



Memorandum

Office of the Provost
James Administration Building
845 Sherbrooke St. West, Room 504

TO: Senate
FROM: Prof. Anthony C. Masi, Provost
SUBJECT: Budget Planning for FY2016: Report I
DATE: December 3rd, 2014
DOCUMENT #: D14-24
ACTION REQUIRED: INFORMATION APPROVAL/DECISION

ISSUE: This presentation outlines key considerations for the development of the FY2016 budget. We present this advance look at our key budget considerations for the coming fiscal year to the members Senate for their information.

BACKGROUND & RATIONALE: This presentation is the first in a series of budget communications to the University community outlining major considerations shaping the budget for the coming fiscal year. This presentation is followed later in the year by Budget Planning II, and finally by the release of the McGill University Budget Book.
The key risk factors for planning the FY2016 budget are primarily those associated with assumptions that are based on the best available current information, but nevertheless require further validation as we proceed through the budget planning cycle.

MOTION OR RESOLUTION FOR APPROVAL: N/A

PRIOR CONSULTATION: This update has been developed in consultation with members of the senior administration, including the Deans.

NEXT STEPS:

- Budget Planning II delivered to Senate on 18 February 2015
- McGill University Budget delivered to Senate on 22 April 2015
- McGill University Budget delivered to Board of Governors on 28 April 2015

APPENDICES: Appendix A: Powerpoint presentation



**Update on the
Implementation of the
Budget for FY2015 and
Budget Planning for
FY2016 and beyond**

Key Considerations

Prof. Anthony C. Masi,
Provost

3 December 2014

Presentation to Senate



McGill

McGill's strategic priorities: unchanged and the main drivers of budget allocations

- I. advancing McGill's academic success, profile, and reputation for excellence, nationally and internationally
- II. maintaining a student-centred focus that will enhance educational, research and extra-curricular life and learning for students at all levels
- III. responsible management of resources for maximum support of educational programs, research activities, and community engagement
 - 1) multi-year, multi-fund basis
 - 2) diversifying and optimising revenue sources

Design of FY2015 operating budget: meeting strategic objectives, operating within available means

1. attract and retain academic talent
2. continue professorial recruitment (slower pace, near replacement ratio); stabilize administrative and support staff complement
3. enhance research quality and productivity
4. implement strategic enrolment plan: driver of recruitment and enrolment of undergraduate and graduate students
5. encourage the Principal's widely promulgated "Proposed Vision and Priorities" expression of McGill's strategic priorities
6. support the goals and objectives of the Faculties and Administrative Units

Financed deficit(s): projections and actuals

- **FY2015:**
 - start of year accumulated deficit:
 - projected: **\$121.1M** (FY2015 Budget Book – “BB”)
 - actual: less than **\$100.0M** (including “restatements” of past 5 years)
 - proposed **\$7.0M** deficit (BB)
 - end year accumulated deficit:
 - projected: **\$125.6M** including \$2.5M “below the line” MESRST grant (BB)
 - early forecast: **\$110M plus or minus “x”**
- **FY2016:**
 - supposed to start of **deficit repayment plan**, based on projected surpluses

Identified risks in FY2015

1. Stability of government commitments
2. changes to funding formula based on the *Chantier sur le Financement*
3. modification of tuition policies for international students
4. persistence of low interest rates
5. Canadian dollar exchange rate
6. achieving enrolment growth targets
7. emergence of further deferred maintenance and IT logjams

Possible risks for FY2016

1. reduction of provincial government subsidies beyond announcements
2. lack of flexibility on tuition rates
3. continued slide of the Canadian dollar
4. increased matching funds required for federal grant competitions
5. persistence negative trend in new admissions and enrolments
6. increased pension fund liabilities (triennial actuarial evaluation)
7. wage bill squeezing out re-investments in other areas
8. IT and deferred maintenance emergencies

Changes to MESRS Grant

- **FY2015:**

- Budget Book tabled in April 2014 anticipated approximately \$360M in government of Quebec grants (or approximately 47% of McGill's Operating revenues: \$768.8M)
- in-year cuts have reduced the grant by an estimated \$20M to around \$340M

- **FY2016:**

- MESRS has indicated that the budget orientations for FY2016 will not be released before May 2015 (after McGill's budget is to be presented to the Board of Governors and the official start of the fiscal year for all universities in Quebec)
- preliminary indications are that there will be **at least** another \$40M of cuts to the system (\$5M- \$6M estimated for McGill)

Student enrolment targets

- **FY2015:**
 - enrolment update: slightly less than in BB FY2015 projection
 - regulated students: 0.6% less than budgeted: **(\$1.1M)**
 - deregulated students: 4.1% less than budgeted: **(\$2.2M)**
- **FY2016 (and beyond):**
 - little to no enrolment growth planned;
 - capacity issues related to space and equipment
 - assuring the quality of programs:
 - maintaining undergraduate student to staff ratios
 - measuring the depth of applicant pools and yield rates
 - need resources to augment teaching support allocations
 - delivery costs increasing (labour and inflation)

Tuition and fee frameworks [1 of 3]

- no official changes announced by Ministry thus far in tuition and/or fees
- MESRS has not yet released the Tremblay-Roy report (reaction promised for June 2014, but now expected before the end of the semester)

Tuition and fee frameworks [2 of 3]

- international student tuition: controversial issues and contesting perspectives
 - exemptions for French nationals studying in Quebec
 - de-regulation of other international students by program or origin
 - McGill proposal for capping contribution from international tuition claw-back
 - *Robillard Commission* on the permanent revision of programs just released with recommendations related to the deregulation of international students

Tuition and fee frameworks [3 of 3]

- little room to increase de-regulated international tuition over current rates
 - McGill charges rates comparable to the top Canadian peers
 - McGill offers guaranteed fixed tuition by cohort – total tuition at a peer institution with similar entering tuition will increase over the 4-year duration of the degree program
 - U.S. exchange rate (from \$0.95 to \$0.88 in one year) may work in favour of better yields
- examining possible FIO increases where justified
 - accompanied by stringent validation and greater accountability from both MESRS and students

Responding to FY2015 mid-year \$20M cut(s)

- ***Have the savings from the voluntary retirement plan (VRP) put McGill in better position to deal with these funding cuts?***
 - need to show restraint to solidify McGill's (relatively) sound base
 - no immediate claw-backs from units, but no guarantees yet for FY2015
 - keep promises and set reasonable expectations
- undertaking detailed analyses of anticipated expenditures and developing a responsible action plan based on McGill's strategic plans
 - some allocations were defined as “contingent”
 - concern about hiring patterns since May 2014
 - net increase of 60 positions on operating funds since May 2014
 - others may be postponed in the short- and possibly mid-term
- austerity measures will not lead to successful future for McGill and its community

Responding to FY2015 mid-year cuts: reviewing budget provisions

- BB contained built-in provisions in case the reinvestment did not materialize
 - unallocated “Special Projects” **(\$9M)**
- accrued pay equity expenses in FY2014
 - FY2015 budgeted amount may not be needed **(\$6.35M)**
- limiting mid-year allocations
 - spend only half the available envelope **(\$2.3M)**
- but, additional expenses may be incurred due to emergencies

Responding to FY2015 mid-year cuts: November 2014 “Town Halls” announcements

1. freeze on new searches for external hires (admin and support staff positions)
2. require secondary review of all requests for job re-classifications
3. postpone all non-essential equipment purchases (from all operating funds)
4. limit travel and hospitality spending (1As to 1Fs) to the minimum essential
5. stop all in-year allocations except for true emergencies and mission-critical urgencies
6. ***reconsider the above actions in January, based on 3rd quarter variance reports and projections (end of January)***

Will the actions taken so far in FY2015 be sufficient?

- attaining the **\$7M** projected increase in McGill's financed deficit FY2015 target will be a challenge
- positive results in FY2014 from both GAAP and financed deficit perspectives
 - University's accumulated financed deficit likely to be significantly less than projected in BB FY2015, everything else being equal
- need to set the ground work for FY2016 and beyond

Will the actions taken so far in FY2015 be sufficient in the eyes of MESRS? [1 of 2]

- 10% of the McGill's provincial grant, the so-called “conditional grant”, depends on **NOT** having an annual deficit
 - but, a 5-year plan to return to a balanced budget can be accepted in lieu of having a balanced budget in a given year
- most other Quebec universities are in more dire situations, having announced that they will end FY2015 in the red
- universities have asked that in-year cuts not be taken into account when calculating the deficit for purposes of the conditional grant

Will the actions taken so far in FY2015 be sufficient in the eyes of MESRS? [2 of 2]

- booking our estimates of the student FTEs rather than using the MESRS numbers:
 - Ministry under-estimating the student FTEs and postponing the payment to future years
 - other universities recognize the revenues by using their own estimates and make provisions for future revenues
 - difference between MESRS “booked” FTEs (deliberate underestimate) and McGill’s estimates stands at approximately \$9M for FY2015
 - in FY2014, reconciliation between MESRS figures and our provisions from previous years resulted in recognizing approximately \$13M in “recomptage”

FY2016 and beyond: preparing for more leaner years

- operating revenues in the coming years are now likely to be significantly less than projections contained in the BB for FY2015

MESRS Unrestricted Operating Grant projections (\$M)

	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
FY2015 Budget Book	344.4	358.8	373.7	391.7	401.8	411.5	-
as at December 2014	350.4 ²	339.0 ¹	334.7	344.8	358.1	369.6	382.4
Difference	6.0	(19.8)	(39.0)	(46.9)	(43.7)	(41.9)	

¹ Not including drop in projected enrolments for FY2015 (see slide 8)

² Including \$13M of student “recomptage” and clearing previous year FTE underestimates.

FY2014 and previous: Variations between adopted budget and actuals

MESRS Unrestricted Operating Grant projections (\$M)

	FY2009	FY2010	FY2011*	FY2012	FY2013	FY2014
Adopted Budget	292.3	314.7	290.3	328.8	346.2	331.9
Actuals	297.6	313.2	292.7	354.7	328.4	350.4 ¹
Difference	5.3	(1.5)	2.4	25.9	(17.8)	18.5

*11 month year

¹ Includes \$13M related to student “recomptage” and clearing previous year FTE underestimates.

FY2016 and beyond: revenue growth and diversification

- on-going discussions to augment and/or diversify revenue beyond provincial government grant
- ***How can we grow our existing sources of revenues?***
 - strategic enrolment targets
 - program shifts to change internal demography
 - expanded and more aggressive University Advancement program
- ***What mechanisms are available to allow us to generate new revenue sources?***
 - professional masters' programs
 - strategic (international) partnerships
 - Summer Studies Program to attract international and CEGEP students
 - one-time: sale of assets such as heritage mansions, other real estate, art pieces

FY2016 and beyond: investing in strategic priorities [1 of 2]

1. salary policy commitments: \$21.6M across all categories just for FY2016
2. “special projects” and new initiatives for teaching and research
3. new allocation to begin addressing significant deferred maintenance problem
4. acquisition of new properties (net of sale of buildings no longer appropriate for university activities and operations)
5. feasibility planning for RVH, presently at the “*dossier d’opportunité*” stage
6. Library and Archives re-imagining and re-design, including a repository

FY2016 and beyond: investing in strategic priorities [2 of 2]

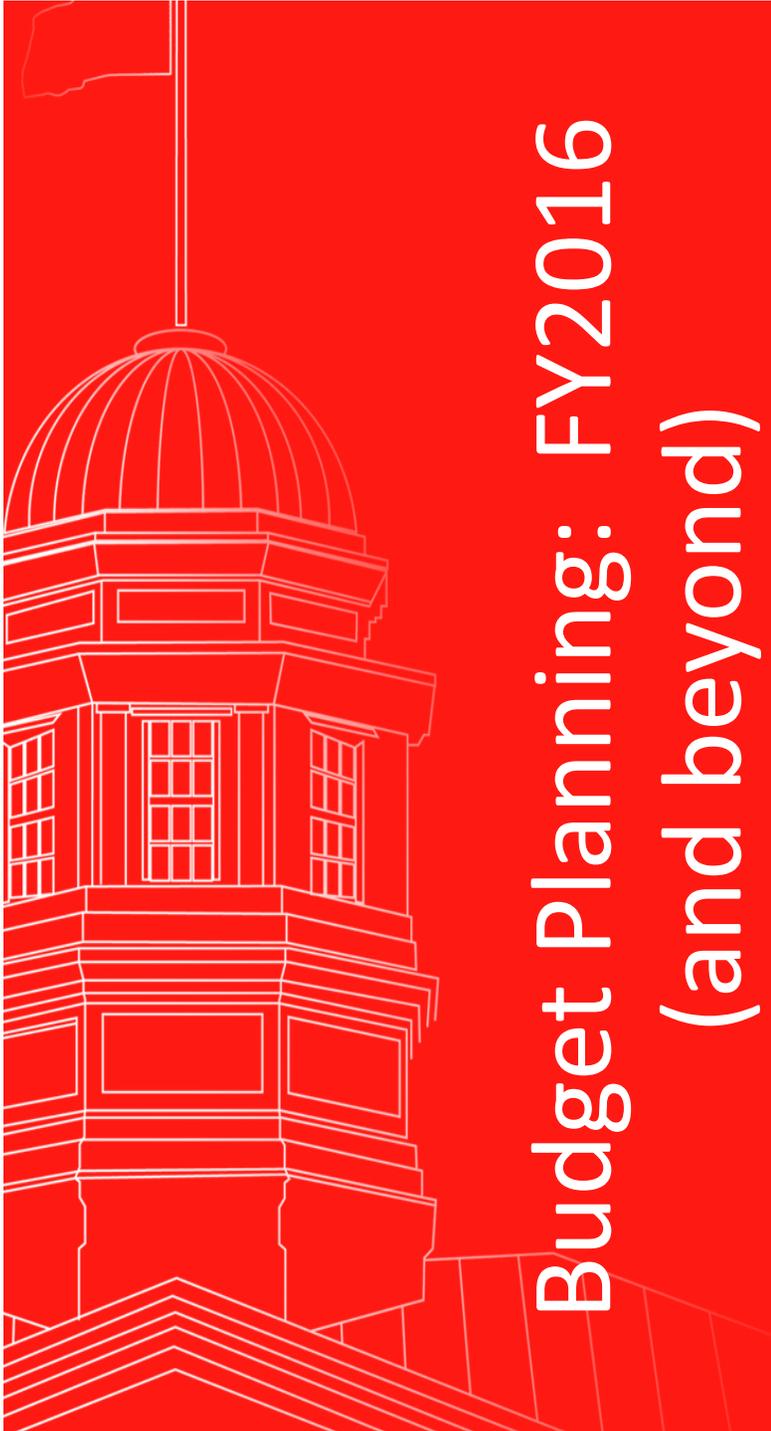
7. replacement of obsolete equipment and furnishings
8. increase “regular” allocations for required upgrades to facilities and systems
9. Enterprise Resource Planning (ERP) replacement (HR, Finance, and Student information systems)
10. software and hardware needs for modern pedagogy including learning management system, distance learning tools)
11. development and delivery of MOOCs (if they can be demonstrated to improve on campus pedagogy)

FY2016 and beyond: budget allocation cuts are inevitable [1 of 2]

- recognition that the capacity to take on more cuts varies significantly from one unit to the next and that horizontal cuts are rarely strategic in nature
- Faculties and Administrative and Support units were asked to consider 2% cuts targeted for reinvestment for FY2016 in building the FY2015 Budget
- each 1% cut in unrestricted operating budget generates a \$4M - \$4.5M savings

FY2016 and beyond: budget allocation cuts are inevitable [2 of 2]

- **previous assumption:** funds would be re-circulated internally for priority projects
- but, realistically some parts of budgets are clearly not “compressible”
- **new assumption:** even a large cut is not sufficient to cover the anticipated shortfall in Quebec grant
- consultations required to consider options



Feedback and Discussion

Questions?

Comments?

Concerns?

Suggestions?