

# Toronto Catholic District School Board

## Volume V: Financial Sustainability

## Financial Sustainability requires looking forward

School Board funding is almost entirely dependent on Provincial grants. A large portion of these grants remain stable year over year and therefore the TCDSB is able, to a certain extent, to consider its sustainability beyond an annual budget process. Historically, much concentration is placed on



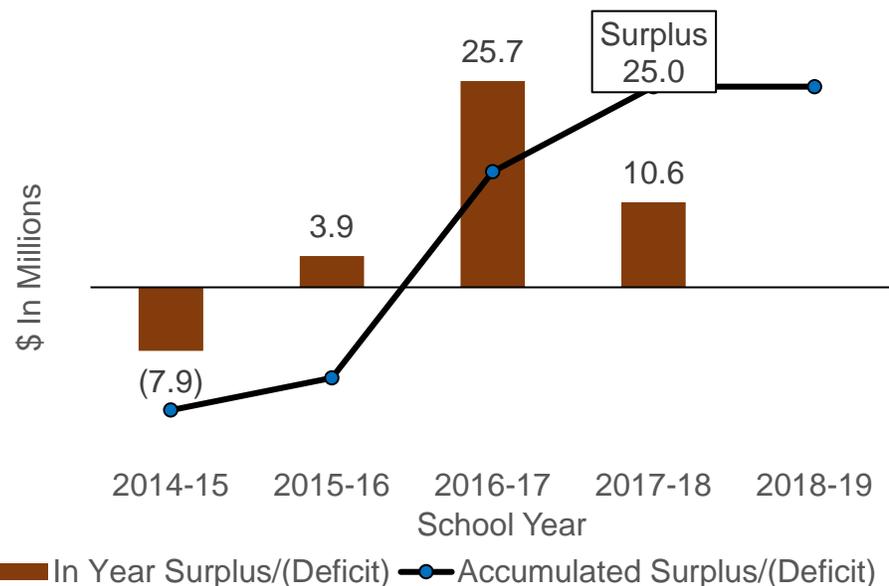
balancing the funding received by the Province with the planned expenditures for the year. Often a Board may face one-time increases or decreases in expenditures, which puts the budget out of balance. It also may be faced with “structural deficits” arising from legislative or labour arbitration decisions that essentially place an ongoing cost burden

that is greater than the funding received by the Province. In order to remain sustainable the TCDSB should consider funding strategies that are beyond an annual view and also that works within the current legislative permissions granted to it by the Province.

## In isolation, an Accumulated Surplus is not a solution to Financial Sustainability

The mechanism by which most School Boards, including the TCDSB, mitigates against the risks of potential in-year deficits is by holding an “Accumulated Surplus”. These are the result of adding all of the previous year’s in-year surpluses and holding this sum of money as a type of “rainy day” fund that can be used to offset in-year deficits in future years.

TCDSB In-Year and Accumulated Surpluses / (Deficits)



The TCDSB made difficult decisions to eliminate various structural deficits in order to arrive at an expected Accumulated Surplus of \$25.0M at the end of the 2017-18 fiscal year. TCDSB Trustees were forward thinking in that they passed a motion that 1% of the Accumulated Surplus would be held as a form of contingency against future year deficits. This aligns with the Province's recommendation that a minimum of 1% be accumulated for these purposes. This year's budget process recommends taking this notion one step further to more fully embrace a sustainable path forward.

### **A Reserve Strategy is necessary to complement an Accumulated Surplus and mitigate the risk against in-year deficits**

The Education Act allows School Boards to create something called "Reserves". These are special purpose type funds that are restricted to a specific type of expenditure and can be funded by the Accumulated Surplus. The TCDSB already has several of these types of reserve accounts, however the strategy to set these monies aside has not been previously formalized and occurs on an ad-hoc basis. This year staff are recommending that the strategy begin to be formalized so that funds from the Accumulated Surplus can be strategically set aside for potential future in-year deficits as well as for one-time large expenditures that can change from year to year. Investments in enterprise wide Information Technology (IT) systems is a good example of this.

### **New consolidated reserves are recommended to be created out of some existing ones**

As stated earlier, the TCDSB has several reserves included in its 2017-18 Financial Statements. Many of these reserves are operational in nature and simply carryover projects/initiatives from previous years where the monies are yet to be spent. A full list of these reserves can be found in Appendix 5A. There are some reserves that lend themselves to being a part of larger strategic reserves. Those reserves concerning renewal of Administrative Facilities and IT Infrastructure make sense to consolidate and create two new strategic reserves as the projects may be phased over multiple years.

There are also areas for which TCDSB receives minimal grant funding and it is both logical and more sustainable to create strategic reserves to better plan for and implement related projects over the long term. In total, these reserves would be seeded with \$3.38M of funding. It should be noted that some of these monies may be in use within the 2017-18 fiscal year so the starting balances may be less than \$3.38M when beginning the 2018-19 fiscal year. Starting to build up these reserves will allow both Facilities and IT staff better flexibility to respond to priorities that may arise, which are not provided for through base budget GSN funding or EPO grants from the Ministry.

| 2018-19 New Consolidated Reserves (\$M) |               |
|---|---------------|
| I.T. Infrastructure Reserve             | \$2.18        |
| Admin Facility Reserve                  | \$1.20        |
| <b>Total</b>                            | <b>\$3.38</b> |

### One-time strategic investments are recommended for 2018-19 from the Accumulated Surplus

During the 2017-18 Revised Budget Estimate discussion, the Board of Trustees allocated various one-time strategic funding from the Accumulated Surplus. Before considering a further Reserve Strategy beginning in 2018-19, any further strategic one-time investments must be considered.

| 2018-19 One-Time Strategic Investments (\$M) |               |
|--|---------------|
| IT Hardware Replacements                     | \$1.40        |
| HR Recruitment Initiatives                   | \$0.12        |
| SBCI Attendance Support Services             | \$0.22        |
| <b>Total</b>                                 | <b>\$1.74</b> |

For the 2018-19 fiscal year, staff are recommending in Volumes 3 and 4 of this Budget Book three one-time investments from the Accumulated Surplus totaling \$1.75M. All three investments have been assessed by Senior Staff as being high priority and critical to the success of the

organization moving in to the future. Staff believe that these are fiscally prudent investments given their broad impact on the organization.

## The remainder of the Accumulated Surplus is recommended to be allocated to new Strategic Reserves

The 2017-18 Accumulated Surplus is expected to be \$25.0M. After deducting \$1.74M for one-time investments in 2018-19 this leaves a balance of \$23.26M. Further reducing this amount by an estimated ASO Benefit Surplus of \$10.50, leaves a balance to be allocated of \$12.7M. It is necessary to deduct the ASO Benefit Surplus until such time as that amount is confirmed by the Province. It is recommended that the \$12.7M be allocated to the following two Strategic Reserves: 1) Operating Contingency Reserve, and 2) IT Strategic Systems Reserve.

| 2018-19 New Strategic Reserves<br>(\$M)                           |                |
|---|----------------|
| Operating Contingency Reserve ( <i>To max of 2% Contingency</i> ) | \$11.20        |
| IT Strategic Systems Reserve                                      | \$1.50         |
| <b>Total</b>  | <b>\$12.70</b> |

The Operating Contingency reserve is recommended to act as a contingency to offset future in-year deficits. \$11.2M is approximately 1% of TCDSB's operating budget and is in line with the motion approved by Trustees. This reserve is envisioned to operate with a minimum and maximum amount. The minimum would be 1% of the operating budget, while the maximum amount held in the reserve would be 2% of the operating budget. It should be noted that the Province has indicated that 2% is the optimal amount to be held in contingency.

The IT Strategic Systems Reserve, which is separate and distinct from the IT Infrastructure Reserve, is not for hardware replacement. Rather, it is to address long term financial planning for replacement of major enterprise wide systems. TCDSB is facing several challenges over the coming years with either completely replacing or upgrading large scale systems such as its Student Information System and its HR and Finance Enterprise system also known as "SAP". These are large multi-year and multi-million dollar investments that require careful implementation and financial planning to achieve. Some money exists in the base budget for this system work, but it is anticipated that the cost will greatly exceed the amounts allocated at this point. By creating an initial reserve with seed monies this should help to start a sustainable financial plan, but more will need to be allocated in future years.

## In-Year surpluses are recommended to be apportioned to Strategic Reserves on a formula basis

In order to provide a framework by which accumulated surpluses are treated at year end, it is recommended that a formulaic approach is taken to allocate funding to strategic reserves. 50% of in-year surpluses are recommended to be allocated to the Operating Contingency Reserve as a contingency against future in-year deficits. As mentioned earlier, this contribution would continue until the reserve has reached its maximum of 2% of the operating budget. Once the maximum is attained, these funds would be redirected to other remaining reserves on a pro rata basis according to the formula or to any new strategic reserves that may be recommended in the future.

Another 40% is recommended to be allocated to the IT Strategic Systems Reserve. This once again gives recognition to the fact that the Board is going to face some severe funding challenges over the next 3-7 years as major enterprise systems are expected to be replaced or upgraded.

| % Allocation of In-Year Surpluses to Strategic Reserves |             |
|---|-------------|
| Operating Contingency Reserve                           | 50%         |
| IT Strategic Systems Reserve                            | 40%         |
| Admin Facility Reserve                                  | 5%          |
| Student Equity Strategic Reserve                        | 5%          |
| <b>Total</b>  | <b>100%</b> |

A further 5% is recommended to be allocated to each of the Administrative Facility Reserve and a new Student Equity Reserve. The Administrative Facility Reserve is meant to largely help bolster the renewal activities for the Catholic Education Centre to which most EPO grants from the Province are ineligible. The Student Equity Reserve is a new strategic reserve being recommended to set aside monies that can be applied towards various equity initiatives across the Board. One-time increases to School Block Budgets in lower socio-economic areas of the Board is a good example of one such use, but other priorities, initiatives or projects may also arise in the future that could benefit from having funding set aside to fund equity related issues.

It should be noted that this formula would be applied by staff at year end, however should the Board of Trustees wish to adjust this formula in any given year, then a motion in that particular year could be passed to adjust the formula should a need arise to do so.

## **The reserve strategy is in its infancy and will require more work in the future**

The reserve strategy recommendations described in this Volume of the 2018-19 Budget Book is only the start of the overall strategy. More work will be done over the next fiscal year to better define the strategy. For instance, more work will be done on a plan and multi-year budget for IT Strategic Systems investments as well as an IT asset replacement plan. An actual Reserve Policy is envisioned to be created and brought to the Governance and Policy Committee in 2018-19 so that policy and procedures are more well defined.

It is recommended that the above strategy be adopted for this fiscal year to ensure a philosophy of Financial Sustainability begins to emerge. As the largest publicly funded Catholic School Board, it is imperative that sustainability be of primary concern and that a degree of objectivity and transparency is also achieved in doing so.

# VOLUME V - APPENDICES

## Appendix 5A

| <b>List of Reserves</b>              | <b>2016-17<br/>Year End<br/>(\$M)</b> |
|--------------------------------------|---------------------------------------|
| School Block Budget                  | 2.20                                  |
| Professional Development             | 0.16                                  |
| Contract Support Workers             | 0.09                                  |
| Trustee unspent Budgets Board Motion | 0.04                                  |
| Capital Planning Capacity            | 0.56                                  |
| Playground Equipment                 | 0.03                                  |
| Catholic School Parent Council       | 2.06                                  |
| Administrative Facilities*           | 1.20                                  |
| IT Infrastructure*                   | 2.18                                  |
| <b>Total Reserves</b>                | <b>\$8.52</b>                         |

*\*New consolidated strategic reserves using balances from existing reserves related to administrative facilities and IT hardware replacement*