Special Report on Laurentian University

November 2022

Why we did this work

- On April 28, 2021, the Standing Committee on Public Accounts of the Legislative Assembly requested that our Office conduct a special audit of Sudbury-based Laurentian University's operations for the 2010-2020 period. Laurentian became the first publicly funded university to seek creditor protection under the *Companies' Creditors Arrangement Act* (CCAA) when it filed under the federal law on February 1, 2021.
- The Committee indicated that it wanted our Office to examine what led the University into the CCAA process, bring transparency to the situation and identify lessons learned to ensure something like this does not happen at another academic institution in Ontario.

Why it matters

- Laurentian's CCAA proceedings brought harsh consequences: the loss of 76 programs affecting an estimated 932 students, with a projected negative impact on enrolment for five to seven years; the termination of 195 staff and faculty at Laurentian with little notice and severance; and the termination of 146 staff and faculty at Laurentian's federated universities.
- Using CCAA also allowed Laurentian to make decisions with less transparency; reduce payments to those it owed money; and bypass provisions in its collective labour agreements to effectively terminate tenured faculty and clear long-standing union grievances.
- Laurentian's chosen path also led to more than $30 million in fees paid to private sector financial advisors and lawyers, as of September 12, 2022, and resulted in a breach of its debt agreements at an associated cost of $24.7 million. Those costs totaling $54.7 million, incurred at a time when Laurentian had total debt of about $107 million, would have been avoided if the University had not filed for CCAA.

What we found

RECOMMENDATIONS FOR LAURENTIAN'S ADMINISTRATION (APPENDIX 1)

Laurentian Strategically Planned and Pursued CCAA Restructuring

- Laurentian did not engage the Ministry of Colleges and Universities in a timely and transparent manner to allow it to offer informed assistance. Had Laurentian sought to work earlier and more transparently with Ministry staff; not prematurely paid off its line of credit in 2020; not rejected the Ministry's offer in August 2020 to cover half of the costs of an independent financial review of Laurentian that would have given the Province independent validation of Laurentian's financial position; and at minimum accepted the Ministry's offer in January 2021 of temporary funding assistance; Laurentian would have had sufficient time for its financial situation to be reviewed jointly with the Province with a go-forward plan put in place.
- Laurentian's senior administration also did not work in partnership with its faculty or staff unions to address its financial situation, and intentionally delayed providing the Laurentian University Faculty Association (LUFA) financial information up to the time of filing for CCAA protection. Laurentian also chose not to trigger the financial exigency clause in the collective agreement with LUFA despite LUFA requesting the use of this clause in October 2020, and twice prior.
- Instead, in our view Laurentian strategically planned and chose to take steps to file for CCAA creditor protection, a concept first presented by its legal counsel in mid-2019. In March 2020, nearly a year before it filed, the University engaged these same lawyers and other consultants, and directed them to focus on preparing Laurentian to file for CCAA protection.

Capital Expansions Primary Cause of Financial Decline	• In the years leading up to 2010, Laurentian was already facing financial difficulties. Nonetheless, in 2010 it amended its capital debt policy to allow it to incur even more debt to fund capital projects. And when its primary lender declined to provide more long-term debt, Laurentian sought short-term lines of credit to fund its capital expansion. By 2020, Laurentian had acquired more than $87 million in long-term debt, with total debt of $107 million, and its corresponding interest and principal payments had increased over time. • We found no documentation showing the University had a sustainable plan that addressed the financial viability of its major capital investments, or whether each project could be reasonably expected to bring in enough revenue to cover ongoing operating costs, interest on debt and the paydown of the principal debt itself. • As its ability to fund its capital projects weakened, Laurentian started to inappropriately draw on funds that had been restricted for other purposes, such as money designated for research projects and employees' retirement health benefits. By April 30, 2020, the University only had cash and short-term investments of $3.4 million available to satisfy $37.4 million in those future spending obligations.
Increased Costs of Administration	• Laurentian's leadership had suggested that a significant cause of its financial decline was "excessive faculty costs." But our examination found that Laurentian's overall faculty costs did not significantly surpass those of comparable universities, and that its overall academic programming had positively contributed to the University. • Instead, we found that costs associated with Laurentian's senior administration climbed by about 75% between 2010 and 2020, exacerbating the University's financial difficulties. • We also found that Laurentian breached provincial compensation-restraint legislation for Broader Public Sector employees, compensating senior administration $389,000 more than legislation permitted, and that its recruitment of senior administrators lacked demonstratable fairness or rationale. • Additionally, Laurentian incurred costs of $2.4 million on Special Advisors to the President and other senior administrators without documented justification, and $1.4 million in discretionary expense funds for senior administrators. • For the 11-year period up to April 30, 2021, Laurentian also spent $8.5 million in legal costs. Of this, $3 million was for CCAA preparations and $5.5 million was for non-CCAA related legal expenses (including $3.4 million for human-resource and labour-relations issues).
RECOMMENDATIONS FOR LAURENTIAN'S BOARD (APPENDIX 2)	
Weak and Sometimes Misdirected Board Oversight	• The poor management of the University's financial affairs and operations was allowed to continue in large part because of weak oversight by Laurentian's Board of Governors. The Board did not receive, or ensure it received, sufficient information about the University's finances, cash flows, plans and operations, and consequently approved capital spending proposals that led to increasing debt without adequately assessing those proposals. • The Board did not follow best governance practices. It was increasingly less transparent, holding meetings behind closed doors to an unnecessary extent, did not regularly evaluate its own performance, and did not strictly avoid practices that would create a perception of conflict of interest in decision-making.
RECOMMENDATIONS FOR THE MINISTRY (APPENDIX 3)	
Ministry Not Effectively Overseeing Financial Sustainability	• The Ministry of Colleges and Universities, which is the primary government body responsible for monitoring the financial health of post-secondary institutions, did not start tracking the financial condition of Ontario universities until 2014/15. At that point it was already apparent that Laurentian's financial situation was progressively worsening. Laurentian had failed to meet nearly all of the Ministry's financial sustainability targets. However, the Ministry did not take any action upon receiving this information. • Under current legislation, the Ministry does not have the specific authority to require universities to operate sustainably, and believes that it could not have prevented Laurentian from choosing to file for CCAA creditor protection.

Conclusions

- Although there were additional external factors that impacted Laurentian's operations, the main cause of its financial decline was its poorly planned and costly capital expansion.
- Senior administration exacerbated the situation by making a series of questionable financial and operational decisions, including amending its internal policies to allow Laurentian to incur even more debt, and increasing its senior administration costs. The poor management of the University's financial affairs and operations was allowed to continue because of weak Board governance, the lack of effective oversight provided by the Ministry, and the Ministry's inability to effectively intervene to prevent Laurentian's CCAA filing.
- Laurentian's senior management and Board chose to file for CCAA protection in response to the University's financial decline, poor relations with faculty and staff associations, and the Laurentian leadership's desire to end agreements with the federated universities. The decision to pursue CCAA was made on the advice of external counsel. Laurentian could have made a more concerted effort to secure government assistance to build an effective go-forward plan and work transparently with its faculty and staff associations.

Read the report at www.auditor.on.ca