BOARD OF TRUSTEES
Report

To:	Board of Trustees & Finance, Assets, and Strategic Infrastructure Committee	**Date of Report:** 4/16/2024
From:	Vice-Principal (Finance and Administration)	**Date of** Choose Committee or enter **Approval:** N/A
Subject:	**Financial Projection as of February 29, 2024**	**Date of Board Committee Meeting:** 5/10/2024
Responsible Portfolio:	Vice-Principal (Finance and Administration)	**Date of Board Meeting:** 5/10/2024

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.

2023-24 Projected Financial Results

Operating Fund

The Operating Fund deficit is projected to be $28.2 million. This has declined from the projected deficit of $40.7 million reported in March, largely due to the $10.7 million one-time provincial government funding to support the costs of delivering Science, Technology, Engineering and Mathematics (STEM) programs.

The remaining variance from the budgeted deficit of $62.8 million 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.

Pooled Investment Fund (PIF) returns in excess of budget

PIF investment returns are volatile (there were losses in two of the last four fiscal years), and any returns in excess of budget are allocated to the general capital reserve to fund priorities in support of the University's academic and research mission, along with covering future PIF losses. PIF investment returns in excess of the budgeted $5.2 million are detailed in the Analysis section below the Summary Operating Budget table. Note that these investment returns are effective February 29, 2024 and can change substantially by the university's fiscal year-end of April 30, 2024.

Ancillary Operations
Ancillary Operations are projecting a surplus of $2.9 million, higher than 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. Transfers to the capital reserve have been reduced to offset these unfavourable variances.

Parking is projecting an additional $0.6 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	411.5	(10.5)
Government Grants	214.8	227.2	12.4
Investment Income*	19.1	23.3	4.2
Other Revenue**	10.8	12.5	1.7
Total Revenues	666.7	674.5	7.8
Allocations and Expenditures			
Faculties & Schools Allocations	374.5	366.4	(8.1)
Shared Services Allocations	187.8	186.5	(1.3)
Central Allocations	4.7	24.6	19.9
Utilities	20.9	17.5	(3.4)
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)	(5.7)	(0.1)
Transfer to Capital Budget	15.4	15.4	-
Total Allocations and Expenditures	666.7	674.5	7.8
Unit Spending greater (less) than Budget Allocation			
Faculties & Schools Spending greater (less) than Budget Allocation	55.7	57.1	1.4
Shared Services Spending greater (less) than Budget Allocation	7.6	(6.5)	(14.1)
Central Spending greater (less) than Budget Allocation	(0.5)	(22.4)	(21.9)
Total Unit Spending greater (less) than Budget Allocation	62.8	28.2	(34.6)
Surplus (Deficit)	(62.8)	(28.2)	34.6

*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.

PIF Investment Income greater than Budget

The annual operating budget includes Pooled Investment Fund (PIF) income of $5.2 million as noted in the Summary table. PIF returns are volatile and should not be relied on to support on-going operating budget expenditures beyond the operating budget allocation. The PIF has experienced losses in two of the last four fiscal years. At February 29, 2024, PIF returns were $69.8 million, which is $64.6 million in excess of the $5.2 million budgeted. Should these returns materialize at April 30, 2024, the projected operating budget surplus will be $36.4 million as shown in the table below. 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, and to cover future PIF investment losses.

	Amounts presented in millions
Operating Budget Projected Surplus (Deficit)	(28.2)
PIF investment income > $5.2M at February 29, 2024	64.6
Surplus **IF** PIF investment income is realized on April 30, 2024	36.4

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 ($11.4 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 ($8.7 million) primarily in the Faculty of Arts & Science, Smith Engineering, and the Faculty of Health Sciences.
For Credit - Graduate	(13.0)	Graduate tuition is projecting a $13.0 million negative variance primarily due to lower enrolment across many of the Smith School of Business programs ($9.7 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	3.8	Non-credit tuition is projecting a $3.8 million positive variance primarily related to increases in non-credit programs in the Faculty of Education, the Faculty of Arts & Science and the Smith School of Business.
Other	1.4	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	(10.5)	Total student fees variance

Government Grants

Government grants are projected to be $12.4 million above budget primarily due to $10.7 million in one-time funding to support STEM program costs announced as part of the Provincial Government's $1.3 billion three-year investment intended to stabilize postsecondary institutions. The remaining variance is 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 $4.2 million because of higher than budgeted interest income further to the substantial increase in interest rates as well as a transfer of

$200 million from the PIF to the short-term fund in early March. The PIF income to date in excess of the budgeted revenue of $5.2 million is reported in a separate table below the summary table.

Other Revenue

Other revenue is projected to be $1.7 million higher than budget. This is primarily driven by an increase in unrestricted donations.

Expenditures

Faculties & Schools and Shared Service Allocations

Faculties and Schools Allocations are expected to be $8.1 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 $1.3 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 comprises unallocated budget in addition to in-year additional Short Term Fund investment income and donation revenue, along with in-year savings on central expenditures such as utilities and centrally funded benefits. The increase in allocations 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 $3.4 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. Mild winter temperatures reduced gas and electricity consumption, and there have been savings in electricity expenses as the electricity rates have decreased this year. Additionally, there was a reduction in the compliance costs for 2022 carbon emissions as the required payment was less than anticipated.

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 $28.2 million, compared to the originally budgeted drawdown of $62.8 million as detailed in the table below.

2023-24 Projected Deficit / (Surplus); Amounts presented in millions			
	Budget	Projected	(Better) / Worse
Faculties and Schools	55.7	57.1	1.4
Shared Services	7.6	(6.5)	(14.1)
Central Reserves	(0.5)	(22.4)	(21.9)
Total	62.8	28.2	(34.6)

Faculties and Schools

Faculties and Schools are projecting an in-year deficit of $57.1 million against a budgeted deficit of $55.7 million.

Breakdown of variance for Faculties and Schools	
Reduction in budget allocation due to lower enrolment	8.1
Expenditures reduction and unbudgeted revenues	(6.7)
Variance to budget	1.4

As detailed in the table above, offsetting the $8.1 million reduction in Faculty and Schools Allocations described in the previous section are expenditure reductions and unbudgeted revenues of $6.7 million. Expenditure reductions comprises 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 $6.5 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 unrestricted donations

Central Reserves

Central Reserves are projecting a favourable variance of $21.9 million mainly due to the $10.7 million one-time ministry funding to support STEM program costs, 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. These additional revenues and savings are the primary reason for the reduction in the projected deficit.

Ancillary Operations

See Appendix I for the Queen's University 2023-24 Ancillary Financial Report. The projected surplus for the Ancillary Operations is $2.9 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. Unfavourable variances in revenues have been mitigated by decreasing the planned Deferred Maintenance Contribution, resulting in a net increase in surplus of $1 million.

Parking is projecting an additional $0.6 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	$ 100,544	$ (1,707)	$ 4,458	$ 3,921	$ (537)	$ 106,709	$ 104,465	$ (2,244)
EXPENDITURES	$ 62,453	$ 62,345	$ (108)	$ 1,581	$ 1,663	$ 82	$ 64,034	$ 64,008	$ (26)
Excess / (Deficiency) Before Items Below	$ 39,798	$ 38,199	$ (1,599)	$ 2,877	$ 2,258	$ (619)	$ 42,675	$ 40,457	$ (2,218)
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	$ 9,914	$ (135)	$ 201	$ 196	$ (5)	$ 10,250	$ 10,110	$ (140)
	$ 36,129	$ 33,494	$ (2,635)	$ 4,038	$ 4,033	$ (5)	$ 40,167	$ 37,527	$ (2,640)
SURPLUS (DEFICIT)	$ 3,669	$ 4,705	$ 1,036	$ (1,161)	$ (1,775)	$ (614)	$ 2,508	$ 2,930	$ 422

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	$ 4,705	$ 1,036	$ (1,161)	$ (1,775)	$ (614)	$ 2,508	$ 2,930	$ 422
CLOSING RESERVE	$ (2,118)	$ (1,082)	$ 1,036	$ (30,710)*	$ (31,324)*	$ (614)	$ (32,828)	$ (32,406)	$ 422

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)	$ (9,650)	$ 5,999	$ -	$ (644)	$ (644)	$ (15,649)	$ (10,294)	$ 5,355
CLOSING RESERVE	$ 14,876	$ 18,375	$ 3,499	$ 6,462	$ 5,818	$ (644)	$ 21,338	$ 24,193	$ 2,855

* 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.