UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 118 OF THE PLANNING AND BUDGET COMMITTEE

April 16, 2007

To the Academic Board,
University of Toronto

Your Committee reports that it held a meeting on Monday, April 16, 2007 at 4:10 pm in the Council Chamber, Simcoe Hall, at which the following were present:

Professor Avrum Gotlieb (Chair)
Professor Miriam Diamond (Vice-Chair)
Professor Vivek Goel, Vice-President and Provost
Ms Catherine J. Riggall, Vice-President, Business Affairs
Professor Safwat Zaky, Vice-Provost, Planning and Budget
Ms Diana A. R. Alli
Professor John Coleman
Professor Jane Gaskell
Professor Ellen Hodnett
Professor Brad Inwood
Professor David Mock
Ms Carole Moore
Mr. Tim Reid
Professor Andrea Sass-Kortsak
Professor Pekka K. Sinervo
Mr. Stephen C. Smith
Mr. Patrick Wong

Non-voting Assessors:

Ms Sheila Brown, Chief Financial Officer

Regrets:

Professor Stewart Aitchison
Mr. Kristofer T. Coward
Professor Gregory Jump
Ms Theresa J. C. Pazionis

Secretariat:

Ms Cristina Oke
Ms Mae-Yu Tan

In Attendance:

Ms Sally Garner, Senior Manager, Long Range Budget Planning, Office of the Vice-Provost, Planning and Budget
Mr. Sandeep Malik, Senior Manager, Office of the Vice-Provost, Planning and Budget
Professor Susan Pfeiffer, Dean, School of Graduate Studies and Vice-Provost, Graduate Education

ITEM 4 CONTAINS A CONCURRENCE WITH A RECOMMENDATION OF THE COMMITTEE ON ACADEMIC POLICY AND PROGRAMS. ITEM 5 IS RECOMMENDED TO THE ACADEMIC BOARD FOR APPROVAL.

ALL OTHER ITEMS ARE REPORTED FOR INFORMATION.

1. Report of the Previous Meeting

Report Number 117 of the meeting of March 6, 2007 was approved.

2. Business Arising from the Report of the Previous Meeting

There was no business arising from the minutes of the previous meeting.

3. Senior Assessor's Report

Professor Goel deferred making a report to allow the maximum time possible for consideration of the 2007-08 Budget.

4. School of Graduate Studies / Faculty of Medicine: Master of Science Degree Program in Community Health

The Chair welcomed Professor Susan Pfeiffer, Dean, School of Graduate Studies and Vice-Provost, Graduate Education to the meeting for this item.

Professor Goel stated that the Master of Science in Community Health (M.Sc.C.H.) was an innovative program designed for a specific community whose needs were not fully met by the current programs. The program was intended for practicing health professionals who held or planned to assume teaching and public health/clinical leadership positions within their professional fields. The proposal provided the option for students who completed over half of the degree program requirements to obtain an Ontario Council of Graduate Studies Type 1 diploma. Those students would not be eligible to reenroll in the degree program in the future. The program was part of the graduate expansion plans of the Graduate Department of Public Health Sciences.

In response to a question, Professor Sass-Kortsak indicated that the planned enrolment for the program was twenty students in the first year, with a projected total enrolment of 80 students within five years.

A member asked whether the Master of Science in Community Health program would meet a doctoral program admissions requirement if a student pursued further studies. Professor Sass-Kortsak stated that such a decision would be made by the department to which the student subsequently applied. However, for a University of Toronto Doctoral program that included completion of a thesis as an admission requirement, the M.Sc.C.H. would not normally be eligible.

On motion duly moved and seconded

YOUR COMMITTEE CONCURS

With the recommendation of the Committee on Academic Policy and Programs

(a) THAT the proposed Master of Science in Community Health (M.Sc.C.H.) Program at the Faculty of Medicine, Department of Public Health Sciences, be approved, effective September 2007; and

(b) THAT the proposed Graduate Diploma in Community Health (Dip.C.H.) Program at the Faculty of Medicine, Department of Public Health Sciences, be approved, effective September 2007.

Documentation is attached as Appendix "A" to Report Number 129 of the Committee of Academic Policy and Programs.

5. Long Range Budget Guidelines: 2007-08 to 2011-12

Using a Powerpoint presentation, Professor Goel highlighted the following points in the Budget Report:

(i) New Budget Model

- The University adopted a new approach to budgetary allocations that was being used for the first time in the 2007-08 fiscal year; 07-08 would be a transition year.
- There would be a multi-year process of implementation and a need for ongoing refinement.

Objectives

- Ensure that academic priorities drive budget processes.
- Ensure the best alignment between resources and academic priorities.
- Increase transparency of budget allocations.
- Provide incentives to increase revenues and control expenses.

New Budget Model

- All revenue would flow to the divisions.
  - Some revenue reflected the work of the divisions, such as programs, student enrolment, fundraising activities, research, etc.
  - Other revenue, such as interest income, would be distributed among divisions.
- Divisions would contribute 10% of their revenue to the university-wide University Fund (UF).
  - The UF would be a vehicle to ensure that academic priorities, rather than formulas subject to external constraints, drove resource allocation while incentives of a revenue-based model were maintained.
- A share of university-wide expenses would be attributed to divisions.
  - Some expenses (cost drivers), such as human resources or student expenses based on full-time equivalents (FTE), were more readily assigned than others.
- Contribution to student aid would be made by divisions.
- Portion of UF to be allocated to divisions; distribution would be non-formulaic.
- Transition to new model would maintain historical integrity.
  - 2006-07 Budget had been recast as a “Shadow Budget” using language of the new model.
  - Each division would be provided with the same funding under the new model as that under its old budget using a UF allocation; that allocation would be known as the UF Reference Level.
  - In future years no division would receive a UF allocation lower than its Reference Level.
- Academic divisions would prepare multi-year academic and budget plans; these would become more closely aligned over time and would be updated continuously.
- Service divisions would prepare multi-year strategic and budget plans.
  - There was a limited review process for central services in 2007-08 during the transition year.
  - Because of information available at the time of the budget preparation, cost containment measures had been assigned to service divisions.
- Contractual Obligations and Policy Commitments (COPC) list contained fixed costs that the University could not alter at will as cost containment measures; over time the items would be embedded in the service and divisional budgets.

5. Long Range Budget Guidelines: 2007-08 to 2011-12 (cont'd)

(ii) Budget Context

External Factors

- Changes had occurred in the manner in which Provincial funding was provided.
- Recent funding was no longer based on corridors.
- With the movement to enrolment funding for students, changes in enrolment had led to fluctuations in the budget from year to year.
- There had been an increased number of special purpose envelopes and more competitive funding.
- Greater accountability often accompanied such envelopes and more detailed reporting was required, drawing on limited resources.
- The University would need to advocate for less restrictive funding.

Internal Factors

- New budget made costs more transparent.
  - Provision of information about major cost drivers would be beneficial to divisions.
  - Divisions would be more directly exposed to fluctuations in revenues and expenses.

Understanding the Budget Situation

- Rate of revenue increase had not kept pace with growth in expense for many years.
  - Enrolment growth, deficit budgets, and new sources of revenue had partially masked the problem.
  - Salaries and benefits and utility costs had been increasing at a faster rate than inflation and government grants.
  - Regulatory, accountability, and statutory requirements had affected the normal practices of the University, drawing resources away from the implementation of the core mission of the institution.

(iii) Revenue Overview

Key Assumptions

Provincial Grants

- Provincial government operating grants would not include an inflationary increase.
- There would be no increase in quality funds.
- There would be full average operating funding for undergraduate enrolment growth.
- There would also be full funding for graduate expansion planned by divisions.

Tuition

- Tuition fees in 2007-08 would rise by an average of 4.28% for domestic students and 5% for international students. The tuition fee schedule had been considered by the Business Board on April 11, 2007 and would be considered by Governing Council on April 26, 2007.
- The expectation was for similar patterns thereafter.

Other Revenue

- The Canada Research Chair (CRC) allocation would remain unchanged.
  - Potential re-allocation of chairs by the federal government could affect future CRC revenue.
- There would be a modest increase in federal indirect costs of research.

5. Long Range Budget Guidelines: 2007-08 to 2011-12 (cont'd)

(iii) Revenue Overview (cont'd)

    - The University would continue to advocate strongly on this issue as recovery of costs remained below 20%.
- There would be a modest increase in investment income as amortization of losses had been completed.
- Divisional income had been adjusted to reflect prior year actual income.

Enrolment Plans
- A modest planned reduction of undergraduate enrolment by 1000 would occur over the next five years.
    - A reduction of domestic students (2500) would be offset by an increase in international students (1500) consistent with institutional academic plans.
- Planned increase of graduate enrolment by 4500 over next five years.
    - Growth would mainly occur in domestic enrolment.

Impact of Assumptions
- The total revenue would increase by $59.9 million in 2007-08, including an increase in general university revenue of $40.8 million and an increase in divisional revenue of $19.1 million - $3.4 million of the total would be allocated to the University Fund (UF).
- By the end of the budget cycle in 2011-12 the projected incremental revenue over 2006-07 would be $274.2 million, with $22.8 million for the UF.
    - The UF was an important instrument for revenue allocation, but it would take time for it to grow.
- The Government grant was projected to increase over the next five years through graduate expansion, but the base operating grant would decrease with reduction in undergraduate enrolment.
    - Graduate expansion would also increase expenditures on financial support for students and would not necessarily increase the expendable funds available to the University.
- 2007-08 Sources of Operating Revenue:
    - 42% Provincial Grant
    - 35% Tuition Fees
    - 12% Divisional Income
    - 3% CRC
    - 3% Endowments
    - 2% Indirect Costs
    - 2% Investment Income
    - 1% Other Income

(iv) Expense

Expense Projections
The 2007-08 expense projections included:
- Allocation of funds to priority service areas.
- Allocation to academic funds [Academic Initiative Fund (AIF), Student Experience Fund (SEF), Transitional Fund[1]].

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[1] An amount of $2 million has been allocated to the Transitional Fund to support academic divisions as they transition to managing resources under difficult budget circumstances.

5. Long Range Budget Guidelines: 2007-08 to 2011-12 (cont'd)

(iv) Expense (cont'd)

- Provision for compensation increases.
  - The assumptions reflected negotiated settlements and the Consumer Price Index (CPI).
- The creation of a new utility infrastructure reserve fund
  - $1 million had been included in the 2007-08 budget with the intent to build the fund to $3 million over time.
- Without increased revenue, additional cost containment measures would be required.
- 2007-08 Expenditure:
  - 71% Academic Divisions
  - 11% Other Shared Services
  - 6% Occupancy Costs
  - 5% Central Library
  - 5% Student Aid
  - 2% Flow-through to Other Institutions

Significant Expense Increases in 2007-08
Anticipated expense increases in the coming year included:

- Utility infrastructure reserve
- Caretaking and maintenance
  - Allocations were needed to sustain increased service levels and meet regulatory requirements in some buildings.
- Debt service (Varsity, Multifaith, Exam Centre)
- Library services and acquisitions
- University Relations and Communications
  - The institutional plan had addressed the need to develop this portfolio, strengthening the University's external presence, responding to opportunities in the broader community, and improving governmental relations and international coordination.

Budget Impact

- Without the implementation of cost containment, the total expenses would have grown at a much higher rate than the total revenue from 1998-99 to present; expenses were projected to continue to increase to 2011-2012.
- The University proposed to start a new five-year budget cycle from 2007-08 to 2011-12 and to run balanced budgets for the remainder of the new cycle.
- An overall expense containment measure of approximately $17.3 million (3% of the relevant base budget under the old model) would be needed in 2007-08 to maintain a balanced budget.
  - Of that amount, $4 million would be absorbed by the administrative divisions and $13.3 million would need to be implemented by the academic divisions, using relative proportions from the old model.
- Data available from the new model would enable more informed decisions about appropriate cost containment measures to be made at the divisional level.

(v) Long Range Budget Guidelines

- The University was entering the 2007-08 fiscal year with a projected accumulated deficit of approximately $80 million.
  - Previous budgets had made revenue assumptions which, when not met, had required additional cost containment.

5. Long Range Budget Guidelines: 2007-08 to 2011-12 (cont'd)

(v) Long Range Budget Guidelines (cont'd)

  - The current assumptions were more fiscally prudent and would better position the University if new revenues were realized.
- Governing Council guidelines required the accumulated deficit to be paid down to 1.5% of the University's gross revenue by the end of a budget cycle.
- The current budget cycle would end in 2009-2010.
- It was anticipated that the University would shift from a fixed six-year model to a rolling five-year budget cycle, with projections extended one more year each year.
- The rationale for the proposal to start a new cycle (2007-08 – 2011-12) was:
  - The implementation of the new budget model.
  - The possibility of paying down the accumulated deficit over a longer period of time - $11.2 million per year over five years versus $20 million per year over three years.
  - The existence of significant uncertainties regarding revenue and expense.

(vi) Federal and Provincial Budgets

Highlights of the Federal and Provincial Budgets were presented, along with their expected impact on the University.
- The 2007 Federal Budget included:
  - $800 million for Post-Secondary Education transfer (PSE) funds to be provided to the provinces beginning in 2008-09; issues around distribution of funds would need to be resolved at the federal and provincial level before they were made available.
  - $85 million for research funds as well as $15 million for indirect recovery of costs.
  - Creation of 1000 new graduate scholarships.
  - $70 million per year for five years for the Canadian Foundation for Innovation (CFI).
- The 2007 Provincial Budget included:
  - $40 million from 2007-08 budget to alleviate cost pressures; the one-time-only funds, which represented half of the accumulated deficit, had not been included in the budget report as this was announced after preparation of the budget and in any case did not address ongoing base issues.
- In Ontario there remained a gap of 25% between current level of operating funding per basic income unit (BIU) and funding that would have been in place had per-student grants been increased to match inflation since 1991-92.
- Relative to other provinces, the per-student funding provided by the Province of Ontario was 27% lower than the average of funding provided by other Provinces to their universities.

(vii) Budget Issues

A summary of budget issues that would require further consideration was provided:
- Budget context continues to be period of significant uncertainty.
- New budget model was creating a framework for more informed decision-making based on academic priorities, and incentives to generate revenues and contain costs.
- The proposed budget framework was fiscally prudent.
- Without additional unrestricted revenue, significant cost containment would be required in future years.

Professor Goel acknowledged the work of Professor Zaky, Vice-Provost, Planning and Budget, and his staff as well as the staff within the academic divisions.

5. Long Range Budget Guidelines: 2007-08 to 2011-12 (cont'd)

Discussion

Graduate Expansion

A member observed that increased graduate enrolment was associated with increased costs and asked whether it would be possible for divisions to support anticipated costs associated with graduate expansion without incurring a deficit. Professor Goel agreed that there were costs associated with increased enrolment. However, some expenses were fixed and would not vary with changed enrolment, for example occupancy costs. Professor Goel stressed that successful advocacy for graduate student funding was critical in ensuring the graduate expansion helped the University to meet its objectives.

Transparency of the New Budget Model

Some members praised the administration on the transparency of the new budget model, but suggested that the detailed information could lead to disagreements from divisions over the University-wide costs. Professor Goel commented that under the old model divisions mostly focused on their own costs. With the new model there was now a focus on all costs.

Cost Drivers

A member asked whether a process to revise cost drivers existed. Professor Goel responded that there were plans to review them after 2008-09, but there would likely be an ongoing process of refinement. He also cautioned that while it was possible to track the transactions more closely, the resources required to do so might outweigh the benefits of the results. It was important to not make too many revisions since if one cost driver was changed, recalculations would be necessary and the budgets of all divisions could be affected.

A member requested clarification on the projected increases in occupancy costs. Professor Zaky explained that capital was being set aside for the utility infrastructure reserve (a $1 million per year investment over each of three years).

Accumulated Deficit Repayment

A member asked how the repayment of the $80 million of accumulated deficit had been distributed. Professor Zaky explained that administrative and academic divisions had proportions of shares of budget and the academic divisions then had shares according to a ratio of their attributed revenue. It was proposed that the deficit be repaid in equal installments of $11.2 million in each of the next five years, reducing the accumulated deficit to 1.5% of the gross revenue at the end of the budget cycle.

The member inquired specifically about the development of the University of Toronto at Mississauga (UTM) and University of Toronto at Scarborough (UTSC) internal budgets. Professor Goel suggested that this was a matter for a separate discussion within the divisions.

University Fund

A member noted that the University Fund appeared to increase gradually over the next five years and that some of the flexibility to reallocate funds seemed to have been lost with the new budget model. Professor Zaky stated that the University was committed to maintaining the historical integrity of divisional budgets. There was a desire to avoid sudden changes in individual budgets with the transition to the new model.

5. Long Range Budget Guidelines: 2007-08 to 2011-12 (cont'd)

Cost Containment

A member asked how the cost containment measures for the service divisions had been generated. Professor Goel explained that they had been assigned for 2007-08 following consultations with an ad hoc committee, which had included representation from the academic divisions. The budgets for those divisions had mainly been developed under the old model, applying year-over-year increases and across-the-board reductions. By next year a formal committee structure would be in place.

A member noted that the $40 million one-time-only funding from the Provincial government was not included in the current budget. Professor Goel responded that as was our practice, this money was being treated as in-year funds. The University recognized the significant budget pressures in 2007-08, given the 3% total expense containment that was required and that had followed the 5% reduction in 2006-07. However, it had been decided that rather than simply reduce the accumulated deficit, the funds should be made available to the academic divisions in proportional shares. Divisions could then make individual decisions about how their share of this money could be used that would be most appropriate for them to meet immediate cost pressures.

A member commended the administration on examining the costs of increased measures of accountability to governments. Ms Riggall advised the committee that this would include an online survey to be completed by administrative divisions. Information about the extent of new reporting requirements, the amount of time required to complete the reports, and the cost of reporting to granting agencies would be gathered. Professor Goel added that while the University was accountable for the use of the public funds, it was important to try to streamline the reporting requirements to the extent that this was possible. The member suggested that much effort was required for the application of internal, competitive funds such as the Academic Initiative Fund (AIF) and thought those processes should also be reviewed. Professor Goel replied that in fact the process was not complex or onerous and that it had worked quite well. He noted that appropriately in some of the larger divisions, the AIF review process could be two-tiered, which might make the process appear complex.

A member asked whether energy-saving projects could contribute to savings of utility costs. Professor Goel stated that the savings were modest and the return of the initial investments took time, but the University would continue to explore and invest in such projects as appropriate.

Federated Universities

A member asked whether the budgets of the federated universities were included in the Budget. Professor Goel indicated that the Federated Colleges Block Grant, which was approximately $10 million and was the result of the Memorandum of Agreement, was included in the Contractual Obligations and Policy Commitments (COPC) list. However, the federated universities also had their own sources of revenue and corresponding budgets. Creating a consolidated budget would be a complex task as the federated universities were also engaged in activities that were separate from the University's mission.

> On motion duly moved and seconded
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> YOUR COMMITTEE RECOMMENDS
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> THAT the "University of Toronto Long Range Budget Guidelines: 2007-08 to 2011-12", dated April 16, 2007, including the2007-08 Budget, a copy of which is attached hereto as Appendix "B", be approved.

6. Date of the Next Meeting (Tuesday, May 15, 2007)

The Chair reminded members that the next regular meeting of the Committee was scheduled for Tuesday, May 15, 2007 at 4:10 p.m. in the Council Chamber.

7. Other Business

There was no other business.

The meeting adjourned at 6:10 p.m.

Secretary Chair

April 26, 2007