



Memorandum

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TO: Senate

FROM: Professor Christopher Manfredi, Provost and Vice-Principal (Academic)

SUBJECT: Budget Planning 2019-2020: Report II

DATE: March 27, 2019

DOCUMENT #: D18-47

ACTION REQUIRED: INFORMATION APPROVAL/DECISION

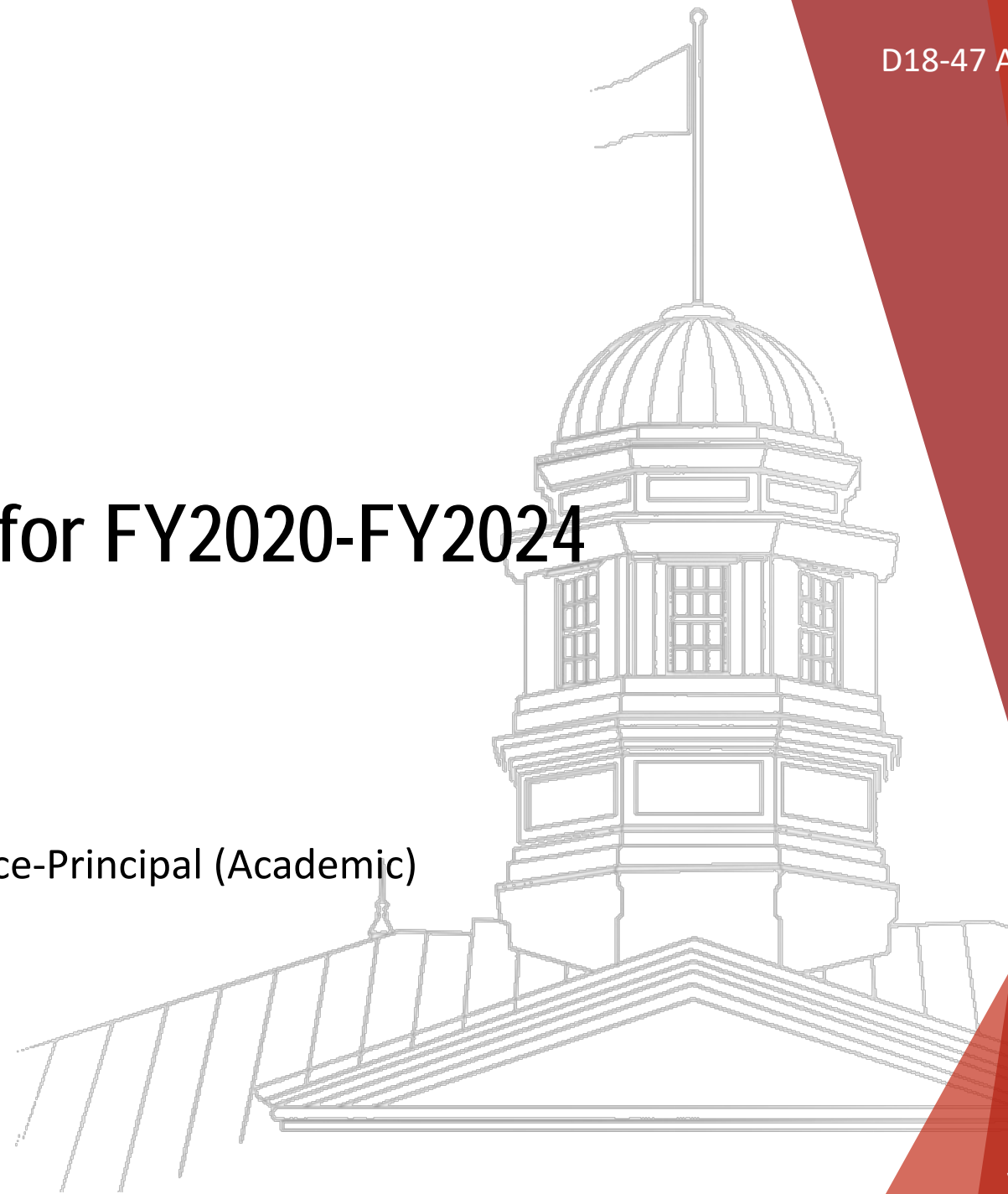
ISSUE	The Budget Planning FY2019-2020 Report II is presented to Senate for information.
BACKGROUND & RATIONALE	This is the second of three annual presentations made to Senate on the McGill University budget. (The first presentation was delivered on December 5, 2018.) This advance look at the forecasts for FY2019 and key considerations for 2020 is presented to the members of Senate for their information.
PRIOR CONSULTATION	Finance Committee and Board of Governors
SUSTAINABILITY CONSIDERATIONS	The FY2020 Budget plan includes support of sustainability research and practice on campus.
IMPACT OF DECISION AND NEXT STEPS	<ul style="list-style-type: none"> • “Budget Planning II” delivered to Senate on 27 March 2019 • McGill University Budget (Budget III) delivered to Finance Committee on 16 April 2019 for approval and recommendation to Board of Governors • McGill University Budget (Budget III) presented to Senate on 17 April 2019 for information • McGill University Budget (Budget III) presented to Board of Governors for approval on 25 April 2019 • McGill University Budget Book published and distributed as soon as possible after the approval of the budget.
MOTION OR RESOLUTION FOR APPROVAL	N/A
APPENDICES	Appendix A: Budget Planning II: FY2019 Outlook and Budget Hypotheses for FY2020-FY2024

Budget Planning II

FY2019 Outlook and Budget Hypotheses for FY2020-FY2024

Presentation to Senate on March 27, 2019

Prof. Christopher Manfredi, Provost and Vice-Principal (Academic)

















FY2019 Outlook

Safe Harbour Statement

- ▶ This presentation provides an outlook of our revenue and expenses as of December 31, 2018.
- ▶ As previously noted in Budget Planning I, revenue and expense estimates come into clearer focus at this point.

FY2019 Year-End Estimates – Unrestricted Funds (\$M)

Anticipated major budget variances for FY2019 (\$M)		
FY2019 budgeted deficit	(\$15.4M)	
Lower than budgeted other non-salary expenses		 \$29.0M
Higher than budgeted tuition & fees		 \$17.2M
Higher than budgeted Provincial grants		 \$15.5M
Higher than budgeted sales of goods & services		 \$7.5M
Higher than budgeted endowment revenue (investment income)		 \$4.2M
Lower than budgeted benefits expenses		 \$2.5M
Higher than budgeted building & occupancy costs	(\$2.2M)	
Higher than budgeted contract services	(\$5.8M)	
Higher than budgeted materials, supplies, and publications	(\$7.5M)	
Higher than budgeted Support Staff and Academic salaries & payments	(\$7.8M)	
Higher than budgeted inter-fund transfers	(\$21.8M)	
<i>Variations in all other revenue and expense categories</i>	<i>(\$23.0M)</i>	
FY2019 forecast	(\$7.5M)	

FY2019 Year-End Estimates vs. Budget FY2019: Revenues

- ▶ FY2019 budget was built estimating revenues under the the government's former funding policy.
- ▶ FY2019 year-end provincial grants and tuition and fees revenues are estimated using what is currently known about the government's new funding policy, outlines of which were published in July 2018 with ongoing discussions about key changes.
 - ▶ Significant increase of operating grant in FY2019 due to implementation of a new funding grid and government grant structure.
 - ▶ Temporary grants: \$4.2M for smoothing enrolment; \$2.1M for supporting engineering.
- ▶ We originally coded a material cash inflow (around \$7M) as a transfer into the unrestricted fund. The FY2019 budget reflected this expectation. However, the inflow was subsequently recoded as endowment revenue, causing both revenue and expenses to appear \$7M higher than budgeted.
- ▶ Sales of goods and services are forecasted at \$7.5M above budget, but only about \$2M above FY2018 totals.

Side by Side Comparison of Provincial Government Revenues (\$000)

Category	Budget FY2019	Year-End Estimate FY2019	Difference
Teaching Grant	301,652	333,624	31,972
Support Grant	55,047	65,575	10,528
Facilities and Buildings	58,968	61,777	2,809
Specific Grants	14,659	8,262	(6,397)
Enrolment Smoothing (new)	-	4,186	4,186
General Fixed Costs	2,432	2,809	377
Other grants	7,105	1,640	(5,465)
Recoveries	(107,029)	(111,571)	(4,542)
<i>Loi 100 - Productivity Cuts</i>	(3,899)	-	3,899
FY06 Reinvestment	8,349	-	(8,349)
FY18 Additional Reinvestment	6,211	-	(6,211)
FY19 Additional Reinvestment	7,350	-	(7,350)
Total	350,845	366,301	15,456

FY2019 Year-End Estimates vs. Budget FY2019: Revenues (cont'd)

- ▶ Fall 2018 enrolment of deregulated international students surpassed target:
 - ▶ FY2019 Budget based on admission and enrolment targets.
 - ▶ Current estimate of deregulated headcounts are 206 above target (2,454 versus 2,248).
 - ▶ Positive impact on tuition, provincial grants (for FY2019 only), institutional fees and sales of goods and services revenues.

FY2019 Year-End Estimates vs. Budget FY2019: Revenues (cont'd)

Bachelors Enrolment (Headcounts)

	FY2019			Variance
	(Fall 2018)	Targets ⁽¹⁾	Actuals	
Regulated programs		22,195	22,176	-19
Deregulated programs ⁽²⁾		2,248	2,454	206
Total Bachelors Enrolment		24,443	24,630	187

Graduate New Registrations (Headcounts - Annualized)

	FY2019			Variance
	(Fiscal Year)	Targets	Actuals (p)	
Total Masters		2,304	2,414	110
Masters Non-Thesis		1,313	1,375	62
Masters Thesis		991	1,039	48
Doctoral		753	748	-5
Total Graduate New Admits		3,057	3,162	105

⁽¹⁾ Regulated targets/actuals are derived from overall targets/actuals minus deregulated targets/actuals.

⁽²⁾ Deregulated enrolment actuals are based on students who are billed deregulated tuition fees as of the end of FY2019 Q2. Newly admitted students have until the end of the first term to provide proof of citizenship/residency, and thus the number of those considered to be deregulated may decrease slightly from what is shown here.

(p) projected: FY2019 new registrations to graduate programs are projected based on the sum of Summer/Fall 2018 new registrations as at October 15 census and Winter 2019 confirmations as at October 25.

FY2019 Year-End Estimates vs. Budget FY2019: Expenses

- ▶ Since FY2016, budgets have been built with the assumption that units would meet their mandated cuts and salary mass reductions (\$15.0M). Units have been allowed to spread out their reductions over time. This flexibility has led to expenditures that exceed our budget.
- ▶ FY2019 year-end estimates for self-funded operating funds (non 1A funds) are less optimistic than budgeted:
 - ▶ The FY2019 year-end estimate forecasts a surplus of \$1.4M for these self-funded unrestricted funds (vs. a surplus of \$7.8M in Budget FY2019).

Looking Ahead: FY2020-FY2024

Looking ahead FY2020-FY2024: Operating Revenues

- ▶ McGill expects to maintain the enrolment goals set out in the Strategic Academic Plan:
 - ▶ Maintain undergraduate enrolment and increase graduate enrolment.
 - ▶ Maintain share of international students within undergraduate enrolment between 25%-30%.
- ▶ In FY2020, first-cycle and non-research second cycle international students will be deregulated:
 - ▶ Suppression of teaching, support, and building and grounds grants for deregulated students.
 - ▶ Tuition fees to offset the loss of these grants over time as we continue to adjust tuition rates for deregulated students in line with the market—a slight decrease expected in FY2020, with gradual increases afterward.
 - ▶ Temporary transition grant to new funding policy: \$2.1M in FY2020 and \$1.1M in FY2021.
 - ▶ Tuition elasticity study by major disciplines in progress.

Looking ahead FY2020-FY2024: Operating Revenues (cont'd)

- ▶ McGill is continuously refining its revenue estimate for its largest revenue category. The amount that we receive from the ministry on a monthly basis is based on its historical expectations, and does not match the amount being generated by our current student cohort. Our forecast reflects the latter, even though these corrections will only appear in the government grant two years from now.
- ▶ McGill will need to change the way it looks at revenue allocation in order to meet strategic challenges.
 - ▶ Are our budget rules maximizing our ability as an institution to meet our challenges?
 - ▶ Are we effectively using our revenues in such a way that allows us to meet our challenges?
 - ▶ Are we taking advantage of changes in personnel or structures to re-examine the way we do things? To find better ways?
 - ▶ Is incremental revenue being shared in as efficient a way as possible with our academic units?

Looking ahead FY2020: Operating Expenses

FY2020:

- ▶ Salary policy (including associated benefits) is estimated at \$15M.
- ▶ Approved permanent and temporary allocations for strategic initiatives, structural deficit of units, and incompressible expenses of \$11.6M.
- ▶ First instalment of \$11.5M in amortization fund for future bond repayment is due in FY2020 and sourced from operating revenues.
- ▶ Pay equity investigation is in progress.

Looking ahead FY2020-FY2024: Operating Expenses

FY2020-FY2024:

- ▶ Units asked to fully fund permanent positions with permanent budget in preparation for Budget FY2020.
- ▶ HR-led consultation with Faculties/administrative units to identify root causes of increased administrative and support staff hiring.
- ▶ Annual repayment of \$23M starting in FY2021 in amortization fund for future bond repayment.
- ▶ Strengthen oversight of capital projects funded by operating revenues.
- ▶ Strengthen oversight of funds expected to be self-funded—especially those running deficits.

Looking ahead FY2020-FY2024: Revenue Risks/Unknowns

- ▶ Incomplete implementation plan for new funding policy by government:
 - ▶ Ongoing discussions vis-à-vis adjustments being considered by the government to the new funding policy.
 - ▶ Proactive involvement in discussions with the government and policy modelling/data analysis.
- ▶ Success of the University in applying its enrolment plan for Fall 2019.
- ▶ Success of the University in developing optimal pricing strategy for tuition fees for deregulated students by program and in delivering on this strategy.
- ▶ Profitable financial management of self-funded operations.

Looking ahead FY2020-FY2024: Cost Risks/Unknowns

- ▶ Success of efforts to identify causes of increased hiring, appropriate planning to reach desired staffing levels, and application/monitoring of targeted staffing levels.
- ▶ Unprecedented capital projects, including IT investments, either in progress or in planning.
 - ▶ Estimates of total capital project costs - including cost of staff time providing significant support to capital projects and funded from operating funds.
- ▶ Increases in interest rates in past two years impact borrowing costs.

Looking ahead FY2020-FY2024: Research Revenues

- ▶ Increase in federal funding for research until 2022-2023 announced in Budget 2018, including an additional \$925M over five years for the tri-councils:
 - ▶ McGill's share of increased funding will depend on success of its applications.
 - ▶ Federal government supports indirect cost of research (i.e., operating costs of research) at a rate that is insufficient to cover the indirect costs of these activities.
 - ▶ McGill covers gaps in indirect costs of research using its other sources of revenues, including operating funds.

Looking ahead FY2020-FY2024: Fundraising

- ▶ Possible impact of donations on the operating fund:
 - ▶ Donations may be conditional on university matching.
 - ▶ Donors may expect personalized management of donations without such operating costs covered by the donation.

A Final Note

- ▶ This financial outlook informs our understanding of the resources the University has to achieve its academic mission.
- ▶ The effectiveness of available resources in achieving the University's academic mission also depends on current internal policies (i.e., both their design and application) and on non-financial drivers.
- ▶ The University is developing Business Intelligence that enables the ability to link University resource use with achievement of the academic mission of the University:
 - ▶ Data production
 - ▶ Data governance
- ▶ The University must ensure that its staff has the required financial skills to process budget transactions correctly, technical skills to use detailed data beyond pre-formatted reports, information management skills, and ability to transfer institutional memory or know where to obtain it.

Discussion

- ❓ Questions
- ❓ Comments
- ❓ Concerns
- ❓ Suggestions

