

# Report to Committee of the Whole June 19, 2013



Waterloo Region  
District School Board

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Director of Education

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**SUBJECT:** 2013-2014 BUDGET RECOMMENDATIONS

**ORIGINATOR:** This report was prepared by Marilyn Allen, Executive Superintendent of Business and Financial Services and Treasurer, Karen Newland, Controller of Financial Services, Wendy Jocques, Manager of Budget Services and Sharon Uttley, Manager of Accounting Services, in consultation with Executive Committee.

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**PURPOSE:**

To seek approval of the budget for 2013-2014 and the next steps in preparing for the 2014-15 budget.

**BACKGROUND:**

As in prior years, the process for development of the 2013-2014 budget for the Waterloo Region District School Board (WRDSB) began early in the new calendar year. In order to project expenditures, budget centres were asked to assess their cost pressures for the upcoming year in compliance with Ministry directives. In addition, detailed enrolment projections were completed in preparation for the calculation of the Board's staffing and revenue projections.

During the year, there were ongoing discussions as part of the system fiscal review envisioned during the 2012-13 budget. A fiscal review commenced as an outcome of the 2012-13 budget and the following areas have been reviewed:

- Alternative programs and continuing education were realigned
- A consultant has been engaged to advise of opportunities for savings related to benefit plan administration
- Reciprocal agreements and community use arrangements are under review
- Review of Vice Principal admin/teaching time allocation has begun
- School operating budgets are under discussion
- A review of staff complements in all areas is on-going

Information regarding the need to achieve savings has been shared with Secondary School Principal's Association, Waterloo Region Elementary Administrators, Education Council, Administrative Council, Staff Advisory, and Waterloo Region Assembly of Public School Councils.

The Ministry of Education announced education funding through the Grants for Student Needs (GSN) for 2013-2014 on March 27, 2012. The most significant change was the funding adjustment for the transition to a four year high school program. Although the Ministry had signaled changes to the under-utilized school strategy they were not implemented as previously announced in 2012-13. The Ministry will be working with school boards throughout 2013-2014 to improve the current accountability and reporting requirement framework with a particular focus on targeted special purpose grants within the GSN, including Learning Opportunities, Safe Schools, First Nation Education, and Special Education.

The information contained within this report is based on the Technical Paper released March 28, 2013 by the Ministry of Education. The report will discuss the three main components that determine the budget: enrolment, revenues (primarily grants) and expenditures.

This year, the budget process has proven to be very challenging with an ever changing labour framework, Ministry policy changes around the "15 Day Rule" and "34 Credit Threshold", and the realization of declining enrolment in the secondary panel. A detailed fiscal review is required to ensure financial stability as we move forward. Staff is proposing to balance the budget using accumulated surplus and to continue a formal system fiscal review in the fall.

Enrolment

The grant revenue the WRDSB receives is based primarily on enrolment. Elementary and secondary school enrolment is impacted by a multitude of factors that are taken into consideration when establishing enrolment projections. There

are a number of current realities included in the 2013-14 budget projections that are contributing to a decline in enrolment in the secondary panel. These realities include:

- Broad demographic trends
  - Demographic profile of school age children
  - Observed changes in the “WRDSB Secondary Attraction Rate”
  - Observed changes in the economic conditions within the Region
- Changes to Ministry Policy
  - 15 day rule
  - 34 credit threshold

The decline in enrolment accounts for a net grant reduction of \$4.8M in the 2013-14 budget.

### Revenues

Although the 2013-14 GSN was announced on March 27, 2013, there may be further adjustments due to outstanding labour issues. Current provisions include the following:

### Increased Funding

- 97<sup>th</sup> Day Provisions
  - The Qualifications and Experience allocation of the GSN will continue to recognize grid movement based on the 97<sup>th</sup> day provisions.
- Funding to Support Changes to the Sick Leave Plan
  - Supply teacher benchmarks for 2013-14 have been increased to support changes to the sick leave plan.
- Student Transportation
  - The Student Transportation Grant will be increased by 2% in 2013-14 to recognize higher costs. In addition, funding adjustments due to fuel price changes will continue to be triggered by the escalation and de-escalation mechanism throughout the 2013-14 school year.
- Ontario Municipal Employees Retirement System (OMERS) Contributions
  - OMERS is the pension plan for most non-teaching staff. The Ministry is allocating additional funding to assist school boards with the employers’ share of OMERS contribution rate increases
- Utilities
  - The Ministry will provide a 2% cost benchmark update to the non-staff portion of the School Operations Allocation benchmark in 2013-14, to assist boards in managing the increases in commodity prices (natural gas, electricity, insurance). There is also an additional 5% increase to further assist with electricity costs.

### Reduced Funding

- Unpaid Days
  - In 2013-14 the teacher, principal, and vice principal salary benchmarks in the GSN have been reduced by 1.5% to recognize the proposed three unpaid days.
- Retirement Gratuities
  - In 2013-14, the Ministry will continue to implement a reduction in the benefits funding benchmark, as part of the phasing out of retirement gratuities. This is being implemented through a reduction to all benefits benchmarks in the GSN. The benefits benchmarks in the Foundation Grants will be reduced by 0.167%, with the equivalent adjustments made to the benefits portions of the various special purpose grants. 2013-14 is the second year of the twelve-year phase out.
- Phase-in of the 2006 Census Date
  - The Ministry of Education updated the Demographic Allocation of the Learning Opportunities grant and the English as a Second Language/English Literacy Development Allocation using data from the 2006 Census. 2013-14 is the 4<sup>th</sup> year of a phase-in of the adjustments to the Learning Opportunities Grant.

Based on projected enrolment numbers, administration has prepared a calculation for the Grants for Students Needs as well as an estimate of other grants outside of the GSN and other revenues.

Appendix A attached includes an Analysis of Provincial Grants and Other Revenues.

### Expenditures

Based on enrolment numbers anticipated and recognizing Ministry primary class size caps, Grades 4 to 8 average class size benchmarks, new full-day kindergarten classes (FDK) and secondary class size, staffing has been determined and expenditures compiled.

Cognizant of the grant reductions, our fiscal strategy continues to be one of stabilization through the matching of our expenses to the available revenue. When less funding is announced, the offsetting expense reduction has been linked to the grant reduction. The strategy of “skimming expenses over the entire system” to achieve final budget balancing has

been fundamentally changed for 2013-14 as a result of the Ontario Secondary School Teacher Federation (OSSTF) Memorandum of Understanding that includes a provision for job security of support staff. This significant change, along with declining enrolment, the 15 day rule and the 34 credit threshold, have placed the Board in a situation whereby the budget needs to be balanced by a transfer from accumulated surplus. Other considerations cannot be addressed on a timely basis for implementation in September 2013. This is not a sustainable funding source and therefore, the WRDSB will be embarking on an all-encompassing system fiscal review in the fall of 2013.

Details of the expenditure budget can be found in Appendix B.

**STATUS:**

Administration is presenting a budget that is compliant with the balanced budget provisions of the Ministry of Education.

This has been accomplished through the following process:

1. Budget centres have realigned their expenditures based on current collective agreements and expected expenditures resulting from those obligations. In addition, changes also reflect contracts, licenses or service agreements in place and changes required as a result of these obligations. This has been modified, where necessary, by the Ministry of Education directives.
2. Specific cost pressures have been reviewed, analyzed and adjusted where necessary. Major increases this year include employee benefits (\$3.2M), labour framework impacts (\$1M), transportation (\$800K) and provision for retirement gratuity liabilities (\$760K).
3. The most important consideration in the budget process is to sustain the Board's strategic direction and maintain the positive progress being made through school improvement plans and student learning. For the first time we are experiencing net declining enrolment throughout the system. In keeping within the provision of job security as outlined in the OSSTF MOU, staffing levels were reviewed and reductions made to address the funding shortfall where possible.
4. Results of the fiscal review of alternative programs and continuing education and the Vice-Principal admin/teaching time allocation have been incorporated into the budget.
5. Programs and services were examined across the system in an attempt to preserve the Board's learning objectives and support the new strategic directions. A further \$1.9M of reductions and realignments were made to adjust expenses to assist in attaining a balance between revenues and ongoing expenses within the system.(Appendix C)
6. In this year of limited financial flexibility, the critical endeavour in the budget setting process is to align contemplated initiatives with those system objectives and in particular with the changes in strategic direction envisioned by the Board. Although no incremental on-going new initiatives have been included in the proposed budget, a limited number of critical initiatives to be funded on a one-time basis have been addressed as listed in Appendix D. These include mobile technology, replacement of database platform, IT data centre life safety upgrades, lockdown upgrades and technological revitalization.
7. It is estimated that the August 31, 2013 year end Unappropriated Accumulated Surplus – Available for Compliance will be approximately \$11.7M. This budget will reduce that amount by a total of \$5.1M and will leave an estimated closing balance of \$6.6M or about 1.17% of the Board's annual operating allocation.

Information regarding the 2013-2014 budget is attached as follows:

Appendix A	Analysis of Provincial Grant Allocations and Other Revenues
Appendix B	WRDSB 2013/14 Budget Detail
Appendix C	2013-2014 Proposed Reductions and Realignments to Base Budget
Appendix D	2013/14 New Initiative Requests
Appendix E	2013-2014 Estimated Consolidated Statement of Operations and Detail of PSAB Accumulated Surplus/(Deficit)
Appendix F	2013/14 Fiscal Review Process: Areas for Review for Potential On-going Savings effective 2014-15

Balanced Budget Compliance

School boards are required to submit balanced budgets that require total expenses to be equal to or less than total revenue. However, an in-year deficit is permissible if there were prior surpluses represented in Accumulated Surplus on

the board's Statement of Financial Position. Ministry approval is required if the use of accumulated surplus is greater than 1% of the board's operating allocation in order to ensure that this action "does not place the board in undue financial risk" (Technical Paper, 2013-2014, Ministry of Education). The proposed transfer to balance the budget is within Ministry guidelines.

### Risks

Staff has developed the budget using the most current information available. There have been a number of risks identified that may impact the actual financial results in 2013-2014. These include:

- Enrolment changes
- Ever-changing labour framework
- Outstanding negotiations
- Ministry clarity around support for unpaid days and other issues
- Other Ministry directives

Staff will continue to monitor areas where risks exist.

### Next Steps

The Board received preliminary budget information on June 3, 2013 and further supporting information on June 12, 2013. Further discussion related to the approval of the 2013-14 budget will occur on Wednesday June 19, 2013. In order to meet the Ministry due date of June 28, 2013, the final 2013-14 Budget Recommendations should be approved on Monday June 24, 2013.

The urgency to extensively review and research is evident in order to re-establish an ongoing sustainable fiscal strategy. The items on Appendix F are initial areas to be examined and further items need to be identified and the detailed review continued. At a minimum, the target should be \$4.6M which includes \$3.1M for the budgeted 2013-14 deficit and \$1.5M for retirement gratuities liability.

Further study of the 15 day rule and 34 credit threshold should inform and revise the enrolment projections.

### **COMMUNICATIONS:**

Following approval of the 2013-14 budget, the detailed estimates package will be completed by staff and submitted to the Ministry of Education by the June 28, 2013 deadline.

### **FINANCIAL IMPLICATIONS:**

As outlined in the budget documentation.

### **STRATEGIC PLAN:**

The six strategic directions that are used to guide the work of the Board are:

- Engaging students, families, staff and communities
- Fostering wellness and well-being
- Pursuing student achievement and success for all
- Embracing diversity and inclusion
- Championing quality public education
- Promoting forward-thinking.

This report relates to the following strategic directions:

- Engaging students, families, staff and communities
- Fostering wellness and well-being
- Pursuing student achievement and success for all
- Embracing diversity and inclusion
- Championing quality public education
- Promoting forward-thinking.

**RECOMMENDATION:**

It is recommended:

**That the Waterloo Region District School Board approve the budget as presented in the report “2013-2014 Budget Recommendations,” dated June 19, 2013 – with revenues of \$660,468,554 and expenses of \$654,121,327 with the difference of \$6,347,227 attributed as follows:**

**Excess of Revenue over Expenditures** **\$6,347,227**

**LESS:**

**As required by Ministry of Education budget compliance regulations, this budget includes the following appropriations of accumulated surplus:**

<b>Increase/ (Decrease) in Unavailable for Compliance - Accumulated Surplus</b>	
• PSAB Adjustment for Retirement Gratuities	5,922,653
• PSAB Adjustment for Interest Accrual	31,932
• Revenues recognized for Land	<u>4,945,892</u>
	<b>\$10,900,477</b>

**SUB-TOTAL – Deficit for Compliance Purposes before additional appropriations** **(\$4,553,250)**

**LESS:**

**The following appropriations of Accumulated Surplus–Available for Compliance are included:**

<b>Increase/ (Decrease) in Unappropriated - Accumulated Surplus</b>	
• To fund one-time initiatives	(2,055,000)
• From committed capital projects for annual amortization expense	<u>152,223</u>
	<b>(\$1,902,777)</b>

<b>Increase/ (Decrease) in Internally Appropriated - Accumulated Surplus</b>	
• In-Year Committed Capital Projects	
○ Education Centre Renewal Projects	710,000
○ Amortization of committed capital projects	(152,223)
• To be offset in future years by Sinking Fund Interest earned	<u>(24,045)</u>
	<b>\$533,732</b>
• 2013/2014 Operating Deficit	<b>(3,184,205)</b>

**Difference after appropriation of Accumulated Surplus** **\$0**

**And,**

**That the Waterloo Region District School Board direct staff to continue the system fiscal review to study programs and services and organization structure, for the purpose of identifying additional efficiencies and savings that can be achieved in order to ensure the Board continues to attain and demonstrate fiscal stability and responsibility; and**

**That the progress of the review be reported periodically throughout the year to the Board; and**

**That the review target for 2014-15 be set at a minimum of \$4.6M ongoing, sustainable savings.**