BOARD OF TRUSTEES
Report

To:	**Board of Trustees & Capital Assets and Finance Committee**	**Date of Report:** Nov 20, 2017
From:	**Vice-Principal Finance and Administration**	**Date of Approval:** NA
Subject:	**Financial Update to the Board of Trustees**	**Date of Board Committee Meeting:** Dec 15, 2017
Responsible Portfolio:	**Vice-Principal Finance and Administration**	**Date of Board Meeting:** Dec 15, 2017

1.0 PURPOSE

☐ For Approval ☒ For Information

2.0 RECOMMENDATION/MOTION

This report is for information only.

3.0 EXECUTIVE SUMMARY

This report provides the Board of Trustees with an overview of projected financial results for both the Operating and Ancillary Funds. The report has been streamlined from past years, removing information that is available through other reports such as the annual budget document. Feedback on this updated report presentation is welcomed.

2017-18 Projected Financial Results

The Operating Fund is currently projecting a favorable variance of $8.4 million against budget, which will reduce the planned drawdown on reserves from $17.9 million to $9.5 million. The variance is driven largely by higher than planned international undergraduate enrolment and strong performance in non-credit programs within the various Faculties.

Ancillary Operations are currently expecting a favourable variance of $3.4 million against budget. The variance is due to higher than budgeted occupancy of residences and community housing properties combined with cost savings associated with lower utilization of the food venues, utilities savings associated with the CAPit energy conservation program and the global adjustment savings on electricity.

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 2017-18 operating budget is presented in the table below.

			Amounts presented in millions
	Approved budget	Projected actuals	Variance
Student Fees	321.6	331.0	9.4
Government Grants	210.8	211.3	0.5
Investment Income	13.2	15.1	1.9
Other revenue	9.6	12.0	2.4
Total revenues	555.2	569.4	14.2
Expenditures			
Faculties & Schools Allocations	331.1	340.3	9.2
Shared Services Allocations	185.8	186.7	0.9
Other Allocations	14.5	18.0	3.5
Flow through expenses, net of recoveries	10.7	11.1	0.4
Indirect costs of research to external entities	1.4	1.6	0.2
Transfer to Pension reserve	(6.9)	(6.9)	-
Unit spending greater than budget allocation	17.9	9.5	(8.4)
Transfer to capital budget	11.7	11.7	-
Total expenditures	566.2	572.0	5.8
Budget (deficit)/surplus	(11.0)	(2.6)	8.4
Use of carryforwards	17.9	9.5	(8.4)
Contributed to pension reserve	(6.9)	(6.9)	-
Drawdown of / (contribution to) reserves	11.0	2.6	(8.4)

Revenues

Enrolment

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

Student Fees

Overall student fees are showing a positive variance of \$9.4M. For-credit tuition revenue is projecting to increase, with undergraduate tuition projecting a \$9.5M positive variance primarily due to higher than planned international enrolment in the Faculty of Arts and Science. Favorable variances in undergraduate tuition is offset by a \$2.8M decrease in graduate tuition, primarily related to lower than budgeted enrolment within the Smith School of Business professional graduate programs.

Also contributing to the increase in student fees is a \$2.4M increase in non-credit tuition, as all non-credit programs across four Faculties are experiencing increases over budget due to higher than expected enrolment.

Government Grants

Overall government grants are showing a positive variance of \$0.5M. The undergraduate and graduate grant funding for 2017-18 will be calculated under the new funding formula. We have been assured that we will at least receive the 2016-17 level of funding, graduate growth funding up to our Strategic Mandate Agreement targets, and some flow through growth for 2017-18 undergraduate enrolment increases. However, the Ministry has not communicated the calculation of the additional funding. Therefore, this projection has incorporated some conservative assumptions and will be re-forecast as information becomes available from the Ministry.

Investment Income

Investment income is showing a positive variance of \$1.9M 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 \$4.9 M as of October 31st, given the volatility of financial markets only the budgeted revenue of \$5.2M has been included in the projected revenue.

Other Income

Other income is projected to be \$2.4M higher than budgeted, due largely to unrestricted donation revenues being higher than expected.

Expenditures

Faculties & Schools Allocations

Faculties and Schools Allocations are expected to be \$9.2 M higher than budget as a result of the projected increase in tuition and grant revenues. Under the budget model, tuition and grant revenues are attributed directly to the Faculties and Schools.

Other Allocations

The increase of \$3.5M 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 unrestricted donations. These are being offset by the impact of increased shared service allocations.

Unit spending greater than budget allocation

Planned drawdowns of carryforwards are projected to decrease from the originally budgeted \$17.9M to \$9.5M, an improvement of \$8.4M.

Faculties and Schools are expected to drawdown their carryforward by \$15.7 less than originally budgeted, due partially to the increased allocations resulting from unplanned international enrolment and strong performance in non-credit programs, and partially to cost savings. Faculties are projecting $6.5 million in cost savings due to delays in one-time expenditures, staff salary savings and postponed renovation expenditures.

The improvements in the Faculties and Schools spending is offset by $7.3 million in spending greater than budget within shared services and central cash This additional spending relates to the Library Administration portfolio projecting unbudgeted carry forward drawdowns to support the Library and Archives Master Plan and new capital projects. In addition, IT Services is projecting unbudgeted deferred spending from previous years, predominantly relating to Cybersecurity. Finally, central cash reserves from unrestricted donations are being expended to fund the Innovation and Wellness Centre.

Ancillary Operations

See Appendix I – for the Queen's University 2017-18 Ancillary Financial Report

The projected surplus for the Ancillary Operations is $1.0M compared with the budgeted deficit of approximately $2.4M.

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 $2.8M compared with the budgeted deficit of $437K.

Projected revenue has increased $1.4M, due to lower than budgeted vacancies, and new conference business.

Expenditures are $1.4 million lower than budget due to the following:

- The utilization at food venues is lower than budgeted resulting in projected savings of $0.9M from food costs in external contracts.
- Projected utilities have decreased $0.9M, due to efficiencies experienced from the CAPit energy conservation program and the global adjustment savings on electricity.
- Supplies and miscellaneous expenses have increased slightly mostly due to significant janitorial equipment replacements being added to the projections.

Principal debt payments are expected to decrease $0.6M, due to the Waldron and Jean Royce loan adjustments in 2016-2017 to reflect final project costs.

Parking

Parking is projecting a deficit $0.1M lower than budget due to an increase in projected revenue from event parking at the Isabel Bader Centre for the Performing Arts and Richardson Stadium.

Other

Other ancillary functions is comprised of the Enrichment Studies Unit, which has experienced a lower demand than budgeted and therefore is projecting a small deficit. Budgets for this unit were not include in the budget presented to the Board of Trustees, but will be incorporated going forward.

6.0 STRATEGIC ALIGNMENT / COMPLIANCE

A key responsibility of the Capital Assets and Finance Committee and the Board of Trustees 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 ten 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.

APPENDIX I – Queen's University 2017-18 Ancillary Budget

Queen's University 2017-18 Ancillary Financial Report (000's)												
	Housing and Hospitality			Parking			Other**			Total Ancillary		
	Budget 2017-18	Projected Actuals 2017-18	Variance	Budget 2017-18	Projected Actuals 2017-18	Variance	Budget 2017-18	Projected Actuals 2017-18	Variance	Budget 2017-18	Projected Actuals 2017-18	Variance
REVENUE	**$ 82,540**	**$ 83,914**	**$ 1,374**	**$ 3,103**	**$ 3,261**	**$ 158**	**$ 959**	**$ 915**	**$ (44)**	**$ 86,602**	**$ 88,090**	**$ 1,488**
EXPENDITURE	**$ 67,156**	**$ 65,812**	**$ (1,344)**	**$ 3,599**	**$ 3,611**	**$ 12**	**$ 959**	**$ 966**	**$ 7**	**$ 71,714**	**$ 70,389**	**$ (1,325)**
Net Surplus (Deficit) before Capital and Contributions to University Operations	**$ 15,384**	**$ 18,102**	**$ 2,718**	**$ (496)**	**$ (350)**	**$ 146**	**$ -**	**$ (51)**	**$ (51)**	**$ 14,888**	**$ 17,701**	**$ 2,813**
Deferred Maintenance	$ (6,305)	$ (6,305)	$ -	$ (525)	$ (525)	$ -	$ -	$ -	$ -	$ (6,830)	$ (6,830)	$ -
Debt Servicing - Principal	$ (6,778)	$ (6,217)	$ 561	$ (902)	$ (902)	$ -	$ -	$ -	$ -	$ (7,680)	$ (7,119)	$ 561
Contributions to University Operations	$ (2,738)	$ (2,738)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (2,738)	$ (2,738)	$ -
SURPLUS (DEFICIT)	**$ (437)**	**$ 2,842**	**$ 3,279**	**$ (1,923)**	**$ (1,777)**	**$ 146**	**$ -**	**$ (51)**	**$ (51)**	**$ (2,360)**	**$ 1,014**	**$ 3,374**

Queen's University 2017-18 Ancillary Budget (000's) Operating Reserves												
OPENING RESERVE	$ 5,328	$ 5,328	$ -	$ (16,074)*	$ (16,074)*	$ -	$ (99)	$ (99)	$ -	$ (10,845)	$ (10,845)	$ -
SURPLUS (DEFICIT) - PLANNED ALLOCATION TO (FROM) RESERVES	$ (437)	$ 2,842	$ 3,279	$ (1,923)	$ (1,777)	$ 146	$ -	$ (51)	$ (51)	$ (2,360)	$ 1,014	$ 3,374
CLOSING RESERVE	**$ 4,891**	**$ 8,170**	**$ 3,279**	**$ (17,997)**	**$ (17,851)**	**$ 146**	**$ (99)**	**$ (150)**	**$ (51)**	**$ (13,205)**	**$ (9,831)**	**$ 3,374**

2017-18 ANCILLARY BUDGET (000's) CAPITAL RESERVES												
OPENING RESERVE	$ 12,640	$ 12,640	$ -	$ 5,566	$ 5,566	$ -	$ -	$ -	$ -	$ 18,206	$ 18,206	$ -
Planned Contribution	$ 6,305	$ 6,305	$ -	$ 525	$ 525	$ -	$ -	$ -	$ -	$ 6,830	$ 6,830	$ -
Deferred Maintenance Expenditure	$ (6,444)	$ (5,861)	$ 583	$ (627)	$ (627)	$ -	$ -	$ -	$ -	$ (7,071)	$ (6,488)	$ 583
CLOSING RESERVE	**$ 12,501**	**$ 13,084**	**$ 583**	**$ 5,464**	**$ 5,464**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 17,965**	**$ 18,548**	**$ 583**

* 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.