New Budget Model
Interim Implementation Report

This package contains a summarized version of the material that has been developed in preparation for the transition to the new budget model. It addresses the main issues related to the methodology of budgetary allocations and the annual budget process. It includes a discussion of the methodologies for revenue and cost attribution and the annual budget process.

A section on "Annual Budget Process" describes the sequence of steps and a tentative timetable leading up to setting the university budget each year. The process is built around two key features: a review of university-wide services and the associated expenses, to be conducted by a high-level committee with decanal representation, and a review of the budget plans of the academic divisions by the Provost.

The new budget model will be used to prepare a shadow budget for 2006-07. The budget for fiscal year 2007-08 will be set using the new model only. The Annual Budget Process section identifies some transitional issues and the associated timetable.

Inter-divisional teaching is a valuable component of our academic programs. The Task Force Report stresses the importance of ensuring that it is properly recognized and encouraged. There are currently many inter-divisional arrangements in place, and these will continue. The Provost's office will provide information and support as new arrangements are made.

Introducing an entirely new budget model for an institution as complex and as large as the University of Toronto is a mammoth task. As a result of the effort of a large number of individuals, we trust that all the major issues have been addressed adequately and that most of the potential pitfalls have been identified and dealt with. The first year of implementation will require vigilance from all involved and patience if unanticipated problems develop.

It is recommended that a comprehensive review be undertaken after two years. Perhaps, a suitable time is for the review to begin in May of 2008, after two budget cycles have been completed under the new model. It is further recommended that no changes be made during these two years, unless absolutely necessary.

I would like to take this opportunity to thank everyone that has participated in the preparation of the attached material and in the discussion of earlier versions. In particular I would like to thank members of the Steering Committee, who have accepted a Herculean challenge. Through their efforts, vague concepts have been examined thoroughly and have evolved into a comprehensive and clearly documented methodology for the budget process.

Safwat G. Zaky
Vice-Provost, Planning and Budget
26 July, 2006

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New Budget Model
Introduction

Over the last two years the University has engaged in a process of transitioning to a new budget model. The first step in the process was the formation of a Task Force with the following terms of reference:

1. Review the way in which funding is allocated to divisions and other budgetary units in the university
2. Assess alternative approaches
3. Recommend changes in approach as appropriate to maximize benefit to the institution
4. The approach to budget allocations should strive to provide incentives for:
    - excellence in teaching and research
    - collaboration across faculties
    - meeting University targets in enrolments
    - revenue generation and cost reduction

The Task Force issued its report in January 2006. The report includes the following overriding principle for making budget allocations, which follows directly from the University's mission:

> ***The budget allocation process is a primary tool for the implementation of the university's academic plans and academic priorities.***

The model recommended by the Task Force captures the key benefits of both a revenue-based model and an expense-based model, while recognizing the unique circumstances that exist at the University of Toronto, which include:

- The university's highly-developed academic planning process
- The nature of the Provincial funding formula
- Variability of tuition fees among programs
- The large, decentralized nature of the university

The Task Force report also includes this recommendation:

To provide incentives for revenue generation, divisions should receive a significant portion of the revenues they generate. At the same time, it should be possible to fund programs and activities based on the University's academic plans and priorities, even when these activities do not generate sufficient revenues to cover costs. To accommodate these objectives, budget allocations under the recommended model consist of two components. The first is a revenue-based component that includes a proper accounting for the costs of central services and overhead. The second is a non-formulaic component that is based on academic plans.

The material presented in the following sections describes the methodology to be used in budget preparation under the new budget model. The budget process starts by determining all the operating revenues of each academic division. These constitute the division's Gross Revenue. Operating revenue is comprised of eight major sources of revenue, as outlined in the revenue attribution section. Next, a portion of total revenue is retained for non-formulaic reallocation to divisions based on academic plans. This reallocation fund is called the University Fund. Also, an appropriate amount is set aside at the Centre for student aid. The cost of university-wide services is attributed to academic divisions using appropriate cost drivers. For this purpose, university-wide costs are grouped into twelve major categories, or 'bins", as described in the cost allocation section of this report.

The Net Revenue of an academic division is equal to its Gross Revenue less its contribution to the University Fund and its share of the student aid fund and the attributed university-wide costs. The Division's expense budget consists of is Net Revenue plus its share of the University Fund as allocated by the Provost.

The following report provides an overview of the methodologies for the attribution of revenues and university-wide expenses, the University Fund, the approach to undergraduate inter-divisional teaching and the annual budget process.

Steering Committee Membership
New Budget Model

Catherine Gagne	Applied Science and Engineering
Sally Garner	Planning & Budget
Jeevan Kempson	UTSC
Sandeep Malik	Planning & Budget
Helen Morrisette	UTSC
Tim Neff	Medicine
Trevor Rodgers	Planning & Budget
Isaak Siboni	Arts & Science

The new budget model implementation Steering Committee met on a weekly basis from November 2005 to June 2006. Monthly meetings were also held with divisional financial officers (DFO) from all academic divisions. The DFO meetings served as an opportunity for the Steering Committee to report back to the wider group on the progress of the previous month's weekly meetings as well as for the DFO group to bring forward their questions and concerns.

The Steering Committee spent the first several meetings reviewing the University's operating budget in detail to ensure all members had a thorough understanding of each component of revenue and expense. Following the completion of the overall review, each revenue and expense category was discussed in depth and a proposed methodology was recommended for attribution to the academic divisions. Throughout the course of the eight months, the Steering Committee consulted widely with senior administrators across all areas of central administration to ensure that the proposals for revenue and expense attributions were reasonable, fair and complete and that data were available where necessary.

The Steering Committee also periodically prepared documentation for review by the Provost and the Provost's Executive Committee. Feedback from this group was integrated into the final recommendations.

Finally, a half day retreat was held on June 12, 2006, where the Steering Committee and the Provost's Executive Committee reviewed and discussed the final proposals for all revenue and expense allocations, inter-divisional teaching, the University Fund and the annual budget process.

Revenue Attribution

Under the new budget model approach, all revenue in the operating budget will be attributed to academic divisions. There are eight major sources of revenue, as outlined in the University's Long Range Budget Guidelines.

A summary of the 2006-07 revenues from all sources is given in Table 1. Revenue is used for different purposes during the budget process, as follows:

> Gross revenue, column C, is the total revenue attributed to a division, which will be used in calculating the division's expense budget. It includes revenue from all sources.
>
> Column D identifies the revenue components that will be used in determining the University Fund assessment.
>
> Revenue is used as a cost driver for attributing some of the university-wide costs. The components of revenue to be used for this purpose are identified in column E.

The proposed methodology for revenue attribution is described in this section.

Table 1: 2006-07 Projected Revenue

Source of Revenue (A)	2006-07 Budget $M (B)	Included in Gross Revenue (C)	Included in UF Calculation (D)	Included in the Revenue Cost Driver (E)
Provincial Operating Grants	563.1	yes	yes	yes
Tuition Fees	432.6	yes	yes	yes
Endowment Revenue	37.8	yes	**no**	yes
Canada Research Chairs	37.2	yes	**no**	yes
Indirect Cost Recovery	29.4	yes	**no**	yes
Investment Management Fees	.6	yes	yes	yes
Investment Income (net of amort.)	16.3	yes	yes	yes
Other Income	10.5	yes	yes	yes
Subtotal	**1127.5**			
Divisional Income	147.0	no	no	yes
Total Operating Revenue	**1274.5**			
Research Revenue		no	no	yes

Provincial Operating Grants

2006-07: $550,400,000 (excludes ROIE and OGGST grants, re-grouped as indicated)

Provincial Grants include all grants received from the Provincial government that constitute the University's operating grant (Table 2). Two grants have been excluded from this revenue category and moved to other categories. Research Overhead Infrastructure Envelope (ROIE) is included with research overhead revenue and the OGSST grant is included with endowment revenue. Grants received directly by divisions or outside the operating fund are not included.

Most provincial grants are based on the unit known as the Basic Income Unit or BIU. However, the exact methodology for calculating grants varies among different government programs, resulting in slight variations in the BIU value. In some cases, lump sum funding may be provided to enhance quality across all programs.

The revenue attribution methodology will start by calculating an effective BIU value for the University. With few exceptions noted below, all grant envelopes will be included in this calculation. That is, all provincial funding will be distributed evenly across all BIUs.

Certain targeted provincial funding envelopes will be excluded from the calculation. There are funds that are intended to support a particular program or group of students and are not BIU-based. Funding for a particular program may also be based on a BIU value that has been adjusted for some reason. Such grants will also be excluded. Current exclusions from the effective BIU calculation are:

- MD expansion and enhancement funds will be attributed directly to the Faculty of Medicine.
- OISE/UT grants: these grants are currently funded at a discount and negotiations are ongoing with MTCU on this issue.

As new funding envelopes are announced, they will be assessed as to whether or not it is appropriate to include them in the effective BIU calculation.

Table 2: 2006-07 Projected Provincial Grants

	Amount
Formula Operating Grant	$321,320,000
Undergraduate Accessibility	90,717,000
Graduate Accessibility	28,126,000
ATOP	8,813,000
Nursing Grants: UG	2,663,000
Nursing Grants: MN	1,601,000
Nursing Grants: PhD	632,000
Teacher Education expansion (all phases)	2,213,000
PGME Grants	1,988,000
Special Medical Research Grant (MTCU)	3,483,000
Special Medical Research Grant (MOH)	3,483,000
Quality Assurance Fund (QAF)	14,358,000
Quality Improvement Fund (QIF)	34,959,000
Unfunded Correction	2,567,000
Replacement funding for tuition freeze	23,024,000
Performance Grants (KPI)	5,000,000
MD Expansion Grants (all phases)	5,448,000
Total Operating Grants	**$550,395,000**
ROIE and OGSST	**$12,710,000**
Basic Operating Income	**$ 563,105,000**

Tuition Fees

2006-07: $432,600,000

Revenue from tuition fees will be attributed to each division based on divisional student FTEs and tuition fee levels. Adjustments will be made to account for funds set aside for student aid and other variations such as uncollected fees and surcharges on unpaid fees.

Endowment Revenue

2006-07: $39,400,000 (includes $1,600,000 OGSST re-grouped from provincial grants)

Endowment revenue included in the operating fund currently comprises three components:

> *Endowment income for student aid:* this endowment payout is distributed to individual restricted funds accounts and paid directly to students from these accounts. A book entry is made to report all these payments in the operating fund at year end, offset by an equal amount of endowment payout; therefore the net effect on the operating fund is zero. No methodology for revenue attribution is required as these funds flow directly to divisions through divisional income.
>
> *Endowment income for chairs*: divisional revenue from endowed chairs in allocated to each division based on the actual endowment value held in the division. No methodology for revenue attribution is required as these funds flow directly to divisions through divisional income.
>
> *OGSST Grant:* The University receives a provincial grant of approximately $1.6M for graduate scholarships in science and technology. Revenue from this grant will be attributed to each division based on number of OGSST awards.

Canada Research Chairs

2006-07: $37,200,000

No methodology for revenue attribution is required as these funds flow directly to divisions through divisional income. Revenue will be flowed to divisions at 100%.

Indirect Cost Recovery on Research Grants and Contracts

2006-07: $40,500,000 (includes $11,100,000 ROIE re-grouped from provincial grants)

The Long Range Budget Guidelines include revenue from research funding agencies, foundations, industry, and other sponsors to support the indirect costs of research. The full amount (100%) of this revenue will be attributed directly to the division in which the grants are held.

Investment Income

2006-07: $16,300,000

This revenue will be attributed to divisions based on each division's share of total attributed revenue from all other sources, including research grants.

Other Income

2006-07: $11,100,000 (includes $600,000 re-grouped from investment mgmt. fees)

Revenue in the Other Income category of the University's budget is generated from two main sources and will be attributed to divisions as follows:

1. Application Fees

Revenue from application fees will be attributed based on the number of applications to each division.

2. Miscellaneous

This revenue source is a relatively small amount that includes bank machine fees, depreciation recovery, parking recovery, overhead from real estate and ancillaries and investment management fees. It will be attributed based on each division's share of total attributed revenue from all other sources.

University-Wide Cost Allocations

Cost Bin # 1: Occupancy Costs

($97,600,000)

Occupancy costs comprise a large portion of total university-wide costs. The proposed methodology is based on individual building costs where divisions have some ability to control costs and on a university-wide average where such controls are not possible.

Sub-bin: Caretaking **$13,400,000**

Caretaking costs include salary, benefit and supply costs for the cleaning of buildings.

Recommended cost driver:

- Costs will be accumulated on a per-building basis.
- Costs per building will be assigned to its occupants on a per-NASM basis, using the data maintained in the Space Inventory Database.
- Space managed by the Office of Space Management (OSM) will be excluded and charged separately.

Sub-bin: Utilities **$47,000,000**

Utilities include the direct purchase cost of hydro, gas, water and heating oil. It also includes processing costs associated with the generation and supply of steam (i.e. chiller costs, central steam plant costs, central steam distribution costs, central electrical distribution costs and co-generation costs).

Recommended cost driver:

- Costs will be accumulated on a per-building basis.
- Costs will be assigned to building occupants on a per-NASM basis, using the data maintained in the Space Inventory database.
- Space managed by the Office of Space Management (OSM) will be excluded and charged separately.

Sub-bin: Building Maintenance (Regular and Deferred) **$23,500,000**

Regular maintenance costs include services for fabric, electrical, elevator and mechanical. The University's deferred maintenance liability is currently estimated at $286M. All deferred maintenance items are classified and ranked and decisions are made annually at the institutional level as to where funds will be allocated.

Recommended cost driver:

- Costs will be accumulated at the institutional level. Hence charges to divisions will not be dependent on the age or condition of the buildings they occupy.
- Costs will be assigned to a division on a per-NASM basis, using the data maintained in the space inventory database.
- Space managed by the Office of Space Management (OSM) will be excluded and charged separately.

Sub-bin: Other Facilities and Services Costs $12,800,000

These include fire prevention, police, grounds maintenance, mail service, recycling and waste management and F&S administration.

- F&S administration costs will be attributed by to the three sub-bins above, to be attributed out by the respective cost drivers.
- Other costs will be attributed on a per-NASM basis

Sub-bin: OSM Space (Operating Budget) $900,000

All space managed by the Office of Space Management will be removed from the divisional space inventory. The cost of the space managed by OSM will be calculated according to its share of the sub-bins above. The additional cost of $900,000 is the operating budget of the OSM office itself.

- Total occupancy costs for OSM space will be calculated at the institutional level and an average rate will be charged to divisions based on utilization statistics, taking into accounts NASMs and hours used by divisions.

New Buildings or Buildings under Renovation

- During the construction phase of a capital project, utility costs are charged to the project. Once a building achieves occupancy by the City of Toronto the utility costs are charged to the general University budget. These costs will be charged to the intended occupants of the building, even if they have not yet moved in.

Cost Bin # 2: Information Technology

($17,500,000)

Sub-bin: Administrative Management System (AMS) $5,200,000

AMS maintains and operates the financial information system (FIS) and the human resources/payroll system. It also provides support for the research information system (RIS), the development information system (DIS) and the telecommunications billing system.

Recommended cost driver:

- AMS costs will be attributed on the basis of total revenue.

- Total revenue is a reasonable proxy for the level of activity in AMS systems.

Sub-bin: Computing and Network Services (CNS) $5,000,000

Computing and Networking Services (CNS) maintains and operates the University's backbone network and provides university-wide IT services such as email.

Recommended cost driver:

- Cost will be attributed on the basis of undergraduate and graduate student FTE (65%) and academic and admin FTE (35%)
- Some exclusions for UTM and UTSC

Sub-bin: Student Information Systems (SIS) $5,600,000

The primary function of SIS is to develop and maintain the student database system (ROSI).

Recommended cost driver:

- Undergraduate and graduate student FTE

Sub-bin: Telecommunications (TC) $400,000

The Telecommunications Department is responsible for approximately 10,000 Centrex telephone lines at the St. George campus, UTSC, UTM and Downsview.

Recommended cost driver:

- Number of telephone lines
- Faculty of Dentistry will be excluded as they are not able to use this service.

Sub-bin: IT Fund $1,300,000

This fund supports projects that enhance university-wide IT services.

Recommended Cost Driver:

- Total student, academic and administrative FTE

Cost Bin # 3: University Management

($11,700,000)

This bin includes the costs of the Offices of the President, Governing Council, the Vice-President and Provost, the Vice-President, University Relations and the Vice-Provost Planning and Budget.

Recommended cost driver:

- Total revenue

Cost Bin # 4: Financial Management

($5,400,000)

This bin includes the costs of the Office of the Chief Financial Officer, Internal Audit and Procurement Services. It also includes an appropriate portion of the costs of the Office of the Vice-President Business Affairs.

Recommended cost driver:

- Total revenue

Cost Bin # 5: Human Resources

($16,310,000)

The Human Resources bin is divided into three sub-bins covering general Human Resources services and services that are specific to academic and administrative staff.

Sub-bin: General Operations $7,230,000

This bin covers university-wide services that are provided to all employees, including pensions, payroll, staff development, environmental health and safety and many others. The HR generalist services to academic divisions are not included in this bin as these costs are borne by the divisions. The costs of the HR North and South Offices will be shared among participating faculties in a separate calculation.

Recommended cost driver:

- Total FTE, including academic, administrative and unionized staff
- All appointed employees are included, whether funded from the operating budget or from research grants.

Sub-bin: Expenses Related to Academic Employees $7,240,000

This sub-bin includes costs related to UTFA and CUPE 3902. It also includes the cost of faculty recruitment, professional reimbursement and academic recruitment and retention.

Recommended cost driver:

- Academic FTE
- All appointed employees are included, whether funded from the operating budget or from research grants.

Sub-bin: Expenses Related to Administrative Employees $1,840,000

This bin includes expenses related to USWA and CUPE, as well as administrative salary anomalies and employee health and safety.

Recommended cost driver:

- Administrative and unionized staff FTE
- All appointed employees are included, whether funded from the operating budget or from research grants.

Cost Bin # 6: Pension Amortization

($27,300,000)

The deficit in the University's pension plan is being amortized over a 15-year period. This bin covers the annual payments.

Recommended cost driver:

- Total salaries (based on budgeted salary expense); fixed charge per division as at the time of transition to the new model, plus variable charge after the transition year.

Cost Bin # 7: University Advancement (DUA)

($14,900,000)

Sub-bin: Alumni Relations **$4,400,000**

The operations of the Alumni Affairs Office include the ongoing administration of alumni affairs, alumni activities and alumni database.

Recommended cost driver:

- Living alumni headcount

Sub-bin: Development **$10,500,000**

The role of this area of DUA is the administration of major gifts and campaigns. Costs include donor receptions, advancement communications, donations management, etc.

Recommended cost driver:

- Ten-year rolling average of total funds raised.

Cost Bin # 8: Central Library

($46,500,000)

Sub-bin: Serials and Electronic Materials Acquisitions $18,400,000

This sub-bin includes the cost of serials and electronic material acquisitions in the central University of Toronto libraries. It also includes the cost of acquisitions support, such as materials processing, collection development and binding. This material is mostly used in research.

Recommended cost driver:

- Share of student FTEs, academic FTEs and research funding, equally weighted
- This is the same cost driver used by the Canadian Research Knowledge Network for CFI funding.

Sub-bin: Monograph Acquisitions $8,200,000

This sub-bin includes the cost of book acquisitions in the central libraries. It also includes the costs to support the book acquisitions process, such as materials processing and collection development.

Recommended cost driver:

- Undergraduate, graduate and academic FTEs, weighted according to usage statistics: 65%, 28%, and 7% respectively.

Sub-bin: Library Services $19,900,000

The sub-bin covers the cost of services in all central libraries, including the reference, resource sharing, and access & information departments of Robarts Library and its branches. It also includes the Thomas Fisher Rare Book Library, RCAT and Information Commons.

Recommended cost driver:

- Student FTE (undergraduate and graduate).
- UTM and UTSC shares of this sub-bin will be discounted by 60% because of their physical separation and hence their limited access to the services available on the St. George campus.

Cost Bin # 9: Research Administration

($5,600,000)

This bin covers the costs associated with the Office of the Vice President, Research and Associate Provost, including Research Services, Ethics Review Office, Technology Transfer Office and Government Liaison.

Recommended cost driver:

- A rolling 3-year average of total research funding, including federal and provincial grants and research contracts.

Cost Bin # 10: Student Recruitment and Registrarial Services

($14,300,000)

The costs of the administrative services associated with recruitment, registrarial services and student aid and awards for undergraduate and graduate students are divided into six sub-bins.

Sub-bin: Undergraduate Admissions $3,900,000

This sub-bin covers the costs of the recruitment and registrarial services of the Admissions and Awards Office. These include managing the exchange of application data with the Ontario Universities Application Centre (OUAC), evaluating international credentials and communications with prospective and admitted students.

Recommended cost driver:

- Number of undergraduate applications
- Costs will be shared among the divisions using this service.

Sub-bin: Undergraduate Financial Aid and Awards $1,000,000

The Admissions and Awards Office provides financial counselling and is charged with the distribution of financial aid and awards to all current and incoming students, except in the Faculties of Law and Medicine, and the Rotman School of Management. Costs include the processing of applications for the Ontario Student Assistance Program (OSAP), the University of Toronto Advance Planning for Students (UTAPS) program and other needs-based bursaries.

Recommended cost driver:

- Total number of OSAP applications

Sub-bin: OSOTF Matching Fund $2,500,000

The payment schedule of the Ontario Student Opportunity Trust Fund (OSOTF) contribution to student aid endowments does not always match donor payments. The Office of the Provost maintains an OSOTF matching fund to provide bridging support to divisions until the provincial portion of the endowment is received.

Recommended cost driver:

- Number of OSOTF awards

Sub-bin name: Undergraduate Recruitment $2,000,000

The Student Recruitment Office is responsible for coordinating student recruitment activities. Costs include the Visitor's Centre, open houses and other on-campus events, publication of promotional materials, and visits to local, national, and international high schools and education fairs.

Recommended cost driver:

- Total applications for admission
- This cost will be shared among all divisions.

Sub-bin: Graduate (SGS) Administration $3,800,000

This bin includes the costs of admission, registration, record-keeping, calendar publication, student services, and thesis/dissertation support for graduate students. The bin also includes the costs of the English Language and Writing Support (ELWS) office.

Recommended cost driver:

- Total graduate student headcount

Sub-bin name: Graduate (SGS) Bursaries $1,100,000

Costs include need-based bursaries for graduate students in all divisions, as well as administrative support for the Bursary and Financial Counseling Offices.

Recommended cost driver:

- Full-time graduate student headcount

Cost Bin #11: University-Wide Academic Expense

($26,700,000)

The University-Wide Academic Expense cost bin includes funds held by the Vice President and Provost to support academic activities across all divisions of the University. These include the Academic Initiatives Fund, Transitional Funding, Academic Service Initiatives, Provost Reserve and Contingency, and Research Allowance for Endowed Chairs and University Professors.

Recommended cost driver:

- Total revenue

Cost Bin # 12: University-Wide General Expense

($29,900,000)

This bin covers general expenses at the institutional level in support of academic and administrative activities. These include legal fees, insurance, the Administrative Priorities Fund, membership fees in COU, AUCC etc. It also includes amortization of loans held centrally.

Recommended cost driver:

- Total revenue
- Debt service costs that are currently borne centrally will be attributed to divisions, where possible
- Debt service costs associated with capital projects on the St. George campus will be attributed to divisions on the St. George campus.

Inter-Divisional Teaching

Inter-divisional teaching is an essential component in the University's academic programs at both the undergraduate and graduate levels. Almost every program involves courses provided by a faculty other than the students' home faculty. The extent of these collaborations is evidence of the importance of inter-divisional teaching and the University's commitment to it as a mechanism that enhances the quality of the academic programs and the student experience.

No changes will be made at this time to the way IDT is handled at the graduate level. The discussion that has taken place with regard to a budget model methodology for recognizing the revenues and costs associated with IDT has focused entirely on IDT at the undergraduate level and has raised a number of issues, some financial and some academic. It is clear that most colleagues would like the new budget model not only to provide proper financial compensation for IDT, but also to create incentives and an environment in which the current difficulties that some students face can be resolved. However, it is important to keep in mind that issues of how to best promote and compensate for IDT are independent of the budget model; they need to be discussed and addressed, even without a change in the budget model.

The issues that have been raised include the following.

- The actual cost of delivering a course varies substantially, depending on student enrolment, whether the course involves a specialized laboratory, and so on.
- There are indirect costs that need to be recognized, both centrally and in the divisions.
- A stipend rate simply covers the cost of the instructor, without taking account of any costs related to administrative support, space, curriculum development, etc. Comparisons of the cost of IDT that get computed taking full account of such costs to a replacement teaching stipend rate can be misleading.
- New arrangements are needed to make sure students taking courses outside their home faculty are able to find space. Currently some encounter difficulties and find their course choices very limited.

Due to the importance and the complexity of the above issues, the new budget model will not include any adjustments to revenue or expense for interdivisional teaching in the initial implementation. Over the course of the next year or two there will be a review of both the academic and financial IDT issues. Until then, Type A IDT (students taking courses in other divisions with no special arrangements) will continue as at present. Type B (mounting a special course or providing an instructor for a course in another division) and Type C (joint programs) will be handled through inter-divisional agreements, with the support of the Provost's office.

Annual Budget Process

The budget process under the new budget model involves considerable interaction between the divisions and the Vice-President and Provost's office — a combination of a bottom-up and top-down flow of information. For this reason, the process must start much earlier than under the present budget model. In fact, different aspects of this interaction will be on-going throughout the year.

The budget will always be prepared based on a six-year rolling window, overlapping the fixed period of the Long-Range Budget Guidelines approved by Governing Council. (The latter may be changed in the future, if that is deemed desirable.) Revenue and expense projections will be prepared for a six-year period and updated each year. Based on these projections, a detailed budget will be prepared for the immediately following year.

University-wide expenditures will be reviewed on an on-going basis by a standing committee, the Central Services Review Committee (CSRC). The purpose of this review is to ensure that the services provided match the needs of the divisions and all necessary statutory and Governing Council policy requirements, at the minimum cost possible.

The budget model also calls for regular reviews of divisional budgets by the Provost. These reviews will provide the information needed for allocating the University Fund. An advisory committee will be established to assist in this process, as is presently the case in making AIF allocations.

Regular reviews of the administrative and academic budgets are important features of the new budget model. The timing of these reviews will strongly influence the time table for the budget process. A proposed approach is described below, followed by a tentative time table for the budget process and a discussion of some issues related to the transition to the new process.

Central Services Review

The Provost and the President will strike the CSRC with a mandate to review university-wide services on an on-going basis and to advise on changes, where appropriate, to enhance services and/or to reduce costs. The committee membership will include decanal representation as well as members from the central administration.

To be effective, it is anticipated that this committee will focus its attention on broader issues and service adjustments that have the potential for making a significant difference in the long term, rather than on the minutia of expenses. Furthermore, the review process is expected to be on-going. One year, the committee may decide to focus on library costs; another year, it may review the approach to building maintenance, and so on. It is recommended that the committee begin by meeting with the Vice-Presidents to develop the most effective way for conducting its reviews and to set up its agenda.

The nature of the committee's work is such that it needs to be decoupled in time from the annual budget cycle deadlines. The process envisaged is one in which the committee provides its advice to the President and Vice-Presidents before the budget setting process begins. For example, the committee may propose a multi-year plan for expense reduction in a certain area based on specific service adjustments. The service divisions would then develop appropriate implementation plans based on recommendations from the President and Provost. They would prepare their annual budgets consistent with the recommended changes, in discussion with the budget office.

The COPC List

Our current budget model contains a list of items known as Contractual Obligations and Policy Commitments. These are expenses that cannot be arbitrarily changed during the budget process and as a result are excluded from across-the-board expense reduction measures. The costs involved are determined each year by the Budget Planning Secretariat, which meets during the months of January and February to review estimates presented by the service divisions.

There will be no across-the-board expense reductions under the new budget model. However, the COPC list needs to be maintained because it requires special treatment.

The CSRC should examine this list as part of its review, recognizing the special nature of the expenses involved. It may wish to propose changes where changes are possible. However, the cost estimates to be included in the final budget should continue to be set by the BPS process as close as possible to budget time.

Divisional Budgets and University Fund Allocations

The University Fund performs two primary functions with regard to divisional budget allocations:

- It preserves historical integrity.
- It is the primary mechanism for adjusting budgetary allocations to support academic planning and academic priorities.

The initial allocation of the UF during the transition year and the concomitant setting of the Reference Level guarantee to each division a smooth transition from the present to the new budget models. There will be no change in the net expense budget during that transition. Furthermore, the initial allocation will offset all cost allocations to divisions, consistent with the view that the current divisional budgets represent a fair accounting of current expenses and costs.

Going forward, the Reference Level guarantees that future UF allocations will not drop below the initial allocation for each division, further strengthening the objective of historical integrity. As revenues increase the UF will also increase, providing room for discretionary allocations to support academic priorities.

In preparation for making future University Fund allocations, the Provost will establish an on-going review process to assess divisional academic plans, enrollment projections, and budgets. This process will involve a senior review committee of Vice-Presidents and representative Deans, the Academic Budgets Review Committee (ABRC). As in the case of the CSRC, the timing of the Provostial review of divisional budgets needs to be decoupled from the budget cycle deadlines, but the results must be available in time to guide UF allocations. It is expected that tentative multi-year UF allocations will be made and updated every year.

Presentation of Budget to Governance

Based on the advice of the Central Services Review Committee and the Academic Budgets Review Committee, the Vice-President and Provost will prepare a budget for consideration by the President. With the concurrence of the President the budget will be recommended to the Planning and Budget Committee of Academic Board. Normally, this should take place in late February or early March in order to secure Governing Council approval prior to the end of the fiscal year.

Budget Cycle and Timetable

The timetable for the annual budget cycle as it is envisioned at this time is summarized in Table 1. This schedule has been designed to allow sufficient time for the two review committees mentioned above to make their recommendations and for detailed budget preparations to be completed in time to meet Governing Council deadlines.

The review process starts in the spring and should be completed early in the fall. This enables the central divisions to prepare their budget projections and the university-wide expenses to be assessed by about mid November. The academic divisions will then have an opportunity to examine revenue and cost data and provide feedback.

The Budget Planning Secretariat meets in January to estimate the COPC costs, as at present. Also, recommendations for the allocation of the University Fund should be available by the end of January. Detailed budget preparations are completed in by the Planning and Budget office during February and March for presentation to Governing Council.

Priming the Pump

The 2007-08 budget will be the first budget to be set entirely using the new budget model. In this first year of implementation, the review process needed to guide the preparation of the budgets of central divisions will not have taken place. Hence, special provisions are needed to "prime the pump."

The budget process for 2007-08 will begin on October 15, 2007. It will follow the schedule in Table 1 from that point on, with one exception. In the absence of recommendations from the CSRC, it is recommended that the budgets for the central divisions for 2007-08 be set based on existing budget plans. That is, salary increase provisions and expense containment measures should be implemented as they would have been if the current budget process were to continue to be used.

Surplus/Deficit Planning

Under current practice, surplus/deficit planning is used to smooth year-to-year changes in revenue and expense. A similar provision will be available to the academic divisions under the new budget model on an optional basis. In a year in which there is a large increase in expense or drop in revenue, the budget plan for a division may show a deficit, which will be treated as a short-term loan. The amounts involved will be subject to Provostial approval and to the requirement that the University's overall deficit/surplus is in compliance with Governing Council policy.

Both the deficit and the surplus will be treated as adjustments to gross revenue. This will ensure consistent treatment in relation to the University Fund and other overhead assessments.

End-of-Year

For a variety of reasons, actual revenues and expenses often differ from the projections in the budget document. Variances in tuition, government grants, and the indirect cost of research, whether positive or negative, will be flowed to divisions in the year following. Appropriate adjustments will be made to the University Fund assessment and university-wide cost attributions.

Table 1. Annual Time Table for the Budget Cycle

May 1	• Provost updates membership of the Central Services Review Committee • Committee meets with the Vice-Presidents to set agenda • Multi-year Enrolment plans for the following six years are updated
June 1	• Central service units present budget plans to the CSRC • CSRC begins its review process to be completed by the end of September • Academic divisions present budget plan to the Provost for review • Provost strikes advisory committee to review academic budgets
October 15	• Blue book is published providing expense details for the previous year • CSRC completes its review and forwards recommendation to the Provost and President • Tuition assumptions are updated based on feedback from Divisions • October Enrolment Model (including revenue projections) is completed
November 1	• Administrative divisions complete their budget projections in response to the President's and the Provost's recommendations, exclusive of BPS items
November 15	• P&B provides budget drafts to academic divisions
December 15	• Last date for academic divisions to provide feedback on attributed revenues or expenses
January 30	• BPS process completed • January Enrolment Model (including updated Nov enrolments) is complete • Revenues and university-wide expenses updated • UF allocations completed • Final budget preparations begin
February 23	• Budget ready for presentation to P&B Committee for approval • Target Budget Letters distributed by P&B to divisions • Updated Multi-year Enrolment Target Letters sent to divisions
March 30	• Final budgets submitted by divisions to P&B for input to FIS before May 1