BOARD OF TRUSTEES Report

To:	Board of Trustees & Finance, Assets, and Strategic Infrastructure Committee	**Date of Report:** 2/16/2024
From:	Vice-Principal (Finance and Administration)	**Date of** Choose Committee or enter **Approval:** N/A
Subject:	**Financial Projection as of December 31, 2023**	**Date of Board Committee Meeting:** 3/8/2024
Responsible Portfolio:	Vice-Principal (Finance and Administration)	**Date of Board Meeting:** 3/8/2024

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 Finance, Assets, and Strategic Infrastructure Committee with an overview of projected financial results for both the Operating and Ancillary Funds.

<u>2023-24 Projected Financial Results</u>

Operating Fund

The Operating Fund deficit is projected to be $40.7 million compared with the budgeted deficit of $62.8 million. The variance is due largely to delayed hiring linked to the hiring freeze implemented in May 2023 as well as intentional decreases to expenditures as the University focuses on balancing the budget, in addition to higher than budgeted investment income in the short-term fund.

To increase transparency, the Pooled Investment Fund (PIF) returns in excess of the budgeted $5.2 million are shown as potential additional income, which brings the projected deficit down to $18.6 million. Note that these investment returns are effective November 30, 2023 and can change substantially by the university's fiscal year-end of April 30, 2024. Given the volatility of PIF returns, they cannot be counted on as a stable source of funding for base budget expenditures. Should this income materialize for the fiscal year, it will be used to invest in the University's future. Funds will be allocated to the general capital reserve to fund priorities in support of the University's academic and research mission.

Ancillary Operations
Ancillary Operations are projecting a surplus of $2.3 million, aligned with the budgeted surplus of $2.5 million. Residence is experiencing lower than expected revenues due to higher than historical vacancy rates as well as no optional meal plan or dining hall door sales during the fall term due to decreased capacity resulting from the Leonard Dining Hall construction project. Projected costs are higher than budgeted due to higher costs per meal and extended hours at Ban Righ dining hall due to the Leonard Hall construction project in Residences. Transfers to the capital reserve have been reduced to offset these unfavourable variances.

Parking is projecting an additional $0.5 million deficit in comparison to budget primarily due to slightly lower revenues.

Bader College
Given the evolving situation at Bader College, a financial projection is not available at this time.

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 Finance, Assets, and Strategic Infrastructure 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 2023-24 Operating Budget is presented in the table below.

			Amounts presented in millions
	Approved budget	Projected actuals	Variance
Revenues			
Student Fees	422.0	411.1	(10.9)
Government Grants	214.8	216.4	1.6
Investment Income*	19.1	23.2	4.1
Other Revenue**	10.8	12.8	2.0
Total Revenues	666.7	663.5	(3.2)
Allocations and Expenditures			
Faculties & Schools Allocations	374.5	366.3	(8.2)
Shared Services Allocations	187.8	186.2	(1.6)
Central Allocations	4.7	13.0	8.3
Utilities	20.9	18.2	(2.7)
Student Aid	30.3	30.3	-
Other Allocations***	19.7	19.7	-
Flow Through Allocations	18.4	19.2	0.8
Indirect Costs of Research to External Entities	0.6	0.6	-
Interfund transfers			
Overhead Cost Recoveries from Ancillaries	(5.6)	(5.4)	0.2
Transfer to Capital Budget	15.4	15.4	-
Total Allocations and Expenditures	666.7	663.5	(3.2)
Unit Spending greater (less) than Budget Allocation			
Faculties & Schools Spending greater (less) than Budget Allocation	55.7	56.4	0.7
Shared Services Spending greater (less) than Budget Allocation	7.6	(4.8)	(12.4)
Central Spending greater (less) than Budget Allocation	(0.5)	(10.9)	(10.4)
Total Unit Spending greater (less) than Budget Allocation	62.8	40.7	(22.1)
Surplus (Deficit) before item below	(62.8)	(40.7)	22.1
PIF Investment Income greater than budget****	-	22.1	22.1
Surplus (Deficit)	(62.8)	(18.6)	44.2

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

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

***Other allocations is comprised of infrastructure renewal, strategic priority initiatives and contingency.

****Reflects PIF investment returns to November 30, 2023, which can change substantially by fiscal year end (April 30, 2024).

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	(2.7)	Undergraduate tuition is projecting a $2.7 million negative variance. Shortfalls against the budget were observed in international enrolment ($11.2 million) primarily for the Faculty of Arts & Science, Smith Engineering, 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 ($8.5 million) primarily in the Faculty of Arts & Science, Smith Engineering, and the Faculty of Health Sciences.
For Credit - Graduate	(11.2)	Graduate tuition is projecting a $11.2 million negative variance primarily due to lower enrolment across many of the Smith School of Business programs ($8.9 million). This is the result of a variety of economic, social, and global factors. A decline in graduate program applications overall also contributed to lower in-year enrolment across most of the remaining faculties' research-based and professional master's programs.
Non-credit	1.7	Non-credit tuition is projecting a $1.7 million positive variance primarily related to increases in non-credit programs in the Faculty of Education, the Faculty of Health Science and the Faculty of Arts and Science, offset by a minor decrease in non-credit programs in the Smith School of Business
Other	1.3	Athletics & Recreation fees and Student Health fees are indexed to inflation, and inflation was higher than projected. There are also projected increases in late payment fees and the student assistance levy
Total	(10.9)	Total student fees variance

Government Grants

Government grants are projected to be $1.6 million above budget primarily due to increases related to the targeted expansion of the Nursing and the undergraduate Medicine program in the Faculty of Health Science, the details of which were unknown at the time the budget was prepared.

Investment Income

Interest income on short-term fund balances is showing a positive variance of $4.1 million because of higher than budgeted interest income further to the substantial increase in interest rates. The PIF has experienced gains to date of $27.3 million as of November 30, 2023, however given the volatility of financial markets, budgeted revenue of $5.2 million for the PIF has been included in the projected revenue.

The PIF income to date in excess of the budgeted revenue is being reported on a separate line at the bottom of the summary table and is labeled as PIF Investment Income greater than Budget.

Other Revenue

Other revenue is projected to be $2.0 million higher than budget. This is primarily driven by a projected increase in unrestricted donations ($1.3 million, reduced by $3.2M from projection presented in December 2023 report), an increase in Research Overhead ($0.4 million) and other income ($0.3M).

Expenditures

Faculties & Schools and Shared Service Allocations

Faculties and Schools Allocations are expected to be $8.2 million lower than budget, due to the shortfall in for-credit revenue discussed under the 'Student Fees' section offset by central funding allocated to Bader College. Under the budget model, tuition and grant revenues are attributed directly to the Faculties and Schools.

Shared Service Allocations are expected to be $1.6 million lower than budgeted primarily due to projected decreases in the demand for centrally funded employee benefits, as well as reduced building operating expenditures due to construction on some buildings.

Central Allocations

Central allocations are comprised of unallocated budget in addition to in-year additional investment income and donation revenue, along with in-year savings on central expenditures such as utilities and centrally funded benefits. The increase in allocations, should they materialize, will be utilized in 2024-25 as part of the deficit mitigation fund to assist with the transition to balanced budgets.

Utilities

Utilities expenses are expected to be $2.7 million lower than budget. The decrease is being driven by the natural gas hedges that are projected to be less than the market gas prices as projected from last year. Additionally, there have been savings in electricity expenses as the electricity rates have decreased this year.

Spending greater than / less than budget allocation

Spending greater or less than budget allocation decreases or increases university carryforwards, respectively.

The University is projecting a drawdown on carryforwards of $40.7 million, compared to the originally budgeted drawdown of $62.8 million as detailed in the table below. The Pooled Investment Fund (PIF) income in excess of budget at November 30, 2023 of $22.1 million, should it materialize, would bring the deficit down to $18.6 million.

2023-24 Projected Deficit / (Surplus); Amounts presented in millions			
	Budget	Projected	(Better) / Worse
Faculties and Schools	55.7	56.4	0.7
Shared Services	7.6	(4.8)	(12.4)
Central Reserves	(0.5)	(10.9)	(10.4)
Subtotal	62.8	40.7	(22.1)
PIF Investment Income greater than Budget	0.0	22.1	22.1
Total	62.8	18.6	(44.2)

Faculties and Schools

Faculties and Schools are projecting an in-year deficit of $56.4 million against a budgeted deficit of $55.7 million.

Breakdown of variance for Faculties and Schools	
Reduction in budget allocation due to lower enrolment	8.2
Expenditures reduction and unbudgeted revenues	(7.5)
Variance to budget	0.7

As detailed in the table above, offsetting the $8.2 million reduction in Faculty and Schools Allocations described in the previous section are expenditure reductions and unbudgeted revenues of $7.5 million. Expenditure reductions are comprised of salary and benefit savings associated with deferral and delayed hiring of faculty and staff, deferral in renovation projects, as well as further reductions in expenses related to materials, scholarships, program delivery and in-residence costs in the Smith School of Business professional programs, partially offsetting the loss in for-credit revenue.

Shared Services

Shared service units are projecting an in-year surplus of $4.8 million against a budgeted deficit of $7.6 million. The main causes include:

- Reduced IT spending due to combination of project implementation delays, project costs incurred earlier than budgeted and paid last fiscal year, and Infrastructure renewal projects deferred to next fiscal year
- Salary and benefit savings from staff vacancies across various units, linked to the hiring freeze implemented in May 2023
- Lower than projected 2023-24 graduate award allocations due to lower than targeted Queen's Graduate Award funding-eligible enrolments across various doctoral and research-based masters programs
- Lower commitment bursaries. The commitment bursary program is still in its early years and budget was based on the first year of the program (2021-22) which had a high spend.
- Because of higher than expected inflation, inflation adjusted Student Wellness Services and Athletics and Recreation fees revenue was higher than budget
- Intentional cost-cutting measures across units, which is the result of a University-wide focus on balancing the budget
- An increase in projected unrestricted donations

PIF Investment Income greater than Budget

At November 30, 2023 the Pooled Investment Fund (PIF) returns were $27.3 million, which is $22.1 million in excess of the $5.2 million budgeted. To increase transparency, this is shown as a reduction to the projected deficit. Note that these returns can change substantially by the April 30, 2024 fiscal year-end. The PIF investment income greater than budget, should it materialize, will be allocated to the general capital reserve to fund priorities in support of the University's academic and research mission.

Central Reserves

Central Reserves are projecting a favourable variance of $10.4 million mainly due to the positive variance on short-term investment returns, the savings in utilities expenses, and delays in hiring the annual Queen's National Scholar positions to 2024-25, offset by the allocation of funding to Bader College.

Ancillary Operations

See Appendix I for the Queen's University 2023-24 Ancillary Financial Report. The projected surplus for the Ancillary Operations is $2.3 million compared with the budgeted surplus of $2.5 million.

Residences revenue is lower than projected due to vacancy rates being higher than normal for September, no optional meal plan or dining hall door sales during the fall term due to decreased capacity resulting from the Leonard Dining Hall construction project and retail food sales continuing to be lower than pre-COVID. Projected expenses are higher than budget due to higher than anticipated cost per meal as well as additional labour for extended hours at Ban Righ during the renovation period. Unfavourable variances in revenues and expenses have been mitigated by decreasing the planned Deferred Maintenance Contribution, bringing the overall results in on budget.

Parking is projecting an additional $0.5 million deficit in comparison to budget primarily due to slightly lower revenues.

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 2023-24 Ancillary Financial Report

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Queen's University 2023-24 Ancillary Financial Report (000's)									
	Housing and Hospitality**			Parking			Total Ancillary		
	Budget 2023-24	Projections 2023-24	Variance	Budget 2023-24	Projections 2023-24	Variance	Budget 2023-24	Projections 2023-24	Variance
REVENUE	**$ 102,251**	**$ 100,563**	**$ (1,688)**	**$ 4,458**	**$ 4,017**	**$ (441)**	**$ 106,709**	**$ 104,580**	**$ (2,129)**
EXPENDITURES	**$ 62,453**	**$ 63,163**	**$ 710**	**$ 1,581**	**$ 1,616**	**$ 35**	**$ 64,034**	**$ 64,779**	**$ 745**
Excess / (Deficiency) Before Items Below	**$ 39,798**	**$ 37,400**	**$ (2,398)**	**$ 2,877**	**$ 2,401**	**$ (476)**	**$ 42,675**	**$ 39,801**	**$ (2,874)**
Deferred Maintenance Contribution	$ 12,350	$ 9,850	$ (2,500)	$ 525	$ 525	$ -	$ 12,875	$ 10,375	$ (2,500)
Debt Servicing - Principal & Interest	$ 13,730	$ 13,730	$ -	$ 3,312	$ 3,312	$ -	$ 17,042	$ 17,042	$ -
Overhead and Dividends	$ 10,049	$ 9,917	$ (132)	$ 201	$ 201	$ -	$ 10,250	$ 10,118	$ (132)
	$ 36,129	$ 33,497	$ (2,632)	$ 4,038	$ 4,038	$ -	$ 40,167	$ 37,535	$ (2,632)
SURPLUS (DEFICIT)	**$ 3,669**	**$ 3,903**	**$ 234**	**$ (1,161)**	**$ (1,637)**	**$ (476)**	**$ 2,508**	**$ 2,266**	**$ (242)**

Queen's University 2023-24 Ancillary Budget (000's) Operating Reserves									
OPENING RESERVE	$ (5,787)	$ (5,787)	$ -	$ (29,549)	$ (29,549)	$ -	$ (35,336)	$ (35,336)	$ -
Surplus (Deficit)	$ 3,669	$ 3,903	$ 234	$ (1,161)	$ (1,637)	$ (476)	$ 2,508	$ 2,266	$ (242)
CLOSING RESERVE	**$ (2,118)**	**$ (1,884)**	**$ 234**	**$ (30,710)***	**$ (31,186)***	**$ (476)**	**$ (32,828)**	**$ (33,070)**	**$ (242)**

2023-24 Ancillary Budget (000's) Capital Reserve									
OPENING RESERVE	$ 18,175	$ 18,175	$ -	$ 5,937	$ 5,937	$ -	$ 24,112	$ 24,112	$ -
Deferred Maintenance Contribution	$ 12,350	$ 9,850	$ (2,500)	$ 525	$ 525	$ -	$ 12,875	$ 10,375	$ (2,500)
Deferred Maintenance & Capital Expenditure(s)	$ (15,649)	$ (10,855)	$ 4,794	$ -	$ (373)	$ (373)	$ (15,649)	$ (11,228)	$ 4,421
CLOSING RESERVE	**$ 14,876**	**$ 17,170**	**$ 2,294**	**$ 6,462**	**$ 6,089**	**$ (373)**	**$ 21,338**	**$ 23,259**	**$ 1,921**

* The accumulated deficit for Parking, created by the debt service payments, will be reduced to zero by surpluses from operations after the debt is repaid. The debt will be repaid in full in fiscal 2040/41

** Housing and Hospitality includes Residences, Community Housing, Events Services, and the Donald Gordon Centre.