

University of Ottawa

Frame of Reference

2014-2015 Budget

The University of Ottawa would like to provide the University community with information on the priorities, issues and challenges the University faces in preparing its 2013-2014 budget and three-year budget for 2014-2017.

In 2011, the Board of Governors approved the *Destination 2020* strategic plan. This plan includes four core pillars tied to student experience, research, internationalization as well as the francophonie and bilingualism. The University acknowledges the need to invest in strategic, targeted initiatives to reach its goals.

Ontario's differentiation policy framework

Following the submission of strategic mandate agreements (SMAs) from Ontario's universities in September 2012, the Ontario government began an extensive review process of Ontario universities, resulting in the creation of a draft discussion paper, *Ontario's Proposed Differentiation Policy Framework*.

The introduction of this draft discussion paper, submitted in September 2013, states:

The 2008 economic downturn and the ensuing precarious state of the global economy have made Ontario's fiscal environment challenging. Substantial new investment by the government at levels comparable to the previous decade is not feasible. As enrolment growth is expected to slow in the near future, so too will operating grant funding. With institution inflation ranging from 5-8% annually, and operating grants increasing annually by 1.1% on average, existing cost structures are under pressure. Over time the sustainability of postsecondary education may be at risk.¹

The government expects to release the final differentiation framework in the fall of 2013. This framework will be used to develop strategic mandates for Ontario's financial institutions in 2014, which will address issues of fiscal responsibility and sustainability.

There is no doubt this new regulatory context will have a major impact on the allocation of its resources at the University of Ottawa and at all Ontario universities.

The University will face major budgeting issues and challenges over the coming years, including those related to reduced provincial funding per student, limited growth in student numbers, increased pension plan expenses as well as increased costs for salaries,

¹ Ontario's Proposed Differentiation Policy Framework, Draft Discussion Paper, September 2013

benefits and other operating expenses. We must take this new reality into account as we implement the budget strategy for 2014-2015 and the years beyond.

The University considers the most pressing priorities, issues and challenges to be:

A. External priorities, issues and challenges

1. Provincial funding

Provincial funding accounts for the University's largest source of revenue. However, the unit value per student has not increased for several years, creating a major challenge for Ontario universities.

In its provincial budget tabled on March 27, 2012, the Government of Ontario indicated it is looking for increased productivity of Ontario universities and set a target of \$28M in 2013-2014 and \$55M in 2014-2015. This translates into a reduction of approximately 1% in provincial funding for 2013-2014 and 2% for 2014-2015, a total reduction in the University's provincial funding of **\$6.2M**.

The *Destination 2020* strategic plan anticipates moderate growth in student numbers, which limits the amount of provincial funding the University can expect to receive throughout the budget period.

2. Tuition fees

When setting tuition fees for 2014-2015, the University must take into account provincial government regulations, *Destination 2020* objectives and the University's fiscal sustainability.

Tuition fees represent the University's second greatest source of revenue, after provincial funding. Tuition fees represent, therefore, a significant portion of the University's revenue and must be analyzed within an overall budget management context.

The Government of Ontario approved tuition guidelines for the years 2013-2014 through to 2016-2017, inclusive, that included a maximum average tuition fee increase of 3% for this period. Based on recommendations it receives from the Finance and Treasury Committee, the Board of Governors is responsible for establishing tuition fee increases. The Administration Committee recommends that for budget consultation purposes the University use this frame of reference for determining its revenue from tuition fees during the period covered by the budget.

B. Internal priorities, issues and challenges

1. Destination 2020 strategic plan and 2013-2017 targets

In 2011, the Board of Governors approved the *Destination 2020* strategic plan. This plan includes four core pillars tied to student experience, research, internationalization as well as the francophonie and bilingualism.

The University acknowledges the need to invest in strategic, targeted initiatives in order to reach its goals. To do so, the University must free up the necessary funds for these initiatives. The first step towards doing so was to create a \$2.5M envelope in the 2013-2014 budget. However, this amount is not adequate for *Destination 2020* initiatives. As a result, the Administration Committee proposes increasing the envelope by \$5M for 2014-2015, bringing the total for strategic investments linked to *Destination 2020* initiatives to \$7.5M. The Administration Committee also proposes an annual increase of \$5M to the envelope, to reach \$17.5M in 2016-2017 and \$35M in 2020, so the University can invest strategically in order to meet its *Destination 2020* goals.

As part of this effort, faculties prepared and submitted their three-year plans in October 2013. The goal of the exercise was to identify their strategic priorities for the next three years. These three-year plans will serve as the basis for decisions on allocating \$7.5M in 2014-2015 and \$12.5M in 2015-2016 towards meeting the objectives of *Destination 2020*.

The Board of Governors has also approved a plan to increase the number of new students by 500 per year. This moderate growth is to support the strategic plan, specifically the element aimed at enriching the student experience.

2. Salary and benefits

a) Cost of salaries and benefits

The University must budget amounts to cover salaries for all fiscal years and to ensure it meets its obligations. We have entered into new collective agreements with the APUO and SSUO bargaining units that run until April 30, 2016. These two groups represent the majority of the University's employees. More than 70% of operating fund expenditures goes towards salaries and benefits.

b) Pensions

The University of Ottawa is able to offer its employees an attractive defined-benefit pension plan. However, the financial and economic situations in both North America and around the globe, particularly the current low interest rates, volatile market conditions and rising life expectancies, create major funding challenges for the University's pension plan, which the University and its employees must deal with. The University of Ottawa must find solutions for maintaining the plan and ensuring its long-term sustainability.

Pension plan payments, including special payments to cover actuarial deficits, are mandatory and prescribed by province of Ontario regulations. The pension plan is currently in a serious deficit position, whether the value is determined using the going concern or the solvency valuation method. The University met the criteria for stage 1 funding relief for the solvency deficit set by the Government of Ontario when it submitted its actuarial assessment as at January 1, 2013. The University was able to meet mitigation requirements set by the Government of Ontario to qualify for stage 1 funding relief for the solvency deficit when it submitted with its actuarial assessment on January 1, 2013, by presenting a plan to reduce pension plan costs. The assessment and current regulations require the University to make special payments of \$12M per year in 2014, 2015 and 2016 and then \$32M annually for 10 years, beginning in 2017. These payments are mandatory and will reduce resources available for University operations by these same amounts. The next actuarial assessment is due on January 1, 2016.

Between now and January 1, 2016, the University will revise its actuarial assumptions, specifically as they relate to developments with the pension plan and life expectancies. The University must take into account these new assumptions and the impact they will have on the costs and sustainability of the pension plan.

In this context, it is critical we find solutions to ensure the long-term sustainability of the pension fund. The new collective agreements with professors (APUO) and support staff (SSUO) will help improve funding of the pension plan through increases in employee contributions, beginning January 1, 2015. However, we must continue our efforts to find permanent, sustainable, long-term solutions to pension plan challenges or the University will be required to make significant reductions in other areas of the budget, which will necessarily affect our academic, operational and research activities.

3. Scholarships and financial aid

The University of Ottawa is a leader among Canadian universities in terms of investment in scholarships and financial aid. The University invests over 9% of its operating fund for these resources.

Scholarships and financial aid are funded mainly through the contribution of 10% of tuition fee increases. These funds are available to help students in financial need and to support our scholarship programs.

In order to remain competitive and an attractive for potential students, the University is currently reviewing the way it funds scholarship and financial aid and sources of potential funding in order to ensure our awards remain relevant and continue to meet the true needs of the University community. As such, we must identify new sources of funding in order to maintain and improve this investment.

4. Information systems

To help our institution in its mission and to ensure good governance, the University must have effective information systems and its technology infrastructure must meet our needs. As a result, the University has launched an enterprise architecture project to assess the state of its technological systems and their ability to meet the needs of our faculties and services. The results of the assessment will determine the special and targeted projects the University must undertake in the years to come to be able to meet its IT needs. Examples include replacing the student information system and implementing a new system for managing our research activities.

These new initiatives, which will improve our processes and user experience, require the University to invest a significant amount of money in order to develop and implement these projects; funds will also be needed to maintain these new systems.

5. Infrastructure needs

The University approved a \$127M capital plan for 2012-2017. The University approved a \$127M capital plan for 2012-2017. Construction of the new Advanced Research Complex, for the Faculty of Health Sciences needs and of a new learning centre will improve our facilities for teaching, research and our students. This new infrastructure will result in additional operating and maintenance costs that will have to be covered by operating fund budgets, particularly after the opening of the Advanced Research Complex, scheduled to open in the spring of 2014.

6. Three-year budget

The University submitted its three-year budget in May 2013, together with its 2013-2014 budget.²

Taking into account the framework for budget forecasts and the three-year budget submitted in May 2013 that was updated to reflect changes to collective agreements and results of the January 2013 actuarial evaluation, projected deficits for 2014-2015 and 2015-2016 are in the area of \$14M to \$21M per year, based on our current operational procedures and information available as of September 30, 2013.

A number of possible solutions must be explored, by way of growing revenue or reducing expenditures. Examples include operational management of properties, reviewing investments in financial aid and awards, reviewing programs and services, freezing or reducing some types of expenditures, increasing donations designated to the University's activities, diversifying sources of revenue, etc.

These ideas tie in with the orientations set by the Board of Governors when it approved the 2013-2014 budget, which is aimed at ensuring the long-term fiscal sustainability of the University of Ottawa. The budget consultation process will make it possible for us to gather comments and suggestions from members of the University community as we seek solutions for balancing the budget.

² <http://rf.uottawa.ca/etats-financiers/documents/2013-2014-TableauB11Budgettriennal2013-2016.pdf>