



# University of Toronto

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OFFICE OF THE VICE-PRESIDENT AND PROVOST

TO: **Planning and Budget Committee**

SPONSOR: Vivek Goel, Vice-President and Provost

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DATE: For meeting on February 27, 2008

AGENDA ITEM: 6

## ITEM IDENTIFICATION

- Budget Report for 2008-09

## JURISDICTIONAL INFORMATION

Excerpt from the terms of reference for the Planning and Budget Committee:

*4.3.2. The annual budget is considered by the Committee for recommendation to the Academic Board. [The concurrence of the Business Board is sought in regard to fiscal soundness before it is forwarded to Council.]*

## HIGHLIGHTS

In the past, the University's long-range budget planning process was managed within a fixed five-year cycle. At the beginning of a cycle, revenue and expense projections were prepared for a period five or six years forward. These projections were updated in subsequent years, but no projections were prepared past the end of the cycle until a new cycle was started. Thus, the number of years for which projections were prepared became smaller as the cycle progressed.

The fixed-cycle approach is somewhat inflexible when the financial circumstances in which the University finds itself are changing rapidly. Often, it was felt necessary to start a new planning cycle before the previous cycle ended. Furthermore, under the new budget model, the University and each of its divisions need to look several years forward to properly assess their financial circumstances. Revenue and expense patterns change as divisions update enrolment plans, as tuition levels change, and so on. The availability of projections over a reasonably long horizon is needed to inform decisions on long-term commitments, such as hiring faculty and staff.

It is proposed that starting in fiscal 2009 the University adopt a budget planning policy based on a five-year rolling window. Each year, the budget assumptions used in the Budget Guidelines of the year before would be updated and new assumptions prepared for one additional year. Revised

revenue and expense projections would then be prepared for the new cycle based on these assumptions. This approach should provide a more realistic horizon for the University for the purpose of planning and decision making in a fast-changing environment. A proposal to use a rolling five-year window ending with no accumulated deficit as the framework for budget planning will be presented to Business Board.

The University's current enrolment plans call for a minor increase of undergraduate enrolment by about 100 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 \$70M in 2008-09 and by \$289M by the end of the cycle. Cost of living increases and other necessary expenses will 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. Cost increases that will result in the need for cost containment measures at the divisional level. A large portion of the growth in revenue is derived from graduate enrolment and there are considerable costs associated with this expansion, particularly for graduate student support. Also, repayment of the accumulated deficit will cost an additional \$11.2M. Coming after several years of expense reductions, budget pressures in 2008-09 are very significant.

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 at least \$16M is needed in 2008-09 to maintain a balanced budget. In addition, academic divisions will need to apply internal cost containments in order to achieve the objectives outlined in their academic plans. A cost containment of \$4M will be absorbed by the administrative divisions.

Projections for the years after 2008-09 show that increases in revenue are much less than what is needed for the University to recover from a long period of large expense reductions. 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 no increases have been assumed in the budget guidelines for that period. For this reason, the projected increases in expense beyond 2008-09 are still somewhat uncertain. If there are no increases in revenue in the outer years, more stringent expense containment measures will need to be implemented.

## **FINANCIAL AND/OR PLANNING IMPLICATIONS**

Total revenue is projected to increase from \$1,334M in 2007-08 to \$1,416M in 2008-09. 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 increases and additional costs associated with graduate expansion and capital renewal are estimated to require cost containment of at least \$12.3M in the academic divisions.

The accumulated deficit is projected to be reduced to \$55M by the end of the 2008 fiscal year. It is proposed that this deficit be repaid in equal installments of \$11.2M in each of the next four years, with a final payment of \$10.3M in 2012-13, thus reducing the accumulated deficit to zero at the end of the budget cycle. Balanced budgets are proposed for each year.

## **RECOMMENDATION**

1. THAT the 2008-09 Budget be approved, and
2. THAT the Long Range Budget Guidelines for 2008-2013 and the Planning Assumptions for 2008-2013 be approved in principle.