



Memorandum

Office of the Provost and VP (Academic)
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TO: Senate

FROM: Fabrice Labeau, Co-Acting Provost and Vice-Principal (Academic)

SUBJECT: Budget Planning 2023-2024 Report I

DATE: January 18, 2023

DOCUMENT #: D22-32

ACTION REQUIRED: INFORMATION APPROVAL/DECISION

ISSUE The Budget Planning 2023-2024 Report I is presented to Senate for information. The report was presented to the Finance Committee on December 8, 2022, and to the Board of Governors on December 15, 2022.

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 upcoming fiscal year starting May 1, 2023.

For the fiscal year ending on April 30, 2023 (FY2023), the Board of Governors approved an operating (unrestricted fund) budget with an anticipated deficit of \$9.4M, including a \$20M contingency.

Based on September 30, 2022, actuals and commitments, financial information collected from units and historical trends, our updated expectations are that both revenues and expenses will be higher than originally anticipated, with an anticipated deficit of \$9.2M, including a \$5.5M remaining contingency.

Looking ahead to FY2024, we are planning to present a balanced budget, assuming that there will be continued financial support by the Quebec Government.

Priorities for the FY2024 budget include maintaining competitive salary policy increases, while continuing to be fiscally responsible, proactive recruitment efforts and yield initiatives to continue to strengthen diversity of international recruitment pools and absorbing costs associated with major capital investments.

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 Budget Planning 2023-2024 Report I is focused on maintaining institutional stability.

**IMPACT OF
DECISION AND
NEXT STEPS**

- “Budget Planning 2023-2024 Report II” will be presented to the Finance Committee on March 6, 2023, Senate on March 22, 2023, and the Board of Governors on March 23, 2023;
- The “Proposed University Budget 2023-2024” will be presented to the Finance Committee on April 13, 2023, for consideration and recommendation to Board of Governors, Senate on April 19, 2023, for information, and the Board of Governors for consideration on April 20, 2023.
- The McGill University Budget Book will be published and delivered as soon as possible after the approval of the budget.

**MOTION OR
RESOLUTION
FOR APPROVAL**

N/A

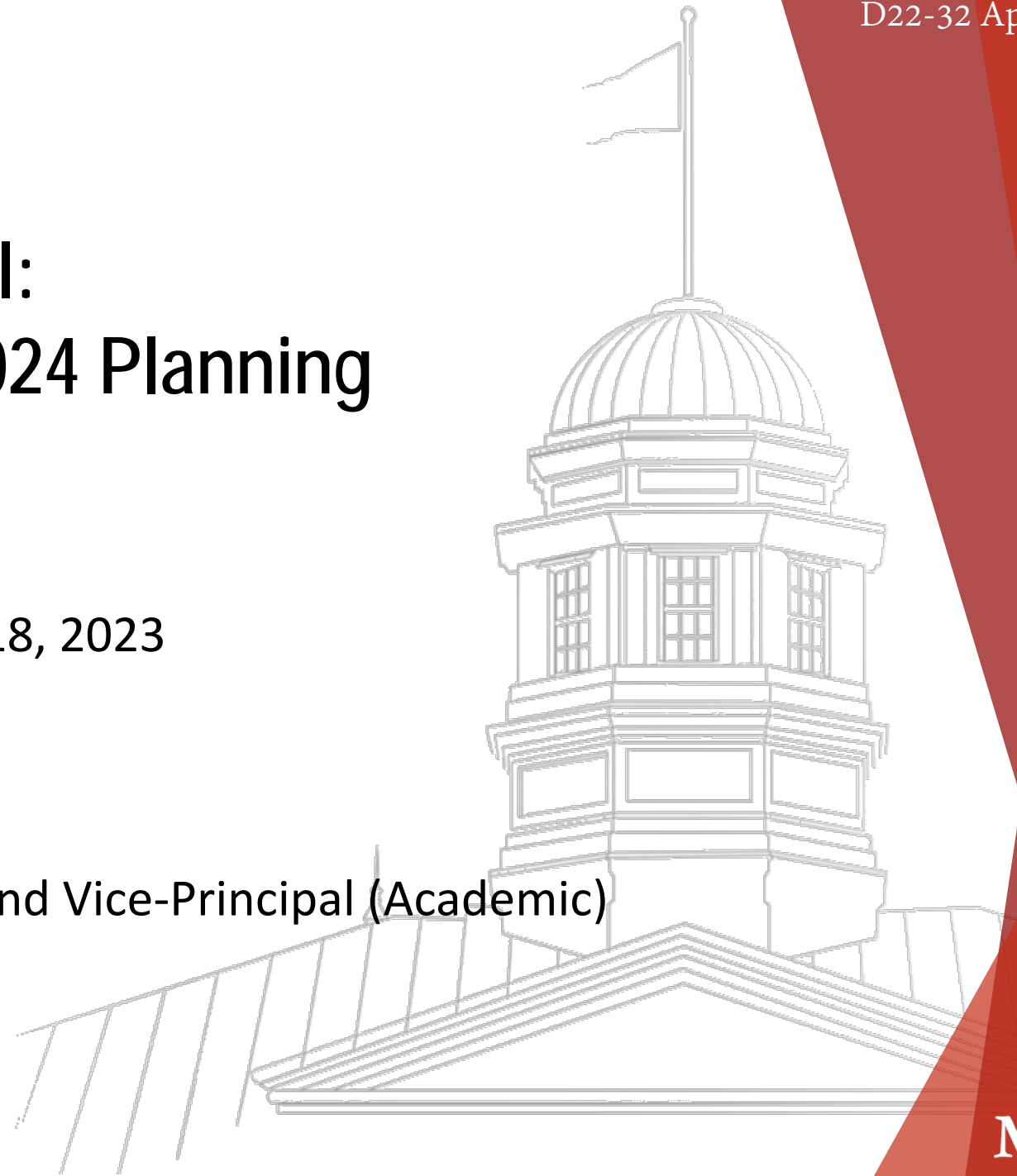
APPENDICES

Appendix A: “Budget Planning 2023-2024 Report I” presentation deck.

Budget Planning Report I: FY2023 Update and FY2024 Planning

Presentation to Senate on January 18, 2023

Fabrice Labeau, Co-acting Provost and Vice-Principal (Academic)



Executive Summary

- ▶ For the fiscal year ending on April 30, 2023 (FY2023), the Board of Governors approved an operating (unrestricted fund) budget with an anticipated deficit of \$9.4M, including a \$20M contingency.
- ▶ Based on September 30, 2022, actuals and commitments, financial information collected from units and historical trends, our updated expectations are that both revenues and expenses will be higher than originally anticipated, with an anticipated deficit of \$9.2M, including a \$5.5M remaining contingency.
- ▶ Looking ahead to FY2024, we are planning to present a balanced budget, assuming that there will be continued financial support by the Quebec Government.
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1. Fiscal Year 2022-2023 Update

(for information)

1.1. FY2023: Revenue and Expense Forecast

(\$000)

	FY2020 Actuals	FY2021 Actuals	FY2022 Actuals	FY2023 Budget	FY2023 Forecast*
Total revenues	922,085	898,216	978,172	1,001,500	1,006,206
Total expenses	922,240	897,406	976,822	1,010,879	1,015,383
Annual surplus / (deficit)	(155)	810	1,350	(9,379)	(9,177)

Financed accumulated deficit

119,932

119,122

117,772

127,145

126,949

Excluding year-end GAAP adjustments

*As per September 30, 2022 actuals and commitments, inputs from units, and trend forecasts

1.2. FY2023: Fall 2022 Student Enrolment

- ▶ Over 80% of operating revenues are driven by student enrolment.
- ▶ Globally, Fall 2022 enrolment (headcounts) is comparable to Fall 2021.

	Fall 2021 Enrolment (Headcounts - Oct 15 census)	Fall 2022 Enrolment (Headcounts - Oct 15 census)	% Variance	
Undergraduate	Bachelors	23,520	23,140	-1.6%
	First Professional (BCLJD, DMD, MDCM)	1,633	1,656	1.4%
	Undergraduate - Certificate/Diploma	1,081	1,251	15.7%
	Undergraduate Exchange/QIUT/Special/Visiting	531	1,038	95.5%
Graduate	Masters Qualifying	103	111	7.8%
	Masters - Non-Thesis	2,472	2,330	-5.7%
	Masters - Thesis	2,517	2,491	-1.0%
	PhD	4,022	4,116	2.3%
	Graduate Certificate/Diploma	1,072	1,014	-5.4%
	Graduate Exchange/QIUT/Special/Visiting	225	282	25.3%
Residents and Fellows	1,393	1,432	2.8%	
Postdoctoral	698	652	-6.6%	
Grand Total	39,267	39,513	0.6%	

1.3. FY2023: Fall 2022 Student Enrolment (cont'd)

- ▶ As at the October 15 census, total enrolment for Fall 2022 is comparable to Fall 2021.
 - ▶ Bachelor's programs: enrolment is down slightly year-over-year. This is consistent with our projected enrolment, as a small decrease was expected.
 - ▶ Graduate research programs: enrolment is up slightly year-over-year.
 - ▶ Master's Non-Thesis: enrolment is down. Within this population, enrolment in self-funded Master's programs is also down.
 - ▶ A large increase is observed in the exchange, inter-university transfer, special, and visiting population due to the resumption of student exchanges.

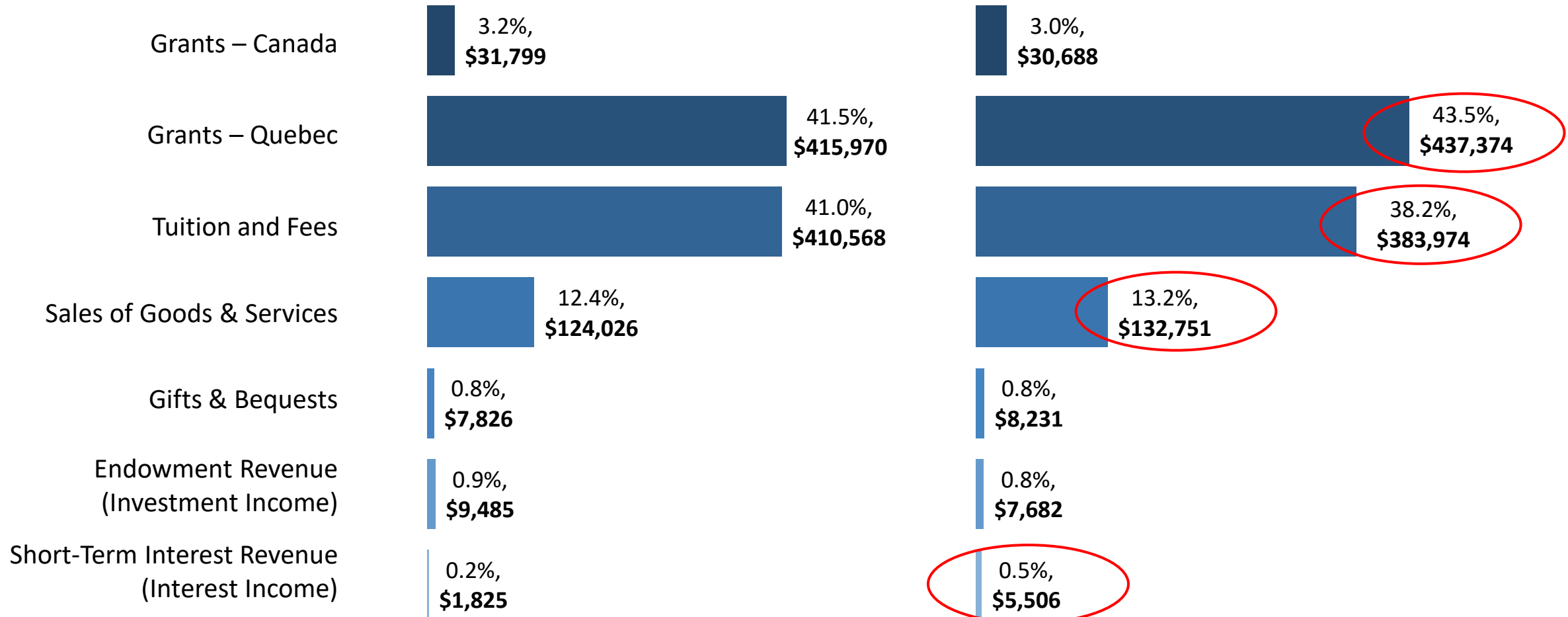
- ▶ New admissions: actual vs. objectives
 - ▶ Bachelor's: new registrations for the Fall term were 1.3% below objectives.
 - ▶ Graduate: Summer/Fall new registrations and Winter confirmations (i.e., accepted offers) are tracking below FY2023 objectives for Master's and Doctoral programs.

1.4. FY2023: Fall 2022 International Student Enrolment

- ▶ Overall, international student enrolment is up slightly.
 - ▶ Total international enrolment for Fall 2022 is up 0.5% compared to Fall 2021.
 - ▶ When excluding inbound exchange students, international enrolment for Fall 2022 is down 3.5% compared to Fall 2021.
 - ▶ At the Bachelor's level, international enrolment for Fall 2022 is down 7.1% compared to Fall 2021.
- ▶ Among international students, the diversity of international recruitment pools has been affected.
 - ▶ The University experienced a decrease in newly admitted students from China for the third consecutive year.
 - ▶ Delays in study permit approvals by Immigration, Refugees and Citizenship Canada (IRCC) likely contributed to the decline this year.
 - ▶ Deferrals among Bachelor's students self-declaring as international are up 34% compared to last year.
 - ▶ Proactive recruitment efforts and yield initiatives will continue to be prioritized for the upcoming 2023-2024 admissions cycle.

1.5. FY2023 Forecast: Unrestricted Revenues

(\$000s) **FY2023 Budget: \$1,001,500** **FY2023 Forecast*: \$1,006,206**



*as per September 30, 2022 actuals, inputs from units, and trend forecasts

1.6. FY2023 Variance Analysis: Grants - Quebec

- ▶ We anticipate an increase in provincial funding of \$21.4M compared to the budget.
- ▶ 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 FY2023, the Ministry informed universities at the end of August that targeted funding that was anticipated to be directed to the restricted fund should be accounted on the operating (unrestricted fund) budget. The increase in anticipated revenues is mostly a reflection of this reclassification.
- ▶ The net impact of this reclassification on the bottom line for FY2023 will be positive or null. It will depend on the amount of corresponding expenses (new and transferred from the restricted fund) that will be accounted on the operating (unrestricted fund) budget before the end of this fiscal year (April 30, 2023).

1.7. FY2023 Variance Analysis (cont'd)

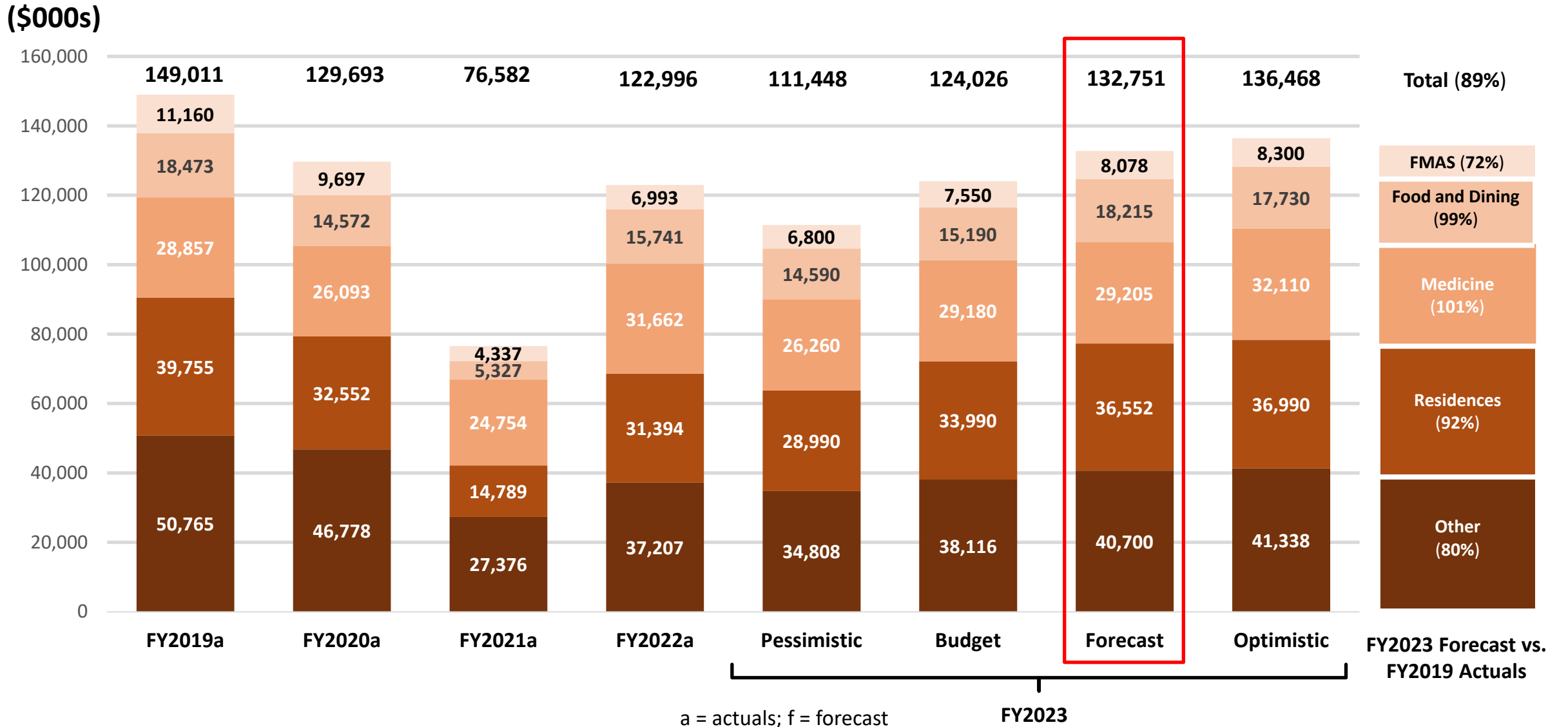
Tuition and fees

- ▶ Tuition and fees revenue expectations are down about \$27M compared to the budget :
 - ▶ \$23M in tuition from new international students
 - ▶ This loss will impact revenues for the upcoming years (i.e., for the duration of programs)
 - ▶ \$2M in self-funded tuition, namely in Management Masters programs (MBA, MMA, MMR, MMF).
 - ▶ \$1.5M in regulated tuition, resulting from underachieving new registration targets for Bachelors, Masters and Doctoral programs.

Short-Term Interest Revenue

- ▶ Increased expectations of \$3.7M compared to budget due to higher interest rates and cash balances.

1.8: FY2023 Variance Analysis: Sales of Goods and Services

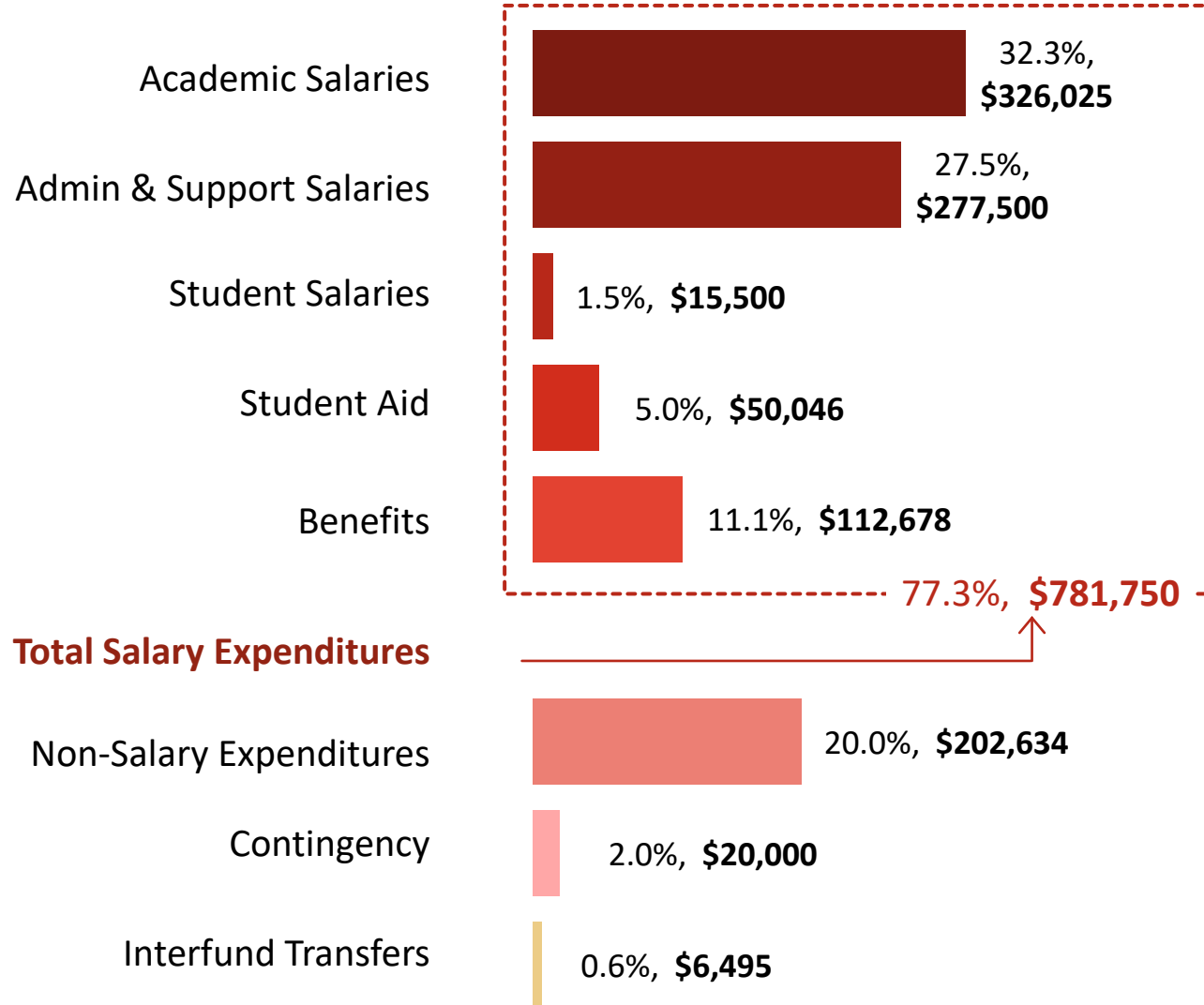


► Based on current information and assumptions, we are anticipating revenues \$9M higher than budget.

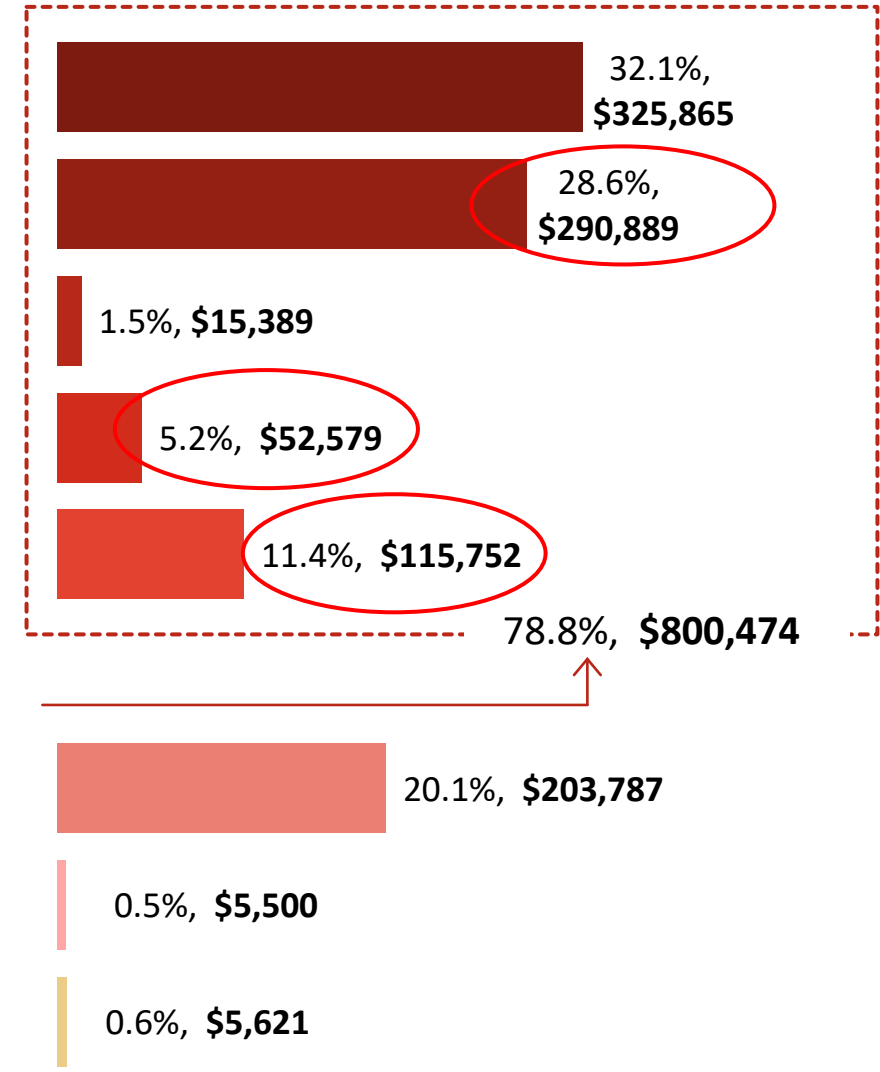
1.9. FY2023 Forecast: Unrestricted Expenses

(\$000s)

FY2023 Budget: \$1,010,879



FY2023 Forecast*: \$1,015,383



*as per September 30, 2022 actuals and commitments, inputs from units, and trend forecasts

1.11. FY2023 Variance Analysis: Expenses

▶ **Admin & Support Salaries and Benefits**

- ▶ The number of administrative and support staff has remained relatively stable.
- ▶ The anticipated increase of \$13.4M in expenditures compared to budget is largely due to the higher-than-anticipated cost of staff collective agreements.
- ▶ Some incremental expenses are also associated with the targeted funding that is now in the unrestricted fund

▶ **Student Aid**

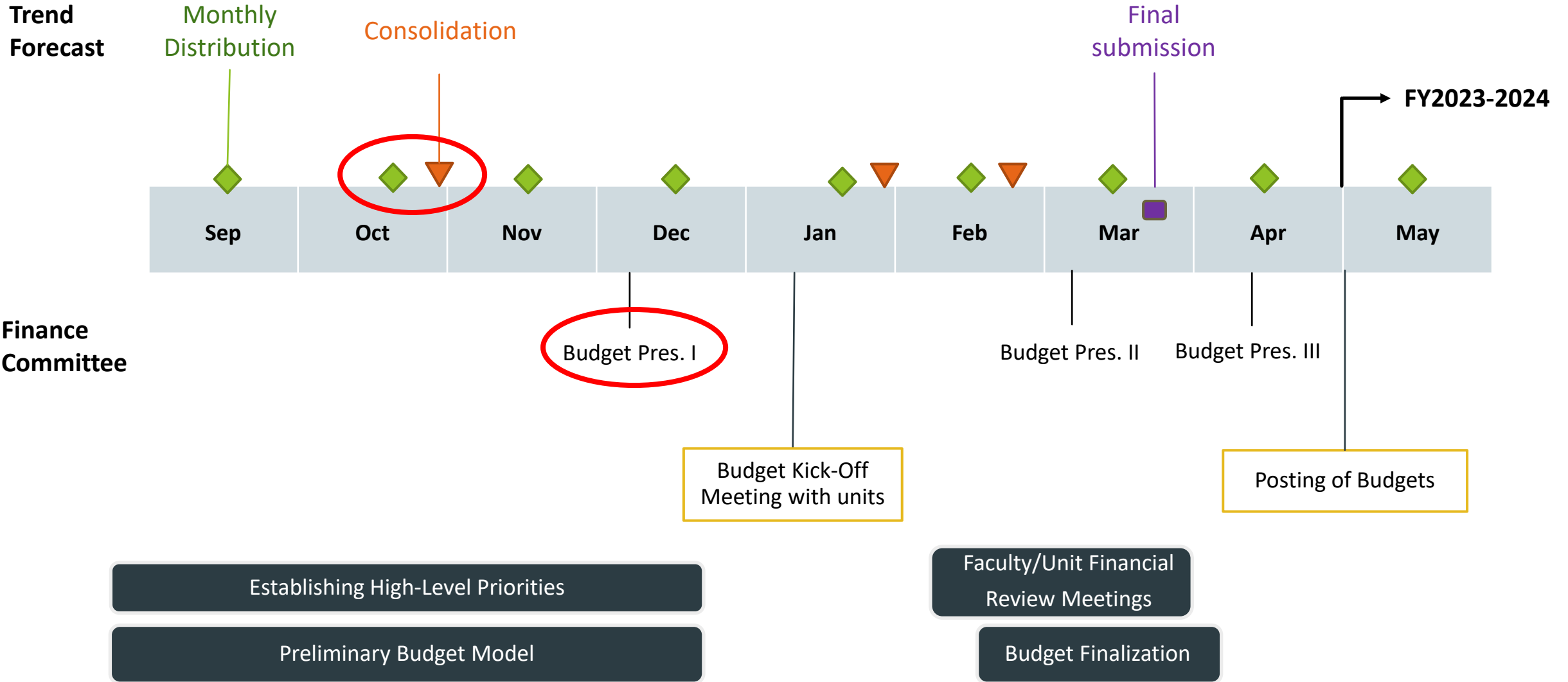
- ▶ The current forecast includes larger-than-anticipated payments of Student Aid during FY2023.

▶ **Contingency**

- ▶ COVID-related and unforeseen expenses are included in the budget update, classified by category.
- ▶ Amount of available contingency has been reduced to \$5.5M for the remaining months.

2. Fiscal Year 2023-2024 Budget Planning (for information)

2.1. Summary of the Budget Cycle



2.2. FY2024 Budget Planning

- ▶ **Enrolment targets**, meetings held with Faculties in November. Revenue modeling in December and January.
- ▶ **Non-compressible budgets**, information to be assessed in November/December for ITS, FMAS, and SLL.
- ▶ **Deregulated tuition increases**, decisions finalized in December.
- ▶ **Academic review and renewal planning**, in January
- ▶ **Other incremental budget allocations**, in February
- ▶ **Financial review of Faculties and units**, in February
- ▶ **Finalization of the FY2024 budget using scenarios to deal with the many unknowns**, in March

2.3. FY2024 High-Level Priorities

- ▶ Prioritize our teaching, research and critical operations.
- ▶ Present a balanced operating (unrestricted fund) budget.
- ▶ Maintain competitive salary policy increases, while continuing to be fiscally responsible.
- ▶ Continue proactive recruitment efforts and yield initiatives to strengthen diversity of international recruitment pools.
- ▶ Contain the growth of administrative and support staff, while addressing HR challenges (e.g., turnover in some areas, labour shortage)
- ▶ Absorb costs associated with major capital investments (e.g, issuance of new debt, swing space, and leasehold improvements).
- ▶ Maintain the financed accumulated deficit below \$130M and establish a repayment schedule.
- ▶ Debt service costs as a percentage of revenue, including building acquisitions, should not exceed 5%.
- ▶ Maintaining our credit ratings.

2.4. FY2024 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 2023.

Regulated Tuition and Fees

- ▶ The Ministry sets regulated tuition rates (Quebec base tuition, Canadian supplement, International regulated supplement) in the Spring.
- ▶ Increases in regulated tuition rates have generally been determined based on changes in household disposable income per capita in Quebec. Although this indicator is high, we expect the increase to be comparable to recent years (2.6%-3.9%).

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 FY2024, we are anticipating that most units will get back to pre-COVID levels.

2.5. Sinking Fund Payments through FY2028

(\$000s)

Fiscal Year	Expected (Annual)	Expected (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	49,000 (a)	103,500	
Expected payments for FY2023+ have been revised as per actual cumulative contributions, revised interest rates, amounts and timing for the issuance of new debt.					
FY2023	0	103,500	0 (b)	103,500	Any excess operating surplus in FY2023 will be applied to FY2026 thereon required contributions. Planned issuance of \$150M 40-year bond
FY2024	0	103,500	0 (o)	103,500	Planned issuance of \$120M 40-year bond
FY2025	0	103,500	0 (o)	103,500	
FY2026	27,000	130,500	27,000 (o)	130,500	Planned issuance of \$120M 40-year bond
FY2027	27,000	157,500	27,000 (o)	157,500	
FY2028	27,000	184,500	27,000 (o)	184,500	Planned issuance of \$120M 40-year bond

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

2.6. 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
- ▶ Labor shortage

2.7. Uncertainties and Risks (cont'd)

▶ **McGill-controlled:**

- ▶ Success of the University in deploying its enrolment plan
- ▶ Mitigation of the impacts of COVID-19
- ▶ Stability of activities expected to be self-financing
- ▶ Expense control measures
- ▶ Management of carry forward balance spend down
- ▶ Effectiveness of position budgeting and control
- ▶ Cost of space for teaching, research and services (e.g., new leases, leasehold improvements, swing space for renovations)

Discussion

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

