	Audit Finance and Risk Report Meeting: January 10, 2019
	Updated Multi-Year Forecast (MYF) for the period 2018/19 to 2023/24
BY: VP Finance & Administration	**WRITTEN AS OF:** January 3, 2019 UPDATED JANUARY 22, 2019 following tuition reduction announcement with tracked changes.
ATTACHMENT(S): Scenarios X and Y	
RECOMMENDATION: *For Information*	

1.0 - PURPOSE:

The purpose of this Briefing Note is to present the extended five year MYF to the financial forecast reviewed by the Board of Governors in March 2018, supplemented with best case/worst case enrolment scenario modelling and Next Steps, and updated/modified from the December 3, 2018 Board Meeting, and again as of January 22, 2019 following the provincial government's tuition reduction announcement.

2.0 - BACKGROUND:

The MYF is a planning tool that enables consideration of longer term issues and trends based on enrolment and expenditure assumptions.

Two variances to assumptions made in the March 2018 MYF, which were initially reviewed with the Board in September 2018, were sufficiently significant to require an update to the March 2018 MYF. These are (i) the lower than forecast bottom line return in Fiscal Year (FY) 2017/18, and (ii) the lower than forecast undergraduate enrolment (by 166 FTE) in respect of the current FY. These items were reflected in MYF scenarios reviewed with the Board at its December 2018 meeting.

We have also taken the opportunity to refine enrolment assumptions into best case and worst case scenarios and to consider the effect on the MYF of potential provincial government funding cuts to the post-secondary education sector funding.

This particular update distills MYF scenario development into two scenarios – X and Y – and replaces an earlier assumption of a 10% cut in the base government grant with the reduction of a domestic undergrad and graduate tuition reduction of 10% from 2018/19 levels for 2019/20, and a freeze in domestic undergraduate and graduate tuition fees in 2020/21. Consequently, table 5 (Projected Budget Response Plan by Scenario) also required update. The Next Steps section has also been amended as of January 2019.

3.0 DISCUSSION:

Two MYF scenarios are attached for the period 2018/19 to 2023/24; Scenarios X and Y.

Scenario X is a best case scenario projecting enrolment growth with increased market share, but at a pace slower than that projected in the March 2018/19 MYF. In support of this growth projection, Scenario X also provides for an annual allocation to something for the moment called an Enrolment Strategy Plan, which would be dedicated to addressing recruitment, retention, and marketing driven issues. The Plan would be allocated by the Provost's office in consultation with the Senior Leadership Team. The annual allocations are currently included in Scenario X as follows:

Table 1: Enrolment Strategy Plan allocations in Scenario X

	18/19	19/20	20/21	21/22	22/23	23/24
ESP ($000's)	100	300	600	700	700	700

Scenario Y projects limited undergraduate enrolment growth over the forecast period based on maintaining market share (not growing market share as in Scenario X), in accordance with demographic analysis undertaken by the Council of University Planning & Analysis, of which our Institutional Analysis department is a member.

The Scenario X and Scenario Y undergraduate enrolment (UG) assumptions in contrast to the March 2018 MYF enrolment assumption are set out in Table 2 following:

Table 2: Table UG Enrolment Projections by Scenario

	March 2018 MYF	Scenario X		Scenario Y	
	UG Enrolment	UG Enrolment	Variance to Original	UG Enrolment	Variance to Original
18/19	3,884	3,718	(166)	3,718	(166)
19/20	4,048	3,797	(251)	3,743	(305)
20/21	4,320	3,968	(352)	3,763	(557)
21/22	4,509	4,225	(284)	3,749	(760)
22/23	4,703	4,599	(104)	3,887	(816)
23/24	-	4,861		3,937	

What should be immediately clear is that updated best and worst case scenarios present materially lower UG growth than earlier forecast in March 2018. In some part this is due to the lower domestic UG intake (186) in 2018/19. This will translate into lower tuition revenues for the university over each scenario given that 90% of our total revenue is enrolment based.

The two scenarios continue to share several core revenue and expenditure based assumptions as depicted in Table 3. (Note: In respect of tuition lines, year over year increases do not represent proposed increases, but are set purely for the purpose of scenario development. Year over year compensation lines reflect current collective agreements for their respective terms.)

Table 3: Shared Core Assumptions Across Scenarios X and Y

	UG Domestic Tuition	UG International Tuition	Graduate Tuition	All Compensation 21/22 onward	Non-Comp Discretionary Expenses	Utilities
Annual % increase	3	6	6	2	1 to 2021/22 and 2 thereafter	5

Also common across the scenarios is the annual assumed allocation to Furniture, Fixtures & Equipment (FF&E), to increasing the Contingency Reserve to investment in Academic Plan initiatives as well as an adjustment in annual distributions from OCAD U CO derived from an updated five year financial forecast for the entity per below: (Updated plans for OCAD U CO will be reviewed in detail at the March Board)

Table 4: Adjusted Projected Distributions from OCAD U CO compared to March 2018 MYF

	2018/19		2019/20		2020/21		2021/22		2022/23		2023/24
	MYF 2018	Current	MYF 2018	Current	MYF 2018	Current	MYF 2018	Current	MYF 2018	Current	Current
OCAD U CO Distribution	300	0	300	0	500	300	700	500	900	700	900

4.0 - FINANCIAL IMPLICATIONS:

Scenario X projects operating deficits through to and including 2022/23 with operating surpluses thereafter.

Scenario Y, in effect a worst case scenario, projects operating deficits through to and including 2023/24.

In order to address the projected operating deficits in the years noted, a Budget Response Plan will be required for both scenarios. This has been calculated and

established for each scenario such that the bottom-line Accumulated Deficit does not exceed 2.5% of revenues in 2019/20; 2% of revenues in 2020/21; 1.5% of revenues 2021/22 and; .5% of revenues in 2022/23.

This moderate approach to Accumulated Deficit reduction keeps Accumulated Deficits below typical materiality limits and facilitates the restoration of balanced budgets and operating surpluses by the end of the forecast period even under the worst case scenario, Scenario Y.

Under Scenario X, the Budget Response Plan has been split between what has been called Operational Response – traditional expenditure saving initiatives – and Alternate Strategies (net) – creative or extraordinary approaches (both revenue and expenditure driven) – to achieving the overall Budget Response Plan.

Both scenarios assume that the Budget Response Plan is composed of 80% one-time savings and 20% permanent savings in 2019/20 and 70% one-time/30% permanent savings thereafter.

The overall Budget Response Plan required for each year of the forecast period and under each Scenario is set out in Table 5 following:

Table 5: Projected Budget Response Plan by Scenario

	19/20	20/21	21/22	22/23	23/24
Scenario X	7,098	6,485	4,288	2,021	0
Scenario Y	7,941	6,287	5,118	4,148	3,337

The annual impact of the tuition fee reduction is about $3.5 M in projected revenue shortfall. The difference in the tuition reduction impact and the previous assumption of a 10% grant cut is an increase in the Scenario X BRP of $1,306 M in 19/20; $1,892 M in 20/21; $1,913M in 21/22; $2,021M in 22/23 and 0 in 23/24

The means by which we will achieve the Budget Response Plan would be based on key principles of transparency, effective collaboration, comprehensive analysis, timeliness and creativity. Response options would be examined and assessed with respect to the effect on the student learning experience, the Academic and Strategic Plans, staff morale, financial and reputational impact, timing and risk-to-not-doing. (See Next Steps at the end of this section.)

The Plan will need to be sketched out in principle by March, 2019, in time for development of the 2019/20 operating budget, although refined and implemented over time. It is expected that under consideration will be shared service delivery options, institutional collaborations, and longer term actions to strengthen our enrolment through refreshed strategy, planning and investment.

Development of these MYF scenarios now puts us several months ahead of the typical planning process, which has us usually presenting the MYF to March Board meetings. This gives us a head start on developing the process by which to address the near and longer term Budget Response Plan.

The Next Steps will establish the process by which the Budget Response Plans will be developed and how stakeholders will be engaged and informed.

Next Steps:

- Determine process for identifying and assessing near-term and longer term Budget Response Plans together with Financial Transparency Working Group – January 2019
- Work with Marketing & Communications and the Financial Transparency Working Group on stakeholder engagement and communication with respect to Budget Response Plan development process – January/February2019
- Continue to fine-tune MYF scenario work in response to evolving government funding context
- Engage Budget Response Plan process with a view to including in 2019/20 operating budget submission to Board – March 2019
- Attached in the Appendix is a recent email communication to the community from the Executive Team

5.0- HUMAN RESOURCE IMPLICATIONS

Human resource implications will be subject to development of the multi-year Budget Response Plan (Next Steps).

6.0 - RISK IMPLICATIONS:

- Scenario X reduces enrolment growth assumptions from the March 2018 MYF while at the same time recognizing that investment in recruitment and marketing initiatives over the period through creation of the Enrolment Strategy Plan and associated working group is a prerequisite to meeting Scenario X UG growth assumptions. There is now therefore a connection between achieving enrolment growth from investing in initiatives to support such efforts. Nevertheless, the

effect on 2019/20 recruitment efforts may be muted given that the recruitment season for next year is well underway.

- UG enrolment assumptions in Scenario Y will risk tracking below the SMA enrolment corridor for fiscal years 18/19 and 19/20. This could affect government grant enrolment based funding

- The prospect of provincial government funding cuts brings financial uncertainty to the post-secondary education sector. An across the board cut to the base grant or to specialized programs for smaller institutions would present significant additional challenges that come with attempting to achieve projected Budget Response Plans in excess of $4M in each 2019/20 and 2020/21.

- The current fiscal year and Multi-Year Operating Cash Flow Analysis will be developed by the Finance Department in January based on these scenarios. The analysis is imperative to understanding the institution's capacity to undertake these scenario projections without increasing its operating line of credit.

- The institution's ability to develop and meet a multi-year Budget Response Plan will be critical for its ongoing success given that each scenario requires a Budget Response Plan. Stakeholder-driven transparency and a rigorous approach to assessing and resolving the Budget Response Plans, as well as the early start to address these issues, are intended to reduce the institution's operational risk.

7.0 ACCESSIBILITY IMPLICATIONS:

N/A

8.0 - CONSULTATIONS:

Senior Leadership Team
November/December 2018 and January 2019 AFRC and Board meetings

APPENDIX