

Report of the Finance Committee

GD21-65

Board of Governors Meeting of April 21, 2022

Secretariat

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The following items arise from a meeting of the Finance Committee on April 14, 2022. They are presented to the Board of Governors for its information.

I. FOR ACTION BY THE BOARD OF GOVERNORS**1. FY2023 University Budget** [F21-34]

The Committee received the last presentation in a series of three budget presentations to the University community outlining major considerations shaping the budget for the fiscal year starting May 1, 2022.

The Committee was informed that for the fiscal year ending on April 30, 2022, based on January 31, 2022 actuals and commitments, financial information collected from units and historical trends, the University's updated expectations are that revenues will be higher, and expenses will be lower than originally budgeted. The University is anticipating to end FY2022 with a balanced budget.

The Committee was then presented with the proposed budget for FY2023 with an anticipated unrestricted fund deficit of \$9.4M which it subsequently approved and recommended for approval by the Board of Governors.

Be it resolved that the Board of Governors, on the recommendation of the Finance Committee, approve the proposed FY2023 Budget, as described in Appendix A.

The FY2023 Budget Planning Report III is attached as Appendix A to this report.

2. Maximum Borrowing Resolution for Fiscal Year 2023 [F21-23]

The *Ministère de l'Enseignement supérieur* (MES) requires annual borrowing authorization limits to be confirmed by the University. In accordance with its terms of reference, the Committee reviewed the extent and methods of external borrowing for both operating and capital needs.

The Committee recommends that the Board approve an annual short-term borrowing limit of \$400 million from June 1, 2022 to May 31, 2023.

Be it resolved that the Board of Governors, on the recommendation of the Finance Committee, approve a maximum borrowing of up to \$400 million, for the twelve month period from June 1, 2022 to May 31, 2023.

Be it further resolved that Board of Governors authorize the Vice-Principal (Administration and Finance) or the Associate Vice-Principal, Financial Services or the Chief Investment Officer and Treasurer to sign contracts, documents, or any instruments pertaining to these borrowings.

II. FOR THE INFORMATION OF THE BOARD OF GOVERNORS

1. Biannual Report on the Status of the Financial Plan Of the McGill University's Master Plan

1.1 Implementation of the Master Plan: Executive Summary [F21-35]

On May 23, 2019, the Board of Governors endorsed the first phase of the financial plan with the understanding that, among other activities, the Finance Committee would review, on a semi-annual basis, the status of the five-year plan.

The Finance Committee has received several semi-annual reports on the status of the Financial Plan of the McGill University Master Plan since that time, which now include an executive summary on the implementation.

The Executive Summary will be presented to the Board on April 21st, under a joint report of the Finance Committee and Building and Property Committee.

1.2 Financial Implications of the McGill University Campus Master Plan and Deferred Maintenance Projects [F21-36]

The Committee also received and reviewed key considerations of the Financial Plan in support of the McGill University Master Plan and endorsed the first phase of the financial plan in support of the Plan with the understanding that, among other things, the Committee would review, on a semi-annual basis, the status of the five-year financial plan.

2. Update on Financing Plan for Deferred Maintenance and IT Initiatives [F21-31]

Further to the Board of Governors' 2015 approval of a \$400 million financing plan to support investment in the University's accumulated deferred maintenance and information technology (IT) needs, the Committee was informed that as at February 28, 2022, a total of \$111M of the \$260M had been spent on deferred maintenance and \$94M of the \$140M had been spent on information technology.

3. Progress Report Treasury Report [F21-37]

The Committee received a report on treasury matters relating to the University's borrowing, investing and hedging activities for the period ended February 28, 2022 for information.

4. Annual Report from General Counsel

The Committee received an annual report from the University's General Counsel. The report provided a summary of ongoing claims against the University along with the estimated real risk associated with the claims. Overall, it was reported that the estimated real risk for the University was low.

5. Annual Report on McGill University Pension Plan [F21-32]

The Committee received, for information, the annual report on the McGill University Pension Plan for the fiscal year ended December 31, 2021, as approved by the Pension Administration Committee.

6. Update on the Financing Proposal for the Libraray Collection Management Facility Project

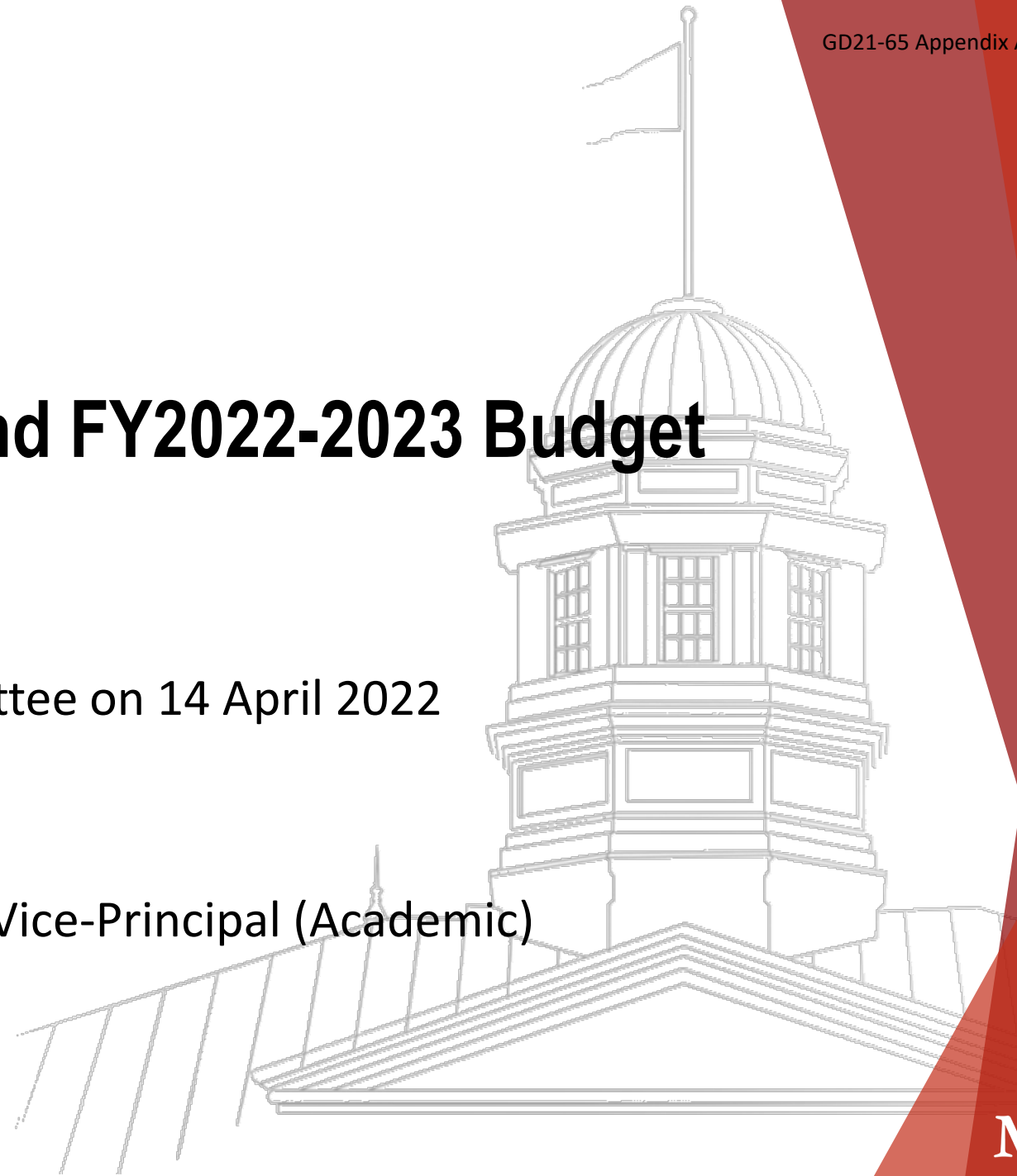
The Committee received, for information, an update on the Financing Proposal for the Library Collection Management Facility Project that was submitted for approval to the Executive Committee on March 24, 2022.

END
April 2022

Budget Report III: FY2021-2022 Forecast and FY2022-2023 Budget

Presentation to the Finance Committee on 14 April 2022

Christopher Manfredi, Provost and Vice-Principal (Academic)



Executive Summary

- ▶ For the fiscal year ending on April 30, 2022 (FY2022), the Board of Governors approved an operating (unrestricted fund) budget with an anticipated deficit of \$9.8M, including a \$15M contingency.
- ▶ Based on January 31, 2022 actuals and commitments, financial information collected from units and historical trends, our updated expectations are that revenues will be higher, and expenses will be lower than originally budgeted. We are anticipating to end FY2022 with a balanced budget.
- ▶ Looking ahead to FY2023, there will be continued financial support by the Quebec Government. Although we are assuming less uncertainty related to the COVID pandemic, we will be closely monitoring and mitigating the risks associated with the decline of international deregulated fee-paying students, inflationary pressures, and geopolitical instability.
- ▶ To deal with many unknowns, we have established assumptions for the main revenue sources and expenses using three scenarios. We have also included a \$20M contingency.
- ▶ This FY2023 budget is being presented to the Finance Committee for review and recommendation for approval by the Board of Governors with an anticipated unrestricted fund deficit of \$9.4M.

1. Fiscal Year 2021-2022 Forecast (for information)

1.1. FY2022: Revenue and Expense Forecast

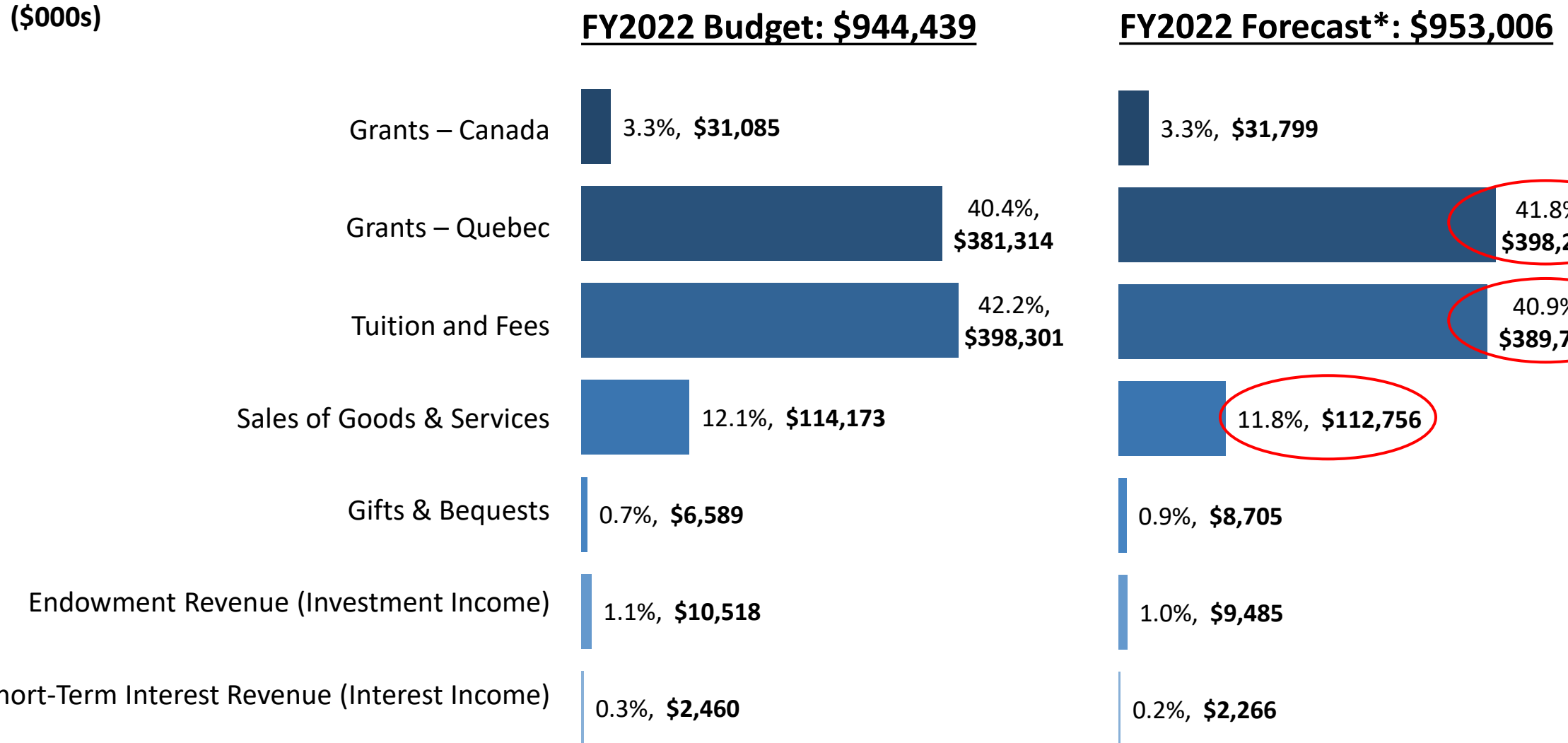
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	FY2019 Actuals	FY2020 Actuals	FY2021 Actuals	FY2022 Budget	FY2022 Forecast*
Total revenues	920,750	922,085	898,216	944,439	953,006
Total expenses	912,088	922,240	897,406	954,282	952,559
Annual surplus / (deficit)	8,662	(155)	810	(9,843)	447
Financed accumulated deficit	119,777	119,932	119,122	128,965	118,675
Financed accumulated deficit/revenues (%)	13.0%	13.0%	13.3%	13.7%	12.5%

Unrestricted Fund, excluding year-end GAAP adjustments

*As per January 2022 actuals and commitments, unit inputs, and trend forecasts

1.2. FY2022: Unrestricted Revenues Forecast



*as per January 2022 actuals and commitments, inputs from units, and trend forecasts

1.3. FY2022: Variance analysis - Revenues

▶ Grants - Quebec

- ▶ Provincial funding is either accounted for on the operating (unrestricted fund) budget, the restricted fund or the plant fund, as per directives by the Ministry. For FY2022, the Ministry allocated funding on the operating (unrestricted fund) budget that was previously restricted. The increase in anticipated revenues reflects this reclassification.
- ▶ This reclassification has no impact on the bottom line since corresponding expenses are now also included in the operating (unrestricted fund) budget.
- ▶ Enrolment-driven grants have been positively impacted by the overachievement of targets for regulated students. This revised forecast is modelled using the actual student population, as determined on January 31, 2022.
- ▶ Revenue expectations have also been positively impacted by a retroactive adjustment of the MES funding policy.

▶ Tuition and Fees

- ▶ Deregulated tuition expectations are currently \$14.7M lower than budgeted as a result of underachieving targets for new deregulated fee-paying students, mainly from China.
- ▶ The loss in deregulated tuition is partially offset by gains in regulated tuition.

▶ Sales of goods and services

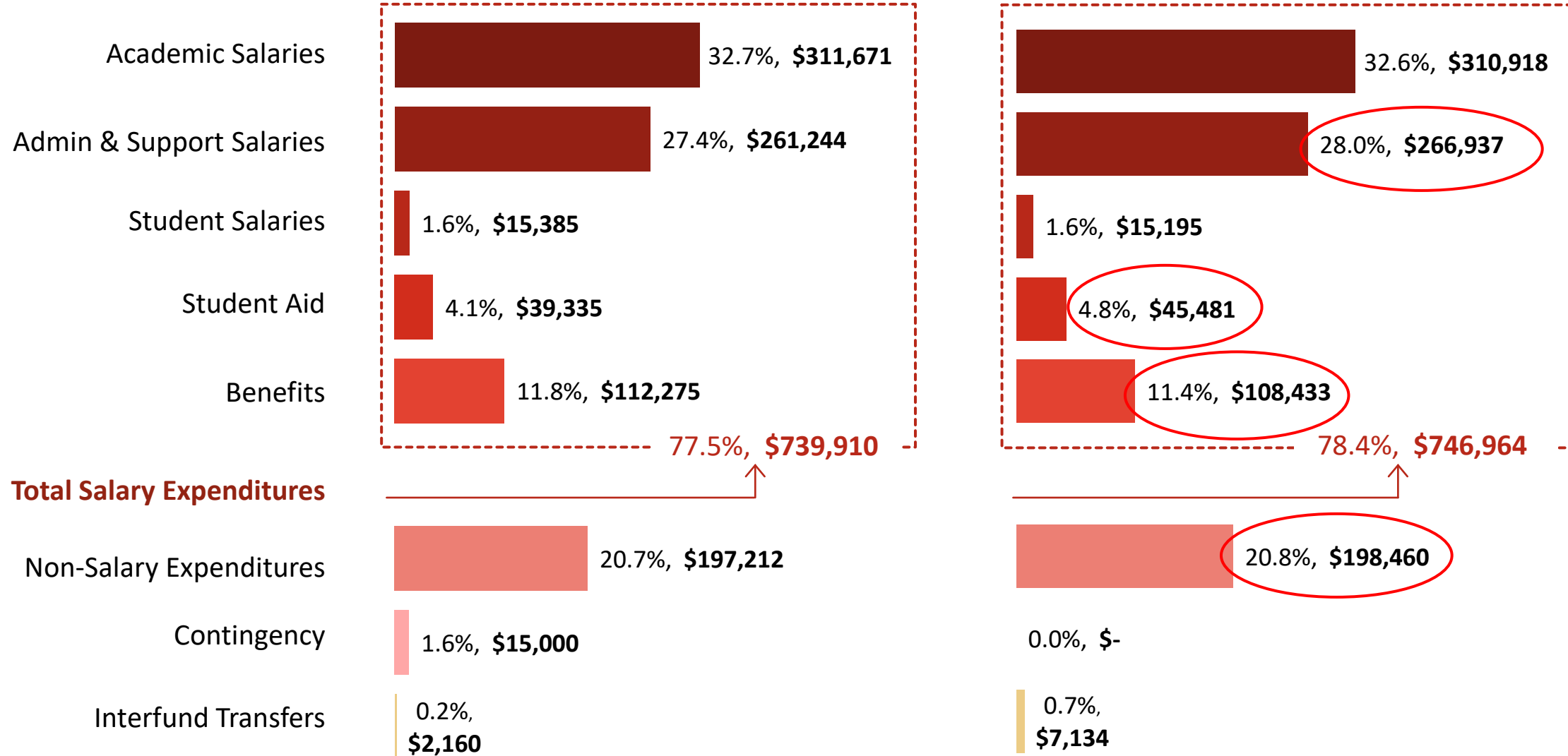
- ▶ Current expectations of \$113M are close to the “optimistic” scenario (\$114M) presented in the FY2022 budget.

1.4. FY2022: Unrestricted Expenses Forecast

(\$000s)

























FY2022 Budget: \$954,282

FY2022 Forecast*: \$952,559



*as per January 2022 actuals and commitments, inputs from units, and trend forecasts

1.5. FY2022: Non-Salary Expenditures Forecast

(\$000s)	Budget: \$197,212	Forecast: \$198,460	Variance: \$1,249
Building & Occupancy Costs (excluding sinking fund payment)	 34,679	 32,328	(2,350)
Materials, Supplies & Publications	 34,330	 38,567	4,237
Contract Services	 28,250	 23,634	(4,615)
Energy	 18,578	 18,523	(55)
Cost of Goods Sold & Services Rendered	 14,160	 16,823	2,663
Hardware and Software Maintenance	 13,886	 15,236	1,350
Professional Fees	 12,073	 11,605	(468)
Contribution to Partner Institutions	 10,488	 10,207	(281)
Capital Purchases	 8,046	 9,035	989
Sinking Fund Payment	 5,000	 18,000	13,000
Interest & Bank Charges	 4,987	 819	(4,167)
Other (incl. travel, receptions, events, catering, meals, photocopying)	 12,736	 3,682	(9,055)

1.6. FY2022: Variance analysis - Expenses

▶ **Admin & Support Salaries**

- ▶ The hiring control measures that were implemented at the onset of COVID were eased, allowing to replace unfilled positions in order to support teaching and research, critical operations, as well as increased on-campus activities.

▶ **Student Aid**

- ▶ Student aid forecasts are up significantly in several units. In addition, some payments that were originally planned for FY2021 were deferred to FY2022.

▶ **Benefits**

- ▶ Benefits forecasts are down due to lower-than-anticipated pension solvency costs, post-retirement benefit costs, and higher than anticipated non-insured benefit recovery expectations.

1.7. FY2022: Variance analysis - Expenses (cont'd)

▶ Non-Salary expenditures

- ▶ A rise in the activity of revenue-generating units, which include core research facilities, increases the costs of **materials** and reduces the **net contract services costs** as a result of increased internal sales that is accounted for in this category.
- ▶ Higher **cost of goods sold** forecasts are also outpacing initial expectations, in line with increased revenue.
- ▶ FY2022 budgeted payment of \$5M to the **sinking fund** was paid in advance in FY2021. In FY2022, we are anticipating making another advance payment to cover future obligations (\$18M).
- ▶ For **interest**, short-term borrowing has been extremely low and should remain that way for FY2022.
- ▶ **Other** activities, such as travel, receptions, events, etc. are still diminished.

2. Fiscal Year 2022-2023 Budget (for decision)

2.1. FY2023 Enrolment Assumptions

- ▶ Enrolment assumptions for FY2023 center on sustainability going forward, improving yield from certain parts of the world, and a return to pre-pandemic levels for certain affected activities, such as bilateral exchanges.

		Fall 2021 Enrolment (Headcounts - Oct 15 census)	FY2022-2023 Enrolment Assumptions
Under-graduate	Bachelors	23,520	↓ Slight decrease in overall enrolment ↓ Lower planned intake of new regulated students (overachieved objectives in Fall 2021) ↑ Higher planned intake of new deregulated students (underachieved objectives in Fall 2021)
	First Professional (BCL/JD, DMD, MDCM)	1,633	↑ Higher planned intake of new deregulated students (underachieved objectives in Fall 2021)
	Undergraduate - Certificate/Diploma	1,081	~ Steady-state
	Undergraduate Exchange/QIUT/Special/Visiting	531	↑ Expecting student activity to return to pre-pandemic levels (exchanges to resume, etc.)
Graduate	Masters Qualifying	103	~ Steady-state
	Masters - Non-Thesis	2,472	↓ Lower planned intake of new students (slightly underachieved objectives in FY2022)
	Masters - Thesis	2,517	↑ Higher planned intake of new students (overachieved objectives in FY2022)
	PhD	4,022	↑ Higher planned intake of new students (slightly underachieved objectives in FY2022)
	Graduate Certificate/Diploma	1,072	~ Steady-state
	Graduate Exchange/QIUT/Special/Visiting	225	↑ Expecting student activity to return to pre-pandemic levels (exchanges to resume, etc.)
Residents and Fellows	1,393	~ Steady-state	
Postdoctoral	698	<i>No assumptions are made for postdoctoral (do not generate tuition or grant revenue)</i>	
Grand Total	39,267		

2.2. FY2023 Enrolment Assumptions: FTEs and Weighted FTEs

- Overall, FTEs are projected to decrease slightly in FY2023. Although our deregulated population is in decline, due to lower incoming cohorts during the pandemic, the increase in PhD students lessens this effect on the total population.

	FY2022(p)	FY2023(e)	% Change
Total (Regulated + Deregulated) FTEs	32,966.9	32,759.3	-0.6%
Med. Residents FTEs	1,992.4	1,992.4	0.0%
3 rd Cycle FTEs	2,398.4	2,442.0	1.8%
2 nd Cycle FTEs	4,102.9	4,076.8	-0.6%
1 st Cycle FTEs	24,473.2	24,248.2	-0.9%
Total (Regulated + Deregulated) weighted FTEs ⁽¹⁾	103,586.3	103,796.2	0.2%
Deregulated FTEs	5,588.0	5,431.6	-2.8%
Regulated FTEs	27,378.9	27,327.7	-0.2%

(1) WFTEs = FTEs weighted by discipline and level, using the CAFF weighting grid

p = projected; e = estimate

2.3. FY2023 Enrolment Considerations

- ▶ For Fall 2021, the number of applicants to Bachelors programs far exceeded previous years (+25.5% vs. 2020).
- ▶ For Fall 2022, the number of applicants is down slightly (-3.5% vs. 2021), but still far exceeding prior years.
- ▶ Like last year, there is reason to believe that students are applying to more universities on average. This makes yielding our desired new intake much more competitive and unpredictable.
- ▶ The *Programme de bourses Perspective Québec*, a new program of incentive scholarships for Québec students in disciplines prioritized by the government, may make our desired new CEGEP intake much more competitive and unpredictable across programs.
- ▶ Proactive engagement with new and returning students throughout the spring and summer months remains a priority as we plan towards full in-person activities for the Fall 2022 semester.

2.4. FY2023: Major Budget Assumptions and Scenarios

- ▶ To help deal with uncertainties, we prepared three scenarios for selected revenue and expense categories.
- ▶ To build the budget, we considered a realistic scenario.
- ▶ In the following slides, we describe the assumptions that were used to prepare the budget and present quantified scenarios that illustrate a possible spread of actual financial results.
- ▶ Considering that the impact of a given event on revenues and expenses is rather complex, we strongly encourage readers to interpret scenarios for selected revenue and expense categories independently.
- ▶ Aside from the budget, we have chosen not to combine scenarios for revenues and expenses considering that the occurrence of a negative event (e.g., loss of revenues or unforeseen expenses) would trigger mitigation measures. In other words, it would be very unlikely to have a pessimistic (lower extreme) revenue scenario, combined with a pessimistic (higher extreme) expense scenario.

2.5. Fiscal Year 2022-2023 Budget

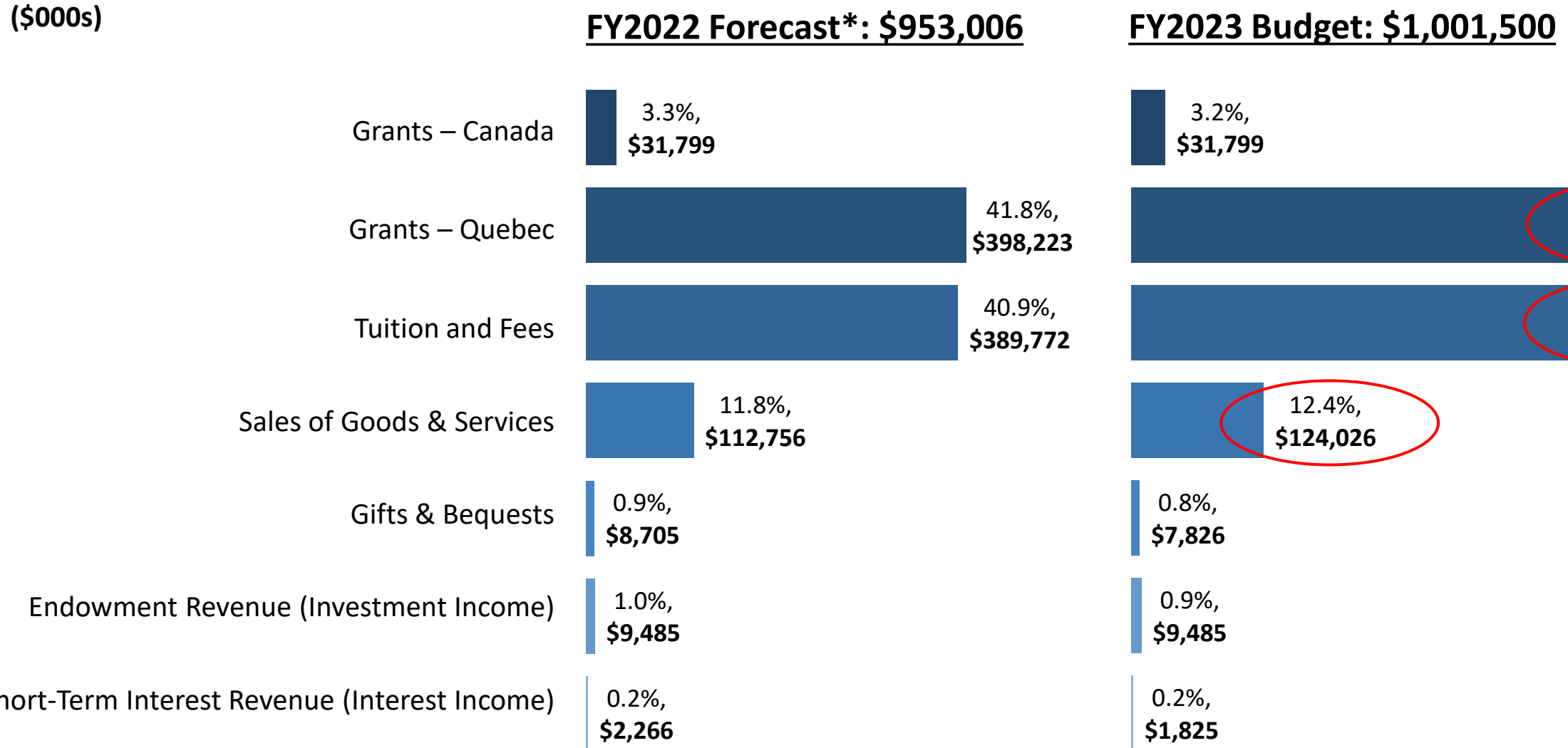
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	FY2019 Actuals	FY2020 Actuals	FY2021 Actuals	FY2022 Forecast*	FY2023 Budget
Total revenues	920,750	922,085	898,216	953,006	1,001,500
Total expenses	912,088	922,240	897,406	952,559	1,010,879
Annual surplus / (deficit)	8,662	(155)	810	447	(9,379)
Financed accumulated deficit	119,777	119,932	119,122	118,675	128,053
Financed accumulated deficit/revenues (%)	13.0%	13.0%	13.3%	12.5%	12.8%

Unrestricted Fund, excluding year-end GAAP adjustments

*As per January 2022 actuals and commitments, unit inputs, and trend forecasts

2.6. FY2023 Budget: Unrestricted Revenues



*as per January 2022 actuals and commitments, inputs from units, and trend forecasts

2.7. FY2023: Grants – Quebec and Regulated Tuition Rates

- ▶ In the past, the Quebec government communicated its funding policy in late spring, after the budget was submitted for approval.
- ▶ On March 23, 2022, the Ministry shared with universities its funding policy, pending the finalization of the government approval process.
- ▶ The FY2023 operating budget thus considers actual parameters of the provincial funding policy.
- ▶ For Québec normed grants, the indexation has been set at 4.1% for teaching and 4.3% for support.
- ▶ The indexation of all regulated rates (Quebec base tuition, Canadian and International supplement) have been set at 2.64%, which is lower than in the past 5 years
- ▶ Overall, increased revenues resulting from the indexation of enrolment-driven grants has compensated for the loss of anticipated revenue from regulated tuition rates.

2.8. FY2023: Deregulated Tuition Guarantee Model and Assumptions

- ▶ Tuition is deregulated for international students in all first-cycle and second-cycle (non-thesis) programs. Some international students (e.g., French citizens) are exempted from paying deregulated tuition.
- ▶ Effective Fall 2022, McGill will adopt a tuition guarantee model for deregulated Bachelor's students.
- ▶ A tuition guarantee means that a student pays the same tuition rate for the duration of their degree program, compared to the current model where tuition rate increases are determined annually.
- ▶ A tuition guarantee is viewed favourably by prospective students and positively influences the decision to attend a university when compared to indexed tuition rates¹.
- ▶ To support the access of qualified students with financial needs, 30% of net tuition increases will continue to go directly to student aid.
- ▶ In addition to a realistic scenario that has been used to build our budget, we prepared optimistic and pessimistic scenarios that quantify the financial impact of achieving a number of deregulated fee-paying students that differs from our modeled expectations. Our scenarios consider the net difference in revenue upon replacement of deregulated students by regulated students.

¹ CRi Tuition Elasticity Study on Prospective International Undergraduate Students

2.9. Scenarios for Deregulated Student Enrolment

	Over/Under Achieve Targets	FY2023 New Registrations	Deregulated Revenue (\$000s)	Net Difference in Revenue (\$000s) (Deregulated students replaced by regulated students)
Optimistic	+10%	1,376	\$51,719	\$3,576
	+5%	1,314	\$49,969	\$1,827
	Budgeted	1,251	\$48,142	
Pessimistic	-5%	1,188	\$46,315	(\$1,827)
	-10%	1,126	\$44,565	(\$3,576)
	-15%	1,063	\$42,781	(\$5,361)
	-20%	1,001	\$40,977	(\$7,165)
	-25%	938	\$39,136	(\$9,006)

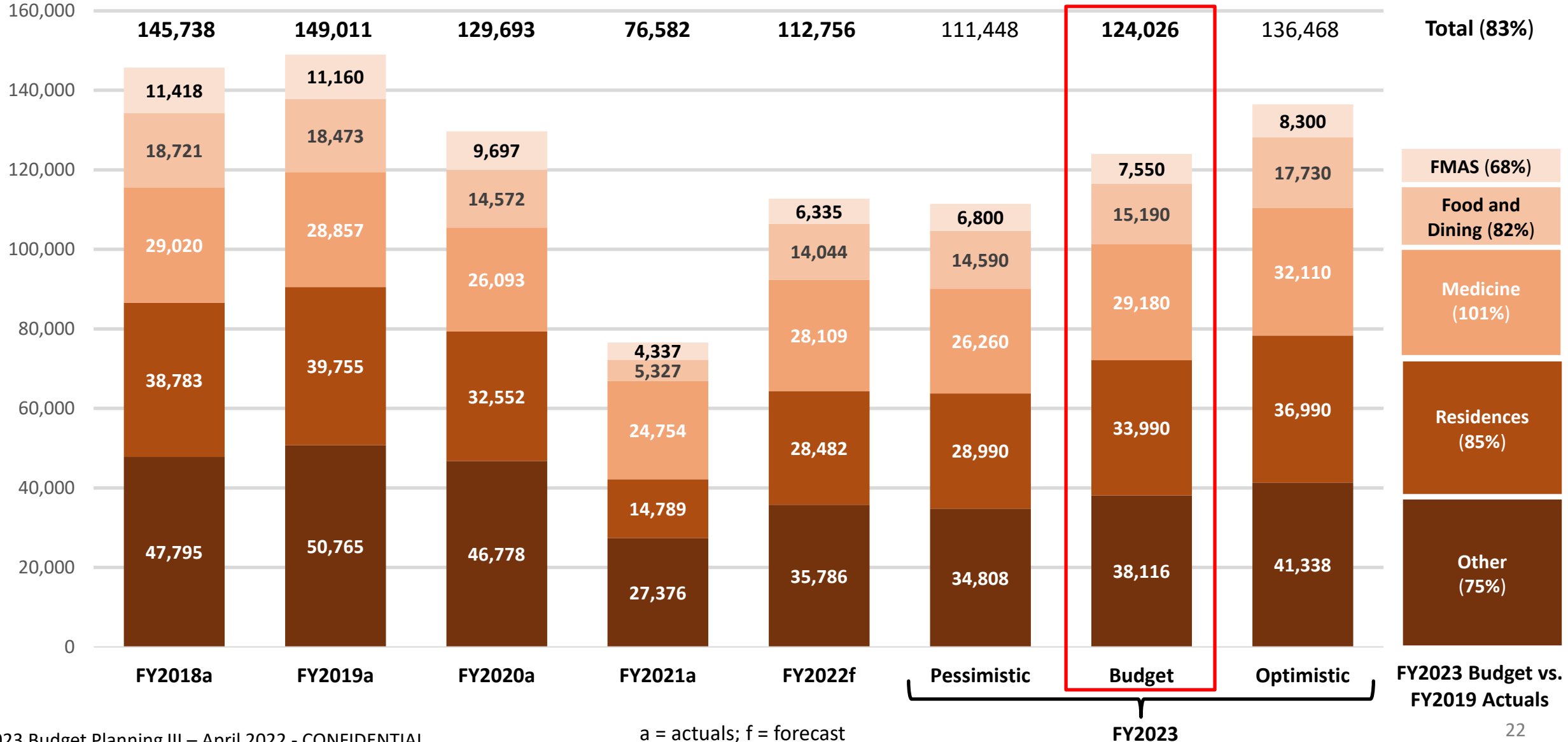
- ▶ Achieving our budgeted deregulated/regulated mix of undergraduate new registrations has a financial impact in FY2023, and in subsequent years.
- ▶ Should McGill continue to yield deregulated students at a lower than anticipated rate, the net loss in revenue ranges from \$1.8 to \$9M in FY2023.

2.10. FY2023: Sales of Goods and Services Assumptions

- ▶ The physical presence of faculty, staff and students is critical for many of the self-financing units to earn sales of goods and services revenues (e.g., residences, athletics, parking, food and dining services, etc.)
- ▶ From a pre-COVID high of \$149M in FY2019, the sales of goods and services decreased to \$77M (51%) in FY2021 and is currently forecasted at \$113M (76%) for FY2022.
- ▶ Based on previous experience, we assume that if campus activities were to be diminished again due to COVID-related health and safety measures, the financial risks would be mitigated by reduced spending across the University.
- ▶ Looking ahead, we believe that the maintenance of flexible work arrangements will reduce revenues in certain sectors (e.g., parking and food and dining services). Operating costs will need to be adjusted.
- ▶ For FY2023, consolidated unit expectations are at 83% of the FY2019 peak. This is driven largely by Residences (85% of FY2019 peak), Medicine (101%), Food and Dining (82%), and Facilities Management and Ancillary Services (68%). Other units (including Desautels, School of Continuing Studies, Athletics, Engineering, and Dentistry) also have varying expectations, but the total financial impact is less significant.
- ▶ For FY2023, the budgeted amount is \$124M (83% of FY2019 peak). Pessimistic expectations in consideration of potential additional COVID health and safety measures are \$111M (75%), while optimistic expectations are \$136M (92%).

2.11. FY2023 Revenues: Scenarios for the Sales of Goods and Services

(\$000s)

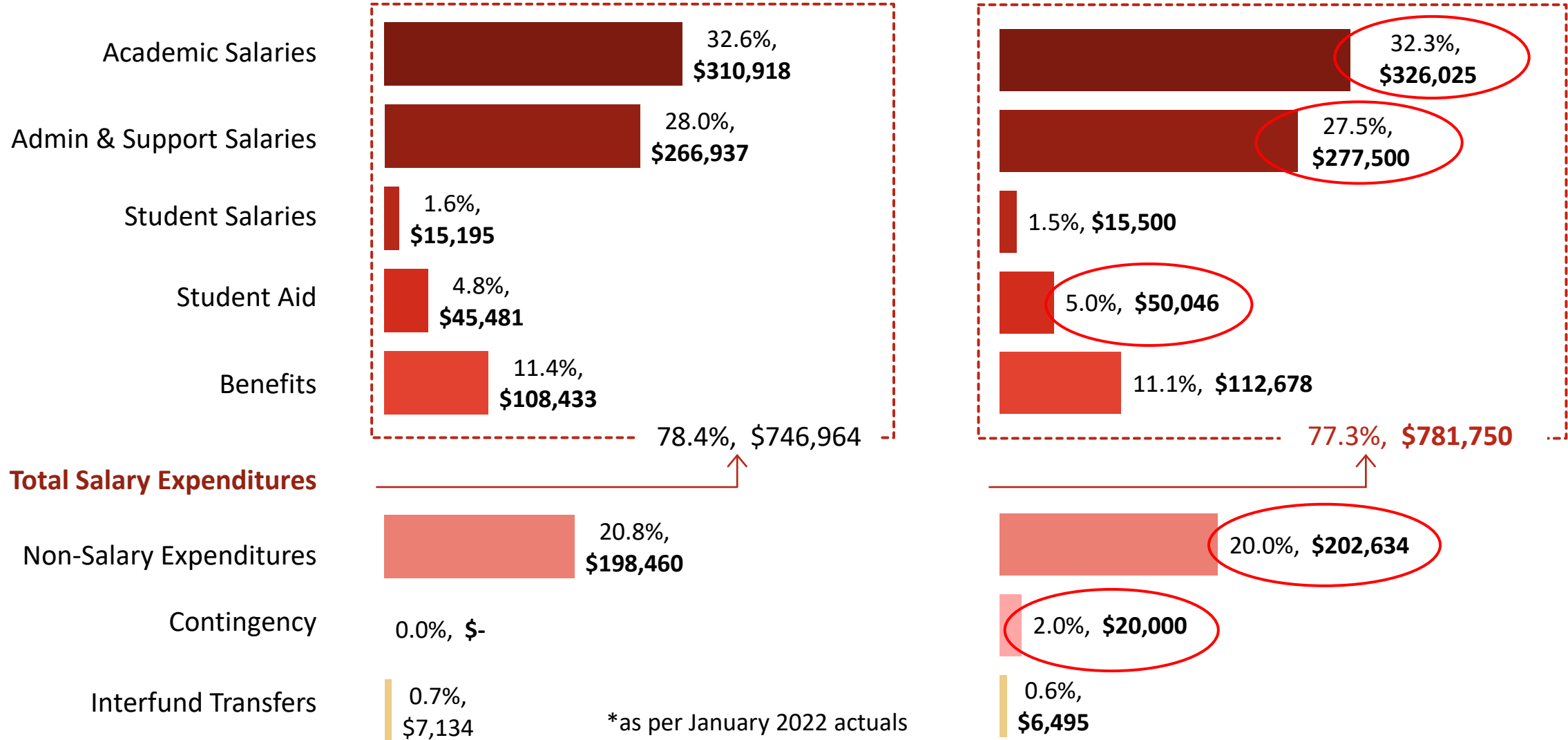


2.12. FY2023 Budget: Unrestricted Expenses

(\$000s)
























FY2022 Forecast*: \$952,559

FY2023 Budget: \$1,010,879



*as per January 2022 actuals and commitments, inputs from units, and trend forecasts

2.13. FY2023 Budget: Non-Salary Expenditures

(\$000s)	FY2022 Forecast: \$198,460	FY2023 Budget: \$202,634	Change: \$4,173
Materials, Supplies & Publications	 38,567	 39,583	1,016
Building & Occupancy Costs (excluding sinking fund payment)	 32,328	 38,859	6,531
Contract Services	 23,634	 24,002	368
Energy	 18,523	 19,605	1,082
Cost of Goods Sold & Services Rendered	 16,823	 18,767	1,944
Hardware and Software Maintenance	 15,236	 16,562	1,326
Professional Fees	 11,605	 12,285	680
Sinking Fund Payment	 18,000	-	(18,000)
Contribution to Partner Institutions	 10,207	 10,366	159
Capital Purchases	 9,035	 9,175	140
Interest & Bank Charges	 819	 932	113
Other (incl. travel, receptions, events, catering, meals, photocopying)	 3,682	 12,497	8,815

2.14. Sinking Fund Payments through FY2025

(\$000s)

Fiscal Year	Original Plan (Annual)	Original Plan (Cumulative)	Contributions (Annual)	Contributions (Cumulative)	Comments
FY2019	0	0	11,500 (a)	11,500	
FY2020	11,500	11,500	27,000 (a)	38,500	
FY2021	20,000	31,500	16,000 (a)	54,500	
FY2022	17,000	48,500	18,000 (f)	72,500	
FY2023	17,000	65,500	0 (b)	72,500	Any excess operating surplus in FY2023 will be applied to FY2024 thereon required contribution
FY2024	17,000	82,500	10,000 (o)	82,500	Planned contribution excludes the issuance of new debt
FY2025	20,000	102,500	20,000 (o)	102,500	

(a) actual; (b) budgeted; (f) forecasted; (o) outlook

2.15. FY2023: Expense Assumptions (1 of 4)

To quantify the financial impact of variability in our budgeted targets, we have prepared low and high expense scenarios for the categories listed below, using the following considerations:

▶ **Academic Salaries**

- ▶ Tenure-track salaries is one of the University's most predictable expense categories. An academic renewal plan establishes the University tenure-track complement targets.
 - ▶ Tenure-track salary costs may vary if the number (or timing) of arrivals and departures differs from the academic renewal plan, or the extent to which salary policy envelopes are exhausted.
- ▶ Other academic salaries (e.g., contract academic staff, course lecturers) represent a smaller share of the budget but are more variable in nature.
 - ▶ The impact of cost variances from the academic renewal plan (either positive or negative) is somewhat offset by variances (either negative or positive) in other academic salaries, reducing the potential variance for academic salaries as a whole.
- ▶ Financial risks are mitigated by a number of centrally controlled mechanisms.

2.16. FY2023: Expense Assumptions (2 of 4)

▶ Administrative and Support Salaries

- ▶ During FY2022, the hiring control measures that were implemented at the onset of COVID were eased, allowing to replace unfilled positions in order to support teaching and research, critical operations, as well as increased on-campus activities. Growth of headcounts for FY2023 is anticipated to be limited.
- ▶ Some support staff salaries and payments are highly predictable, while others are more seasonal in nature, and others are dependent on volume of revenue-generating activities.
- ▶ The extent to which activities return to “normal” has a direct impact on this category, as does the rate of employee turnover, and the efficiency of the hiring process.
- ▶ The above factors contribute to the category being inherently more difficult to predict.
- ▶ Financial risks are mitigated by a centrally controlled hiring process for specific groups of employees.

2.17. FY2023: Expense Assumptions (3 of 4)

▶ Student Aid

- ▶ Contributions have increased sharply in recent years.
- ▶ The graduate enrolment driven incentive (GEDI) will result in an increase to Student Aid in FY2023.

▶ Benefits

- ▶ Significant annual reductions in **pension solvency contributions** between FY2018 and FY2022 have resulted in an overall stability in benefit costs.
- ▶ However, an actuarial valuation must be triggered by December 2022.
- ▶ Until such time, the FY2023 budget considers relative stability in benefit costs.

▶ Building & Occupancy Costs

- ▶ These are highly variable from year to year.
- ▶ At the unit level, insight into the timing of projects charges is limited. Leases are significant and relatively predictable. Additions of new leases are important.
- ▶ Project management recoveries are considerable, but there is little insight before the end of the year.
- ▶ Insurance related incidents, expenses, and associated reimbursements cause variability across fiscal years.

2.18. FY2023: Expense Assumptions (4 of 4)

▶ Other Non-Salary Expenses

- ▶ During FY2022, several cost items were still severely depressed due to COVID.
- ▶ Examples include **travel, printing, postage, photocopying, receptions / special events, contract services catering, non-travel related meal expenses.**
- ▶ We are anticipating gradual resumption of these activities in FY2023.

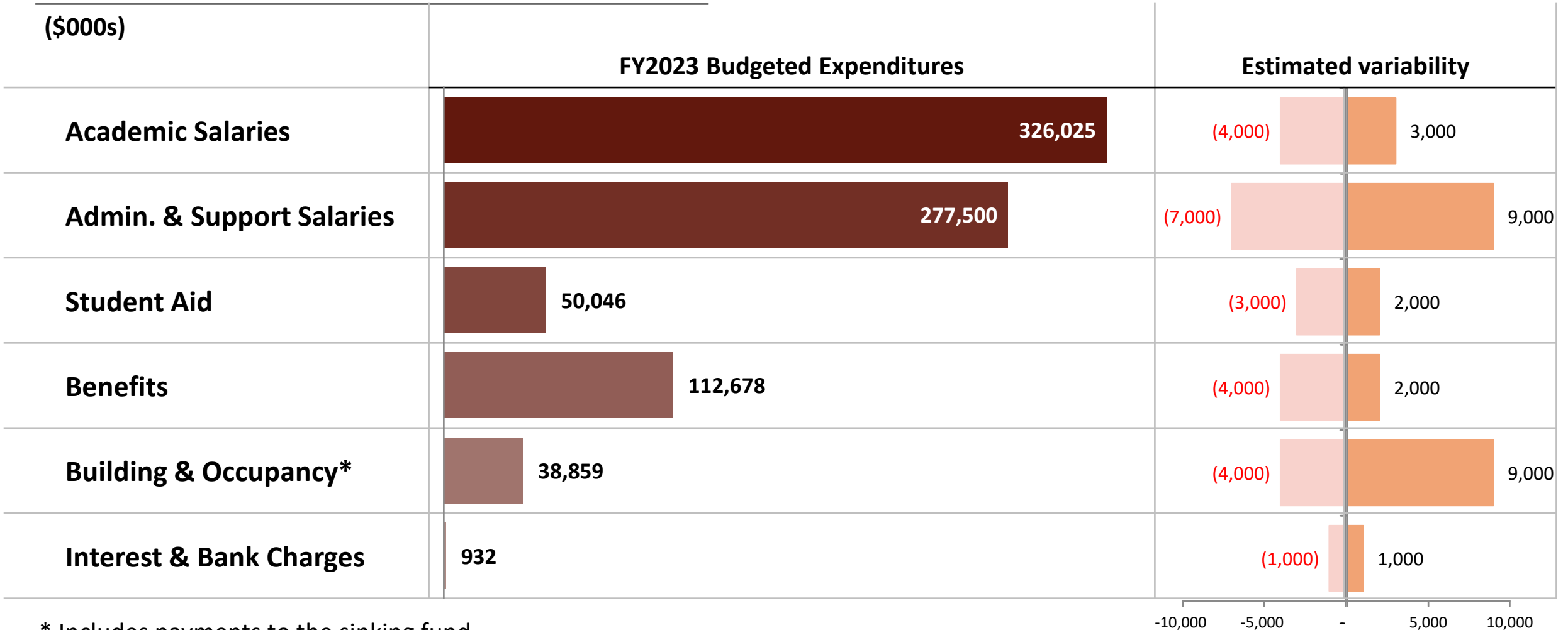
▶ Interest rates

- ▶ Interest rates will likely trend upwards, which will have both positive (e.g., investments, pension solvency contributions) and negative (e.g., direct or indirect costs of issuing new debt) impacts on the unrestricted fund.
- ▶ For FY2023, overall, the impact of rising interest rates is anticipated to be positive.
- ▶ For FY2024+, the issuance of new debt to fund capital projects will likely be at a higher cost, thus increasing the amount of sinking fund payments over time.

▶ Inflation

- ▶ Inflationary pressure is of concern. Financial risks are mitigated by limiting the spending capacity of units through the controlled allocation of incremental budgets, by centrally monitoring the financial situation monthly, and by the use of a contingency.
- ▶ In the event of unforeseen cost increases for certain activities, decisions will be taken to reduce expenses and/or delay other activities to remain within our financial capacity.

2.19. FY2023 Expenses: Scenarios for Selected Categories



► Estimated variability is based on historical patterns, and assumptions presented in the previous slides.

2.20. FY2023 Budget Risk Mitigation Measures

- ▶ To contain expenses, we will:
 - ▶ Continue to monitor revenue and expense expectations monthly in collaboration with units.
 - ▶ Hire tenure-track academic staff within complement.
 - ▶ Maintain a hiring control process for administrative and support staff.
 - ▶ Restrict in-year new allocations to mission-critical activities, core operations, contractual obligations, and non-compressible expenses.
 - ▶ Continue to limit the ability of units to spend-down individual budget carry-forward fund balances.

2.21. Uncertainties and Risks

▶ External:

- ▶ Global political landscape and its effect on international student mobility
- ▶ COVID-19 (and associated health and safety measures)
- ▶ Stability of government commitments
- ▶ Effect of market volatility on pension fund and the University's endowment fund
- ▶ Canadian dollar exchange rate
- ▶ Interest rates
- ▶ Inflation

2.22. Uncertainties and Risks (cont' d)

▶ **McGill-controlled:**

- ▶ Success of the University in deploying its enrolment plan
- ▶ Mitigation of the impacts of COVID-19
- ▶ Balancing remote vs. in-person delivery
- ▶ Stability of activities expected to be self-financing
- ▶ Expense reduction measures
- ▶ Effectiveness of new program development
- ▶ Management of carry forward balance spend down
- ▶ Effectiveness of position budgeting and control
- ▶ Unrestricted budget use for capital expenditures (e.g., rental space, leasehold improvements)
- ▶ Space considerations (e.g., flexible work arrangements, classrooms, swing space for renovations)

Discussion

- 🔍 Questions
- 🔍 Comments
- 🔍 Concerns
- 🔍 Suggestions

