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

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AGENDA ITEM: **4**

ITEM IDENTIFICATION

Long Range Budget Guidelines: 2007-08 to 2011-12 and Budget for 2007-08

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, concurrence would indicate that the Business Board is satisfied that the proposed budget is financially responsible.

OTHER ACTION TAKEN

Budget Report approved by P&B Committee on April 16, 2007 and will be presented to Academic Board on May 2, 2007.

HIGHLIGHTS

This is the fourth budget of the current budget cycle, which ends in 2009-10. This is also the first budget being prepared under the University's new budget model. When preparing budget plans under the new model, it is highly desirable to have available revenue and expense for several years ahead. Thus the budget assumptions and projections have been updated through to 2011-12. For this reason, the University is proposing to start a new five-year budget cycle for the period 2007-08 to 2011-12.

As part of the implementation of the new budget model and consistent with its objectives, a new policy for long-range budget planning is currently under preparation. It will be presented to Governing Council for consideration together with the budget report for 2008-09. The University administration is considering budget planning cycles based on rolling five-year windows. The objective is to reduce the likelihood for deficit financing, which was often used in the early years of long range cycles under the present budget regime. The five-year plan presented in this year's report proposes a balanced budget in each of the coming five years with a plan to bring the accumulated deficit to within the allowable maximum by the end of the cycle.

The University's current enrolment plans call for a reduction of undergraduate enrolment by about 1000 students over the next five years. During the same period, graduate enrolment is expected to grow by about 4500 students, as per the graduate expansion plan approved by Governing Council in December, 2006. Total revenue is projected to increase by $41M in 2007-08 and by $274M by the end of the cycle. Cost of living increases and other necessary expenses would cause expenditures to increase at a faster rate. However, the University is proposing to implement cost containment measures to maintain a balanced budget for each year of the cycle.

According to the provisions of the new budget model, revenues flow to academic divisions. Costs for university-wide and shared services in the administrative divisions are then attributed to the academic divisions. Compensation increases in administrative divisions are funded directly from the university budget, but compensation increases in academic divisions are funded from divisional budgets. After taking these into account, and based on the assumptions described in the report for increases in salaries and benefits, an overall expense containment measure of about $17.3M is needed in 2007-08 to maintain a balanced budget. Of this, $4M will be absorbed by the administrative divisions and $13.3M will need to be implemented by the academic divisions. This distribution is proportionate to that under the old budget model.

There are other expenses in 2007-08 that will result in additional cost containment requirements at the divisional level. A large portion of the growth in revenue is derived from graduate enrolment, which is projected to increase by about 1800 FTE. There are considerable costs associated with this expansion, particularly for graduate student support. Also, repayment of the accumulated deficit will result in a charge of an additional $11.2M. Coming after several years of expense reductions, including a 5% reduction in 2006-07, budget pressures in 2007-08 are very significant.

Projections for the years after 2007-08 show that increases in revenue are much less than what is needed for the University to meet its aspirations, particularly given the long period of large expense containment measures in recent years. This slow growth in revenue is a result of no projected increases in per-student funding by the government. At this time, no information is available about government funding beyond 2008-09, and hence no increases have been assumed in the budget guidelines for that period. For this reason, the projected increases in expense beyond 2007-08 are given for modeling purposes only. If there are no increases in revenue in the outer years, more stringent expense containment measures will need to be implemented.

The in-year deficit for 2006-07 is forecast to be $15M higher than planned, bringing the accumulated deficit to $79.2M. Most of this increase is a result of a $12M variance in government funding. As mentioned above, a payment of $11.2M is proposed in each of the coming five years to reduce the accumulated deficit to 1.5% of gross revenue by the end of the budget cycle, as required by Governing Council Policy. This payment will be made possible by one-time-only cost containment measures to be applied to all University divisions, in addition to those required to maintain a balanced budget.

The Government of Ontario announced new one-time-only funding for universities in its budget of March, 2007, to relieve current cost pressures. The University of Toronto's share is about $40M. In addition, some end-of-year funds will also be distributed. These funds are not reflected in the budget presented in this report as they are one-time-only funds and they have been announced after the University's budget has been prepared. They will be treated as in year variances to the revenue assumptions. While these funds are welcome and will provide some budget relief, their impact is limited. As these are one-time-only funds, they cannot be used for any long-term commitments, such as hiring faculty. These funds will be allocated to academic and administrative divisions in a manner that best addresses current budgetary challenges.

FINANCIAL AND/OR PLANNING IMPLICATIONS

Total revenue is projected to increase from $1,275M in 2006-07 to $1,334M in 2007-08. After applying a cost containment measure in the amount of $4M to the administrative divisions, expenses will be equal to projected revenues, resulting in a balanced budget. Compensation increase is estimated to require cost containment of about $13M in the academic divisions. While the impact of this on academic divisions varies depending on the circumstances of each division, on average there is a 3% expense containment against the relevant budget institution wide.

The accumulated deficit is projected to reach $80M by the end of the 2007 fiscal year. It is proposed that this deficit be repaid in equal installments of $11.2M in each of the next five years, thus reducing the accumulated deficit to 1.5% of gross revenue at the end of the budget cycle, as required by Governing Council Policy.

RECOMMENDATION

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

THAT the "University of Toronto Long Range Budget Guidelines: 2007-08 to 2011-12" dated April 16, 2007, including the 2007-08 Budget, be approved.