



Financial Sustainability Roadmap Annual Report

2021-22

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Message from the Vice President, Finance and Administration, Duane McNair.

Since the Strategic Exercise to Restore Financial Sustainability Working Group concluded their work to develop the Financial Sustainability Roadmap in Spring of 2021, there have been many achievements toward implementation. Ongoing engagement with the Algonquin College Leadership Team has led to the development of a governance framework, prioritization exercise and the completion of two initiatives under the Partnerships theme.

The College continues to deliver its programs and services to learners while lifting restrictions associated with the pandemic and accommodating greater activity on our campuses. There are some ongoing challenges including enrolment shortfalls, a tuition fee freeze, a core operating grant at a fixed value and delays at the Federal Government in processing study permit applications for our International students. Short term measures will continue to be applied to ensure that we meet our Annual Budget commitments for 2022-23.

The new 2022-2025 Strategic Plan identifies a number of goals, outcomes and targets to be achieved over the next three years. College administration will be applying improved planning practices to forecast our enrolment targets and resource requirements to meet commitments in the Strategic Plan.

This initial Annual Report includes several metrics that will be used to track the College's achievement of financial sustainability. In Appendix A, Financial Conditions to Achieve Financial Sustainability are identified with a Future State Target and a "True North" Target to identify aspirational goals to encourage continuous improvement. College administration will monitor the historical, current and forecasted values to measure progress. These financial conditions present financial trends and targets that the College must strive to achieve in the annual budget to restore financial sustainability. The College's net assets were trending positively leading up to the pandemic but have realized some deterioration over the last two years. The Funded Activity / College Operations segment has experienced reduced margins due to the tuition fee freeze, the Provincial operating grant model and lower enrolments. Addressing these challenges will be a point of focus in the near term as the College is no longer compliant with the Board of Governor's direction to maintain a balance between Funded Activity revenues and expenditures. Similarly, Campus Services and Contract and Other Non-Funded Activity margins must improve in the near term. The International Education Centre has historically realized strong cash flow margins and the College is focusing on increasing International student enrolments in the coming years. Due to operating margin deterioration and limited capital grant provisions, Strategic Investment Priorities expenditures are forecast to decrease in the short term.



Financial Sustainability Metrics have been established and presented in Appendix B. These metrics are framed on the four resource pillars of the Integrated College Development Plan. Effective and efficient use of resources are necessary to achieve financial sustainability. The Finance metrics measure for the College have a history of strong financial health but have realized some deterioration due to the pandemic, particularly in return on net assets and net operating revenues. The College faces challenges in addressing the increasing deferred maintenance liability and will focus on improving space utilization as reported under Space metrics. Our People metrics forecast favourable trends as we strive to manage a lower vacancy rate and vacation liability. Information technology infrastructure condition and cyber security maturity reported in our Technology metrics require increased focus to ensure we improve the College's resiliency and systems uptime for our learners and clients.

Several initiatives from the Financial Sustainability Roadmap will be executed in support of our Strategic Plan while also ensuring that the College is positioned to meet the needs of today's learners while saving to meet the needs of tomorrow's learners.

I would like to thank the Algonquin College Leadership Team for their efforts to support the execution of the Financial Sustainability Roadmap. We will continue to consult and provide updates to the College community on this journey to restore financial sustainability at Algonquin College.

Duane McNair

A handwritten signature in black ink, appearing to read "Duane McNair". The signature is written in a cursive, flowing style.

The Financial Future

Algonquin College entered the COVID-19 pandemic in a strong financial position in the Spring of 2020. As at March 31, 2020, the College held \$88 million in reserves, had realized a \$14 million surplus and was better than benchmark on all seven Financial Health Indicators.

The following year the College realized a modest surplus of \$2.9 million and maintained reserves at \$87 million.

Several factors are creating significant challenges for the College as we move forward and emerge from the pandemic. The pandemic itself caused losses in enrolment and revenues resulting in declining financial performance. As at March 31, 2022, the College realized its first deficit of \$3.7 million in 18 years and reserve balances were reduced by \$10 million to a value of \$77 million.



An institution is being managed on a financially sustainable basis if it is recovering its full economic costs and is investing in its infrastructure (physical, human, and intellectual) at a rate adequate to maintain the future productive capacity needed to deliver its strategic plan, and to service its students and other customers.

**On the Edge: Securing a Sustainable Future for High Education
(OECD 2004)**

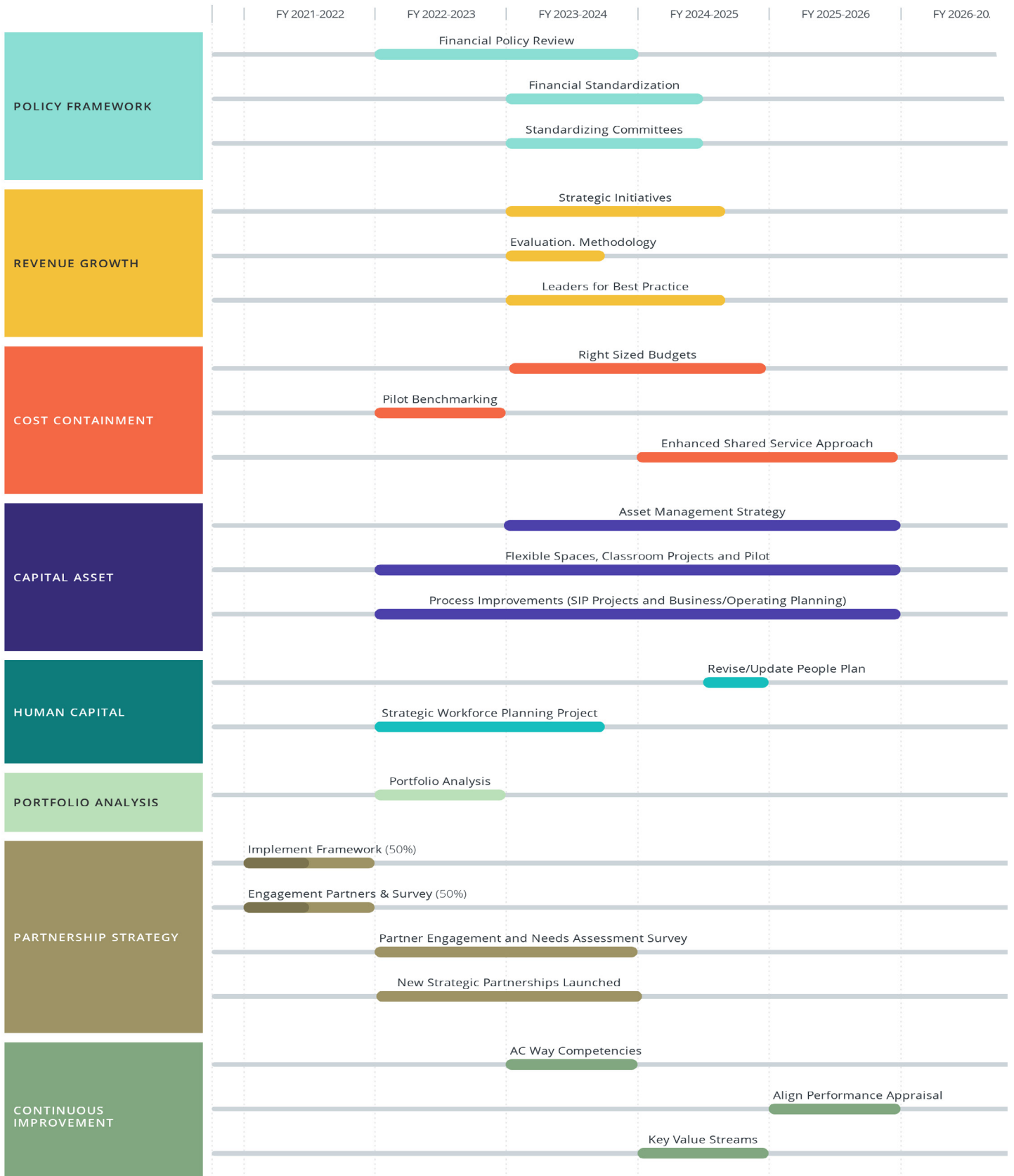


WHAT THE FUTURE WILL LOOK LIKE

Financial Sustainability at Algonquin College will be achieved through:

- Having heightened financial sustainability measures in place with processes and procedures to support their monitoring, evaluation, regular reviews, and correction.
- The ability to access timely, accurate, complete, consistent, reliable data to inform decisions.
- Effective medium and long term planning, applying safeguards and controls to accounting practices, asset management and operational effectiveness.
- Full economic cost recovery through diversified revenue generation. This includes generating sufficient revenue to fund the total cost of ownership of the College.
- Measuring and monitoring cross subsidization of activities that do not achieve full economic cost recovery and adjusting activities to what is affordable.
- Investing appropriately in our people, information technology resources, facilities, infrastructure, equipment and other assets to maintain productive capacity over the long term.
- Managing risk appropriately in relation to strategy and being prepared to deal with potential financial problems.
- Promoting sustainable economic growth of the College and long-term financial stability.
- Respecting social and environmental factors in the economic commitments and decisions we make.

Financial Sustainability Roadmap



SOURCE LINK: [HTTPS://APP-RM.ROADMUNK.COM/PUBLISH/6CE91ECC07A691719664BF86F284034CC22FCCE3](https://app-rm.roadmunk.com/publish/6CE91ECC07A691719664BF86F284034CC22FCCE3)

Achievements

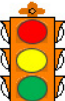
Over the past year, following the presentation on the Financial Sustainability Roadmap to the Board of Governors, foundational tasks were undertaken to prepare the Roadmap

initiatives for execution. The following Roadmap deliverables were presented to the Algonquin College Executive Team.

| Date | |
|--------------------|--|
| September 16, 2021 | Endorsement of changes identified by initiative leads to theme details theme details presented in the original Roadmap |
| October 14, 2021 | Endorsement of Governance Model |
| October 27, 2021 | Endorsement of Initiative Prioritization by Working Group |
| November 17, 2021 | Endorsement of Presentation Form for Delivery Plan (Roadmunk) |
| November 17, 2021 | Endorsement of <u>Finance</u> Financial Sustainability Metrics |
| March 23, 2022 | Endorsement of Draft Outline and Initiative Dashboard for the 2021-22 Annual Report |
| April 13, 2022 | Endorsement of <u>Space</u> , <u>People</u> and <u>Technology</u> Financial Sustainability Metrics |
| April 20, 2022 | Endorsement of Financial Conditions to Achieve Financial Sustainability |

In addition, two initiatives identified under the Partnership theme of the roadmap were initiated and executed during the 2021-22 fiscal year. Highlights of these initiatives are reported below.

PS1 Partnership Framework

| | | | |
|--|--|--|---|
|  <p>Schedule Scope Budget</p> | <p>● = On track – no significant issues</p> <p>● = Minor or Potential Impact/Delay</p> <p>● = Major impact or Delay</p> <p>★ = Completed</p> | <p><u>Partnership Strategy:</u></p> <ul style="list-style-type: none"> Overarching Strategic Goal: Develop an overarching and integrated strategy for the development and management of partnerships. | <p>ACET Sponsor: Mark Savenkoff Initiative Lead: Mark Savenkoff</p> |
|--|--|--|---|


Key Initiative

Complete the implementation of the Partnership Development Framework by July 15, 2021

| Project Constraint | Status | Comments |
|--------------------|--------|---|
| Scope | ★ | 2021-22 Business Plan Initiative 2.1 Partnership Development Framework Implements by July 15, 2022 |
| Schedule | ★ | As per the Third Quarter Business Plan Report presented to the Board of Governors on February 28, 2022, this initiative has been completed. |
| Budget | ★ | Completed within budget. |

As of March 31, 2022

PS2 Partner Engagement & Survey

| | | | |
|--|--|--|---|
|  <p>Schedule Scope Budget</p> | <p>● = On track – no significant issues</p> <p>● = Minor or Potential Impact/Delay</p> <p>● = Major impact or Delay</p> <p>★ = Completed</p> | <p><u>Partnership Strategy:</u></p> <ul style="list-style-type: none"> Overarching Strategic Goal: Develop an overarching and integrated strategy for the development and management of partnerships. | <p>ACET Sponsor: Mark Savenkoff Initiative Lead: Mark Savenkoff</p> |
|--|--|--|---|

Key Initiative:

External Partner Engagement and Needs Assessment Survey launched by October 15, 2021.

| Project Constraint | Status | Comments |
|--------------------|--------|--|
| Scope | ★ | 2021-22 Business Plan Initiative 2.2 External Partner Engagement and Needs Assessment Survey Launched October 15, 2021 |
| Schedule | ★ | This initiative is complete. 1,269 individuals responded, 71% of whom are alumni. The most significant industry representation included: government, health, technology, business, construction. |
| Budget | ★ | Completed within budget |

As of March 31, 2022

2022-23 Initiatives to Begin

A working group was established in the Fall of 2021 to prioritize the initiatives of the Financial Sustainability Roadmap. Timelines were established and resource requirements for high priority initiatives were secured as part of the development of the 2022-23 Annual Budget. These priority initiatives are described below.

POLICY FRAMEWORK

FINANCIAL MANAGEMENT POLICY (POL1)

- Undertake research, including the review of financial policies of other post-secondary institutions, with a focus on improving the College's financial policies and principles

CAPITAL ASSET STRATEGY

PROCESS IMPROVEMENTS (CAS2)

- Implement 2 year planning cycle for SIP projects
- Align existing space, IT, HR with business and operational planning processes

CAPITAL ASSET STRATEGY

FLEXIBLE SPACES AND CLASSROOM PROJECTS AND PILOTS (CAS3)

- Optimize use of offices, learning spaces and other unallocated spaces on & off campus
- Establish training program for instructors on classroom technology/pedagogy

HUMAN CAPITAL STRATEGY

STRATEGIC WORKFORCE PLANNING PROJECT (HC2)

- Six phase approach for planning, developing framework, conducting current state analysis, developing process, system configuration and college roll out.

PARTNERSHIP STRATEGY

PARTNER ENGAGEMENT AND NEEDS ASSESSMENT SURVEY (PS3)

- Response to External Partner Engagement and Needs Assessment Survey findings completed

PARTNERSHIP STRATEGY

NEW STRATEGIC PARTNERSHIPS LAUNCHED (PS4)

- Two new industry and community partners confirmed

COST CONTAINMENT

PILOT BENCHMARKING (CC2)

- Pilot a benchmarking exercise to ensure value for money with peer institutions.

PORTFOLIO ANALYSIS

PORTFOLIO REVIEW (PA1)

- Design a portfolio review process and system for program mix and lines of business that includes portfolio definition and assessment with clear ownership and accountabilities.

Appendix A

Financial Conditions to Achieve Financial Sustainability

| | Primary Conditions TARGETS | Supporting Conditions | Future State Target 2025-26 | TRUE NORTH | Notes |
|---|--|---|-----------------------------------|------------|---|
| | | | TARGET | TARGET | |
| <i>DOLLAR FIGURES IN MILLIONS</i> | | | | | |
| NET ASSETS | Net Assets are equal to 100% of Annual Expenditures | | 50.0% | 200.0% | Key indicator of financial sustainability is the net asset value relative to spending. |
| | | General Reserves for Future Capital Expansion is valued at 2/3rds of capital cost | 40.0% | 200.0% | Ottawa Campus of Care Class G Estimate \$79M |
| | | Reserve funds are sufficient to fund 50% of | | | Future State Targets from 5-Year Capital Investment Plan - 50% to be funded from Reserve Funds (Board of Governors - Dec 2021). |
| | | Campus Services Reserve Fund | \$9.5 | \$100.0 | |
| | | ERP Reserve Fund | \$19.2 | \$100.0 | |
| | Academic Equipment Reserve Fund | \$1.7 | \$100.0 | | |
| | IT/Physical Infrastructure Renewal Reserve Fund | \$28.3 | \$200.0 | | |
| | Endowment Fund is valued at 50% of student tuition revenues | | 40% | 100% | |
| FUNDED ACTIVITY / COLLEGE OPERATIONS | 10% Net Contribution Margin (cash basis) after International student revenue sharing, contributions to reserves and debt servicing | | 2.0% | 20.0% | 10% margin required to fund other subsidized activity, non-funded activity and Strategic Investment Priorities (capital) expenditures. |
| | | Planned contributions to reserves | \$6.0 | \$20.0 | Financially sustainable organizations contribute cash to reserves to address asset depreciation and the need to respond to opportunities and risks. |
| CAMPUS SERVICES | 15% Net Contribution Margin (cash basis) after College overhead, contributions to reserves and debt servicing | | 11.0% | 30.0% | 15% margin required to provide additional contributions to cash reserves, Strategic Investment Priorities (capital) expenditures and other non-funded activity. |
| | | Planned contributions to reserves | \$3.0 | \$10.0 | Financially sustainable organizations contribute cash to reserves to address asset depreciation and the need to respond to opportunities and risks. |

| | Primary Conditions TARGETS <i>DOLLAR FIGURES IN MILLIONS</i> | Supporting Conditions | Future State Target 2025-26 | TRUE NORTH | Notes |
|--|--|---|-----------------------------|------------|---|
| | | | TARGET | TARGET | |
| CONTRACT AND OTHER NON-FUNDED ACTIVITY | 20% Net Contribution Margin | | 16.0% | 30.0% | 20% margin required to contribute to subsidization of other non-funded activity and Strategic Investment Priorities (capital) expenditures. |
| | | Corporate Training Centre | 30.0% | 50.0% | 30% margin required to contribute to subsidization of other non-funded activity and Strategic Investment Priorities (capital) expenditures. |
| | | Public College Private Partnership | \$5.0 | \$50.0 | Net Contribution to Strategic Investment Priorities. |
| | | Funds Raised/Gifts-in-Kind | \$5.0 | \$50.0 | Cash donations, sponsorship revenues and gifts in kind. |
| | | Planned contributions to reserves | \$1.5 | \$10.0 | Financially sustainable organizations contribute cash to reserves to address asset depreciation and the need to respond to opportunities and risks. |
| INTERNATIONAL EDUCATION CENTRE | 35% Net Contribution Margin after International student revenue sharing with Funded Activity | | 30.0% | 50.0% | 35% margin required to contribute to Strategic Investment Priorities (capital) expenditures. |
| | | Targetted International/Domestic student mix is 30/70 | 31.5% | 50.0% | Presented as international student enrolments (by term) / total full-time student enrolments (by term) and excludes enrolments of Public College Private Partnership |
| | | Planned contributions to reserves | \$4.0 | \$10.0 | Financially sustainable organizations contribute cash to reserves to address asset depreciation and the need to respond to opportunities and risks. |
| STRATEGIC INVESTMENT PRIORITIES | Expenditures equal 15% to 30% of Total Annual Expenditures | | 10.0% | 100.0% | Annual commitment to strategic investments is required to ensure financial sustainability with some variability year to year. Forecast spending ratios are based on the 5-Year Capital Investment Plan (Board of Governors - Dec 2021) |

Appendix B

Financial Sustainability Metrics

| | Metric Name | Formula / Calculation | Description |
|---------|--|---|--|
| FINANCE | Return on Net Assets | Change in Net Assets during the fiscal year / Total Net Assets at the beginning of the fiscal year | Net Asset growth positions the College to sustain ongoing operations and investments. |
| | Viability Ratio | Expendable Net Assets/ Long Term Debt | The viability ratio indicates the relative liquidity of the College and ability to pay debt obligations. |
| | Primary Reserve Ratio | Expendable Net Assets / Total Expenses | Expendable Net Assets should be at least 0.4 or enough to pay for 5 months' expenses. |
| | Net Operating Revenue Ratio | Operating Surplus/ Total Operating Revenues | Healthy operating margins ensure that the College earns sufficient revenues to deliver current programs/services, fund in year SIP and reserve cash for future needs. |
| SPACE | Facilities Condition Index | Total Deferred Maintenance Costs/Current Replacement Value of Campus Facilities | Facilities Condition Index is a standard facility management benchmark that is used to objectively assess the current and projected condition of building assets on College campuses. These values are derived from the most recent College facilities assessments. |
| | Investment in Facilities as a % of Current Replacement Value | Annual Maintenance and Suitability Costs/Current Replacement Value of Campus Buildings | Includes annual operational maintenance costs (inc. contract maintenance), infrastructure envelope and space envelope costs. Industry standard is X% for Maintenance and Y% for Suitability. |
| | Assignable square meter per student | Total # of Assignable square meters/Number of Full Time Post Secondary Registrations | The utilization rate of the College's assignable space is a metric that indicates the productivity of our facilities. Greater students served with less space leads to higher productivity. However, the quality of the student experience must also be measured and considered when developing new strategies to serve more students with less space. |
| PEOPLE | Vacancy Rate | # of Vacant Full Time Positions / Total number of Full Time positions available | Managing full time position vacancies to the lowest point possible helps ensure appropriate capacity and productivity required to effectively deliver of College programs and services. |
| | Vacation Liability | # of accrued vacation days (hours) for all full time employees multiplied by daily (hourly) rate of employee compensation | Vacation liability must be monitored and managed to ensure that employees are maintaining their health and wellness and that the College is not carrying excessive financial liabilities. |

Appendix B

Financial Sustainability Metrics

| | Metric Name | Formula / Calculation | Future State Target | TRUE NORTH | Description |
|-------------------|--|---|---------------------|------------|--|
| | | | TARGET | TARGET | |
| TECHNOLOGY | IT Infrastructure Condition Index | (The total # of Infrastructure Devices within the Target Life Expectancy)/(Total Number of Hardware Devices) | 95% | 100% | <p>This metric measures the number of infrastructure devices that are not beyond end of life or are still being supported by the vendor as a percentage of the total number of infrastructure devices. The KPI represents the risk of hardware failure due to age, but also the risk of prolonged outages because the asset is no longer supported; this can lead to a lack of available expertise and spare parts to correct a failure.</p> <p>For FY2021-22 the scope has been changed to include cabling. As a result, cabling has been added to the denominator and numerator of the forecasted metrics for FY2021-22 and onward. Cabling was originally not included in metrics previous to FY2021-22 and will not be retroactively calculated.</p> |
| | IT Services Customer Satisfaction (Net Promoter Score) | Clients who have submitted a service request to the ITS Service Desk (via phone or email) are requested to complete an NPS survey. Approximately 10% of service requests result in a completed survey. This metric is the NPS calculation of all NPS scores received for the reporting year. | 90 | 100 | <p>This metric is tracked monthly and presented to CTC. However, only the annual number is provided to FSR to reflect actuals and forecasts for each year.</p> |
| | Cyber Security Maturity Rating | This metric is based on the Ernst and Young Cybersecurity Program Assessment method which was developed as an objective means to evaluating any organizations security program. Points are awarded for achieving levels of maturity across various Cyber Program categories (e.g. Awareness, Policy and Legislative Compliance). The overall score is on a scale from 1 to 5. | 2.5 | 5.0 | <p>Areas reviewed in the assessment are as follows: • Architecture • Asset management • Awareness • Business continuity management • Data infrastructure • Data protection • Governance and organization • Host security • Identity and access management • Incident management • Metrics and reporting • Network security • Operations • Policy and standards framework • Privacy • Security monitoring • Software security • Strategy • Third-party management • Threat and vulnerability management</p> |


Appendix C

Themes and Goals

The goals of each theme guide the plan for financial sustainability by identifying initiatives to achieve future vision and objectives.

| | | | | |
|-------------------|---|--|--|---|
| Vision | We will support decision-making that ensures long-term financial health of the College, predictable infrastructure investment, responsible debt management, and delivering value for money while maintaining a high-quality learning environment. | | | |
| Objectives | Clear Direction | Innovation & Quality | Operating Sustainably | Risk Management |
| Results | The ability to assess future needs and risks and measure performance. | Investing at an appropriate level to maintain productive capacity and competitiveness. | Recovering costs and generating income to cover total costs of operations. | Managing risk appropriately in relation to strategy & prepared to deal with potential financial problems. |

| Themes | Goals |
|------------------------|---|
| Revenue Growth | To develop a College-approved evaluation method that is used when considering revenue generation/growth proposals in order to ensure that the College prioritizes initiatives that are aligned with our academic mandate, and gives preference to initiatives that improve enrolment, retention, and competitive differentiation. |
| Cost Containment | Align leadership accountability to focus on responsible budget management by adhering to Algonquin College budget principles that supports core delivery and value for money while minimizing annual growth of expenditures and enhancing productivity. |
| Capital Asset Strategy | Implement a formal integrated college development planning process to manage assets, identify future capital investment requirements and inform annual budget development. |
| Human Capital Strategy | To ensure Algonquin has the right people in the right jobs at the right time and at the right cost in order to fulfill the goals of our organization. An organization driven by data and employee support, where flexibility and agility are embedded in all of our workforce planning methodologies. |
| Portfolio Analysis | Ongoing review and adjustment to our program mix, lines of business and service activities for revenue generating areas of the college to optimize sustainable net revenues and ensure cross-subsidization is deliberate, transparent, measured and monitored. |
| Continuous Improvement | Create a culture of continuous improvement that puts greater emphasis and measurement on financial sustainability through improved productivity and increased value for our learners and clients. |
| Policy Framework | Establish clearer roles, responsibilities and authority for financial management decisions, with appropriate safeguards and controls that support long term sustainability. |
| Partnerships Framework | Develop an overarching and integrated strategy for the development and management of partnerships. |



“Ensuring long-term future sustainability for the College is critical to the success of our mission and strategic goals.”

Claude Brulé,
President and Chief Executive Officer