)	18.8
Budget (deficit)/surplus	(43.5)	(24.6)	18.9
Excess Funding from Carryforwards	48.5	29.7	(18.8)
Contributed to Pension Reserve	(5.0)	(5.1)	(0.1)
Drawdown of / (Contribution to) Reserves	43.5	24.6	(18.9)

*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 priority initiatives 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	(29.9)	Undergraduate tuition is projecting a $29.9 million negative variance. Shortfalls against the budget were observed in international enrolment ($30.6M) 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. The shortfalls in international tuition are being partially offset by increases in domestic enrolment ($0.7M) primarily in the Faculty of Engineering and Applied Science, Faculty of Education and the Faculty of Health Sciences. A working group has been formulated to develop strategies such as international awards to help diversify the international enrolment pool from under-represented geographical locations, making offers to international students earlier in the recruitment cycle, and increasing recruitment presence in select countries.
For Credit - Graduate	(17.6)	Graduate tuition is projecting a $17.6 million negative variance primarily due to lower enrolment across many of the Smith School of Business programs ($13.7 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, as well as PhD programs. 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	1.1	Non-credit tuition is projecting a $1.1 million positive variance primarily related to increases in non-credit programs in the Smith School of Business, Faculty of Education, and the Faculty of Arts and Science, offset by a decrease in non-credit programs in the Faculty of Health Science.
Other	0.7	Projected increases in Athletics & Recreation fees, late payment fees, student health fees and student assistance levy.
Total	(45.7)	Total student fees variance

Investment Income

Investment income on short-term cash balances is showing a positive variance of $6.5 million because of higher than budgeted interest income further to the substantial increase in interest rates. The Pooled Investment Fund (PIF) has experienced gains to date of $18.5 million as of March 31, 2023, however given the volatility of financial markets, only budgeted revenue of $5.2 million for the Pooled Investment Fund (PIF) has been included in the projected revenue.

Expenditures

Faculties & Schools Allocations

Faculties and Schools Allocations are expected to be $40.4 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.

Other Expenditures

Utilities expenses are expected to be $3.2 million higher than budget. The increase is being driven by a significant increase in electricity costs, resulting from a dramatic drop in benefits from the Global Adjustment program, combined with the increase in electricity rates, and an increase in costs for natural gas. Additionally, the Utilities budget was impacted by funding the University's portion ($0.7 million) of an upgrade for the controls of the turbine engines at the Cogeneration facility which was not contemplated in the budget.

To be Allocated / (Funded)

The University is projecting an increase in central university funds of $0.3 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 $29.7 million, compared to the originally budgeted drawdown of $48.5 million.

2022-23 Projected Deficit / (Surplus); Amounts presented in millions			
	Budget	Projected	(Better) / worse
Faculties and Schools	32.1	26.9	(5.2)
Shared Services	11.9	(1.7)	(13.6)
Central Reserves	4.5	4.5	0.0
Total	48.5	29.7	(18.8)

<u>Faculties and Schools</u>

Faculties and Schools are projecting an in-year deficit of $26.9 million against a budgeted deficit of $32.1 million.

Breakdown of variance for Faculties and Schools	
Reduction in budget allocation due to lower enrolment	(40.4)
Realization of revenue reduction contingency	11.0
Expenditure reduction and unbudgeted revenues	24.2
Variance to budget	(5.2)

As detailed in the table above, offsetting the $40.4 million reduction in Faculty and Schools Allocations described in the previous section is the deployment of revenue reduction contingencies of approximately $11 million together with expenditure reductions and unbudgeted revenues of $24.2 million. Expenditure reductions are comprised of salary and benefit savings associated with deferral and delayed hiring of faculty and staff, deferral in renovation and alteration projects, 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.

As budgets are prepared on a cash basis, the projected drawdown does not include the retroactive payment for the QUFA settlement, which will be paid in fiscal 2023-24.

<u>Shared Services</u>

Shared service units are projecting an in-year surplus of $1.7 million, which represents a decrease of $13.6 million compared to their budgeted drawdowns. The main causes of the decrease in drawdown include:

- Savings in digital planning projects
- Spending delays in digital planning projects and IT infrastructure projects due to supply-chain challenges and a reduction in contractor costs for Cybersecurity due to projects being delayed into the next fiscal year
- 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
- Lower admission bursary awards due to a decline in admission bursary applications
- Unanticipated additional funding for the VP Research portfolio from Tri-Council to support spending on Research Security, and MCU funding for mental health and accessibility within the Division of Student Affairs
- Delays in various operating projects across several units resulting in expenses being deferred to 2023-24

Ancillary Operations

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

Ancillary Operations are currently expecting to break even 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 $1.8 million compared with the budgeted surplus of $4.2 million.

Housing and Hospitality projected revenues are $5.3 million lower than budget. Residences revenue is lower than projected due to substantially lower retail food sales as compared to budget; decreases relate to some retail location closures and through-put issues at others.

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 impact of the projected shortfall in revenues is mitigated by lower than budgeted expenditures of $2.7 million due to lower salary and wages resulting from delays in filling vacant positions within Residences as well as a decrease in related variable costs for Events Services. Given the inflationary pressures on food costs weekly meetings are held to review costs in every area of the operation and every effort is made to mitigate food cost increases through menu engineering, purchasing strategies and sales strategies, while working to not compromise the product and the student experience.

The deferred maintenance and capital expenditures are projected to be $2.9 million less than the budget due to the deferral of the An Clachan projects and the Donald Gordon Centre roof project to future years.

Parking

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

Bader College

The information summarized below represents the combined operations of Bader College, 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	$ 11,567	$ 10	$ 1,328	$ 1,324	$ (4)	$ 12,885	$ 12,891	$ 6
EXPENDITURES	$ 9,954	$ 11,452	$ 1,498	$ 1,325	$ 1,266	$ (59)	$ 11,279	$ 12,718	$ 1,439
Surplus (Deficit) from Operations	$ 1,603	$ 115	$ (1,488)	$ 3	$ 58	$ 55	$ 1,606	$ 173	$ (1,433)
Operating Grant	$ -	$ 2,605	$ 2,605	$ -	$ -	$ -	$ -	$ 2,605	$ 2,605
Capital Grant	$ -	$ 2,281	$ 2,281	$ -	$ -	$ -	$ -	$ 2,281	$ 2,281
SURPLUS (DEFICIT)	$ 1,603	$ 5,001	$ 3,398	$ 3	$ 58	$ 55	$ 1,606	$ 5,059	$ 3,453

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

Bader College combined operations are expecting a surplus of $0.1 million against the budgeted surplus of $1.6 million, before forgiveness of amounts owing to the university. 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 higher than budgeted repairs and alterations costs. There have also been increases in food costs and irrecoverable value-added taxes.

In response to sustained cash flow pressures at Bader College the University has forgiven $2.6 million in amounts owing to Queen's. The forgiven debt relates to the cash advance of $1.3 million provided in late December, and $1.3 million relating to the revenue transfers in excess of actual enrolment for the last two years.

The University is also providing a capital grant of $2.3 million for capital projects being planned for 2023-24.

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 2022-23 Ancillary Financial Report

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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**	**$ 97,040**	**$ (5,291)**	**$ 3,854**	**$ 3,826**	**$ (28)**	**$ 106,185**	**$ 100,866**	**$ (5,319)**
Non-interest expenditures	$ 66,480	$ 63,512	$ (2,968)	$ 1,763	$ 1,769	$ 6	$ 68,243	$ 65,281	$ (2,962)
Interest	$ 5,577	$ 5,820	$ 243	$ 2,112	$ 2,118	$ 6	$ 7,689	$ 7,938	$ 249
EXPENDITURES	**$ 72,057**	**$ 69,332**	**$ (2,725)**	**$ 3,875**	**$ 3,887**	**$ 12**	**$ 75,932**	**$ 73,219**	**$ (2,713)**
Net Surplus (Deficit) before Capital and Contributions to University Operations	**$ 30,274**	**$ 27,708**	**$ (2,566)**	**$ (21)**	**$ (61)**	**$ (40)**	**$ 30,253**	**$ 27,647**	**$ (2,606)**
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)	$ (4,825)	$ 120	$ -	$ -	$ -	$ (4,945)	$ (4,825)	$ 120
SURPLUS (DEFICIT)	**$ 4,193**	**$ 1,808**	**$ (2,385)**	**$ (1,751)**	**$ (1,791)**	**$ (40)**	**$ 2,442**	**$ 17**	**$ (2,425)**

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	$ 1,808	$ (2,385)	$ (1,751)	$ (1,791)	$ (40)	$ 2,442	$ 17	$ (2,425)
CLOSING RESERVE	**$ (3,391)**	**$ (5,960)**	**$ (2,569)**	**$ (28,862)**	**$ (29,119)**	**$ (257)**	**$ (32,253)**	**$ (35,079)**	**$ (2,826)**

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)	$ (9,535)	$ 2,946	$ -	$ (180)	$ (180)	$ (12,481)	$ (9,715)	$ 2,766
CLOSING RESERVE	**$ 14,812**	**$ 18,017**	**$ 3,205**	**$ 6,136**	**$ 5,937**	**$ (199)**	**$ 20,948**	**$ 23,954**	**$ 3,006**

* 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.