WINDSOR-ESSEX CATHOLIC DISTRICT SCHOOL BOARD

1325 California Avenue
Windsor, ON N9B 3Y6
CHAIRPERSON: Fulvio Valentinis
DIRECTOR OF EDUCATION: Terry Lyons

**Meeting Date:**
March 30, 2021

# BOARD REPORT

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| | **Public** | ☒ | **In-Camera** | ☐ |
| **PRESENTED FOR**: | Information | ☒ | Approval | ☐ |

**PRESENTED BY:** Senior Administration

**SUBMITTED BY:** Terry Lyons, Director of Education
Penny King, Executive Superintendent of Business

**SUBJECT:** **2021-22 BUDGET PRESSURES AND CHALLENGES**

**RECOMMENDATION:**

**That the report on 2021-22 Budget Pressures and Challenges be received as information.**

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**SYNOPSIS**:
The Windsor-Essex Catholic District School Board (WECDSB), like all school boards, is required to approve and submit its annual budget in June for the coming school year. In order to enhance communication and consultation with the community with respect to the Board's progress in budget development and in order to bring budget parameters to the attention of the Board early in the budget process, this report identifies the Provincial and local contexts in which the 2021-22 budget is being developed and outlines the pressures and challenges that must be considered in bringing a balanced budget to the Board.

**BACKGROUND COMMENTS:**
The Board's strategic plan is key to its sustainability. Just as important to the Board's long-term sustainability is its budget. In fact, the development of the Board's annual budget is one of the most strategic, but also the most time consuming and labour intensive functions undertaken by Administration. Further, budgeting does not solely belong to business departments. In the Ministry of Education's Financial Orientation for Trustees (December 2014), the Ministry notes that, "Directors, Superintendents and other senior program staff must be involved in the planning processes and be held accountable for budget performance".

The budget is the Board's fiscal plan that supports the delivery of educational programs and services and reflects the Board's strategic plan for the upcoming academic year. It also provides the authority for Administration to spend on a variety of programs and services. It is important that the budget be developed in a thoughtful manner and that decisions respecting the expenditure of funds carefully weigh the impacts and benefits to stakeholders across the near and long-term horizons. Further, when developing the budget, both the Provincial and local context must be considered.

**PROVINCIAL CONTEXT**:

The Provincial context must be considered by WECDSB as it proceeds through budget development. Some of the key considerations are as follows:

- **Provincial Outlook:**
  In the 2018 general election, Doug Ford's Progressive Conservative Party of Ontario was elected based largely on promises to balance the budget and sustain provincial finances. Since then, the COVID-19 virus and the resulting public health and economic crises has caused a sharp decline in revenue and a significant increase in program spending, resulting in a significant budget deficit increase from $8.7 billion in 2019-20 to a record $35.5 billion in 2020-21.

  In response to the pandemic, Ontario's program spending in 2020-21 is projected to grow by 14.7 per cent, the largest increase since 2009-10. Most of this increase is driven by temporary COVID-19 spending. Excluding temporary COVID-19 measures, base program spending growth is expected to slow, with spending growth in key sectors including health and education to lag the demand for public services. As stated in the *Economic and Budget Outlook, Winter 2021,* Education sector spending is projected to grow at an average annual place of 1.6 per cent, slower than the 2.9 per cent annual growth projected for the number of school-age children and price inflation.

  With a recent announcement that the Province will deliver the 2021 Ontario Budget on March 24th, the Minister of Finance has indicated that the government will continue to focus on protecting people's health and jobs through the COVID-19 pandemic. Since the *2020 Budget, Ontario's Action Plan: Protect, Support, Recover*, Ontario has invested an additional $2.6 billion to protect and support people's health and economic well-being.

- **Provincial Priorities:**
  The Ministry of Education believes all students deserve to have every opportunity to reach their full potential and succeed personally and academically, with access to rich learning experiences that provide a strong foundation of confidence that continues throughout their lives. As the province responds to the COVID-19 outbreak, the government is committed to student learning and the safety and well-being of all staff and students. The priorities continue to be keeping schools open and safe. WECDSB must consider these goals in its own budget development process, and has begun modelling budget scenarios in anticipation of the 2021-22 Grants for Student Needs (GSN).

- **Education Funding Consultations:**
  As in previous years, the government remains committed to discussing education funding reform in Ontario with education stakeholders through a consultation process that allows stakeholders to provide the benefit of their expertise, experience and ideas.

  In December 2020, the Ministry of Education released the *2021-22 Education Funding Guide* structured around the following eight areas:

  - COVID-19 Outbreak Response
  - Online Learning Adjustment
  - Priorities and Partnerships Fund (PPF)
  - Reducing Administrative Burden and Red Tape
  - School Board Administration and Governance Grant
  - Managing Information for Student Achievement (MISA)

- Census data
- Secondary Class Size Compliance

The Ministry plans to use the feedback to inform the development of the 2021-22 GSN.

- **Grant for Student Needs:**

  The Grant for Student Needs (GSN) provided by the Province is the primary source of revenue for school boards, allocating the overwhelming majority of school board annual revenues. It provides the financial foundation for the delivery of education programs and services to the students of Ontario, allowing school boards a degree of flexibility in how they use the funding, within an overall accountability framework.

  In 2020-21, the GSN included targeted new investments to support school boards in responding to the COVID-19 outbreak and to address the unique learning needs of students, including a new Supports for Students Fund. Changes also included additional support for sick leave, increased enrolment, and other regular updates to the GSN. The GSN also reflected the implementation of ratified central agreements including changes in compensation, class size and online learning based on nine ratified central collective agreements.

  New in 2020-21, the Supports for Students Fund (SSF) provided flexible funding to support the learning needs of students, special education, mental health and well-being, language instruction, Indigenous education and STEM programming. Note that in the CUPE agreements this investment is referred to as Investments in System Priorities (ISP).

  The Ministry has not yet communicated updates relating to the 2021-22 GSN, other than advising boards to take a cautious approach in planning given the uncertainty in enrolment and to adjust accordingly for one-time funding that was provided in 2020-21.

  The Ministry has acknowledged the importance of releasing the annual Grants for Student Needs funding and Priorities and Partnership Funding in a timely manner so that school boards have all the necessary financial information to prepare and plan their budgets. As a result, the Ministry is planning to return to a traditional spring release. It should be cautioned that this board report, and the calculations and comments contained within it, were written and published in advance of the 2021-22 GSN announcement. As such, this report contains broad estimates of funding pressures, which will continue to be refined as the budget development process progresses.

**LOCAL CONTEXT**:

**Enrolment**

One of the most impactful metrics affecting the development of the 2021-22 budget is the projection of student enrolment for that year. A preliminary enrolment forecast has been developed for 2021-22. Enrolment projections were established based on historical data, updated for current circumstances. The projections have been reviewed and approved by Executive Council for use in 2021-22 budget development. The projected full-time equivalent (FTE) enrolment for 2021-22, with a comparison to 2020-21, is as follows:

| | 2020-21 Estimates (FTE[1]) | 2020-21 Revised Estimates (FTE) | 2021-22 Estimates (FTE) | Change 2020-21 Rev.Est. to 2021-22 Estimates |
|---|---|---|---|---|
| Elementary (ADE[2]) | 13,200.0 | 13,099.5 | 13,150.0 | 50.5 |
| Secondary (ADE) < 21 yrs | 7,000.0 | 7,049.5 | 7,000.0 | (49.5) |
| **TOTAL DAY SCHOOL ENROLMENT** | **20,200.0** | **20,149.0** | **20,150.0** | **1.0** |
| Total High Credit | 9.2 | 8.6 | 8.6 | 0.0 |
| Adult Pupils (ADE) > 21 yrs | 180.0 | 147.1 | 200 | 52.9 |
| Total Visa Pupils | 75.0 | 62.0 | 85.0 | 23.0 |

Notes: (1) FTE = Full-Time Equivalent
(2) ADE = Average Daily Enrolment

For the purposes of the 2021-22 budget estimates, there is minimal change from the current 2020-21 level of enrolment, maintaining the total enrolment at 20,150 pupils. Adult and VISA pupils are all projected to increase slightly from current forecast levels while High Credit pupils remain consistent.

Based on the enrolment identified above, a preliminary funding forecast has been prepared. As noted earlier in this report, the final GSN announcement has not yet been made and as such, the funding forecast contained herein is based on applying the projected enrolment to the current year's (i.e. 2020-21) funding formulas, adjusted for any 2021-22 grant changes known at the time the report was authored. The Business Department will revise the funding forecast and communicate any changes to impacted departments and ultimately to the Board when the 2021-22 GSN changes are released.

The financial position reflected in the 2020-21 Revised Estimates is being used as the base for 2021-22 budget development. With approximately two-thirds of education funding based on enrolment, the projected net increase in total enrolment offset by a reduction in the declining enrolment grant, is estimated to result in approximately $295K of reduced grant revenues (based on 2020-21 funding formulas). This result is before any 2021-22 grant changes, and before any changes in academic staffing costs, which are the costs most variable with changes in enrolment.

**Budget Outlook**

At this point in the year, the discussions on budget are complicated by uncertainty as to the exact amount and nature of provincial funding expected in 2021-22. Notwithstanding this uncertainty, the development of forecasts for 2021-22 has begun based on 2020-21 funding formulas and certain, known funding changes. Based on the Ministry of Education's recent direction, schools boards should take a cautious approach in planning given the uncertainty in enrolment and adjust accordingly for one-time funding that was provided in 2020-21. A preliminary budget outlook has been developed. The table below summarizes the projected fiscal challenges for the upcoming academic year:

| Preliminary Forecast | 2021-22 Increase/ (Decrease) ($MILLIONS) |
|---|---|
| Current forecast deficit position for 2020-21 (without contingency reserve) | (3.107) |
| Projected 2021-22 contingency reserve, required per By-Law at 0.5% of operating allocation | (1.161) |
| Grant changes due to change in declining enrolment adjustment and other enrolment changes from 2020-21 Revised Estimates | (0.295) |
| 2020-21 board funded COVID-19 expenditures | 2.087 |
| Increase in VISA tuition revenue | 0.277 |
| **Potential Funding Changes:** | |
| GSN Stabilization Funding–one-time funding to end August 31, 2021 | (1.353) |
| Projected net change in other funding (i.e. retirement gratuity, supports for students and other) | (0.174) |
| **TOTAL REDUCTIONS REQUIRED** | **(3.726)** |

It is important to note that the $3.726M reduction target identified reflects reduced revenue due to the elimination of the one-time GSN Stabilization Funding provided in 2020-21 and changes in enrolment. In addition, there were $2.087M board funded COVID-19 expenditures in 2020-21 not included in the 2021-22 budget outlook. The reality is that the board will likely face challenges in keeping schools open in 2021-22 without additional and continued investments to manage the pandemic response.

The projected reduction target identified could be adjusted based on increases in enrolment, should they occur, as WECDSB progresses through the budget development cycle. This would generate incremental revenue for the board to alleviate some of the pressures. In addition, as the budget development process progresses and further information becomes available regarding the 2021-22 GSN funding model, the budget outlook will be refined and updates provided to Trustees.

**Achieving required reductions without the use of Accumulated Surplus**

Each year, boards are required under Section 231 of the Education Act to have balanced budgets, where estimated expenditures do not exceed estimated revenues. The Education Act contains provisions that allow for an in-year deficit for a fiscal year of up to 1% of the Board's operating revenue, provided it does not exceed the Board's accumulated surplus of the preceding year. In 2020-21 only, school boards were allowed to incur an in-year deficit up to 2% of their operating allocation to be used to support the safe reopening of schools. This amendment is expected to end as of August 31, 2021. For WECDSB, 1% of operating revenue equals approximately $2.4M. Therefore, the Board can use a certain amount of its accumulated surplus (historically referred to as reserves) as part of balancing revenues with expenditures.

With an accumulated surplus available, some may argue that the Board should look to its current reserve balance to partially meet the reduction target identified earlier, instead of finding new savings. In fact, this strategy has been adopted over the past several year's budgets to support improvements in learning, allowing WECDSB to make important investments to support students and staff and to keep schools safe.

The continuation of this approach however is not a strategy recommended by Administration. Using the 1% or $2.4M limit allowed would provide a one-time budget savings in the 2021-22 year that is not sustainable in future years. Paying for current expenses with reserves prevents the Board from adjusting its cost structures to align with anticipated reduced Ministry funding. This problem compounds from one year to the next as permanent savings not found in the current year carry forward to the next year as a budget pressure. Also, a portion of the Board's accumulated surplus is internally appropriated for other items and not available, and the portion that is unrestricted is needed, in part, to continue to offset the balance of the Board's capital deficit.

In addition, reliance on accumulated surplus to aid in balancing the budget can raise the risk profile of the Board from the Ministry's perspective. Consequences of ineffective budgeting can be high, and ultimately could lead to budget decision making powers being suspended by the Ministry.

**<u>Pressures and Challenges</u>**

- <u>COVID-19 Pressures:</u>
  Given the circumstances, the 2021-22 budget outlook has been developed with uncertainty with respect to what form of learning will occur in the fall of 2021, or the incremental COVID-19 related costs that boards may be responsible for.

  Items critical to support the safety of staff and students in 2020-21 included:
  - Masks and personal protective equipment (PPE)
  - Added cleaning supplies
  - Extra health and safety training
  - Additional staffing (ie. Custodians)
  - Incremental transportation support (altered routes, cleaning supplies and PPE)
  - Supports for students with special needs
  - Technology investments
  - Mental health supports
  - Additional supply costs

  The majority of these incremental COVID-19 costs were funded through PPFs in 2020-21. Due to the uncertainty with respect to the pandemic, the learning model and the volume of PPE and other critical supports that may be required, this initial budget outlook is based on the assumption that school will resume as normal commencing September 2021, without any unfunded costs for the potential incremental items noted above. As mentioned previously, the reality is that the board will likely face challenges in meeting the requirements of keeping schools open in 2021-22 without additional and continued investments to manage the pandemic response.

  Additionally, the Ministry has communicated that boards should take a cautious approach in planning given the uncertainty in enrolment and adjust accordingly for one-time funding that was provided in 2020-21.

- <u>Staff Absences and Replacement Costs</u>:
  Sick leave plans in the education sector changed during the 2012 central bargaining process. Previously, teachers were allowed 20 sick days per year paid at 100% and

could bank unused days up to a maximum of 200 days that would be paid out upon retirement as a retirement gratuity. Now, all school board employees are allowed 11 sick days paid at 100% and an additional 120 sick days paid at 90%.

While WECDSB has lower absences than some other boards, the Board has historically experienced budget pressures in this area that could continue into 2021-22. Despite WECDSB's attendance support processes that effectively promote employee well-being and regular attendance, there exists a growing concern over sick leave usage and the associated costs, especially in light of the current COVID-19 pandemic.

It is important to recognize the impact that COVID-19 has on staff absences and replacement costs, namely increases in sporadic absenteeism, and long-term absences. The costs associated with supply teachers will be problematic for school boards as the full effect of the pandemic and decisions made by local health units are not factors that can be controlled by any individual school board.

- <u>Information Technology (I.T.)</u>:

  In 2020-21, the Ministry of Education along with the federal government provided new funding for extraordinary costs related to the COVID-19 outbreak including supports for technology-related costs. These valuable investments have assisted boards in replacing older devices and support the procurement of additional devices for school boards to loan to students. While having additional funding for devices is advantageous, this may result in budget pressures in future years due to additional maintenance and support required.

  In 2021-22, the Board will continue to rely on the GSN's Pupil Foundation Grant for I.T. related learning materials and classroom computers. This funding, which compensates for things such as instructional hardware and software, technology supporting distance education, internet expenses, classroom computers and associated network costs, was reduced by $25M in 2009-10 and has not been reinstated since. It remains to be seen whether GSN funding will be restored or further investments made to enrich the learning experience for students and educators.

- <u>Capital Deficit</u>:

  Under prior administrations, the Board undertook the construction of school facilities not fully supported by New Pupil Place Grant revenues. As a result, there is unsupported debt, meaning capital debt that is not supported with grant revenues from the Province to meet principal and interest payments. This debt affects the Board each year in the form of unsupported amortization expense, which is approximately $722K per year. In the 2019-20 Financial Statements, $1.045M of accumulated surplus remains internally appropriated to pay down WECDSB's capital deficit on land. The balance of debt remaining will need to be funded from a combination of areas including proceeds of disposition from surplus property sales, future operating savings and school renewal grant encumbrances.

  While Administration is aggressively working to reduce the balance of the capital deficit, it continues to crowd out spending that could be used for other priorities. Continued fiscal prudence is necessary in the development of the 2021-22 budget in order to preserve the accumulated surplus, such that more is available to fully offset the capital deficit and build a balance that is unappropriated for operations.

- Special Education:

  WECDSB's inclusive model of Special Education service delivery expresses its commitment to educate each child to the maximum extent appropriate in the classroom he or she attends. It involves bringing the support services to the child rather than moving the child to the services. This model however causes budget pressures as the number of students with special needs continues to increase each year. The majority of Catholic school boards (WECDSB included) are running deficits in special education funding and experiencing significant challenges in funding the education, psychological and support needs of its exceptional students. Each year, costs continue to exceed the funding, and WECDSB must use other allocations to augment its special education funding.

  WECDSB's total annual special education expenditures since 2011-12 have increased by $5.3M or 19% while the annual grant allocation has only increased by $1.5M or 5%. Therefore, a continuation of funding (assuming no increase in expenses) will simply serve to prevent the current gap between funding and expenses from widening in the 2021-22 fiscal year, but will not help alleviate the structural fiscal pressure in this area.

- Faith Formation:

  Integrating faith into the curriculum and promoting faith formation of students and staff are critical to fulfilling the mission of Catholic Education and preserving the Catholic identity. This is an area however for which there is no direct funding source to support the costs and as such the Board must carve out funding from other grants or find savings elsewhere to fund this priority.

- Non-Grant Revenue Impact:

  Historically, the Ministry of Education has targeted additional funding to school boards for specific programs or initiatives. These transfer payments are referred to as PPFs (Priorities and Partnerships Funding), and are provided to school boards outside of the regular operating grants. PPFs are often provided in the form of separate contractual agreements that require specific reporting of expenditures within set timelines. School boards are required to spend these grants for their intended purposes and the Ministry can take back any unspent funds.

  Over the last year the government made available over $1.6 billion provincially in temporary resources to support the safe reopening of schools. Most of these additional funding amounts were provided through PPFs. These resources allowed school boards to hire additional staff for the 2020-21 school year including principals and vice-principals, teachers, EAs, mental health workers, ECEs, professional/paraprofessional staff, custodians and other staff. In Ministry Memorandum 2021:B04, the Ministry indicated that 2021-22 staffing assumptions should be based on the assumption that any 2020-21 COVID-19 funding supports are one-time in nature.

  Another component of non-grant revenue is generated through the International Education program. This program is anticipated to produce revenue of approximately $1.1M in 2021-22. It is important to keep in mind that this revenue has an inherent risk if political climates or major incidents, such as the COVID-19 pandemic, continue to deter students from travelling abroad.

  Although non-grant revenues represent a relatively small amount of the financial resources received by the Board, they are extremely important to the activities they support. Without this additional revenue, the Board would be required to reduce expenditures to balance the budget.

- Other:

  There have been limited budget increases over the past few years and each year discretionary expenses have been reviewed to identify decreases where necessary. While Administration continues to review these expenses for further savings, each year it becomes more and more difficult to identify the deeper reductions that are needed to maintain the prior year's level of educational programs and services. There is constant pressure to maintain gains in student achievement when resources and Ministry funding are reduced. Each year presents less and less room to absorb pressures.

  Furthermore, approximately 79.5% of the total Board budget consists of salaries and benefits, with a significant portion of the remaining expenses either being mandatory (e.g. amortization, debenture interest, contractual fees, etc.) or revenue neutral (e.g. Priorities and Partnerships Funding (PPF) expenses with corresponding funding sources, etc).

## Going Forward

Discussions have begun internally with a view to identifying expenditure reductions which could be implemented next year, with a goal of finding reductions in areas that have minimal impact on students. In areas where resources must be reduced, it will be challenging to mitigate the possible negative impacts. When reductions are required, Administration typically looks to identify budget options for Trustees to consider, should certain recommended reductions not be acceptable. However, as a result of several difficult budget years, the Board has not been in a position to discuss or provide for trade-offs. As Administration works to align scarce budget resources to the strategic objectives and priorities of the Board, additions to certain areas of the budget may be required. Where additions are needed, offsetting reduction proposals will be necessary.

## Risk Assessment

As noted earlier, the information presented in this report is very preliminary. Actual 2021-22 grant changes announced in the spring are likely to change the budget outlook. A major risk factor in budget preparation lies in enrolment projections. Even if actual enrolment remains as projected on a system wide basis, large school-by-school variances can create staffing pressures in the fall. The challenges that the global pandemic has presented continue to be of concern. Maintaining two modes of learning for both elementary and secondary schools is not sustainable within the current funding model. School boards are experiencing declining enrolment due to lower immigration levels, homeschooling, and families opting not to register students for kindergarten. Additionally, increasing supply costs and other lost revenue from international student tuition are risk factors for all school boards.

## Summary

All of the above is being provided for the information of the Board at this time. Administration will continue to develop the 2021-22 budget with due consideration to the factors that have been identified.

Strategic choices and difficult decisions need to be made to deal with the financial realities facing the Board and to ensure the Board remains fiscally sustainable over the long term.

## FINANCIAL IMPACT:

Discussed throughout the report.

**TIMELINES:**
The detailed 2021-22 budget process, including timelines, has previously been submitted to the Board. A further update report is anticipated to be provided to the Board in late April. The final budget is due for submission to the Ministry of Education by June 30, 2021.

**APPENDICES:**
N/A

**REPORT REVIEWED BY:**

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| ☒ | EXECUTIVE COUNCIL: | Review Date: | March 23, 2021 |
| ☒ | EXECUTIVE SUPERINTENDENT: | Approval Date: | March 23, 2021 |
| ☒ | DIRECTOR OF EDUCATION: | Approval Date: | March 23, 2021 |