

Question

TO: Senate

QUESTION FROM: Senators Rourke and Kpeglo-Hennessy

RESPONSE FROM: Senator Manfredi, Provost and Vice-Principal (Academic)

SUBJECT: Question Regarding Overhead Charges Applied to Student Services

MEETING DATE: May 11, 2016

PREAMBLE: Whereas, during the Senate meeting of April 20, 2016, it was indicated that certain self-funded units are exempted from overhead charges, and that this list could be provided;

Whereas, overhead charges for Student Services have increased from \$30 679 in FY10 to \$651 385 in FY17 (an increase of over 2100%)¹;

Whereas, 75.3% of total revenue comes from student fees or Frais Institutionnel Obligatoires (FIOs) and 16% comes from designated government grants²;

Whereas, student demand for Mental Health and Counselling Services continues to increase on an annual basis with no signs of this trend slowing in the near future;

Whereas, at the April 22, 2015 Senate meeting concerns were raised over the transparency of decisions made around the Student Services budget and over the redistribution of government grants designated for “services for students”³;

QUESTION:

1. Which units are exempted from overhead charges, and why? What factors are considered when exempting particular units?
2. How are overhead charges determined? Why is there no set formula for determining overhead charges?
3. How are Student Services viewed in relation to McGill’s academic mission?

¹ <https://www.mcgill.ca/studentservices/about/budget#One-Time>

² <https://www.mcgill.ca/studentservices/about/budget#One-Time>

³ https://www.mcgill.ca/senate/files/senate/1_question_regarding_student_services_funding_sustainability_with_response.pdf

RESPONSE:

Thank you Senators Rourke and Kpelgo-Hennessy for your questions.

I have answered each in turn, here:

Exemptions from overhead charges are not determined at the unit level; rather, exemptions are applied to particular types of revenues. While some units on campus, by nature of their purpose and activities, are able to generate income separate from that which is provided through central budget allocations, no unit on campus is entirely “self-funded”: all do receive at least some of their operating funds from a central allocation and, importantly, all benefit from institutional support of their activities. This institutional support includes support by Financial Services, Human Resources, Information Technology, Facilities Management (building maintenance, utilities, etc.) and governance, including legal services. The cost of these services is partially offset through an “overhead charge,” which is met through the transfer of a small portion of self-generated revenues to a central fund. Centrally-allocated “revenues” to units, e.g., the annual operating budget allocated to a teaching department, are not subject to an overhead charge because the cost of institutional support of that department’s activities are considered in the determination of its annual operating budget at the outset.

The University collects “overheads” on a range of revenues, including revenues from the sale of goods and services (e.g. tickets to sporting events, food sold on campus, and parking fees), residence fees, and fees for student services. Revenues from which the University does not collect overheads include revenues from academic activities (such as fees collected from students who participate in a field study program), revenues from research activities, revenues from philanthropic organizations and private gifts, and endowment income. In the case of exemptions for certain academic activities, the overhead is deemed to have been funded through the academic program’s related provincial grant. With respect to research, the federal and provincial governments provide separate funding envelopes for the indirect costs of research. In FY2016, the overhead cost allocation to McGill from the federal and provincial government was 17% and 27%, respectively, of research grants awarded to McGill researchers

As you have noted in the preamble to your questions, in FY2010, the overhead charge to Student Services was just over \$30,000 and is anticipated to be just over \$650,000 in FY2017. While this does indeed represent an increase of about 2100% over seven years, this should be understood in the context of a unit whose current revenues reach nearly \$12M. It should also be noted that the published figures for “overhead charges” of roughly \$600,000 for FY2016 and \$650,000 in FY2017 include approximately \$200,000 - \$300,000 each year in reductions to the centrally-allocated operating funds. These measures, applied to all units across the University, were implemented to address the reduction in

operating grant revenues from the provincial government and were necessary to assure that the University maintained financial stability. They were not a “clawback” but rather a real and permanent reduction to the University’s operating budget.

The initial flat-rate \$30,000 charge to Student Services was implemented many years ago and had remained unchanged even as revenues and costs increased over time. A move to normalize processes in FY2012 saw a change to a percentage rather than a flat-rate overhead fee. This fee was initially 1.5% in FY2012, with increases reaching 5% in FY2018. Thus, while overhead charges may have increased *relative to past years*, they remain a very small percentage of total unit revenues – and well below generally accepted norms for calculating true overhead costs of “self-funded” activities.

It is important to understand that overhead charges on self-funded revenues do not represent a “profit” to the University’s central administration. Instead, they are a contribution by revenue-generating units to the true cost of the institutional support of their activities. The University itself still bears the majority of that cost on its own.

Services to students continue to be central to the University’s academic mission. This is reflected in the McGill Commitment, in the range of support services provided by Student Services, and in the full spectrum of student-oriented activity supported by the Office of the Deputy Provost, Student Life and Learning.
