BUDGET REVIEW AND ANALYSIS

Vancouver Community College 2015/16

6/28/2015
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CUPE Local 4627

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VCC 2015/16 Budget Gaps

Observation

The budget that was presented to the Board Finance Committee for decision makes no reference to the college enrolment plan for the 2015/16 fiscal year[1]. Student FTEs, as embodied in the enrolment plan, represent the output of the College. The enrolment plan is the primary driver of instructional expense of the College and is integral to the budgeting process.

Among other things, it is the responsibility of the VCC Board that, "at the request of the Minister, prepare and submit budgets, financial statements, reports and other information that the Minister considers necessary to carry out the Minister's responsibilities in relation to institutions."[2]

For College Management to request the approval of an operating budget without setting out what VCC plans to deliver does not provide the Finance Committee and the VCC Board of Governors with sufficient information to evaluate whether the budget is reasonable and realistic.

According to Section 31 (1.1) of the Colleges and Institutes Act, "An institution must not incur a liability or make an expenditure in a fiscal year beyond the amount unexpended of the grant made to the institution by the government and the estimated revenue of the institution from other sources up to the end of, and including, that fiscal year, unless an estimate of the liability or expenditure has first been approved by the Minister of Finance and the Minister.[3]" It is vital, therefore, for the VCC Board of Governors to ensure that the 2015/16 budget under consideration for approval is realistic and consistent with known plans and other conditions that must be taken into account during the budget period.

CUPE's Questions for VCC Administration and the Board:

1. Why was a summary of the enrolment plan not included as part of the budget?
2. Has the proposed 2015/16 budget been reconciled to the 2015/16 enrolment plan that was approved by Education Council and recommended for Board approval?
3. Assuming that the budget is based on the enrolment plan as presented to Education Council, what utilization factors have been applied to compute projected enrolment vs. class capacity (i.e. unfilled seats)?
4. Is the budgeted instructional cost based on theoretical capacity or a realistic estimate of actual enrolment?

Comments

The enrolment plan, which details program by program information, determines how many instructors are required, what supplies will need to be purchased, how many classrooms and

[1] This reference is to the Decision Note, "2015/16 Operating Budget", and dated June 17, 2015, that was prepared for the Finance & Audit Committee.

[2] Section 5 (a) of the British Columbia Colleges and Institutes Act, retrieved June 27, 2015, from http://www.bclaws.ca/civix/document/id/complete/statreg/96052_01#section59

[3] Section 31 (1.1) of the British Columbia Colleges and Institutes Act, retrieved June 27, 2015, from http://www.bclaws.ca/civix/document/id/complete/statreg/96052_01#section59

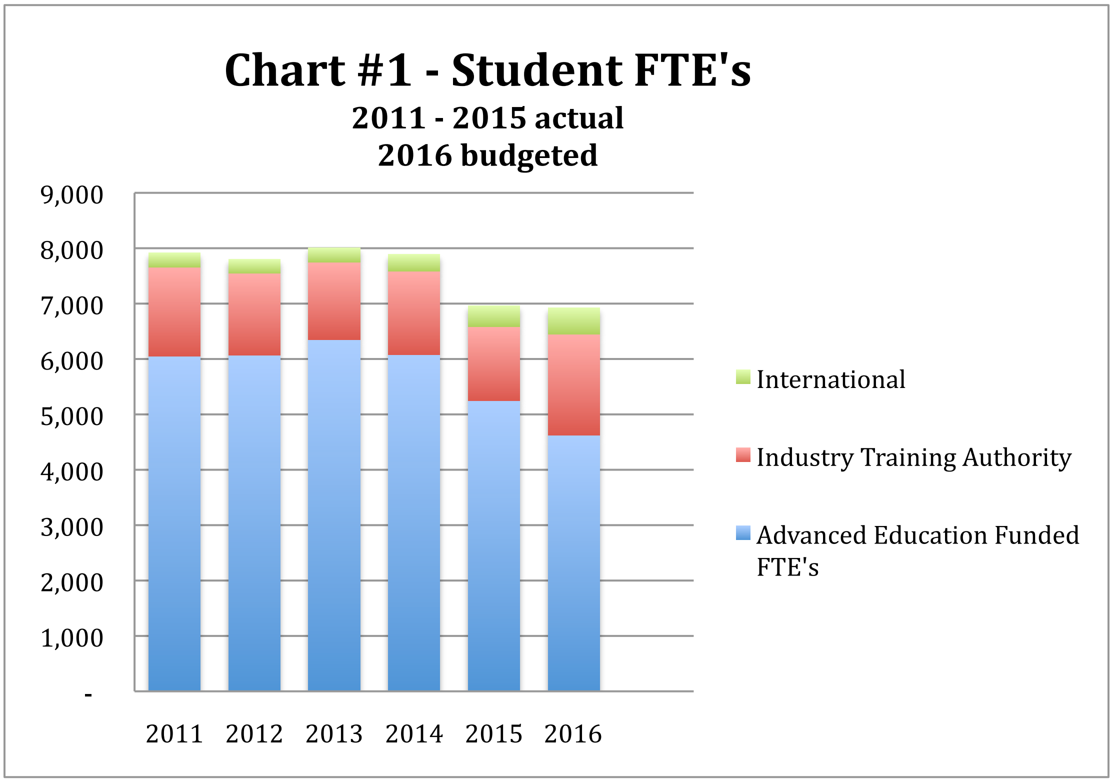
labs will be needed, and what student support will be required. It also projects the number of students that will be served, signals internal marketing and enrolment management priorities, and determines how much tuition revenue can be expected.

VCC Enrolment

Observation

Assuming that the budget does, in fact, correspond with the enrolment plan as presented to Education Council, one must then evaluate whether the enrolment plan presents a realistic picture of enrolment expectations for the coming year.

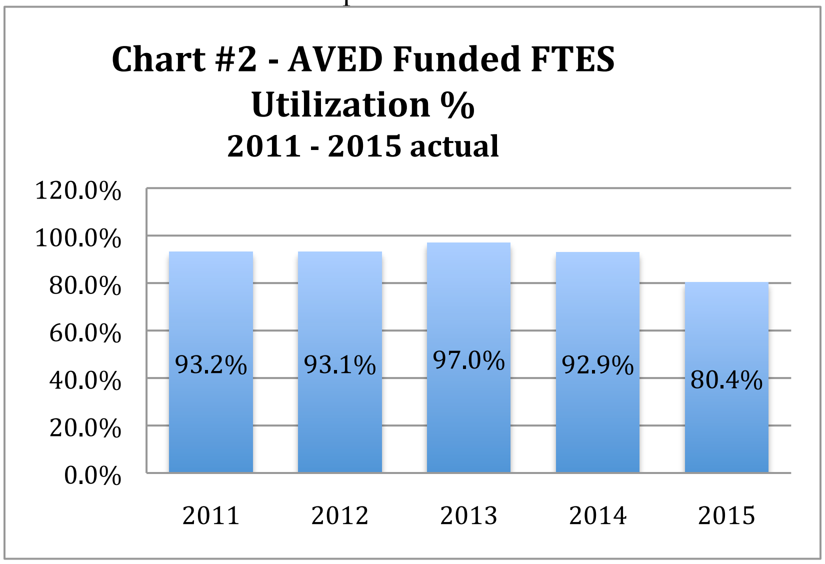
Chart #1, below, compares the planned enrolment for the 2015/16 fiscal year with the actual FTE's reported for the five prior years.



As evident in Chart 1, actual enrolment at Vancouver Community College has declined significantly since 2014. A significant portion of this decline is explainable due to the recent change in funding and delivery of the ELSA contract.

The Board of Governors must be made fully aware of and understand what other factors have impacted enrolment in recent years and how specifically those factors have been addressed in the proposed budget.

Chart #2, below, shows the AVED utilization percentages for the prior 5 years as reported in the audited FTE Enrolment reports.



Historically, there has been no direct impact on AVED grant funding if an institution failed to meet its AVED targets. However, failure to meet targets could be a major risk to VCC.

CUPE's Questions for VCC Administration and the Board:

1. According to the 2014/15 audited enrolment report, the College achieved just over 80.4% of its AVED enrolment target. How has the College verified that 2015/16 enrolment plans are realistic?
2. Does the 2015/16 budget take into account a reasonable attrition/under-fill ratio when calculating tuition revenue?
3. Are instructional expenses based directly on the 2015/16 Enrolment Plan or have they been adjusted to allow for expected under-utilization?
4. If enrolment is lower than planned, will sections be run partially full or will classes be cancelled and consolidated where possible? If classes are cancelled and consolidated, will there be severance payable by the College due to the layoff provisions of the collective agreements?

Comments

This is all about planning realistically. Every effort should be made to ensure that under-enrolment is factored in to both the hiring plan for the up-coming academic year as well as determining realistic expectations of student tuition and related revenue sources.

The consequences of education over-planning

An institution that consistently over-plans its enrolment plan is in effect "holding" resources in the budget in excess of what it can realistically use. Unfilled classrooms and labs are not an effective use of fixed assets and hamper the growth of programs that could otherwise expand.

Over-planning also causes unrealistic instructional labour costs to essentially become fixed costs. Instructors become regularized and layoff notice periods become factors that impair the ability of the institution to avoid instructional expense if enrolment is below target, and also impairs the institution to easily redirect those resources to areas of demonstrated need.

The consequences of education under-planning

Under-planning can mean that students may be turned away, go elsewhere, or perhaps be forced to take a class in a time-frame that would not be their preferred choice. It is also critically important to meet government stakeholders' expectations of service delivery. Obviously there is an impact on tuition revenue for those students who do not attend. As a rule of thumb though, tuition revenue only covers approximately 20-25% of the program cost[4] so cost avoidance will be a net cost benefit to the institution that can be reallocated elsewhere (in developing and funding new programs for example).

A strategy for realistic planning

VCC can develop a very realistic plan for on-going programs through a careful analysis of its enrolment history. If classes are consistently under-filled, year-over-year, then an enrolment plan should be developed and approved that recognizes that reality. Approval of a right-sized enrolment plan may trigger layoffs but that is the consequence of getting to the correct program size. On-going cost savings that result from a right-sized enrolment plan can be used to fund new initiatives.

VCC Enrolment Plan vs. Performance

Observation

Table #1 compares the actual FTEs for 2014/15 with the budgeted enrolment for the same period. It is important to note the variances on a school-by-school basis as well as the overall negative variance of 16%. This means that there was 16% less instructional delivery (as calculated on an FTE basis) than was planned for the period.

Table #1

FTE Enrolment vs. Budget 2014/15

Student FTE by School	Budget	Actual	Variance $ Fav (Unfav)	Variance %
Centre for Continuing Studies	699.48	626.53	(72.95)	-10%
Centre for International eduction	298.84	381.80	82.96	28%
School of Trades	1,061.79	714.51	(347.28)	-33%
School of Access	3,196.69	2,759.22	(437.47)	-14%
School of Hospitality/Business	1,304.72	1,012.87	(291.85)	-22%
School of Health Sciences	909.39	844.13	(65.26)	-7%
Centre for Instructional Design	296.42	277.94	(18.48)	-6%
School of Music, Dance & Design	476.51	338.58	(137.93)	-29%
	8,243.84	6,955.58	(1,288.26)	-16%

Source, Enrolment plan by school - 2015-16

Note that the audited enrolment report shows a total of 6,965including international

Consistent negative variances can be an indicator of unrealistic or over-planning. As described in the previous section over-planning consumes resources that may be better utilized by meeting unfilled student demand in other program areas or by allocating resources toward developing new programs or revitalizing existing programs.

CUPE's Questions for VCC Administration and the Board:

1. The results from last year indicate a negative variance for all schools with the exception of the Centre for International education. How have these recent actual results been taken into account in the development of the 2015/16 enrolment plan and budget?
2. What resources have been allocated in the budget towards the development of new programs or the revitalization of existing programs (i.e. program review)? What process and what principles will be used to set priorities for those expenditures?

Comments

Often enrolment plans and their corresponding budgets are just a rollover of the prior year plan without much critical re-evaluation, and do not take into account evolving student and industry demands.

Budget History Year over Year

Observation

In approving the budget, the Finance Committee and the Board of Governors must determine whether VCC management has been accurate in its budgeting in the past. Table #2, below, compares Actual results for the most recent fiscal year with the approved budget for the year. It is important to note that "Tuition & student fees", which made up approximately 23% of the budgeted revenue for the College, fell short of budget by 16% in 2014/15. The tuition revenue shortfall appears to correlate with the 20% shortfall in AVED funded FTEs (Refer to Chart#2 in the previous section).

Table #2

Financial results 2014/15

$000	Budget	Actual	Variance $ Fav (Unfav)	Variance %
Revenue				
Province of British Columbia	61,731	63,970	2,239	4%
Federal government	4,911	4,971	60	1%
Tuition & student fees	23,397	19,563	(3,834)	-16%
Sales of goods & services	6,289	6,435	146	2%
Other grants & contracts	1,239	403	(836)	-67%
Miscellaneous income	1,205	1,537	332	28%
Investment income	375	230	(145)	-39%
Deferred capital contributions	4,855	4,786	(69)	-1%
	104,002	101,895	(2,107)	
Expenses				
Instruction & instructional support	99,375	102,079	(2,704)	-3%
Ancillary operations	3,946	4,174	(228)	-6%
Special purpose funds	680	1,054	(374)	-55%
	104,001	107,307	(3,306)	
Annual deficit	-	(5,412)	(5,412)	

Source, Financial Statements for the year ended March 31, 2015

Problems with the prior year budget

Revenue:

As noted above, "Tuition & student fees" revenue was over-estimated in the 2014/15 budget by a significant $3.5 million (16%). Other major variances include "Other grants & contracts", that fell short of budget by $836,000 (67%).

Expenses:

Instruction and instructional support was over budget by $2.7 million. This variance may relate to severances paid as a result of ELSA restructuring. The Board should insist upon a review the timeline for the closure of ELSA to ensure that severance notices were issued in a timely manner, given the significant financial risks and consequences of management decisions in that process.

CUPE's Questions for VCC Administration and the Board:

1. Last year, the College failed to meet its revenue budget in several areas. Please explain exactly how the 2015/16 budget has been developed to ensure that the potential for major variances in 2015/16 will be effectively managed?
2. Please explain how the instruction and instructional support section of the budget has been developed to ensure that significant spending variances do not re-occur in 2015/16?

Comments

The purpose of this analysis is to evaluate whether the College administration has a strong recent history of budget accuracy.

A Value for Money[5] audit is one method of evaluating whether an institution is effective in achieving good value relative to the resources it utilizes. In order to be successful in doing so, an institution must have effective processes for budgeting and for allocating resources. A Value for Money audit is different from a traditional financial audit in that it focuses on how successful the organization has been in obtaining the best value for the taxpayer. This is different than a traditional financial audit that is predominately focused on the integrity of financial reporting and on financial checks and balances.

[5] The Federal government has published guidance for conducting a Value for money Audit at the following link: http://publications.gc.ca/collections/Collection/FA3-30-2000E.pdf

VCC Tuition Revenue Estimates

Observation

Tuition revenue per student FTE has increased substantially in the 2015/16 budget. Table #3 provides a year-over-year comparison of the 2015/16 budget with the prior 4 years. Tuition revenue accounts for approximately 20 to 25% of the Colleges revenue source for the year.

Domestic student tuition is regulated by the Province of B.C. and is limited to increases no greater than inflation. In prior years, tuition regulation limits included limits on the imposition or increase of mandatory fees as well as tuition.

International student tuition is primarily market driven. Table #3 includes tuition and fee revenue from all students and programs.

Table #3 – Tuition Revenue per Student FTE

	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Budgeted
Tuition revenue per FTE	$ 2,698	$ 2,343	$ 2,488	$ 2,809	$ 4,220
% Change from prior year		(13%)	6%	13%	50%

Source: Audited Financial statements and Audited Enrolment Reports for Vancouver Community College

The expectation of a 50% increase in tuition and fee revenue per student FTE is excessive and risky. This is partially explained in the budget memorandum by the imposition of new mandatory fees and, in the enrolment plan by the increased reliance on international students as a percentage of the overall student population.

Tuition and fee increases are the subject of significant lobbying by student unions and the imposition of additional mandatory fees may be called into question, and pose a regulatory risk to the College.

CUPE's Questions for VCC Administration and the Board:

1. Please provide a breakdown of the tuition and fee revenue by source (i.e. domestic vs. international, continuing studies, tuition vs. fees, etc.) and include your rationale indicating that revenue increase of 50% per student FTE is reasonable and achievable?

Comments

Not all student FTEs generate an equivalent amount of revenue for the College. The Tuition per FTE comparison provides an overall indicator year-over-year but a detailed analysis is needed for the Board of Governors to fully understand the mix of students, and how specifically the overall student body profile will impact the tuition and fee revenue that is received by the College.

VCC's Increasing reliance on International Students

Observation

Table #4 below shows the % of international students served (based on student FTEs).

Table #4 – International Student FTE at % of total FTE

	2011	2012	2013	2014	2015	2016
% of International students	3%	3%	3%	4%	5%	7%

Source: Audited Financial statements and Audited Enrolment Reports for Vancouver Community College

As is evident from Table 4, international students have traditionally made up about 3% of the total student body on an FTE basis. In 2014 and 2015, the total number of international students that were served increased by 1% year over year. The 2015/16 budget is based on a further 2% increase in international student FTE bringing the total number of international students up to 7% of the total student population.

While increasing the number of international students can benefit the institution financially, it also increasingly exposes the College's finances to international risk factors. In the past 20 years, these have included geo-political risks (changes to permits, changing international competition, migration trends, safety concerns), economic risks (changes to various national economies and spending preferences), educational risks (changes in English language levels in various countries, preferences for study abroad), competition risks (changes in Canada's internal competitive landscape, barriers for accessing Canada such as VISA bottlenecks or policy issues, marketing issues), and unpredictable transnational issues, such as health risks (SARS). For example, the economic problems in Asia in the early 2000's suddenly reduced VCC's international revenue by $1,000,000 per year - revuenue which the College was relying upon to balance the operating budget.

A further consideration is the reduction of educational opportunities for domestic students. The College utilization rate for AVED funded programs dropped to 80% last year (Refer to Chart#2 in the prior section) indicating that opportunities for domestic students have declined. College policy is such that certain sections are offered only for international students and that no comparable equivalent may be available for a domestic student. Since the College depends heavily on taxpayer funding, one could question the strategy of increasing international enrolment at the expense of removing opportunities for domestic students.

CUPE's Questions for VCC Administration and the Board:

1. What steps have been taken to evaluate and mitigate the impact of global events on international enrolment?
2. What processes are in place to ensure that domestic student opportunities are not negatively impacted when international enrolment targets are increased?

Comments

Since public institutions are primarily taxpayer funded, the College needs to ensure that international student tuition revenue supplements, rather than supersedes, domestic student educational opportunities.

Other Comments on VCC's Budget Briefing Note

"Internal Pressures"

The budget brief includes the following note: CS investment $400k for new programs.

The board should be aware that CS programs take time to develop and market before they generate revenue. It is unclear if additional CS revenue has been included in the 2015/16 budget.

CUPE's Questions for VCC Administration and the Board:

1. What market research has been done to evaluate demand for these new CS programs?
2. Has any revenue from the newly developed CS programs been incorporated into the 2015/16 budget?
3. What programs exactly? How are these expenditures going to generate student enrolment in the current fiscal year given that it is already the end of June? How will program proposals be adjudicated?

"New Revenue Opportunities"

The budget brief includes the following notes under the section "New Revenue Opportunities": ESL Pathways and ABE Program tuition, along with the following risk assessment caution (from Page 6 of 6):

> "The budget development process included a review of the high level risks associated with the uncertainty related to the tuition charged ABE and ESL pathway programs. If the ESL Pathway program is not as successful as forecast and VCC cancels the program, a severance cost of $660K would have to be expensed in 15/16."

CUPE's Questions for VCC Administration and the Board:

1. What market research has been done to determine whether ABE and ESL pathway programs are marketable under the new fee structure?
2. If these programs are not marketable with the new fees, isn't the College just deferring (and effectively increasing) the inevitable financial impact of lay-offs that must be done in any case?

References

Vancouver Community College website and selected documents

- Decision Note, "2015/16 Operating Budget", Prepared for the Vancouver Community College Finance & Audit Committee, June 17, 2015.
- VCC Enrolment Plan 2015/16 – from Vancouver Community College Education Council Meeting Agenda of June 17, 2015
- Audited Financial Statements of Vancouver Community College for the year ended March 31, 2015.
- Audited FTE Enrolment Statement of Vancouver Community College for the year ended March 31, 2015.

British Columbia Government website and selected documents

- Province of British Columbia Colleges and Institutes Act, retrieved from http://www.bclaws.ca/civix/document/id/complete/statreg/96052_01