



BOARD OF TRUSTEES Report

To: Board of Trustees & Capital Assets and Finance Committee	Date of Report: 11/18/2020
From: Vice-Principal (Finance and Administration)	Date of Capital Assets and Finance Approval: N/A Click here to enter approval date
Subject: Financial Projection as at September 30, 2020	Date of Board Committee Meeting: 12/4/2020
Responsible Portfolio: Vice-Principal (Finance and Administration)	Date of Board Meeting: 12/4/2020

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.

2020-21 Projected Financial Results

A deficit of \$29.6 million is currently projected for the Operating Fund, against the budgeted deficit of \$24.0 million. The \$5.6 million negative variance is largely the result of tuition and non-credit revenue shortfall due to lower-than-budgeted levels of enrolment, partially offset by savings and cost containment measures across the university.

Ancillary Operations are currently expecting a deficit of \$17.2 million against the budgeted deficit of \$0.8 million. The variance is driven by decreased revenues related to the reduced operations in Residence, Event Services, and the Donald Gordon Centre due to the COVID-19 pandemic and has been mitigated by cost containment measures.

Additional details are presented in the analysis section.

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 2020-21 Operating Budget is presented in the table below.

	Amounts presented in millions		
	Approved budget	Projected actuals	Variance
Student Fees	416.0	396.5	(19.5)
Government Grants	214.1	213.7	(0.4)
Investment Income	17.5	13.8	(3.7)
Other Revenue*	11.4	7.9	(3.5)
Total revenues	659.0	631.9	(27.1)
Expenditures			
Faculties & Schools Allocations	401.5	387.4	(14.1)
Shared Services Allocations	163.2	162.9	(0.3)
Utilities	15.7	15.7	-
Student Aid	30.9	30.9	-
Other Allocations**	17.6	17.6	-
Flow Through Expenses	17.2	11.6	(5.6)
Overhead Cost Recoveries	(5.3)	(2.0)	3.3
To be Allocated / (Funded)	0.4	(9.9)	(10.3)
Indirect Costs of Research to External Entities	1.4	1.3	(0.1)
Transfer to Capital Budget	16.4	16.4	-
Total Allocations and Expenditures	659.0	631.9	(27.1)
Transfer to Pension Reserve	2.1	2.6	0.5
Unit Spending Greater than Budget Allocation	(26.1)	(32.2)	(6.1)
Budget (deficit)/surplus	(24.0)	(29.6)	(5.6)
Excess Funding from Carryforwards	26.1	32.2	6.1
Contributed to Pension Reserve	(2.1)	(2.6)	(0.5)
Drawdown of / (contribution to) reserves	24.0	29.6	5.6

*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 projecting shortfalls on undergraduate tuition, graduate tuition and non-credit tuition revenue predominantly linked to effects of the COVID-19 pandemic. At the undergraduate level, international intake was below budget, leading to revenue loss that is partially offset by an increase in domestic intake as well as upper-year student enrolment. At the graduate level, the revenue loss is largely attributed to lower than expected enrolment in professional programs for the School of Business as well as the Faculty of Law. Non-credit revenue is also projecting losses, mostly in the School of Business Executive Education programs and Faculty of Arts & Science non-credit programs.

Student Fees

Overall student fees are showing a negative variance of \$19.5 million.

Amounts presented in millions		
Type	Variance	Comments
For Credit - Undergraduate	(2.1)	Undergraduate tuition is projecting a negative variance, primarily as the result of a shortfall in international enrolment for the Faculty of Arts & Science, partially offset by higher-than-budgeted international enrolment for the School of Business and domestic enrolment for the Faculty of Arts & Science.
For Credit – Graduate	(6.7)	Graduate tuition is projecting a negative variance, as graduate programs are experiencing lower than expected enrolment, largely intake, in the professional programs for the School of Business, Faculty of Law, Master of Engineering and PhD programs.
Non-Credit	(8.5)	Non-credit tuition is projecting an \$8.5 million negative variance, primarily due to a decline in the School of Business Executive Education programs and the Faculty of Arts & Science non-credit programs.
Other	(2.2)	Projected decline in Athletics & Recreation fees (rebate given to students by the University Council on Athletics & Recreation due to temporary change in service offering as the result of COVID-19 restrictions), as well as loss on late fees, which was waived due to COVID-19.
Total	(19.5)	Total student fees variance

Investment Income

A significant decrease in short term interest rates is resulting in an expected shortfall of \$3.7 million in investment income compared to budget. Given the volatility of financial markets only the budgeted revenue of \$5.2 million for the Pooled Investment Fund (PIF) has been included in the projected revenue. The PIF has experienced gains to date of \$36.7 million as at August 31.

Other Revenue

Other revenue is projected to be \$3.5 million below budget, mostly attributed to membership, rental and programming revenue losses for Athletics & Recreation due to the cancellation of business caused by COVID-19 restrictions. The revenue losses are partially offset by a \$0.6 million increase in research overhead.

Expenditures

Faculties & Schools Allocations

Due to the shortfall in tuition and non-credit fees revenue discussed under the ‘Student Fees’ section, Faculties and Schools Allocations are expected to be \$14.1 million lower than budgeted. Under the budget model, tuition and grant revenues are attributed directly to the Faculties and

Schools. This allocation reduction is offset by additional funding of \$2 million flowing to the Bader International Study Centre (BISC) to offset its projected revenue shortfall in the current year.

Flow through expenses

Flow through allocations are projected to be \$5.6 million lower than budget due to revenue losses for Athletics & Recreation, as discussed previously in the 'Student Fees' and 'Other Revenue' section.

Overhead Recoveries

Overhead recoveries to the University Fund are projecting a decrease of \$3.3 million, primarily attributable to the loss of ancillary revenues from residences and event service operations.

To be Allocated / (Funded)

A shortfall of central university funds of \$9.9 million is projected for the current year, driven primarily by lower than planned revenues into the University Fund of \$7 million (comprised of lower than budgeted short term investment income of \$3.7 million (see Investment Income section) and lower than budgeted overhead recoveries of \$3.3 million (see Overhead Recoveries section) and additional in year financial support provided to BISC of \$2 million required to offset reduced enrolment and residence revenues (as reflected in the Faculties and Schools Allocation section). At this point, there are still uncertainties around how revenues will materialize for the remainder of the fiscal year, including the performance of the Pooled Investment Fund. Funding for this shortfall will be identified as we progress through the fiscal year.

Unit spending greater than budget allocation

Units are projecting a drawdown on carryforwards of \$32.2 million, compared to the originally budgeted drawdown of \$26.1 million. Details on these variances are reported below.

Amounts presented in millions			
	Budget	Projected	Variance
Faculties and Schools	14.7	8.7	(6.0)
Shared Services	11.1	17.8	6.7
Central Reserves	0.3	5.7	5.4
Total	26.1	32.2	6.1

Faculties and Schools are projecting an in-year deficit of \$8.7 million; this is down from the planned deficit of \$14.7 million. Faculties have mitigated the impact of revenue losses due to lower enrolment through salary savings and deferring renovation projects, as well as reductions in expenses related to program delivery where enrolment has declined.

Shared service units are projecting an in-year deficit of \$17.8 million, which represents an increase of \$6.7 million compared to their budgeted drawdowns. Despite savings from the reduction of travel and other activities as the result of COVID, the main causes of the increase in drawdown include:

- Losses of external cost recoveries and ancillary overhead and dividends in the Division of Student Affairs
- Increase in financial aid distributed by the School of Graduate Studies

- Renovation projects initiated by the Library that were not initially budgeted
- Increases in ITS expenditures related to the timing of digital projects and software licenses for the cybersecurity program

Central reserves are projecting a drawdown of \$5.7 million from carryforward against a budgeted drawdown of \$0.3 million, an unfavourable variance of \$5.4 million. Details are presented below.

Amounts are presented in millions	
Variance	Explanation
0.8	Variance is due to additional contingency expenses funded through the cash reserve that varied in both amount and purpose.
2.6	Funding allocations made after finalization of the 2020-21 budget to provide subvention funding from contingency reserves for the Faculty of Health Sciences and the Bader International Study Centre ¹ of \$0.6M.
2.0	COVID-19 funding commitment of \$2M made once the pandemic first impacted University operations in March 2020.
5.4	Total central reserves variance

Ancillary Operations

See Appendix I for the Queen’s University 2020-21 Ancillary Financial Report.

The projected deficit for the Ancillary Operations is \$17.2 million compared with the budgeted deficit of approximately \$0.8 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 \$14.4 million compared with the budgeted surplus of \$1.2 million, a negative variance of \$15.6 million.

Housing and Hospitality revenues are expected to be \$52.8 million lower than budget. Residence occupancy is operating at approximately 40%, and activity in both event services and the Donald Gordon Centre is substantially lower than expected due to the pandemic. The impact of the expected shortfall in revenues is partially mitigated by lower than budgeted expenditures due mainly to a decrease in the variable costs relating to the external contract expenses and a reduction in the staff in residences, event services, and Donald Gordon Centre due to the limited occupancy and significantly reduced operations. Overhead contributions to the operating fund, calculated as a percentage of gross revenue, were also reduced.

To further mitigate the impact of the significant revenue reductions in Housing and Hospitality Services, planned contributions from both the Residence and the Donald Gordon Centre operating

¹ Subvention funding to BISC of \$0.6 million is in addition to the \$2 million in funding discussed earlier in the report.

funds to the capital reserves have been eliminated and contributions to University Operations have been significantly reduced.

After cost mitigation measures, the net impact of the \$52.8 million variance in revenues is projected to be reduced by \$37.2 million, to a net unfavourable variance of \$15.6 million.

To retain critical financial flexibility, deferred maintenance spending has also been scaled back by \$6.1 million, including only projects and furniture required for safety and critical building functions. Housing and Hospitality Services remains committed to capital renewal and expects to resume capital contributions in future years.

Parking

Projected revenue is projected to be lower than budget by \$1.7 million. Monthly parking fees were waived for faculty, staff and students from May to August 2020 due to COVID-19 and monthly permit sales have declined since fees were reintroduced in September. Offsetting the projected decrease in revenues is a reduction in overheads transferred to the university due to lower revenues, and a decrease in externally contracted services. To further mitigate the impact of the revenue reductions in Parking, planned contributions to the capital reserves have been eliminated for the current year. Maintaining appropriate capital reserves remains a priority and contributions will resume in future years.

To retain further financial flexibility, projected deferred maintenance expenditures have been reduced by \$0.7 million as the planned projects have been deferred due to the decrease in revenue.

Queen's Executive Decision Centre (QEDC)

There are no projected operations within QEDC this year or for the foreseeable future.

Affiliated Entities

The information summarized below represents 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.

The original 2020-21 BISC budget was balanced. The revised budget presented below is the budget approved by the BISC Board in June 2020, which reflected known impacts of the pandemic at that time, including no spring or summer enrolment, and remote fall learning plans.

	BISC			HCE			Combined BISC		
	Budget 2020-21	Projected Actuals 2020-21	Variance	Budget 2020-21	Projected Actuals 2020-21	Variance	Budget 2020-21	Projected Actuals 2020-21	Variance
REVENUE	£ 1,964	£ 591	-£ 1,373	£ 174	£ 168	-£ 6	£ 2,138	£ 759	-£ 1,379
Non-interest expenditures	£ 3,650	£ 3,373	-£ 277	£ 381	£ 350	-£ 31	£ 4,031	£ 3,723	-£ 308
Interest	£ -	£ -	£ -	£ -	£ -	£ -	£ -	£ -	£ -
EXPENDITURES	£ 3,650	£ 3,373	-£ 277	£ 381	£ 350	-£ 31	£ 4,031	£ 3,723	-£ 308
SURPLUS (DEFICIT)	-£ 1,686	-£ 2,782	-£ 1,096	-£ 207	-£ 182	£ 25	-£ 1,893	-£ 2,964	-£ 1,071

BISC projected revenues do not include the additional \$ 2 million CAD in financial support discussed in the Faculties and Schools Allocation section of the report.

The decrease in the projected BISC revenue is due to the winter term being offered online, originally budgeted as in-person sessions for the winter term. The decrease in projected expenditures is due to a reduction in the variable costs associated with the residence operations.

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 2020-21 Ancillary Financial Report

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Queen's University 2020-21 Ancillary Financial Report (000's)									
	Housing and Hospitality			Parking			Total Ancillary		
	Budget 2020-21	Projected Actuals 2020-21	Variance	Budget 2020-21	Projected Actuals 2020-21	Variance	Budget 2020-21	Projected Actuals 2020-21	Variance
REVENUE	\$ 94,227	\$ 41,433	\$ (52,794)	\$ 3,480	\$ 1,802	\$ (1,678)	\$ 97,707	\$ 43,235	\$ (54,472)
Non-interest expenditures	\$ 66,246	\$ 39,454	\$ (26,792)	\$ 1,589	\$ 1,248	\$ (341)	\$ 67,835	\$ 40,702	\$ (27,133)
Interest	\$ 4,780	\$ 6,058	\$ 1,278	\$ 2,318	\$ 2,290	\$ (28)	\$ 7,098	\$ 8,348	\$ 1,250
EXPENDITURES	\$ 71,026	\$ 45,512	\$ (25,514)	\$ 3,907	\$ 3,538	\$ (369)	\$ 74,933	\$ 49,050	\$ (25,883)
Net Surplus (Deficit) before Capital and Contributions to University Operations	\$ 23,201	\$ (4,079)	\$ (27,280)	\$ (427)	\$ (1,736)	\$ (1,309)	\$ 22,774	\$ (5,815)	\$ (28,589)
Deferred Maintenance	\$ (10,700)	\$ (1,300)	\$ 9,400	\$ (525)	\$ -	\$ 525	\$ (11,225)	\$ (1,300)	\$ 9,925
Debt Servicing - Principal	\$ (6,598)	\$ (8,151)	\$ (1,553)	\$ (1,013)	\$ (1,013)	\$ -	\$ (7,611)	\$ (9,164)	\$ (1,553)
Contributions to University Operations	\$ (4,712)	\$ (888)	\$ 3,824	\$ -	\$ -	\$ -	\$ (4,712)	\$ (888)	\$ 3,824
SURPLUS (DEFICIT)	\$ 1,191	\$ (14,418)	\$ (15,609)	\$ (1,965)	\$ (2,749)	\$ (784)	\$ (774)	\$ (17,167)	\$ (16,393)

Queen's University 2020-21 Ancillary Budget (000's) Operating Reserves									
OPENING RESERVE	\$ 9,167	\$ 9,167	\$ -	\$ (22,505) *	\$ (22,505) *	\$ -	\$ (13,338)	\$ (13,338)	\$ -
SURPLUS (DEFICIT) - PLANNED ALLOCATION TO (FROM) RESERVES	\$ 1,191	\$ (14,418)	\$ (15,609)	\$ (1,965)	\$ (2,749)	\$ (784)	\$ (774)	\$ (17,167)	\$ (16,393)
CLOSING RESERVE	\$ 10,358	\$ (5,251)	\$ (15,609)	\$ (24,470)	\$ (25,254)	\$ (784)	\$ (14,112)	\$ (30,505)	\$ (16,393)

2020-21 Ancillary Budget (000's) Capital Reserve									
OPENING RESERVE	\$ 15,922	\$ 15,922	\$ -	\$ 5,086	\$ 5,086	\$ -	\$ 21,008	\$ 21,008	\$ -
Planned Contribution	\$ 10,700	\$ 1,300	\$ (9,400)	\$ 525	\$ -	\$ (525)	\$ 11,225	\$ 1,300	\$ (9,925)
Deferred Maintenance Expenditure	\$ (12,293)	\$ (6,155)	\$ 6,138	\$ (747)	\$ (19)	\$ 728	\$ (13,040)	\$ (6,174)	\$ 6,866
CLOSING RESERVE	\$ 14,329	\$ 11,067	\$ (3,262)	\$ 4,864	\$ 5,067	\$ 203	\$ 19,193	\$ 16,134	\$ (3,059)

* 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.