



University of Toronto

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 April 16, 2007

AGENDA ITEM: 5

ITEM IDENTIFICATION

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

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. [Once the budget is recommended by the Academic Board, the concurrence of the Business Board is sought in regard to fiscal soundness before it is forwarded to Council.]*

OTHER ACTION TAKEN

N/A

HIGHLIGHTS

The current budget cycle ends in 2009-10, and this is the fourth budget of the cycle. This is also the first budget being prepared under the University’s new budget model, which requires multi-year projections — typically five years — of revenues and expenses. As a result, the University is proposing to start a new five-year budget cycle for the period 2007-08 to 2011-12. An additional consideration in the recommendation to start a new budget cycle is that the University’s accumulated deficit is forecast to reach about \$80M at the end of the current fiscal year. Governing Council policy requires the deficit to be reduced to 1.5% of gross revenue by the end of a budget cycle. With a new cycle it will be possible to spread the repayment of the accumulated deficit over the five year period, during which there are no annual deficits projected in the operating budget.

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 cost 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 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 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 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. 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. However, in essence they can be considered to have reduced the accumulated deficit from \$80M to \$40M.

FINANCIAL AND/OR PLANNING IMPLICATIONS

Total revenue is projected to increase from \$1,275M in 2006-07 to \$1334M 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. Additional measures will be needed to provide graduate student support. The extent of this latter component will vary significantly from one division to another, depending on local circumstances.

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 Planning and Budget Committee recommends 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.