

# MEMO

**To:** Members of the Administration Committee

**From:** Members of the Budget Committee

**Subject:** Report – 2017-2018 budget

**Date:** February 7, 2017

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## INTRODUCTION

In the fall of 2016, the Administration Committee (AC) created a standing budget committee. With the goal of implementing a rigorous and transparent budgetary process that is guided by the legislative framework governing Ontario universities, financial viability over the long term, the strategic goals of *Destination 2020*, contractual obligations and the sound management of the University's resources, the AC asked the Budget Committee to recommend a philosophy, a set of budget principles and a budgetary approach and to allocate the financial resources necessary to deliver a balanced budget. The Committee's recommendations were to be based on operating funds reported on a modified cash basis, which differs from an accrual accounting method in accordance to Policy 55.

It is important to remember that the current budget is one that will transition the University from the previous situation to one using a new internal funding formula that will address the new funding framework for universities being implemented by the Ontario government.

The Committee began by reviewing the 2017-2018 budget. Given the preliminary fiscal projections, which forecast a significant deficit, the Committee focused its efforts on identifying deficit reduction measures that would address the situation. The Committee used the faculty and service operating expense budgets as at September 30, 2016, to complete its work.

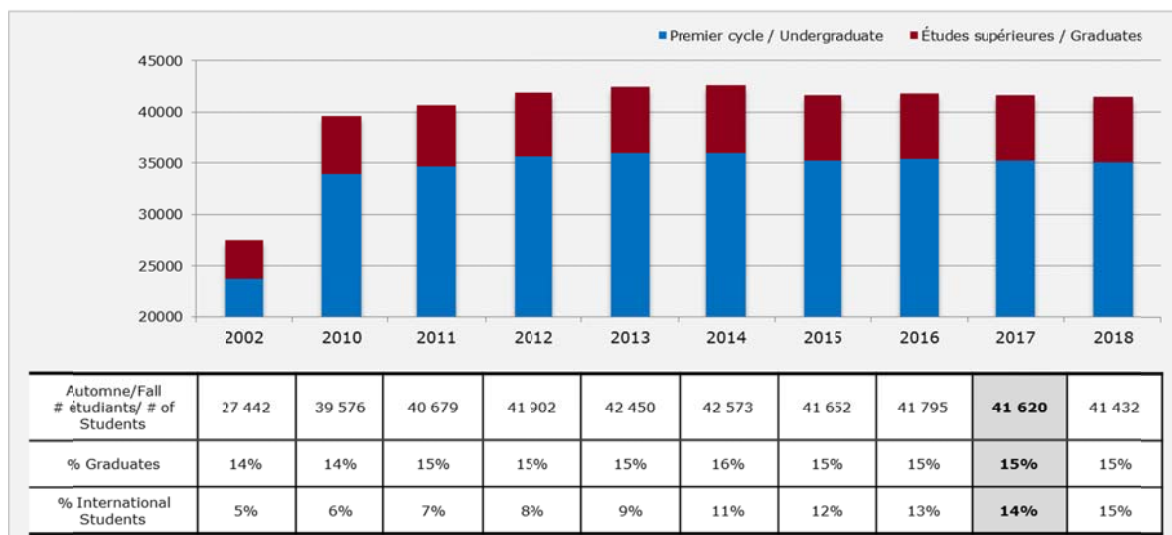
The Budget Committee met 11 times between November 2016 and January 2017. Committee members analyzed both revenue—mainly tuition fees and provincial funding—and all operating fund expenditures. They undertook a rigorous review of the goals, challenges and opportunities included in the proposals submitted by each faculty and service and met with approximately 20 of these groups to obtain clarifications and to gain a better understanding of the impact and the risks associated with the proposed measures.

## CONTEXT

The Committee considered a number of major issues the University is currently facing. Some of the most significant external factors at this time include:

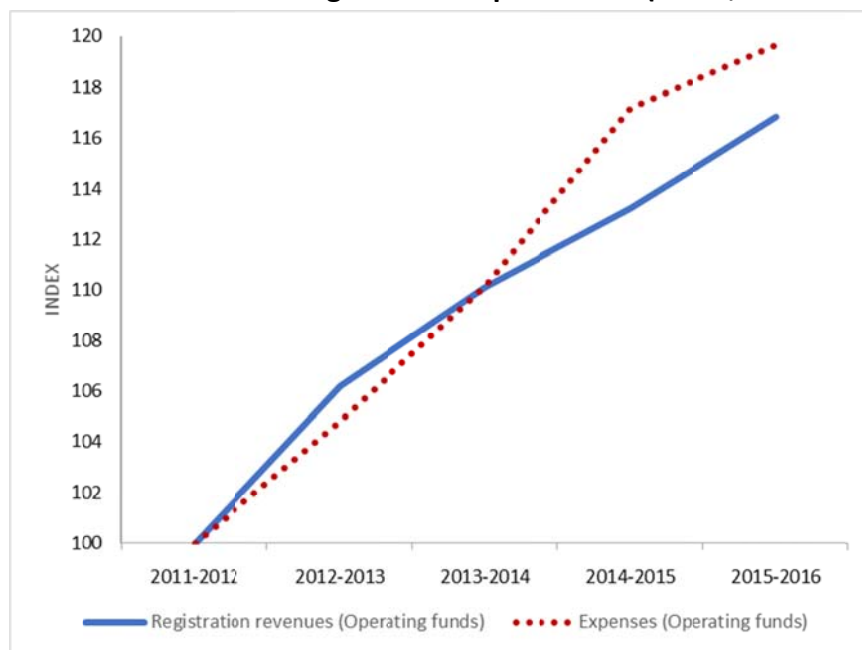
- *A drop in the number of 18- to 20-year-olds in Ontario and in the rest of Canada.* Changes in student numbers (figure 1) have affected revenue and resource allocation at the University. Although the University experienced a decade of continued growth in student numbers from 2005 to 2014 (from 33,475 to 42,575, an increase of 27%), from 2014 to 2018, there has been a drop of 2% in the number of students (down 1,141).
- *Uncertainty related to the Ontario government’s regulatory framework for provincial funding and tuition for Canadian students.* There has been a 2% permanent reduction in per-student government grants compared with 2013–2014 levels.
- *Unstable and very volatile financial markets, which has a direct impact on the University’s investment income and on the financial health of the pension plan.*

**Figure 1: Student numbers, 2002–2018**



Internal pressures must also be taken into consideration, particularly the University’s desire to continue focusing on achieving the *Destination 2020* goals, and must be considered in a context where expenditures have outpaced revenue (figure 2). Salaries are by far the largest expenditure for any university. As a result, payroll and benefits (including the pension plan) have a direct impact on the institution’s financial situation. Other key elements that must be considered include maintaining a competitive financial aid and awards program, maintaining the institution’s infrastructure and working towards achieving a balanced budget.

**Figure 2: Growth in revenue vs. growth in expenditures (Index, 2011–2012 = 100)**



Although the University of Ottawa’s current financial situation is not critical, it must be taken very seriously. The institution’s revenue no longer covers its expenditures, which necessitates a number of changes. Decisions must be made that will allow the institution to optimize its resources, increase revenue as well as reduce (and restrain) spending.

## **GUIDING PRINCIPLES**

In light of the current context, the Budget Committee developed a number of principles to guide its analysis. These guiding principles are as follows:

- ***The University’s academic mission is the core element that must guide the Committee members’ reflections. Members must recognize the key role of all activities related to this mission.*** One of the Committee’s key considerations was fostering the conditions needed to maintain and develop quality programs and that are conducive to research development.
- ***Consideration must be given to the University’s strategic goals related to the Francophonie and bilingualism, the student experience, research and internationalization.*** The Committee recommends making funds available to support the achievement of *Destination 2020* strategic goals and to introduce new academic initiatives.

- **Priority must be given to seeking ways to improve effectiveness and efficiency of institutional practices in order to ensure strong financial health.** Optimizing processes and simplifying governance structures must be considered when looking at the situation in the faculties and services.
- **The exercise must allow for budgetary adjustments that take into account the reality facing each faculty and service and the impact the adjustments will have on their activities.** The goal is to understand the opportunities and challenges specific to each one in order to make informed recommendations.
- **Certain discretionary budget accounts must be reviewed, particularly those involving the hiring of consultants and travel expenses.** The Committee took a close look at the increases noted in amounts paid for “professional fees” and “travel” in order to limit non-essential expenditures.
- **Each faculty and service must review its capacity for generating revenue.** The Committee reviewed the working group’s report on this subject and encourages faculties and services to focus on increasing revenue rather than focusing only on reducing expenditures.
- **The proposed spending reductions must be implemented by each faculty and service and the budget targets must be met.** The progress of faculties and services will be monitored, which will require meetings with each of them at different times throughout the year.

## **ANALYTICAL DATA**

The Committee developed a template and asked each faculty and service, including central administration, to prepare scenarios for 4% and 8% reductions to their operating budgets, making it possible, collectively, to balance the 2017-2018 budget.

In addition to considering the proposals submitted by the faculties and services, the Budget Committee also reviewed the following data, which was also provided to the faculties and services to assist them in preparing their proposals:

- Actual revenue and expenditures from 2011-2012 to 2015-016
- Financial situation as at April 30, 2016
- Enrolment numbers by faculty
- Faculty base
- Class sizes
- Student retention and graduation rates
- Proportion of international students
- Administrative expenses
- A list of all job positions by category
- Key scorecard performance indicators

Each of the proposals received from the faculties and services was carefully examined with the guiding principles indicated above in mind. To that end, the Committee reviewed the suggestions put forward by the faculties and services with particular consideration given to the following elements:

- History of surplus (or deficit) numbers for past years
- Spending levels for administrative expenses
- Travel expenses allocated to operating fund
- Professional and consulting fees
- Capacity for generating additional revenue
- Volatility or stability of number of students
- Number of international students
- Disparities caused by shortcomings in the internal funding model for training

## **GENERAL RECOMMENDATIONS**

Upon completing its analysis, the Committee makes the following general recommendations:

- 1) As stated in the guiding principles, the Committee members believe it is essential to encourage faculties and services to develop initiatives that generate additional revenue. It is also essential to encourage improvements in the performance, efficiency and effectiveness. The Committee therefore recommends creating a dedicated envelope to encourage and facilitate such efforts. This fund would be in place for the 2017-2018 academic year.
- 2) During the course of its work, the Committee had difficulty evaluating administrative and support performance levels for the faculties and services. A provincial initiative to collect this information and compare results among universities is currently under way. The Committee recommends that the University of Ottawa undertake a benchmarking exercise in parallel with the provincial initiative in order to better inform budget decisions for 2018-2019 and the years to follow.
- 3) A number of faculties and services identified sponsorships or ads as a possible source of revenue. The Committee recommends that the University explore the feasibility of this practice and any conditions or framework required for such an initiative.

Based on the data available, the Committee also recommended budget adjustments for each faculty and service, including central administration. These adjustments total approximately \$22M, or 3.1% of the University's operating budget. The average adjustment to the amounts allocated in the current budget (2016-2017) for faculties is 2%, including a one-time allocation to the Faculty of Arts. The adjustments for student services and for other services average 2.9% and 4%, respectively. The Committee also highlighted a number of elements faculties and services will need to explore. They include measures to improve the efficiency of services

provided and projects that could generate new net income. Follow-ups will be carried out with the faculties and services over the coming months.

The Committee is concerned with the increase in travel expenses at certain faculties and services and is asking them to substantially reduce their travel spending. The Budget Committee also noted an increase in professional fees of all kinds and asks for tight controls on these expenses.

It is important to note that the faculties and services have proposed measures to minimize the impact of budget adjustments. This includes simplifying administrative processes; turning to automated and computerized systems and tools; restructuring and reorganizing the tasks carried out at the faculties and services; finding synergies between units that would allow, for example, sharing of administrative services, reassessing management structures and changing service delivery models.

In conclusion and based on the information available as of January 30, 2017, the Budget Committee believes that the methods used to estimate revenues and establish expenditure adjustments are sound and will enable the University to deliver a balanced preliminary operating budget for 2017-2018. The Committee notes that the final tuition and ancillary fees as well as administrative and other fees will be determined by the CA and submitted to the Board of Governors for approval.

## **NEXT STEPS**

The Budget Committee is a standing committee, which means the Committee's work will carry on beyond making its recommendations for budgetary adjustments for the 2017-2018 fiscal year. Monthly meetings are scheduled beginning this month in order for the Committee to develop a comprehensive action plan that will allow it to fulfill its mandate.

## **APPENDIX 1. MANDATE OF THE BUDGET COMMITTEE**

- Budget Committee is responsible for overseeing and developing the university's budget, which is subject to approval by the Board of Governors
- Ensure budget and performance metrics are developed based on guiding principles such as units accountabilities, efficiencies, transparency and solidarity
- Provides advice on resource allocation and budget development decisions to the CA

Terms of reference include:

- Establish and review the budget framework
- Ensures a broad understanding of the objectives and principles
- Receive and respond to budget submissions from all Faculties, services, and units;
- Reviews recommendations and provides advice on the development of the budget model;
- Makes specific recommendations to ensure that the budget reflects transparent and appropriate incentives to stimulate revenue growth and efficiently and effectively use of resource required to support the academic enterprise and sound governance
- Advises on appropriate resource allocation
- Reviews unit budgets as part of the annual budget process.
- Deliver the final budget to the CA

Responsibilities include but not limited:

- Process on the organization of planning
- Long-range planning and budget guidelines
- Review guidelines for divisional academic plans and objectives
- Review enrolment plans

## **APPENDIX 2. BUDGET COMMITTEE MEMBERSHIP**

Members of the Budget Committee were selected by the Administration Committee. Those from the University community were chosen in consultation with the deans and associate vice-presidents. The list of members is as follows:

- Jacques Frémont, President and Vice-Chancellor (ex officio)
- Michel Laurier, Vice-President Academic and Provost (co-chair)
- Marc Joyal, Vice-President, Resources (co-chair)
- Sylvain Charbonneau, Associate Vice-President, Research (delegate of the Vice-President, Research)
- Suzanne Morris, Member, Board of Governors
- Joanne Lefebvre, Member, Board of Governors
- Rose Anne Devlin, Professor, Faculty of Social Sciences (University community representative)
- Kaouthar Lajili, Professor, Telfer School of Management (University community representative)

They were assisted by the following resource people:

- Serge Nadeau, Associate Vice-President, Planning
- Joëlle Clément, Director, Financial Planning
- Karine Gorman, Adviser, Financial Planning
- France Renaud, Director, Management of Financial Communications and Operations (delegate of the Associate Vice-President, Financial Resources)
- Rachel Ouellette, Chief of Staff, Office of the Vice-President Academic and Provost