



## **BUDGET COMMITTEE (PUBLIC)**

Report No. 13-018

**04 February 2013**

### **2013-2014 BUDGET PROCESS**

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#### **PURPOSE:**

1. To provide preliminary information about the 2013-2014 budget cycle, the budget schedule and the plan for public consultation.

#### **CONTEXT:**

2. In recent years, the Budget Committee has met in January and/or February to begin consideration of the budget for the next fiscal year. The report to Budget Committee allows staff to provide some preliminary thinking on the financial forecast for the province and for the school district. It also affirms the key dates in the budget development process. Through the discussion at the meeting, the committee members are able to provide direction on their budget priorities for the coming year. Although outside of the formal budget process, decisions for academic staffing take place in March and commit a significant part of our discretionary spending. Both staffing recommendations and budget recommendations are made with consideration for the work that needs to be done in order to achieve our strategic objectives.

#### **KEY CONSIDERATIONS:**

3. **Funding Issues**

The Grants for Student Needs (GSN's) provided by the province are the primary source of revenue for school districts. Calculation of these provincial grants is mainly driven by student enrolment numbers, as well as a number of different elements such as special education needs, level and nature of second language instruction, the age and type of schools, and unique geographic needs. Some of the grants are special purpose in nature and their use is restricted.

At this point in the year, discussions on budget are constrained by uncertainty as to the exact amount and nature of provincial funding. Specific information about the GSN's is normally not available until the release of the provincial budget. In the past few years this information has normally become available in late March or early April.

Notwithstanding the above, forecasts are developed by staff based on current information. In the same manner, expenditure forecasts for next year have begun based on the 2012-2013 experience (albeit relatively brief), anticipated cost pressures such as inflation, the on-going impact of the imposed collective agreements, and the changes in services to students (i.e., the expansion of Full-Day Kindergarten).

In order to meet collective agreement timelines for staffing and to assist with effective planning for September, decisions regarding teacher staffing need to be made in early March. This is in advance of the development of staff's recommendations and the Board's debate of the following year's budget. As the OCDSB is dependent on provincial grants, staff and trustees need to be aware of this risk factor.

#### 4. **Provincial Budget Situation**

Beginning with the Economic Outlook and Fiscal Review published in 2011 and the Ontario 2012-2013 Budget, the government indicated its intention to eliminate the province's annual deficit. In the October 2012 update, the government indicated it is still on track to eliminate the deficit by 2017-2018.

In the fall of 2011, the provincial budget documents identified savings of \$1.5 billion over three years through operational efficiencies and consolidation of programs and services, including further efficiencies in health care. The budget documents did not identify any specific reductions or targets for the education sector, but rather noted that:

*"Total education sector funding is projected to increase by \$2.1 billion from 2010-11 to 2013-14. This increase includes additional Provincial grants to support student achievement and funding for the ongoing implementation of the government's full-day kindergarten program."* (Ontario Budget 2011)

The provincial budget documents also state that *"Between 2010-11 and 2013-14, total program expense is projected to increase by an average annual rate of only 1.0 per cent."* At this point, early indications from provincial government staff suggest that the education sector should expect no more than a 1% increase in transfer payments for 2013-2014. While this would normally indicate that school boards would not be facing actual service reductions, the expansion of full-day kindergarten is to be funded within this amount.

Details for the 2013-2014 school year are not expected until the March/April 2013 grant announcements. In the interim, staff is recommending prudence in budget planning for the 2013-2014 school year.

#### 5. **OCDSB Budget Situation**

The OCDSB is entering the 2013-2014 budget process in a relatively favourable financial position.

For each of the past several years, the District has been able to operate successfully, without the need to access reserves to balance the budget at year end. Notwithstanding the above, the 2012-2013 budget assumed the use of \$6.7 million in reserves. It is likely that the actual use for the current year will in fact be less than that figure. A summary of operating reserves is attached as Appendix A.

In previous years, the Board has approved the use of reserves to balance its budget if required. The Ministry of Education restricts the percentage of available reserves that school boards can expend annually, without seeking Ministry approval, to 1% of the total value of the Ministry operating grants. For the 2013-2014 school year, the maximum amount of reserves that the Board would be able to use to balance its budget is estimated to be approximately \$7.0 million.

## 6. **Specific Budget Considerations and Risks**

Approximately 80% of the District's total expenditures are for salary and benefit costs. The remaining 20% of the budget relates to supplies and services covering the entire spectrum of costs including computer and phone networks, student supplies, cleaning supplies, student transportation and utility costs.

A significant part of the budget-setting process will be completed upon academic staffing decisions which are made by the Board in early March. As noted previously, these decisions must be made based on estimates and projections for the coming year, without final confirmation of the grants for the coming year.

One of the major risk factors in budget preparation lies in enrolment projections. On a system basis, enrolment projections have usually been well within 1% of actuals, however, there can be larger school-by-school variances which can create staffing pressures.

Currently, staff is projecting a slight decrease in grade 1 to 12 enrolment for the 2013-2014 year, based on last year's experience. On the other hand, an additional 2,000 kindergarten students will become full time rather than half time. Also, past experience with major capital initiatives has resulted in increased enrolments when new schools are constructed once the confusion of interim arrangements for student accommodation has been eliminated.

In addition, public perceptions of the disruptions in schools caused in the 2012-2013 year by the ongoing labour dispute could result in further reductions in enrolments. As most grants are calculated on a per pupil basis, this would obviously create financial pressures.

## 7. **Budget Pressures**

There are a number of areas of the OCDSB operations that will experience budget pressure in the coming year. Some of these issues/considerations are provincial and will impact all school districts, although the specific impact may vary by board. It is too early in the process to identify all budget pressures, however, at this stage some of the considerations of note include:

**Full-Day Kindergarten** - Next year will see the implementation of year 4 full-day kindergarten sites. This will expand the program to 75% from 50% of kindergarten students. The increase in classes will result in the need for additional teachers, early childhood educators and custodial staff. At this time, the government has indicated that these costs will be fully funded. While this has proven to be the case in the first two years of the program, we also anticipate that, as in previous years, the Board may need to consider some additional interim expenditures and investments as the program is expanded. The size and complexity of the program will place increasing demands on teachers, principals and central staff to ensure the maximum impact on students' readiness to learn.

**Implementation of Bill 115** - Collective agreements for all employee groups have been imposed by the province. While no economic increase was contained in these agreements, the cost of increments which were delayed for half a year in 2012-2013 will flow through into 2013-2014. The Qualification and Experience grant will partially offset the cost of increments for teaching staff but there is no assurance that additional funding will be provided to cover the costs associated with administrative and support staff.

In addition, the District may need to provide additional resources to support schools in ensuring that students can experience the full range of opportunities for learning. This would include additional support to address the needs of the District's expanding English as a Second Language (ESL) population as well as central supports for volunteer recruitment and training.

**Health and Safety** - The District continues to be committed to providing safe and healthy learning environments. Increased regulation, as a result of the provincial focus on promoting healthy and safe Ontario workplaces, will require both short-term and long-term investments in a number of areas including staff training (development and delivery), health and safety program renewal and development, equipment and infrastructure upgrades, placing an increased burden on school and central staff. While we understand that some funding may be forthcoming for 2012-2013, there is no doubt this area will require additional resources next year.

**Infrastructure** - In order to move forward with the current strategic plan and the corresponding district information technology plan, the District needs to make significant investments in certain areas to allow its operations to continue. Enhancements to the OCDSB's computer networks will require the purchase of capital equipment as well as additional staff resources to ensure the continued operation of this vital resource. In order to ensure the continued emphasis on data driven decision making, additional resources may be required. In this environment, this may be through reallocation rather than additional new spending.

**Inflationary cost pressures** – Annually, the OCDSB experiences price increases in significant areas such as utilities and other supplies and services. In recent years, most departments have been forced to absorb these increases within their own departmental budgets.

## 8. **Approach to 2013-2014 Budget**

In June 2011, the Board adopted a new strategic plan which establishes a clear set of priorities for the District based on the pillars of well-being, engagement, leadership and learning. The strategic plan provided a framework for the allocation of budget resources in the 2012-2013 budget. Staff intends to continue moving towards a better alignment of resources and strategic priorities.

Statements by the provincial treasurer have made it clear that the government continues to be focussed on deficit reduction and that reductions to transfer payment organizations will be ongoing. As a result, staff will be cautious in recommending any new ongoing expenditure commitments. However, it is staff's intent to develop a budget that would provide for the use of reserves to balance expenditures. This would be up to the 1% threshold previously identified. As cost estimates are revised and better estimates of revenues become available, staff may also recommend some further expenditure beyond the 1%.

An important component of this strategy is to ensure that the amount of any year- end surplus be minimized. While it is always prudent to expend slightly less than provided in grants, it is our responsibility to use the funds received to provide the best possible learning opportunities for our students and families. At the same time it is also important to ensure stability and sustainability of programs and services. Considering the volatility of the current provincial situation, it will be important to balance these competing demands.

Based on our preliminary analysis of revenue and expense projections, staff's position is that the school district will be able to establish a budget for 2013-2014 that will maintain the excellent programs and services available to meet the needs of our students. This position is based on an understanding that, where feasible, we will develop budget recommendations which could be funded through the realignment of existing resources, linked to our key strategic priorities and which are sustainable for the foreseeable future.

9. **Budget Schedule**

The Budget Committee schedule is as follows:

February 4	Budget process discussion
April	Provincial Grant announcements are expected
May 13	Budget Presentation
May 15	Debate/Delegations
May 23	Debate
May 28	Budget Approval

In addition to the Budget Committee meeting schedule, academic staffing decisions will be made at the March 5 Committee of the Whole meeting.

**FINANCIAL CONSIDERATIONS:**

10. The budget will set the Board's operating plan for 2013-2014. The Board cannot approve a budget with a deficit, but can use reserves as part of balancing revenue and expenditures. The process will need to accommodate the usual mismatch in timing of grant announcements with the need for earlier commitments of academic staffing. In addition, the 2013-2014 budget will also be subject to additional volatility due to the current provincial finance situation in Ontario, as well as the public perception of our system, possible reactions to the evolving situation related to extracurricular activities, and the resultant impact on enrolment and funding.

**COMMUNICATION/CONSULTATION:**

11. Meetings in February and March will be used for consultation on the budget process. The goal of the consultation process is to make the community aware that the budget process is underway and that the District is planning a budget without significant changes to service levels pending further information from the Ministry and the government.

The budget consultation process will reach out to parents, school councils, students, OCDSB advisory groups, staff and the public at large. In order to maximize the opportunity to reach these groups, the consultation process will involve a variety of formats.

Following the Budget Committee meeting, staff will prepare a budget information document that will include some of the background information being provided this evening. The same document will be used for all consultations and will be posted to the district website, linked to our social media sites, and made available at all consultation meetings.

Trustees may wish to consider a similar approach for zone meetings during the February/March timeframe. Any trustee or group of trustees with a scheduled zone meeting during that period may choose to invite a staff member to attend the meeting to support the budget discussions.

All input during this phase of consultation should be submitted by the end of March.

As in the past, an email link for budget questions and comments will be established. While individual responses will likely not be possible, every effort will be made to answer these questions in a timely manner. Answers will be posted to the website and will be considered by staff in developing the budget recommendations.

#### **STRATEGIC LINKS:**

12. The budget will set the Board's operating plan for 2013-2014. An effective debate leading to approval of the budget is a cornerstone of sound governance practice.

#### **GUIDING QUESTIONS:**

- Are the general assumptions about the financial environment reasonable?
- Have the appropriate risk factors been identified?
- Are there specific priorities or initiatives that require additional resources to be achieved?

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Michael Carson  
Chief Financial Officer

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Jennifer Adams  
Director of Education and  
Secretary of the Board

Appendix A-Summary of Operating Reserves Available for Compliance

**Ottawa-Carleton District School Board**  
**Operating Reserves Available for Compliance**  
**Years Ended August 31, 2012 and 2011**

	<u><b>2012</b></u>	<u><b>2011</b></u>
	\$	\$
Available for Compliance - Unappropriated	<u>26,941,000</u>	<u>17,826,000</u>
Available for Compliance - Internally Appropriated		
Employee Future Benefits	9,541,000	7,000,000
Budget Carry-Forwards	1,085,000	800,000
Computer System Replacement	200,000	-
Energy Performance Contract	-	2,043,000
Wi-Fi Project	3,850,000	5,110,000
Cafeteria Equipment	1,228,000	1,237,000
Pupil Accommodation	932,000	1,932,000
Special Education Training Initiatives	660,000	660,000
Health and Safety	1,150,000	-
Enrolment Reviews	400,000	-
Total Internally Appropriated	<u>19,046,000</u>	<u>18,782,000</u>
Total Accumulated Surplus Available for Compliance	<u><u>45,987,000</u></u>	<u><u>36,608,000</u></u>