

Date: April 21, 2023
To: Algonquin College Leadership Team
From: Grant Perry, Chief Financial Officer
Subject: Financial Sustainability – Directions to Request Investments in New Initiatives

Background

The Board of Governors approved the 2023-24 Annual Budget and Business Plan on February 27, 2023. Our learners and other College stakeholders have entrusted the Leadership Team to sustain the provision of high-quality education and training and to provide the services that we need to support organizational effectiveness, maintain quality infrastructure, and save for future requirements.

Directions to Request Investments in New Initiatives

As we focus on returning to a sustainable Funded Activity / College Operations model, we must continue to focus on improving net contribution in the short term while planning for long-term sustainable growth. Increases in net contribution can come from increased revenues, as well as from decreased expenses. Additionally, when the College proposes to undertake new activities, or investments, it is imperative that these initiatives do not further degrade the net contribution of the College.

There are several exciting new initiatives that the College is embarking on that will contribute to achieving financial sustainability. We have seen positive results achieved in the first year with our public college-private partnership (PCPP) where aggressive enrolment targets were exceeded in 2022-23, and we are determined to increase enrolments by an additional 330% to 2,333 enrolments in 2023-24. We have recently launched the Portfolio Analysis initiative that is detailed in the [Financial Sustainability Roadmap](#), and soon we will begin to pilot a benchmarking exercise to ensure value for money in the service areas of the College as compared to peer institutions.

Leadership Team Directions to Request Investments in New Initiatives

To this end, as we work towards restoring financial sustainability, all requests for funding new initiatives, both Strategic Investment Priorities and operating, as well as growth in any existing activities will continue to be completed in consultation with the Corporate Planning Team in Finance and Administrative Services and the Human Resources Department of the College. This will ensure that the following key information is presented to the Algonquin College Executive Team (ACET) when submitting a request to fund new initiatives, or to grow existing activities. Recommendations and comments provided by Finance and Human Resources must be shared, unaltered, with ACET when presenting requests for resources.

Submissions to ACET must include:

1. Quantification of the impact on future (multi-year) enrolment projections from the proposed initiative. It is expected that the incremental impact to enrolment must be measurable and sustainable, and that the funding requested, plus an appropriate margin to cover corporate services and overhead costs, will be consistently offset by the increased enrolment revenue generated for the near future.
2. Five-year revenue and expense projections must be provided to support the request for funding. These projections must include, at a minimum:
 - a. Key assumptions clearly stated.
 - b. Incremental revenues must be clearly identified.
 - c. Capital funding requirements to implement and sustain the initiative must be quantified.
 - d. Estimated Return on Investment must be provided.
 - e. All ongoing operational support costs (total cost of ownership) must be clearly identified. Sufficient direct net contribution margins must be generated to cover the costs of corporate services and overhead. On average, the College requires \$0.30 from each \$1.00 of revenue generated in Funded and Contract Activities to cover the College's central administrative, support and overhead costs.
3. For existing activities and programs, five-year historical revenue and expense reports must be provided with net contribution achieved and any capital or Strategic

Investment Priorities investments identified. This information is required to assess the past performance and to identify trends and any risks or challenges experienced.

4. All new initiatives must provide a positive improvement to the net contribution of the Area undertaking the initiative. Additionally, all financial benefits, costs or additional work realized by other College Areas as a result of the new or growing activity should be clearly detailed to ensure that total cost of ownership is understood.

Note: Requirements to support requests for new full-time complement positions will be communicated separately at a future date. The Executive Team is considering the appropriate conditions and process to support growth in complement.

The requirements to request funding or investment in new initiatives should now be considered part of our normal practice when presenting requests to the Executive Team. Over time, the Finance Team will improve on the templates and Budget Principles to support these requirements. In the meantime, please refer to the guidance provided above when preparing requests to be presented to the Executive Team.

Why Is This Important?

Over recent years, the reduced rates of revenue growth, coupled with increasing expenditures, have negatively impacted financial results and projections, and demonstrate that the Funded Activity / College Operations segment of the College's activities are no longer balanced and self-sustaining. Although the College has historically posted surpluses from the Funded Activity / College Operations segment of the College's activities, our recent Third Quarter 2022-23 Financial Projection reported an expected deficit of \$7.5 million in Funded Activity / College Operations. On a positive note, we are now projecting incremental improvements in the net contribution earned from Funded Activity / College Operations in each of the following two fiscal years - a trend in the right direction.

PRO FORMA SUMMARY

(All figures in 000's)

	Actual 2021-22	Annual Budget 2022-23	Q3 Projection 2022-23	Annual Budget 2023-24	Pro Forma 2024-25	Pro Forma 2025-26
Funded Activity/College Operations						
Revenue	\$ 262,375	\$ 284,239	\$ 274,407	\$ 291,351	\$ 301,298	\$ 317,854
Expenditures	266,547	290,764	281,954	300,272	308,789	320,256
Net Contribution as per Modified Cash Flow Basis	(4,172)	(6,525)	(7,547)	(8,921)	(7,491)	(2,402)

The challenges to improve the net contributions in Funded Activity / College Operations has been precipitated by several events, including the 2017-18 academic work stoppage, the introduction of amendments to the Employee Standards Act in 2018-19, and most recently, the COVID-19 pandemic. Most impactful, however, was the transition to the corridor funding model that provides for a static operating grant, beginning in 2017-18, roll back of tuition fees in 2019-20 to 2014-15 levels and the ongoing freeze on tuition fee increases since that time. These unsustainable and low tuition fees, coupled with grant funding that has not been increased for the past 6 years, nor adjusted to reflect inflationary pressures, places the College's finances in a challenging position. In the 2023-24 fiscal year, the cumulative effect of the 10% tuition reduction and the ongoing tuition fee freeze is estimated to cost the College over \$30 million in net contribution.

These ongoing challenges in the Funded Activity / College Operations segment of the College continue to have consequences for the entire organization. With no net contributions earned through Funded Activity / College Operations, the College places significant reliance on the International Education Centre (IEC) activity and fee revenues. The IEC and Academic Services have set ambitious international enrolment growth targets for the next 5 years. The associated revenue growth is required to not only sustain and grow Funded Activity / College Operations (through 50% revenue sharing), but are required to fund significant amounts in critical capital investments such as the replacement of our Student Information System, the renewal of heating, ventilation and air conditioning systems, the upgrade of Salesforce Classic to Salesforce Lightning, and the improvement of accessibility to College grounds and buildings. This is in addition to numerous ongoing investments in building and IT (Information Technology) infrastructure and other College priority initiatives. Both operational and capital requirements are contributing to an ongoing and projected depletion of the College's cash

reserves. The College must continue to restrict a significant portion of the net revenues generated by the IEC activity to fund capital requirements as the Ministry continues to report that they are not providing any capital funding for new developments to the college sector.

Capital Projects and Initiatives in 2023-24	2023-24 Total Project Expenditures
R3 (Student Information System Replacement)	\$20,000,000
Algonquin College Sustainability: Improved Heating, Ventilation and Air Conditioning Systems - Residence Facilities	5,750,000
Salesforce Lightning Upgrade	2,245,000
Information Technology and Physical Infrastructure Renewal Projects	8,686,000
Campus Accessibility	1,000,000
Academic Equipment	1,000,000
Pedestrian Bridge to Rapid Transit Station Continuation	820,000
Alumni Affinity	150,000
Health Services Agreement with the Students' Association	115,000
Total Expenditures	\$39,766,000

Contact for Questions

Thank you for the continued efforts taken to ensure that we are building a strong Algonquin College for the future. Should you have any questions or comments, I am always available to have further discussions with you.