

**DRAFT Budget
FY2011:
Preliminary Assumptions
Presentation to Senate**



McGill

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Provost
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Background and overview: continuing economic uncertainty

- **who we are**
 - quality, performance, impact: “punching above our weight”
- **where we are**
 - strategic planning (white paper) and multi-year resource allocations (compacts)
 - trajectory regarding our commitment to eliminating annual deficits and reducing the accumulated operating deficit (and most of our debt)
- **why we are here**
 - financial and economic downturns: business as usual is not an option
 - situation at other universities

Background and overview: continuing economic uncertainty (2)

- **what we have done**
 - Provost's Administrative Task Force on Dealing with Economic Uncertainty
 - meeting objectives and introducing operational changes
- **what still needs to be done**
 - ensure quality, access, competitiveness
 - understanding of the situation and acceptance that actions are required

A “transitional” budget for FY2011



- 1) position McGill for continued competitive success
- 2) secure investments that have been made in priorities over the first four years of our current planning cycle
- 3) be consonant with the Provincial funding situation, expectations across the Quebec university system, and McGill’s requirements
- 4) anticipate revenue and expense items likely to result from new public policies regarding education and research
- 5) ensure the administrative and managerial discipline required to achieve the necessary cuts in expenditures and re-allocations to top priorities

Operational objectives based on strategic goals (1)

- a) protect jobs, and where possible positions
- b) boost quality in delivering on McGill's mission by improve service and support to students, faculty, and staff
- c) streamline processes and reduce red tape via continual incremental improvements and large-scale transformations
- d) enhance recognition for outstanding research and scholarship
- e) gain recognition for teaching excellence and community service

Operational objectives based on strategic goals (2)

- f) recruit, develop, and retain the best academic talent in selected priority areas
- g) attract the most talented students, undergraduate and graduate, from around the corner and around the world
- h) remain among “Canada’s leading employers” by a variety of measures and ratings
- i) develop in the McGill community a sense of shared responsibility for and willingness to help achieve priorities and significant cost savings

FY2011 budget: change in fiscal year end and new accounting rules



- change in accounting rules: confusion AND clarity
 - Canadian GAAP already here for FY2010
 - reporting future liabilities more rigorous
 - stricter treatment of research/restricted revenues
- change in fiscal year FY2011 and fiscal year end FY2010
 - starting 1 May 2011 for FY2012
 - transitional 11-month budget for FY2011, ending on 30 April 2011
- emerging consensus among Quebec universities
 - book tuition at 100% because revenues will have already been earned by 30 April
 - reduce most other expenses and revenues by 1/12

FY2011 budget: assumptions regarding revenues



- \$2.5M: targeted growth (MELS grant and tuition revenue)
 - 1.0% UG (not ATB)
 - 1.5% Masters (specific programs)
 - 4.0% Ph.D. (graduate capacity indicators)
- \$2.0M tuition increases
 - \$100/year per FTE Quebec-sanctioned increases
 - re-regulated international students in Management, Science, Law and Engineering

FY2011 budget: assumptions regarding revenues



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Assume 12 month budget

	Forecast 2009-10	Budget 2010-11	% Change vs FY10
<i>Revenues</i>			
MELS - operating grant	303,018	315,376	4.1%
Federal indirect costs of research grant	16,572	16,979	2.5%
Tuition and student charges	162,948	173,306	6.4%
Other revenues*	23,302	24,175	3.7%
Sub-total operating revenues:	505,840	529,836	4.7%
Total Self Financing Revenues	105,051	107,381	2.2%
Total Operating Revenues	610,891	637,217	4.3%

FY2011 budget: assumptions regarding expenses



- total wage-bill to increase: more people plus salary policies
- continuation of current level of McGill contribution to benefits
- student assistance continues to increase, as tuition fees rise slightly and pressure on families and individuals increases due to the continuing economic crisis
- interest rate for borrowing expected to average 1.8%



FY2011 budget: assumptions regarding expenses

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Assume 12 month budget

Prior to cuts

	Forecast 2009-10	Budget 2010-11	% Change vs FY10
<i><u>Expenses</u></i>			
Faculties	302,746	328,656	8.6%
Academic services	61,667	63,545	3.0%
Administrative & support services*	124,352	130,952	5.3%
Institutional expenses & contingency	14,346	14,770	3.0%
Student assistance	10,863	12,313	13.3%
Sub-total operating expenses:	514,974	550,236	6.8%
Total Self Financing Expenses	101,007	105,007	4.0%
Total Operating Expenses	615,981	655,243	6.4%

FY2011 budget: priority investment areas



- competitive (academic) salary levels
- student services and support
- identified research priorities
- priorities at the Faculty-level
- capital projects



FY2011 budget: actions proposed to address deficit

- preservation of jobs is a primary consideration
- attrition of personnel expected, case to be made for replacements
- overall expense cut of 1.5%, differential impact with re-investments
- efficiencies from disciplined management of processes and procedures
- re-allocation of resources within units to top priorities
- internal conversion of several JM/WD into CRCs

FY2011 budget: before and after actions

In \$ Thousands

12 Months

Before Actions After Actions

Projected 2009-10	Budget 2010-11	Budget 2010-11
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Total Operating Revenue	610,891	637,217	637,217
<i>growth %</i>		<i>4.3%</i>	<i>4.3%</i>
Total Operating Expenses	615,981	655,243	647,193
<i>growth %</i>		<i>6.4%</i>	<i>5.1%</i>
Operating surplus/(deficit)	(5,090)	(18,025)	(9,975)
Accumulated surplus/(deficit)	(76,500)	(94,525)	(86,475)

FY2011 budget: move to 11 month fiscal year

In \$ Thousands

	12 Months After Actions		11 Months
	Projected 2009-10	Budget 2010-11	Budget 2010-11
Total Operating Revenue	610,891	637,217	598,558
<i>growth %</i>		4.3%	-2.0%
Total Operating Expenses	615,981	647,193	599,056
<i>growth %</i>		5.1%	-2.7%
Operating surplus/(deficit)	(5,090)	(9,975)	(498)
Accumulated surplus/(deficit)	(76,500)	(86,475)	(76,998)

Full year tuition recognized in 11 month FY11;
All other Revenue and most Expenses reduced by 1/12

FY2011 budget: Scenario 1



(1) transitional budget proposal for FY2011

- save jobs: attrition as the mechanism to reduce positions
- keep commitments on salaries and student support
- expense reductions and business efficiencies to take down spending
- retain re-investment capacity for academic initiatives in identified strategic priorities
- re-allocations to priorities required of Faculties and units
- further initiatives encouraged, temporary funding only
- revenue-generation consistent with McGill's mission and comparative advantage

FY2011 budget: Scenario 2



(2) balanced budget for FY2011 (based on the full-12 month year, MELS accounting)

- significant additional 1.5% “across the board” cut required (total cut in expenses then = 3.0%)
- supplemental expense cuts in certain areas will be needed
- job losses, position eliminations, and more
- further re-allocations within academic and support units required
- priorities spending restricted to minimum
- heavier and quicker reliance on revenue generation mechanisms

FY2011 budget:

Scenario 1 proposed 5 year outlook

In \$ Thousands

	11 months		5 Year Outlook Cycle				
	Projected 2009-10	Budget 2010-11	2011-12	2012-13*	2013-14*	2014-15*	2015-16*
Total Operating Revenue	610,891	598,558	657,487	675,060	698,697	720,763	734,846
<i>growth %</i>		-2.0%	9.8%	2.7%	3.5%	3.2%	2.0%
Total Operating Expenses	615,981	599,056	668,352	685,537	704,535	724,680	738,936
<i>growth %</i>		-2.7%	11.6%	2.6%	2.8%	2.9%	2.0%
Operating surplus/(deficit)	(5,090)	(498)	(10,865)	(10,477)	(5,837)	(3,917)	(4,089)
Accumulated surplus/(deficit)	(76,500)	(76,998)	(87,863)	(98,340)	(104,178)	(108,094)	(112,184)

Incremental priorities investment in FY12 through FY16 of between \$8M and \$10M

* Salary policy assumptions for FY2013 & beyond: 2.5% for academics, 1.5% all other categories

Economic uncertainty continues (1)

- Federal budget for FY2011
 - positives: PDFs, granting councils, institutional costs of research
 - negatives: increase in E.I. rates, taxation of PDFs
- Quebec budget for FY2011
 - to be tabled 30 March
 - large budget deficits projected through FY2013 (at least)
- previous governmental behaviours at these junctures are not encouraging
- future policy directions remain unclear
- funding expectations must be conservative

Economic uncertainty continues (2)

- interest rates may exceed an average of 1.8% over the year
- facilities expenses may increase
- contingencies represent a small proportion of overall budget
- salary expenses at McGill have been characterised as being too high by MELS and Quebec's Treasury Board in the past
- **long-term reliance on deficit financing at the institutional level not sustainable**
- responsibility-based mechanisms for pay-down must be developed and incorporated into budgeting models

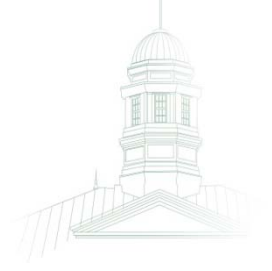
The crisis is not over: negative effects still being felt

- a “transition budget” is preferable, but a framework for future must be firmly established
- continue to act responsibly or lose control of our own destiny



Budget 2011 preliminary

Discussion



***Questions?
Comments?
Suggestions?
Concerns?***