



MEMORANDUM

Date: **June 24, 2016**

Date Last Updated: **June 26, 2015**

To: Chair and Board of Governors
From: President
Subject: MONITORING REPORT – EL-2e Financial Planning and Budgeting

With respect to budget development, the President shall not cause or allow financial planning for any fiscal year or the remaining part of any fiscal year to: a) deviate materially from Board Ends priorities, b) risk financial jeopardy, or c) fail to be derived from a multi-year plan.

I hereby present the monitoring report on our Executive Limitations policy “Budget Development” according to the schedule set out. I certify that the information contained in this report is true and represents compliance with all aspects of the policy unless specifically stated otherwise.

The President shall not cause or allow financial planning for any fiscal year or the remaining part of any fiscal to:

a) “Deviate materially from Board Ends priorities.

I interpret the development of the annual budget on the basis of the approved college strategic plan, and the business plan that has been developed in support of the Board Ends, as evidence of the Ends expected.

Compliance will be demonstrated when Board Ends priorities are articulated in policies E1 to E3 (Ends Policy 1: Improve access to learning and support the success of learners; Ends Policy 2: Support and advance Aboriginal learning; and Ends Policy 3: Serve Northwestern Ontario.

Evidence:

The projected 2016-17 budget of \$74.6 million has been developed as a balanced budget and includes \$408,075 in funding for Strategic Initiatives to support the Board Ends and Strategic Plan. See also Appendix A.

I report compliance.

b) “Risk financial jeopardy.”

I interpret “financial jeopardy” as insolvency, the inability to finance operations, risking an in-year deficit not covered by reserves, or making drastic short-term adjustments with negative long-term impact.

Evidence:

The 2016-17 operating budget is forecast as a balanced budget and does not rely on in-year reserves to finance operations. See Appendix A and B for further details.

The following two metrics show positive results in managing the Colleges financial resources as reported on the 2016 Audited Financial Statements:

- **Annual Surplus/Deficit** (revenue - expenses): At March 31, 2016, the College reported a positive variance of approximately \$1.0 million compared to a \$1.3 million deficit at March 31, 2015, which is a change of approximately \$2.3 million.
- **Accumulated Surplus/Deficit** (General Unrestricted, Internally Restricted and Investment in Capital Assets): At March 31, 2016, the College reported a positive variance of \$5.3 million compared to a \$3.9 million surplus at March 31, 2015, which is an increase of approximately \$1.4 million.

I report compliance.

c) “Fail to be derived from the multi-year plan.”

I interpret “multi-year plan” as the 2016-2017 budget year as well as forecast projections for 2017-2018 and 2018-2019.

Evidence:

The College three-year fiscal plan incorporates assumptions on revenues, enrolment, wage

rates, operating expenses, etc. Appendix C is the Three-Year Financial Plan for the period 2016-17 to 2018-19.

I report compliance.

The President shall not allow budgeting to:

- 1. “Risk incurring those situations or conditions described as unacceptable in the Executive Limitation policy entitled ‘Financial Condition & Activities’ (EL2d).”**

I submit this is clear and requires no further interpretation.

Evidence:

The 2016-17 operating budget is forecast as a balanced budget based on assumptions which were reviewed by the Audit Committee. Appendix B provides further information on financial risk exposure.

I report compliance.

- 2. “Omit a) credible projection of revenues and expenditures, b) separation of capital and operational items, c) cash flow analysis, d) disclosure of planning assumptions:”**

I submit this is clear and requires no further interpretation.

Evidence:

a) Credible projection of revenues and expenditures:

The 2016-17 budget has been developed using credible assumptions for projected revenues and expenditures which are summarized in Appendix B.

b) Separation of capital and operational items:

The capital budget is a separate item from the operating budget. Please see the 2016-17 Business Plan for details of the Five-year Capital Expenditure Projections.

a) Cash flow analysis:

A summary of the projected cash flow changes reflected in the Budget Statement of Financial Position (Balance Sheet) at March 31, 2017 are listed in Appendix D.

b) Disclosure of planning assumptions:

The College discloses detailed planning assumptions, risks, and opportunities in the Business Plan. The Board approves the Business Plan prior to its release to the Ministry and posting to our public website. See Appendix B.

I report compliance.

3. "Omit an annual budget for Board Prerogatives during the year as set forth in the Governance Investment policy."

I submit this is clear and requires no further interpretation.

Evidence:

These Board prerogatives have been budgeted at \$57,418 for 2016-17 in keeping with historical expenditures.

I report compliance.

Respectfully submitted,

D. Jim Madder,
President

Appendix A

Confederation College
 PROJECTED BUDGET FOR FISCAL 2016/2017
 With Comparison to the Actual Results for Fiscal 2015/2016

	Approved Budget 2015-16	Actual Year-End 2015-16	Projected Budget 2016-17	Variance Col (3) vs (2)
Revenue				
Post Secondary Grant	\$ 30,136,633	\$ 30,779,377	\$ 30,068,816	\$ (710,561)
Other Provincial Grants	12,073,491	13,235,362	12,310,677	(924,685)
Tuition Fees-Domestic	9,597,361	9,486,509	9,619,273	132,764
Other Student Fees	2,648,913	2,725,349	2,803,706	78,357
Tuition Fees - International	5,341,430	6,430,175	7,901,121	1,470,946
Contract and Programs	4,302,147	4,605,637	6,686,661	2,081,024
Ancillary Operations	3,616,111	3,456,420	3,557,495	101,075
Other Revenue	3,060,799	2,210,427	1,602,811	(607,616)
Total Revenue	\$ 70,776,885	\$ 72,929,256	\$ 74,550,560	\$ 1,621,304
Expenses				
Total Full Time Salaries & Benefits	\$ 38,062,393	\$ 38,887,240	\$ 40,165,302	\$(1,278,062)
Total Part Time Salaries & Benefits	9,141,655	9,122,972	9,139,353	(16,381)
Restructuring Costs	1,244,408	1,065,369	212,700	852,669
Buildings, Mtce, Grounds & Utilities	3,277,838	3,189,192	3,559,840	(370,648)
Contracted Services	6,020,014	7,645,094	7,838,547	(193,454)
Furniture & Equipment	872,411	1,430,440	1,059,162	371,278
Miscellaneous	2,357,834	1,003,155	2,668,283	(1,665,128)
Office & Instructional Expenses	6,345,400	5,540,337	5,803,736	(263,399)
Professional Dues & Audit Fees	603,665	762,891	982,177	(219,286)
Scholarships & TSA	521,301	1,013,693	556,801	456,892
Telecommunications & Software	1,239,078	1,135,160	1,284,995	(149,835)
Travel and Professional Development	1,090,888	1,332,903	1,275,699	57,204
Total Expenses	\$ 70,776,885	\$ 72,128,446	\$ 74,546,595	\$(2,418,149)
Surplus (Deficiency) of revenue over expenses for the year	\$ -	\$ 800,810	\$ 3,965	\$ (796,845)

2016/17 Budget Assumptions

Guiding Principles:

The following guiding principles will be used to develop the 2016-17 operating budget:

- Learners are at the centre of quality education.

College budgets should:

- Reflect, align and support key priorities identified in the Strategic Plan, Business Plan and Multi-Year Financial Plan.
- Define responsibility, accountability, and authority for achieving program and service outcomes.
- Strive for cost savings, efficiencies, and shared program and service delivery models, where possible.
- Consider Integrated Financial Risk Management implications (such as: demographic changes in domestic post-secondary enrolment; increased reliance on International student recruitment; infrastructure and technology renewal challenges; program and service sustainability).
- Reflect changes in the fiscal environment that may impact the College (such as: labour market demand; political landscape, provincial funding and tuition framework; college sustainability).

Key Budget Assumptions:

Revenue

The College's single largest revenue source comes from the Province in the form of grants. In the forecast for 2016/17, 59% of the College's total funding will be operating grants. The General Purpose Operating Grant (GPOG) is the primary provincial grant. The GPOG comprises base and growth funding envelopes and these allocations are based on calculations involving a rate per weighted funding unit (WFU) and averages of prior year enrolments. The College will be realizing the impacts of higher enrolments in prior years, which have been declining for the past few years, and impacting the budget.

- The GPOG base funding remains the same as the prior year at \$19,138,039 (2 year slip, 3 year average).
- The funding rate for 2016/17 remains at the 2014/15 level of \$4277.45 per weighted funding unit
- The GPOG growth funding envelope for 2016/17 will continue decline by \$101,463 from the 2015/16 Actual funding levels, or 7% decrease. This is a result of declining domestic enrolment in 2013/14 and 2014/15, resulting in lower WFU (2 year slip, 2 year average).

- By 2016/17 International Student Recovery will be applicable to all students in all years, this will be a reduction of \$750 per International Student from the GPOG base funding
- Tuition revenue will be modelled directly from the Strategic Enrolment Management plan and approved fees schedule.
- In 2014/15 the Ontario government mandated a four-year tuition fee framework which caps the average annual tuition fee increase at 3%. The tuition framework policy outlined the fee increases for the first years, returning students, regular programs, high demand etc., with the overall enrolment mix yielding an increase of 3% and therefore, not exceeding the allowable limit.

The most significant changes are noted below:

- Government grants are projected to continue to decrease in 2016/17 budget by \$311,900 (1%) from 2015/16 Actual, and based on the reduction in the performance funding and growth grant, and increase in international student recovery.
- Domestic tuition fee rates for funded programs have been budgeted with a 3% increase (as per MTCU tuition fee policy).
- Domestic enrolment is budgeted to continue to decline by 1% in Fall 2016 from 2015/16 Actual levels.
- International enrolment is expected to increase from current enrolment with forecasted increase of 28% and 24% in Fall 2016 and Winter 2017, respectively. Projected enrolment changes in Second Career and WSIB programs will result in reduced grants from these programs, as enrolment and participation in these programs decline.
- Ancillary revenue is derived from campus bookstore, Sibley Hall residence, parking, food services, fitness centre, and facilities rentals. These budgets will continue to be reviewed with our partners for economic impacts, and student demands. Ancillary revenue is budgeted at \$3.6M, or 4.8% of the College's gross revenues.
- Contract training and special programming have been reviewed, and only secured, or contracts with a high probability of securement have been included in the budget.

Operating Expenditures

The College's single largest expenditure in its operating budget is salaries and benefits for full-time, and part-time staff, totaling \$49.5M. In the 2016/17 budget, this represented 66% of annual operating expenditures, with the savings from the 2014/15 restructuring plan implemented. The remainder of the operating budget is for other non-salary costs such as supplies, travel, telecommunications, utilities, professional fees, promotion, contracted training and ancillary operations.

Full-time salary rate increases for faculty and support are in accordance with the respective collective agreements effective September 1, 2014. For the approved full-time complement, the budget will include the rate increases, step increases on anniversary dates, and support staff special

allowances. Administrative salaries are budgeted in accordance with the College's Employer Council recommendations.

The fringe benefits rates incorporated into the budget are as follows: Faculty 24%, Support 29%, and Administration 26%. These rates incorporate the legislated employer deductions, and discretionary fringe benefits, such as health and insurance premiums, and pension plan contributions.

- Workforce restructuring (staffing and vacancy adjustments) implemented in 2015 are assumed to be permanent reductions to complement. The 2016/17 budget includes \$212,000 in restructuring costs in salaries.
- In prior years, staff have taken advantage of reduced maintenance costs for software agreements by negotiating prepaid 3 year terms on contracts to realize savings. The US currency contracts have been budgeted for at an exchange rate of 1.45, and the exchange impact is \$300,000 increase to expenditures.
- Strategic Initiatives have been budgeted for \$408,075. The initiatives were approved by Senior Team, and align with the College's Strategic Plan.

Financial Risk Exposure Areas:

- The ongoing reality of domestic student enrolment declines; impact is reduced tuition, fee and provincial operating grant revenue.
- The increased reliance on international student enrolment increases; impact is increased tuition and fee revenue; offset somewhat by increases in additional expenditures for teaching and support for the increased international enrolment.
- The 2016-17 operating budget is not expected to be negatively impacted by the new Ontario Student Grant program ("free tuition") which is expected to start in the 2017.
- Outdated funding formula for Colleges; MTCU is in the process of consulting on a new College Funding Model.
- Small, Northern and Rural Grant is being reviewed as part of the College Funding Model process. Preliminary recommendations by Colleges are to maintain this funding.
- Lack of annual funding from government for inflation forces colleges to either grow or reduce services/staffing in order to cover cost inflation.
- Capital resources/investment to refresh program equipment, information technology and facilities is severely limited.
- Financial sustainability issues; declining importance of the government operating grant and increased reliance on tuition fees to fund college programs and services.
- Constrained government finances and pressures on government from many sectors mean that there is little or no new funding for Colleges.
- College Debt is relatively low: The debt servicing ratio is 1.4% (which includes Wellness Centre and Sioux Lookout High School Co-location projects). The benchmark ratio for Ontario Colleges is $\leq 3\%$. This ratio is an indicator of the percentage of total income required to cover interest and debt servicing charges.

Budget Scenarios:

The following budget scenarios provide a “snapshot” of the potential impact of various enrolment changes at the College:

- **Scenario #1:** Reduction in international enrolment by 15%; Impact: \$1M projected deficit.
- **Scenario #2:** Domestic enrolment increase of 1%; Impact: increase in projected revenues of \$105,000.
- **Scenario #3:** Domestic enrolment increase of 2%; Impact: increase in projected revenue of \$187,000.

Appendix C

Three-Year Financial Plan: 2016-17 to 2018-19

	Actual 15/16 Year-end	Projected 16/17 Budget	Projected 17/18 Budget	Projected 18/19 Budget
Total Revenues:	\$72,929,256	\$74,550,560	\$75,244,958	\$75,066,323
Expenses:				
Salaries & Benefits	\$49,075,581	\$49,517,355	\$50,496,179	\$51,524,431
Non-Salary Expenses	\$23,052,865	\$25,029,240	\$26,166,272	\$26,220,550
Total Expenses	\$72,128,446	\$74,546,595	\$76,662,451	\$77,744,981
Surplus (Deficiency) of revenue over expenses for the year	\$800,810	\$3,965	(\$1,417,493)	(\$2,678,658)
Excess (Deficiency) of revenue over expenses after GAAP Adjustments	\$981,260	(\$78,762)	(\$1,173,662)	(\$2,067,183)

Appendix D

Cash Flow Analysis: March 31 2016 vs March 31, 2017

Description	March 31/16 Actual Year-End	Projected March 31/17	\$ Change
Cash and Temporary Investments	\$13,712,322	\$12,227,438	(\$1,484,884)
Accounts Receivable (AR)	\$3,726,974	\$3,226,974	(\$500,000)
Investment and Other Current Assets	\$10,285,661	\$10,404,209	\$118,548
Accounts Payable (AP)	\$7,707,085	\$6,207,085	(\$1,500,000)
Deferred revenue	\$3,664,047	\$3,664,047	\$0
Long Term Debt (LTD)	\$1,230,986	\$871,971	(\$359,015)
Totals	\$40,327,075	\$36,601,724	(\$3,725,351)