University of Toronto

OFFICE OF THE VICE-PRESIDENT AND PROVOST

TO: **Business Board**

SPONSOR: Vivek Goel, Vice-President and Provost
CONTACT INFO: Safwat Zaky, Vice-Provost, Planning & Budget
(416) 978-7116, safwat.zaky@utoronto.ca

DATE: March 17, 2006 for meeting on March 28, 2006

AGENDA ITEM:

ITEM IDENTIFICATION

- Budget Report for 2006-07

JURISDICTIONAL INFORMATION

The annual Budget Report is considered by the Business Board for concurrence with the recommendation to the Academic Board that the Budget Report be approved. As outlined in the terms of reference, such concurrence would indicate that the Business Board is satisfied that the proposed budget is financially responsible.

OTHER ACTION TAKEN

N/A

HIGHLIGHTS

This is the third budget report in the 2004-10 budget cycle. The original plans for this cycle were documented in the Long-Range Budget Guidelines issued March 2004, and the budget assumptions were updated in the 2005-06 budget. The attached budget report for 2006-07 starts by providing updates for the Guidelines and budget assumptions based on the latest revenue and expense information, followed by a presentation of the 2006-07 budget and divisional allocations. Projected expenditures on Contractual Obligations and Policy Commitments (COPC) are also included.

Significant growth in revenue is projected as a result of this year's Ontario Budget. The University of Toronto is proposing to increase graduate enrolment over the next four years by about 4400 students. Plans for this expansion will be presented to Governing Council for consideration in the spring once the Province of Ontario finalizes the methodology for allocations to each university. The budget projections in the attached report assume that the Province will grant our proposed allocations and that these plans will be approved by the Governing Council.

Another important source of new revenue is the Quality fund established in Ontario's May Budget. Allocations from this envelope have been announced for 2005-06 only. Projections for the remainder of the budget cycle are based on rough estimates of the University's share. The amount received from this fund in 2005-06 was already built into the budget assumptions originally forecast for the current fiscal year.

On March 8, 2006 the Provincial Government announced its new multi-year tuition policy framework. The University of Toronto's proposed tuition schedule for 2006-07 has been prepared in accordance with this framework and the University's own policy on tuition and accessibility. Based on the proposed tuition schedule, tuition revenue will rise by about 4.1% in 2006-07. The budget report assumes that the schedule will be approved by Governing Council and that the revenue increase will be realized. The budget report also assumes that tuition revenue would increase by about the same percentage in the last three years of the budget cycle.

At the same time, the government announced plans to introduce a Student Access Guarantee — a partnership between the province and the universities to ensure that no student is denied access to higher education for financial reasons. The Government's intent in this area is completely in line with the long-established policy of the University of Toronto. The University remains committed to the goal of accessibility and will continue to set aside sufficient funds to achieve this goal.

The new revenues also bring substantial new expenses, particularly to support graduate expansion. This budget allocates funding for graduate expansion as well as to support new initiatives that would enhance both the undergraduate and graduate student experience.

In addition to the cost of new initiatives, there have also been greater increases in current expenses than previously projected. These include compensation and benefit costs, student aid and the cost of utilities. As a result, the expense containment strategy planned at the beginning of this budget cycle continues to be needed, with minor adjustments. An expense containment of 5% will be implemented for 2006-07, followed by 3.0%, 2.0% and 1.0% in fiscal years 2008 to 2010, for a total of about 11%. This is slightly less than the 12% projected for this period in last year's budget. The projections for one-time-only containments have increased from a total of 3% projected last year to 6.5% in this year's report, primarily as a result of a larger accumulated deficit. One-time-only budget containments are intended to ensure that the accumulated deficit at the end of the budget cycle remains within the range approved by Governing Council, which is 1.5% of gross revenue.

The University's expense budget includes a list of items collectively known as Contractual Obligations and Policy Commitments (COPC). The list consists of non-discretionary expenditures that are a result of University policy commitments, contractual agreements, and statutory obligations. For example, they include the library book acquisitions fund because it is University policy to maintain the library collection at world-class level. Utility costs are included as the institution has no control over energy price fluctuations. Also, government regulations dictate expenditures on health and safety. Overall, COPC expenses are projected to increase by $23.4M, mostly because of a significant increase of $16.3M in the cost of utilities.

FINANCIAL AND/OR PLANNING IMPLICATIONS

Total revenue is projected to increase from $1,152M in 2005-06 to $1,275M in 2006-07. At the same time, expenditures are expected to increase from $1,168M to $1,284M, after applying a base expense containment measure of $31M. This is equivalent to a 5% reduction on a relevant base (the portion of the budget to which expense containment measures can be applied) of $612M. As a result, the in-year deficit is projected to be $9.3M and the accumulated deficit will rise to $64.5M, or 5% of gross revenue. The planned expense containment measures will reduce the accumulated deficit to $22.4M, or 1.5% of gross revenue, by 2009-10, as required by Governing Council guidelines for long-range budget planning.

With the proposed control provisions, total expenditures over the next four years would rise by $321.2M. Of this amount, $66.4M represents cost increases for university-wide services. An additional $91.4M is projected for compensation increases. The remaining $163.4M are available for academic divisions to hire faculty and staff, enhance quality, and cover the costs of graduate expansion.

RECOMMENDATION

The Business Board concurs with the recommendation to the Academic Board:

> THAT the "Budget Report for 2006-07" dated March 13, 2006, including the revisions to the long-range budget assumptions and the Contractual Obligation and Policy Commitments list, be approved.