



Memorandum

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TO: Senate

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

SUBJECT: FY2023 Budget Planning Report I

DATE: 19 January 2022

DOCUMENT #: D21-29

ACTION REQUIRED: INFORMATION APPROVAL/DECISION

ISSUE The McGill FY2023 Budget Planning Report I is presented to Senate for information. The report has been presented to the Finance Committee on 13 December 2021 and to the Board of Governors meeting on 16 December 2021.

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 starting 1 May 2022.

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 October 31, 2021, actuals and commitments, financial information collected from units and historical trends, our updated expectations are that both revenues and expenses will be lower than originally anticipated, with an anticipated deficit of \$7.6M, including a \$7.5M contingency.

Looking ahead to FY2023, we are planning to present a balanced budget, assuming that there will be continued financial support by the Quebec Government and less uncertainty relating to the COVID pandemic.

PRIOR CONSULTATION Finance Committee of the Board of Governors and the Board of Governors

SUSTAINABILITY CONSIDERATIONS Sustainability remains an institutional priority and is a factor in budget development. The FY2023 Budget Planning Report I is focused on maintaining institutional stability.

IMPACT OF DECISION AND NEXT STEPS

- “Budget Planning II” delivered to Finance Committee on 7 March 2022
- “Budget Planning II” delivered to Senate on 23 March 2022
- “Budget Planning II” delivered to Board of Governors on 24 March 2022
- McGill University Budget (“Budget Planning III”) delivered to Finance Committee on 14 April 2022 for approval and recommendation to Board of Governors

- McGill University Budget (“Budget Planning III”) delivered to Senate on 19 April 2022 for information
- McGill University Budget (“Budget Planning III”) presented to Board of Governors for approval on 21 April 2022
- McGill University Budget Book published and delivered as soon as possible after the approval of the budget.

**MOTION OR
RESOLUTION
FOR APPROVAL**

N/A

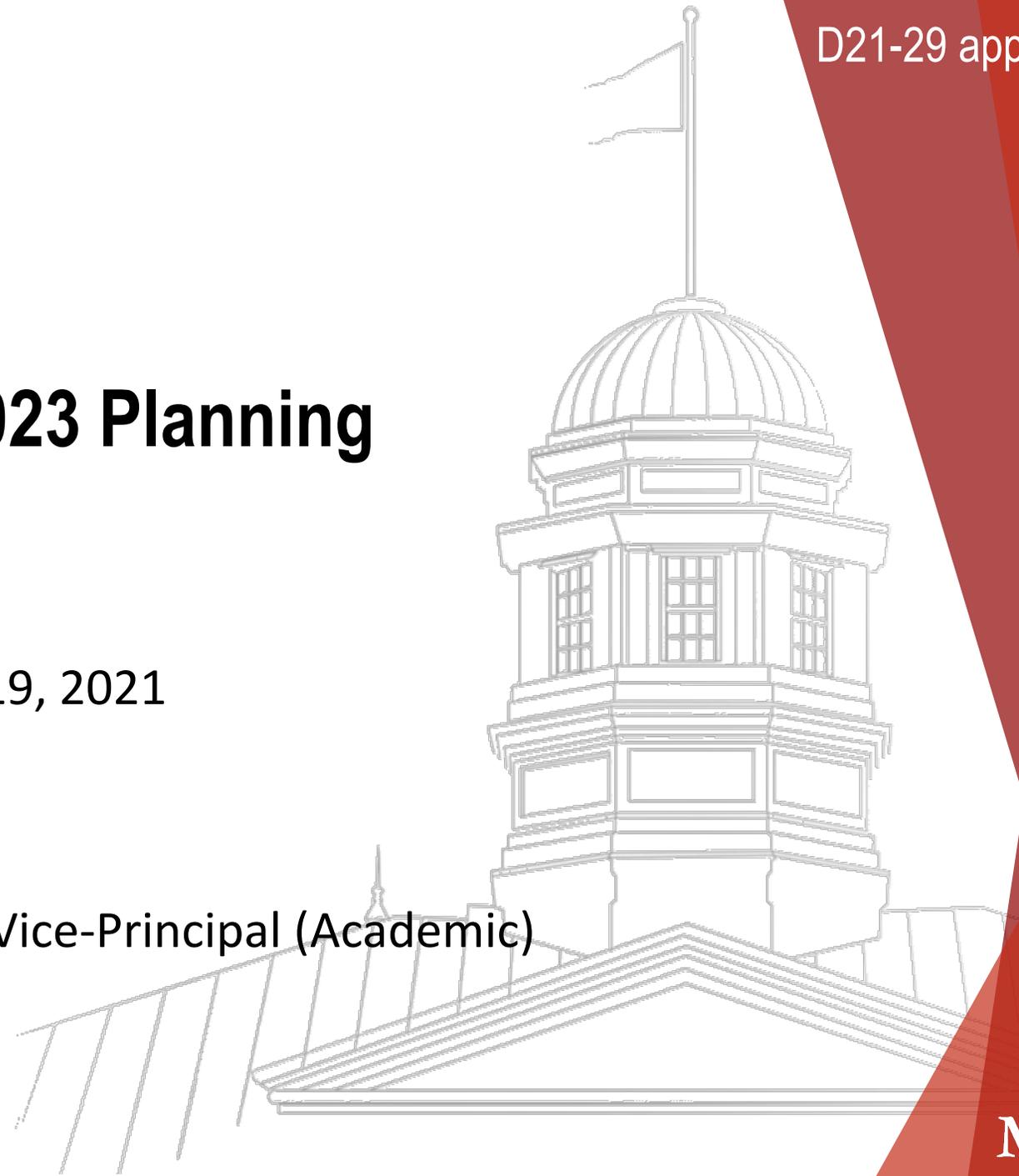
APPENDICES

Appendix A: “FY2023 Budget Planning Report I” presentation deck

Budget Report I: FY2022 Update and FY2023 Planning

Presentation to Senate on January 19, 2021

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 October 31, 2021, actuals and commitments, financial information collected from units and historical trends, our updated expectations are that both revenues and expenses will be lower than originally anticipated, with an anticipated deficit of \$7.6M, including a \$7.5M contingency.
- ▶ Looking ahead to FY2023, we are planning to present a balanced budget, assuming that there will be continued financial support by the Quebec Government and less uncertainty relating to the COVID pandemic.
- ▶ Priorities for the FY2023 budget include the introduction of a Graduate Enrolment Driven Incentive that will increase funding for Graduate Excellence Fellowships and supporting budget allocations to Faculties.

FY2022 Update

Fall 2021: Student Enrolment

► Overall, Fall 2021 enrolment (headcounts) is comparable to Fall 2020.

	Fall 2020 Enrolment (Headcounts - Oct 15 census)	Fall 2021 Enrolment (Headcounts - Oct 15 census)	% Variance	
Undergraduate	Bachelors	23,918	23,520	-1.7%
	First Professional	1,614	1,633	1.2%
	Undergraduate - Certificate/Diploma	1,185	1,081	-8.8%
	Undergraduate Exchange/QIUT/Special/Visiting	767	531	-30.8%
Graduate	Masters Qualifying	99	103	4.0%
	Masters - Non-Thesis	2,518	2,472	-1.8%
	Masters - Thesis	2,424	2,517	3.8%
	PhD	3,804	4,022	5.7%
	Graduate Certificate/Diploma	1,157	1,072	-7.3%
	Graduate Exchange/QIUT/Special/Visiting	263	225	-14.4%
Residents and Fellows	1,349	1,393	3.3%	
Postdoctoral	638	698	9.4%	
Grand Total	39,736	39,267	-1.2%	

Fall 2021: Student Enrolment (cont'd)

- ▶ As at the October 15 census, total enrolment for Fall 2021 is comparable to Fall 2020.
 - ▶ Enrolment in Bachelor's programs is down slightly year-over-year, due to a planned decrease in new students following an over admission last year.
 - ▶ Enrolment in graduate research programs is up year-over-year.
 - ▶ Master's Non-Thesis enrolment is down slightly. Within this population, enrolment in self-funded Master's programs is up slightly.
 - ▶ As expected in the current context, decreases are observed in exchange, inter-university transfer, special, and visiting populations. Due to relaxed travel restrictions, Winter 2022 student exchanges are being reinstated.
- ▶ New admissions: Actual vs. Objectives
 - ▶ Bachelor's: New registrations for the Fall term were 0.4% below objectives.
 - ▶ Graduate: Summer/Fall new registrations and Winter confirmations (i.e., accepted offers) are tracking closely with FY2022 objectives for Master's and Doctoral programs.
- ▶ Retention of Bachelor's students admitted in Fall 2019 and Fall 2020 is slightly higher than previous entering cohorts.

Fall 2021: Student Enrolment (continued)

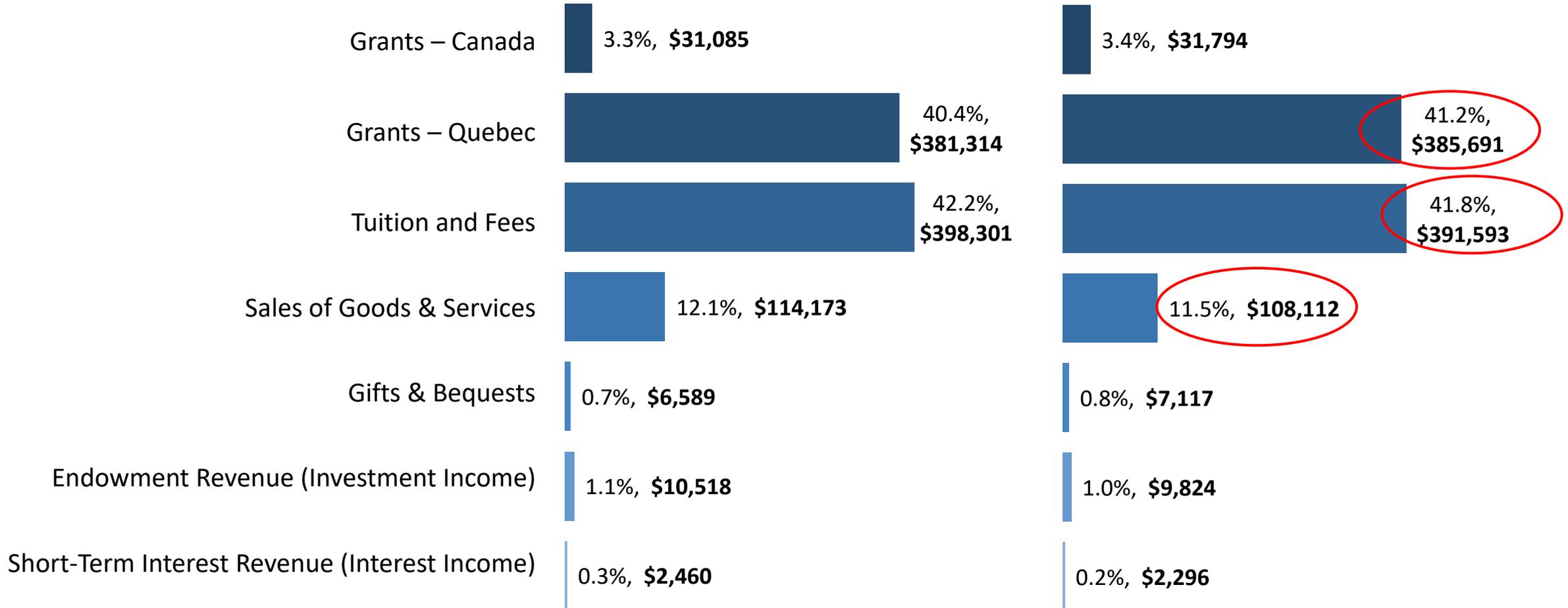
- ▶ Overall, international student enrolment is down slightly.
 - ▶ Total international enrolment for Fall 2021 is down 1.4% compared to Fall 2020.
 - ▶ At the Bachelor's level, international enrolment for Fall 2021 is down 6.9% compared to Fall 2020.
- ▶ Among international students, the subset that is deregulated fee-paying has declined.
 - ▶ The University experienced a decrease in newly admitted deregulated fee-paying students for the second consecutive year, mainly from China.
 - ▶ The smaller incoming cohort of deregulated students negatively impacts FY2022 revenues (estimated to be \$13M under budget) and revenues in subsequent years. This revenue loss will be partially offset by a greater number of regulated students than projected.
 - ▶ Proactive recruitment efforts and yield initiatives will continue to be prioritized for the upcoming 2022-2023 admissions cycle.

FY2022 Unrestricted Revenues Update

(\$000s)

FY2022 Budget: \$944,439

FY2022 Update*: \$936,428



*as per inputs from units, October actuals and trend forecast

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 will be positively impacted by the overachievement of targets for graduate students. An updated end-of-year forecast will be modelled at the end of January using the actual student population.

▶ Tuition and Fees

- ▶ Deregulated tuition expectations are currently \$13M 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

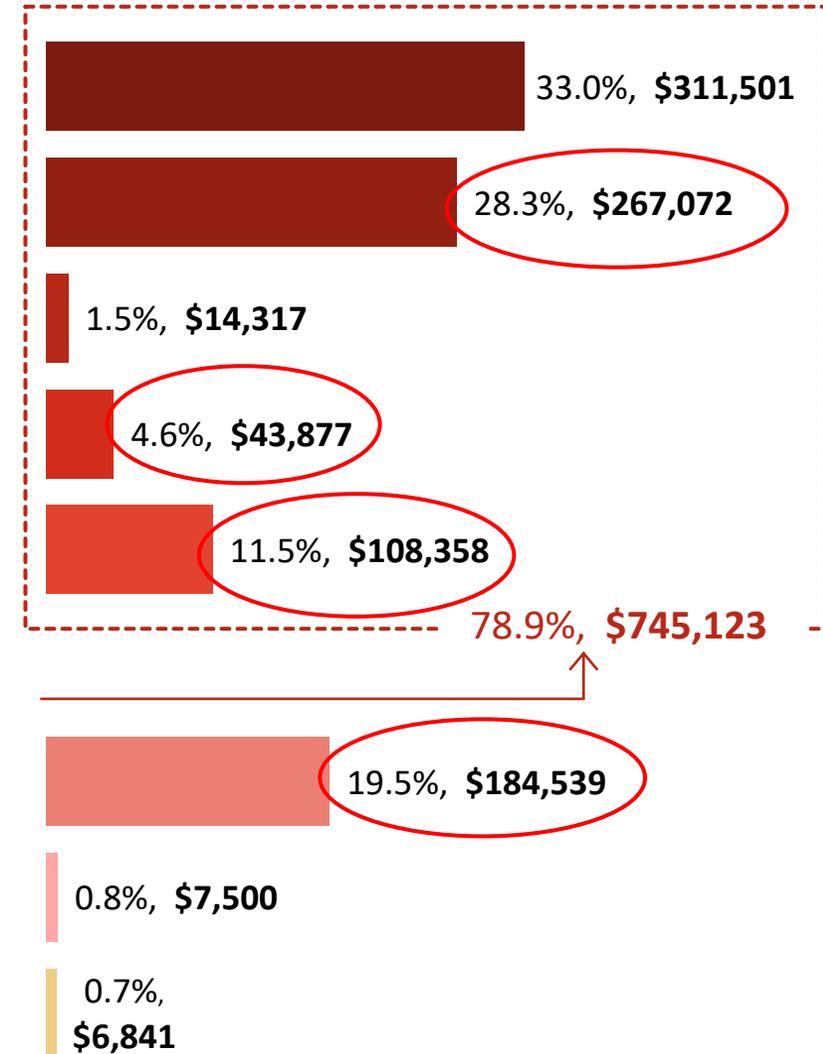
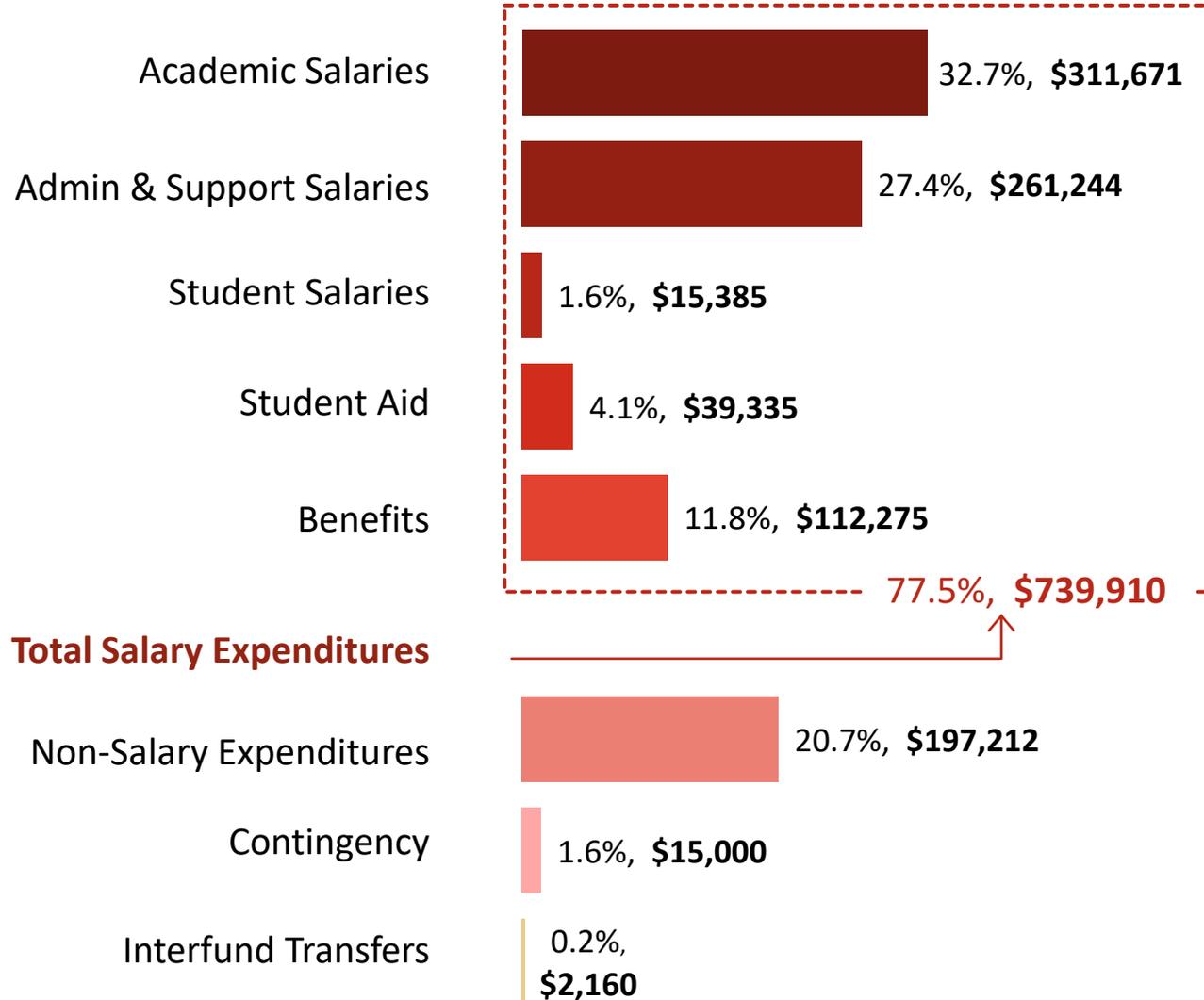
- ▶ Current expectations of \$108M are between the “realistic” scenario (\$103M) and “optimistic” scenario (\$114M) presented in the FY2022 budget. A partial reduction of associated expenses is expected.

FY2022 Unrestricted Expenses Update

(\$000s)

FY2022 Budget: \$954,282

FY2022 Update*: \$944,003



*as per inputs from units, October actuals and trend forecast

Variance analysis - Expenses

▶ Admin & Support Salaries

- ▶ We are constantly working with units to refine administrative and support salary forecasts. The increase in anticipated expenses is partly attributable to faster than anticipated resumption of activities in revenue-generating units.
- ▶ 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 expenses reflects this reclassification.
- ▶ This reclassification has no impact on the bottom line since corresponding revenues are now also included in the operating (unrestricted fund) budget.

▶ 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.

Variance analysis - Expenses (cont'd)

▶ **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.

▶ **Non-Salary expenditures**

- ▶ FY2022 budgeted payment of \$5M to the sinking fund was paid in advance in FY2021.
- ▶ Interest expense for borrowing is currently lower than budgeted (\$4.2M).
- ▶ Travel cost expectations of \$3.0M are currently between the “low” scenario (\$1.0M) and the “realistic” scenario (\$4.9M) presented in the FY2022 budget.

▶ **Contingency**

- ▶ COVID-related and unforeseen expenses are included in the budget update, classified by category.
- ▶ Amount of remaining contingency has been pro-rated for the remaining months.

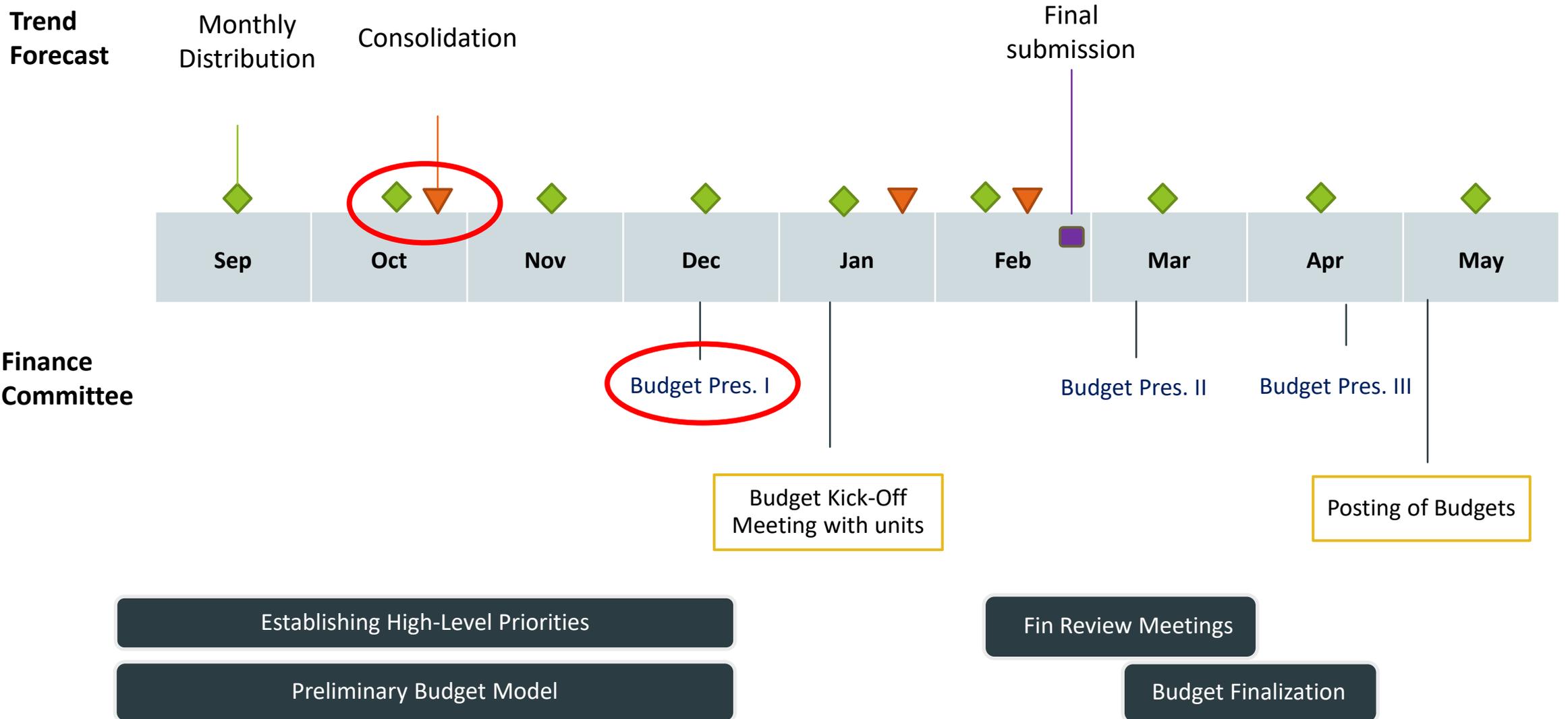
Revenue and Expense Summary

(\$000)

	FY2019 Actuals	FY2020 Actuals	FY2021 Actuals	FY2022 Budget	FY2022 Update
Total revenues	920,750	922,085	898,216	944,439	936,428
Total expenses	912,088	922,240	897,406	954,282	944,003
Annual surplus / (deficit)	8,662	(155)	810	(9,843)	(7,576)
Financed accumulated deficit	119,777	119,932	119,122	128,965	126,698
Financed accumulated deficit/Revenues (%)	13.0%	13.0%	13.3%	13.7%	13.5%

FY2023 Budget Planning

Summary of the Budget Cycle



FY2023 Budget Planning

- ▶ **Enrolment targets** (>80% of revenues), meetings held with Faculties in November. Revenue modeling in January.
- ▶ **Non-compressible budgets**, information to be assessed in November/December for ITS, FMAS, and SLL.
- ▶ **Deregulated tuition increases**, decisions finalized in December. Communication plan in preparation.
- ▶ **Academic review and renewal planning**, in January
- ▶ **Other incremental budget allocations**, in February
- ▶ **Financial review of Faculties and units**, in February
- ▶ **Finalization of the FY2023 budget using scenarios to deal with the many unknowns**, in March

FY2023 High-Level Priorities

- ▶ Maintain a safe environment for students, faculty and staff.
- ▶ Support teaching, research, and critical operations.
- ▶ Present a balanced operating (unrestricted fund) budget.
- ▶ Introduce a Graduate Enrolment Driven Incentive that will increase funding for Graduate Excellence Fellowships and supporting budget allocations to Faculties.
- ▶ Maintain competitive salary policy increases, while continuing to be fiscally responsible.
- ▶ Contain the growth of administrative and support staff.
- ▶ Absorb increased sinking fund payments in support of major capital investments.
- ▶ Maintain the financed accumulated deficit/revenues (%) below 15%.
- ▶ Debt service costs as a percentage of revenue, including building acquisitions, should not exceed 5%.
- ▶ Maintaining our credit ratings.

FY2023 Preliminary Revenue Outlook

Grants – Quebec

- ▶ We believe that the provincial Government will maintain its financial commitments to Universities.
- ▶ Orientations should be communicated by late Spring 2022, after the modeling of our FY2023 budget.

Regulated Tuition and Fees

- ▶ The Ministry sets regulated tuition rates (Quebec base tuition, Canadian supplement, International regulated supplement) in the Spring (after submitting the budget for approval).
- ▶ Increases in regulated tuition rates are determined by changes in household disposable income per capita in Quebec. Since this indicator is high, we expect the increase will be on the high end of recent years.

Sales of Goods and Services

- ▶ 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.
- ▶ For FY2023, we are anticipating that most units will get back to pre-COVID levels.

Uncertainties and Risks

▶ External:

- ▶ COVID-19 (and associated sanitary measures)
- ▶ Stability of government commitments
- ▶ Impact on philanthropic revenues and the University's endowment fund
- ▶ Effect of market volatility on pension fund and University obligations
- ▶ Global political landscape and its effect on international student mobility
- ▶ Indirect costs of research funding
- ▶ Canadian dollar exchange rate
- ▶ Interest rates
- ▶ Inflation

Uncertainties and Risks (continued)

▶ McGill-controlled:

- ▶ Success of the University in deploying its enrolment plan
- ▶ Fee levels for deregulated students
- ▶ Mitigation of the impacts of COVID-19
- ▶ Balancing remote vs. in-person delivery
- ▶ Effective management of activities expected to be self-financing
- ▶ Expense reduction measures
- ▶ New program development coherence and accountability
- ▶ Management of carry forward balance spend down
- ▶ Position budgeting and control
- ▶ Unrestricted budget use for capital expenditures
- ▶ Space considerations (e.g., flexible work arrangements, classrooms, swing space for renovations)

Discussion

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

