



UPDATED MULTI-YEAR OPERATING BUDGET
FRAMEWORK 2003/04 TO 2006/07, extended to 2007/08

Recommendation to the
Board of Governors

(Approved May 5, 2006)

University of Saskatchewan
Updated Multi-Year Operating Budget Framework
2003/04 to 2006/07, extended to 2007/08

The document presenting the *Multi-Year Operating Budget Framework, 2003/04 to 2006/07* was approved by the Board in May 2004 and goes hand in hand with *The University of Saskatchewan Integrated Plan for the First Planning Cycle, 2003/04 to 2006/07* and is Attachment One to the *Integrated Plan*. The Integrated Planning process consciously associates academic directions of the University and budget planning over a multi-year period. The *Integrated Plan* contains a number of budgetary initiatives supporting the academic directions of the University.

At this time, the updated framework has been extended to include 2007/08. The year 2007/08 will serve as a transition year between the first planning cycle (2003/04 to 2006/07) and the second planning cycle (2008/09 to 2011/12). The multi-year framework for the second planning cycle will be prepared coincident with our integrated planning processes for the second cycle.

The schedule for the *Updated Multi-Year Operating Budget Framework 2003/04 to 2006/07, extended to 2007/08* is attached along with its *Supporting Notes*. The updated framework guides budget planning for 2006/07, the final year of the first planning cycle, and 2007/08, the transition year into the second planning cycle, and is the basis for the preparation of the *Operating Budget 2006/07*. This latter document is attached and provides a more detailed description of the operating budget for 2006/07.

Budget communications and consultations with senior administrative committees and with University Council and its Planning and Budget Committees have been on-going. The consultations continue to highlight the key planning parameters upon which the multi-year framework was developed.

INTRODUCTION

The multi-year framework approved by the Board in May 2004 responded to the need to address the structural deficit, to adjust our financial activity to balance the operating budget by 2006/07, and to maintain a minimum level of general operating reserves over the multi-year period.

Subsequent to its approved by the Board in May 2004, the multi-year framework was the basis for preparation of the Operations Forecast for 2005/06. The framework was then updated for the Board's approval in May 2005, and updated again to support the Operations Forecast for 2006/07.

The attached updated framework continues the direction set in the multi-year framework and provides a financial plan to eliminate the structural deficit and balance the operating budget in 2006/07, and maintain the required level of general operating reserves.

The updated framework also continues to respond to the need to financially support institutional priorities as described in the *Integrated Plan*. The Academic Priorities Fund (APF) has been preserved to support fundamental changes to the University in line with institutional priorities. A number of commitments have been made against the APF with further commitments and transfers of funds projected though 2007/08. An update on the APF, including its permanent and one-time balances, will be prepared for the Board's June meeting.

In the updated multi-year framework, the projected budget column for 2006/07 will serve as the basis for preparing the Detailed Operating budget for 2006/07, and the projected budget column for 2007/08 will be reviewed and updated as appropriate in preparing the *Operations Forecast 2007/08*.

The discussion that follows provides a brief overview of the updated multi-year framework followed by an update on the key planning parameters, the integrated planning adjustments, and the Academic Priorities Fund.

OVERVIEW

The multi-year framework was last updated in late 2005 to support the Operations Forecast for 2006/07. Since that update, the column for the Projected Budget for 2005/06 has been replaced with the Detailed Budget for 2005/06, including the subsequent adjustments to the Detailed Budget. The provincial operating grant and tuition revenue forecasts have been updated following the recent Provincial Budget. In addition, the key planning parameters have been reviewed, and other revenue and expenditure items have been updated as appropriate.

A brief summary of the highlights of the updated framework is as follows:

- The structural deficit is eliminated, a balanced budget is presented for 2006/07 and 2007/08, and the ending balance in the general operating reserve will be equal to the balance at the beginning of the first planning cycle.
- The Province's increase in the provincial operating grant for 2006/07 meets our needs as communicated in the Operations Forecast for 2006/07 and also allows us to maintain tuition at 2004/05 rates. Specifically, the increase allows us to fund projected salaries and benefits costs, and manage the increases in purchased utilities costs that have resulted primarily from higher natural gas prices. The provincial grant also includes targeted funding such as for Medicine accreditation. In total, the announced provincial operating grant increase for 2006/07 is 9.38%.

While the Province has announced that tuition in 2007/08 will also be held at 2004/05 rates, the implications of this announcement on the provincial grant for 2007/08 have not been finalized.

- Other government revenue results from inter-provincial billings related to the Western College of Veterinary Medicine. The billings increase annually based on the percentage increase in the provincial operating grant. In the Operations Forecast for 2006/07, we projected that the billings would increase by \$0.517 million in 2006/07 based on a 4.3% increase in the operating grant. With an announced operating grant increase of 9.38% for 2006/07, we have increased the projection for 2006/07 by \$0.684 million, from \$0.517 million to \$1.201 million.
- While the Province has increased the provincial operating grant in lieu of a tuition rate increase, we still remain sensitive to enrolment changes. For 2006/07, we are projecting a 4% increase in graduate enrolment with undergraduate credit unit enrolment held at the same level as in 2004/05. Within undergraduate enrolment, we are projecting a 4% increase in international credit units based on a shift between domestic and international students.

- In the updated framework, the planning parameter for salaries and benefits costs is consistent with the projections in the Operations Forecast for 2006/07. The assumptions for 2006/07 form the basis for the projected increase in salaries and benefits costs in 2007/08.
- Finally, the operating grant and tuition revenue includes amounts that are to be directed to colleges. The expenditure line "Directed revenue" refers to increases in the operating grant and tuition revenue that require offsetting amounts for specific colleges.

KEY PLANNING PARAMETERS

We have known outcomes in 2006/07 for two of the three key planning parameters; that is, for the level of provincial operating grant support and the rate component of tuition revenue. We have uncertainty and risk related to the third key planning parameter - salaries and benefits costs - and to a lesser extent, the enrolment component of tuition revenue.

1. **Provincial Operating Support.** For 2006/07, the Province has confirmed that the University will receive as increase in its operating grant of \$12.024 million (7.0%). This increase allows us to maintain tuition at 2004/05 rates and supports projected increases in salaries and benefits costs and actual increases in purchased utilities costs that have resulted primarily from higher natural gas prices.

In 2005/06 we supported the Province's one-year funding arrangements on the basis that the combined economic adjustment and tuition grant that we received in 2005/06 would be included in the Saskatchewan Universities Funding Mechanism (SUFM) formula for 2006/07. While we have not seen the details, the Department has advised us that funding for the universities in 2006/07 has been allocated through SUFM.

In addition to the \$12.024 million increase, we will also receive targeted funding of \$4.295 million, including accreditation funding, for a total increase in the provincial operating grant of \$16.319 million (9.38%). Combined with an adjustment of \$0.630 million for the difference between the Province's March year end and the University's April year end, total provincial funding in 2006/07 increases by \$16.949 million.

While the Province has announced that tuition rates in 2007/08 will also be held at the 2004/05 rates, the implications of this announcement on the provincial grant for 2007/08 have not been determined. We expect that the combined economic and tuition rate increase for 2007/08 will approximate the increase for 2006/07, with adjustments for targeted funding.

2. **Tuition Revenue.** In the multi-year framework tuition revenue was forecast to increase over the multi-year period through a combination of percentage increases in rates and, as guided by the *Enrolment Plan*, increases in the number of graduate students, along with selective increases in undergraduate credit unit enrolment.

The Province's tuition initiative announced for 2005/06 has been extended to 2006/07 and 2007/08. We have agreed to recommend to the Board that undergraduate tuition will remain at 2004/05 rates. For graduate programs, rates can be changed for the professional business programs, but other rates will remain at 2004/05 levels with the understanding that if the University decides tuition increases for graduate programs are warranted, a proposal is to be prepared for the Department's and Board's consideration.

While the Province has increased the provincial grant in lieu of a rate increase, we remain sensitive to the revenue implications of enrolment changes.

The Province's tuition initiative has raised questions regarding the continued applicability of the national norm tuition policy. The Budget Committee of Council recently provided advice to the President on the University's tuition policy and recommends a policy that incorporates the national norm policy together with considerations of student access, affordability and retention as well as the University' budget realities. A revised tuition policy is expected to guide future tuition decisions.

The updated multi-year framework includes an increase in tuition revenue based on an increase in graduate enrolment for the traditional programs of 4% in each of 2006/07 and 2007/08, along with selective enrolment and rate increases in the professional graduate programs in Commerce. The updated framework projects that tuition revenue based on undergraduate credit unit enrolment in 2006/07 and 2007/08 will in general be at the same level as for 2004/05. Within undergraduate enrolment, we are projecting a 4% increase in international credit units in each of 2006/07 and 2007/08 based on a shift between domestic and international students.

For selective programs such as is in the College of Nursing where we are projecting an enrolment increase and in the College of Commerce where we are recommending rate increases for professional graduate programs, the increased tuition revenue would not be available for general operations but would be directed by the University to specific colleges. In other situations such as for the undergraduate programs in Commerce and Pharmacy and with the differential tuition in Law, colleges were expected to generate tuition revenue through rate increases that would then be available for college operations. As the Province is providing operating grant funding in lieu of rate increases, funding will be directed to the Colleges of Commerce, Law, and Pharmacy and Nutrition. In the multi-year framework, the line "Directed revenue" refers to increases in the operating grant and tuition revenue that require offsetting amounts directed to colleges.

For 2006/07, \$0.394 million will be allocated to the Student Services Fund. An equivalent allocation is forecast for 2007/08. The Student Services Fund is intended to provide funding for scholarships, bursaries, and other forms of student services; in particular, the Fund will be used to support incremental operating costs for the student information system (SiRIUS).

- 3. Salaries and Benefits Costs.** Salaries and benefits include the costs of salary progression (annual increments, merit increases, promotions through the ranks), provisions for negotiated settlements and payments under assisted early retirement plans, and are reduced by turnover savings resulting from retirements and resignations. In the absence of any negotiated increases, salaries and benefits costs normally progress at approximately 1% annually. Any negotiated increase would then be in addition to the normal progression.

In the Operations Forecast for 2006/07, and primarily as a result of the Province's decision to relax its previously announced wage and benefit pattern for provincial government employees, we revised our planning parameter for salaries and benefits costs. As a result, when the forecasted negotiated increases for each of our major bargaining units were aggregated for 2006/07, salaries and benefits costs in the Operations Forecast were projected to increase by 3.5%, including normal progression. In the updated framework attached, salaries and benefits costs are projected to increase by 3.6%, with a similar increase projected for 2007/08.

For salaries and benefits costs, we have no additional information that would cause us to significantly change the forecast percentage increase that was used in the updated multi-year framework submitted with the Operations Forecast for 2006/07.

We are currently negotiating with all our bargaining units except for CUPE 1975, and the recently negotiated collective agreement with CUPE 1975 expires on December 31, 2006.

By understanding the impact of the key planning parameters on our activities over a multi-year time frame, we have managed the structural deficit. The updated multi-year framework is based on key planning parameters that, when considered together, are realistic.

INTEGRATED PLANNING ADJUSTMENTS

The integrated planning adjustments from the multi-year framework have been included in the updated framework in the same amount and in the same year. These budget adjustments represent the permanent and one-time selective measures and levies that were planned to balance the operating budget by the end of the multi-year period, and maintain a minimum level of general operating reserves (as established by Board policy) each year over the multi-year period.

In the multi-year framework, permanent adjustments for 2004/05, 2005/06 and 2006/07 totaled \$6.192 million, with \$4.712 million in selective measures and \$1.480 million in levies.

For the permanent selective measures of \$4.712 million, 25%, or \$1.178 million, was realized in 2004/05 and a further 25%, or \$1.178 million, was realized in 2005/06. The remaining amount of \$2.356 million will be realized in 2006/07. For the extended year 2007/08, no further selective measures are planned.

For the permanent levies of \$1.480 million, 50%, or \$0.732 million, was realized in 2004/05 and the remaining 50%, or \$0.732 million, was realized in 2005/06. For 2006/07 and 2007/08, no further permanent levies are planned. (The actual levies were set at \$1.464 million, rather than \$1.480 million, with the difference accommodated in the multi-year framework.)

The general operating reserve of the University is, by Board policy, to be maintained within a 1% to 4% range of total operating budget expenditures, or approximately \$3.0 million at the minimum of the range. With the phase-in over the multi-year period of the permanent adjustments discussed above, the general operating reserves of the University would have fallen below the acceptable minimum level. Therefore, to maintain a minimum level of reserves, \$7.146 million of one-time measures (projected to occur evenly at \$2.382 million over the three year period 2004/05 to 2006/07) were required. The planned one-time measures amount of \$2.382 million in 2006/07 will increase the general operating reserve to \$5.722 million, an amount that will be equal to the balance in the reserve at the beginning of the first planning cycle.

ACADEMIC PRIORITIES FUND

The Academic Priorities Fund (APF) is intended to provide a means to support fundamental changes to the University in line with its institutional priorities.

Commencing in 2003/04 and continuing through the remaining three years of the first planning cycle, the planned allocation to the APF was \$0.375 million annually. For 2006/07, the allocation

is planned to increase by \$0.125 million, from \$0.375 million to \$0.500 million annually, and continue at that amount for 2007/08.

By 2007/08, \$3.055 million will be allocated and/or committed to initiatives identified in the *Integrated Plan*. Of this amount, \$0.500 million was permanently allocated in 2005/06, and a further amount of \$2.555 million will be allocated and/or committed in 2006/07 and 2007/08. The timing of allocations will be adjusted depending upon project approvals and cash flow schedules supporting approved projects.

The permanent allocation in 2005/06 was for graduate scholarship funding. In 2006/07, an additional \$0.500 million will be permanently allocated to graduate scholarship funding, bringing the total allocation to \$1.000 million as committed in the *Integrated Plan*.

At the end of 2007/08, the remaining permanent balance in the APF of \$2.000 million, including annual increases less allocations, will be available for strategic investment during the second planning cycle (2008/09 to 2011/12).

The permanent allocations will be consistent with the commitments identified in Section B the *Integrated Plan* and will recognize that for most initiatives, an allocation from the APF would have to be augmented by other resources if the initiative is to proceed in a timely fashion.

Since the APF was created, a balance has accumulated to be used to fund selected projects, innovative ideas, and programs on a one-time-only or a planning cycle basis, and also to fund development/start-up costs for individual initiatives. Funding of this nature provides the University with an opportunity to maintain flexibility by supporting specific endeavors or discrete projects, and to evaluate investments prior to considering further funding support. The accumulated balance can also be used, at least in part, for transition purposes as the University implements the *Integrated Plan* and addresses its financial challenges.

ATTACHMENTS:

Schedule for the *Updated Multi-Year Operating Budget Framework 2003/04 to 2006/07, extended to 2007/08* and Supporting Notes

Operating Budget 2006/07