April 2017

OCAD University

FY 2017/18 Operating Budget Overview

INTRODUCTION

This is an overview of the proposed FY 2017/18 Operating Budget and process as follows:

A. **FY 2017/18 Budget Context and Assumptions**
B. **FY 2017/18 Budget Risks Assessment**
C. **FY 2017/18 Budget Remedial Action Process**

Appendix 1: 2017/18 Operating Budget and Accompanying Schedules and Notes

The Consolidated 2017/18 Operating Budget Summary on page 2 of Appendix 1 presents an overall balanced budget for 2017/18, subject to achieving a remedial action target of 3.5% of expenditures.

The University currently uses a hybrid version of an incremental budget model as a planning tool. This essentially means that the previous year's budget, modified in accordance with specific assumptions related to revenue and expenditure categories, becomes the starting point for formulating and projecting the upcoming year budget.

The model presents as a 'hybrid' because it modestly engages strategic resource allocation – this year through allocation to Academic Plan priorities – rather than passively and incrementally responding financial vicissitudes of its operating environment. This year, in a financial context requiring expenditure reduction, a step towards decentralization of process is explored through a consensus-driven, portfolio-based approach (see Part C).

It is important to note that the operating budget does not finance capital projects during construction phases; nor do capital budget allocations support the operating budget.

Post-construction, the operating cost of any additional space will be reflected in the operating budget as well as any debt service costs associated with undertaking the capital project. Neither of these latter costs will impact the 17/18 operating budget.

The budget assumptions and the proposed operating budget for FY 17/18 are presented in detail in Appendix 1.

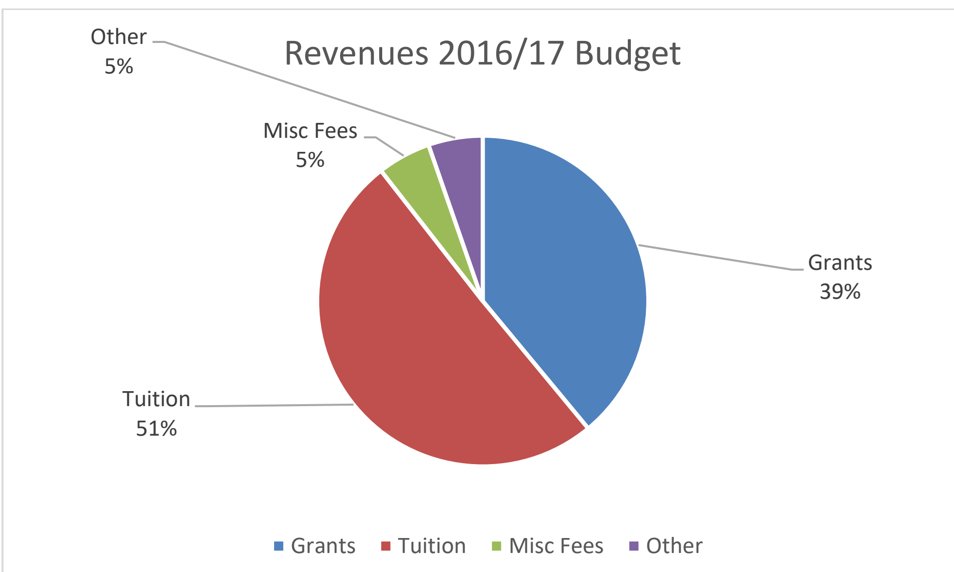
A. FY 2017/18 BUDGET CONTEXT AND ASSUMPTIONS

This section provides an overview of the underlying revenue and expenditure assumptions that underpin the proposed FY 2017/18 operating budget (see Schedules 1 and 2 of Appendix 1). The assumptions are consistent with those used and present last month to formulate the Multi-Year Financial Forecast in respect of the subject budget year.

1. Revenues

It is not expected that the relative percentage of various major revenue categories to total revenues will change in the upcoming FY 2017/18 compared to FY 2016/17. As can be seen in Table 1, below, 90% of the University's revenue is derived from tuition and government grant funding.

Table 1: FY 2016/17 Revenues by Major Category



a) Grants

The province will introduce a new funding formula for 2017/18 with objectives of:

i) Improving sector financial sustainability
ii) supporting differentiation
iii) emphasizing the quality of the student experience
iv) improving transparency and accountability

Previous grant categories will be reclassified as:

i) Core Operating Grant (enrolment based)
ii) Differentiation
iii) Special Purposes Grant

The Core Operating Grant will be determined by a new funding weight unit per student and an enrolment corridor within which a university's five year moving average of domestic undergraduate enrolment must track in order to maintain funding entitlements.

The differentiation grant segment is outcomes based with individual university metric objectives established as part of the strategic mandate agreement (SMA2) negotiations with the province.

As part of the transition to the new funding model, each university has been guaranteed no loss in existing grant revenues from 2016/17 levels for the next two years.

b) Tuition Revenue

Tuition Rate Increase – In March 2016, the Board of Governors approved an increase of 6% per year for international undergraduate and graduate students for 17/18.

In March 2017, and in the context of the Multi-Year Forecast for the period 17/18 to 19/20, the Board of Governors approved an increase of 3% to domestic undergraduate and graduate student fees (maximum allowable under the provincial government multi-year tuition framework).

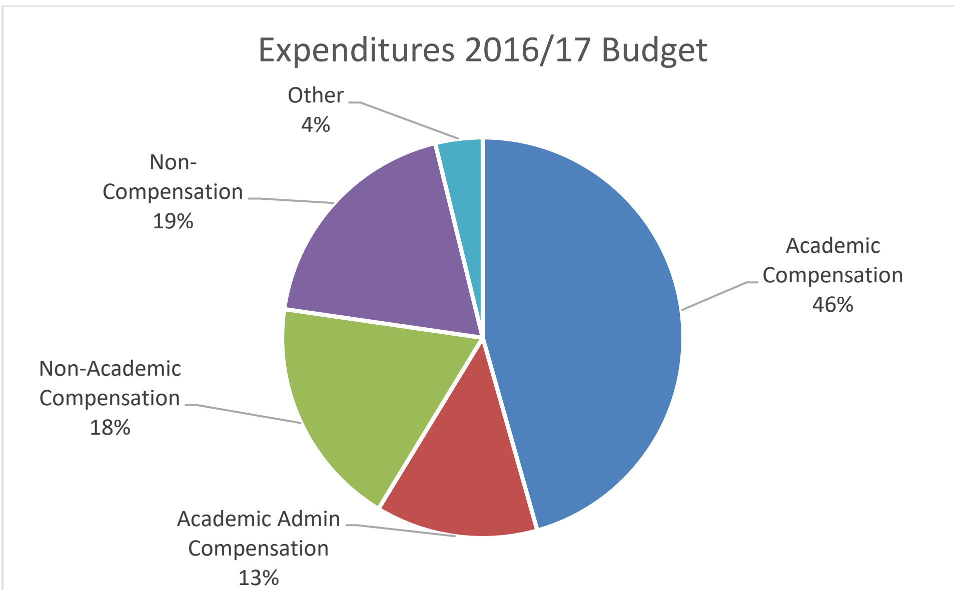
Enrolment (see Schedule 1.2 c) - Graduate enrolment for 2017/18 is projected to increase over 2016/17 levels by 21 FTEs.

First year FY 2014/15 intake declined by 130 FTEs from FY 13/14 levels. In FY 2015/16, first year intake increased by a net 66 FTE's over 14/15 with increases primarily in the Faculty of Design and decreases in the Faculty of Art and some increase in the Digital Futures program. 2016/17 first year intake increased by a net 14 FTEs over FY 15/16 with increases primarily in the Faculty of Art and LASSIS. The 2017/18 first year intake is expected to increase by 62 FTE to 1082 although overall undergraduate enrolment in 2017/18 will be flat lined at 2016/17 levels as the low 14/15 intake flows through the four year cycle to graduation.

2. Expenditures (see Schedule 2)

The percentage of major expenditure categories to total expenditures will not change from FY 2016/17 to FY 2017/18. Nearly 80% of the University's annual operating expenditures are comprised of salary and compensation (Table 2). This significant percentage of total expenditures dedicated to human resources is why, in part, it is typically challenging for a university to pivot quickly in the face of unfavourable financial variances.

Table 2: 2016/17 Expenditures by Major Category



a) Compensation

The current OCADFA collective agreement expired June 30, 2016 and negotiations towards a new multi-year collective agreement have commenced. The current budget provides for the mandate approved by the University Board Executive Committee.

The current collective agreement with OPSEU Unit 1 (staff union) expires May 31, 2017 and new collective agreement negotiations will commence in May 2017. A provision for settlement has been provided in the budget.

b) Non-Compensation

FY 2017/18 Budget contains a 1% provision for an inflationary increase in non-compensation costs, subject to a 5% increase in utilities and property related fees such as condominium fees in respect of the new Onsite Gallery.

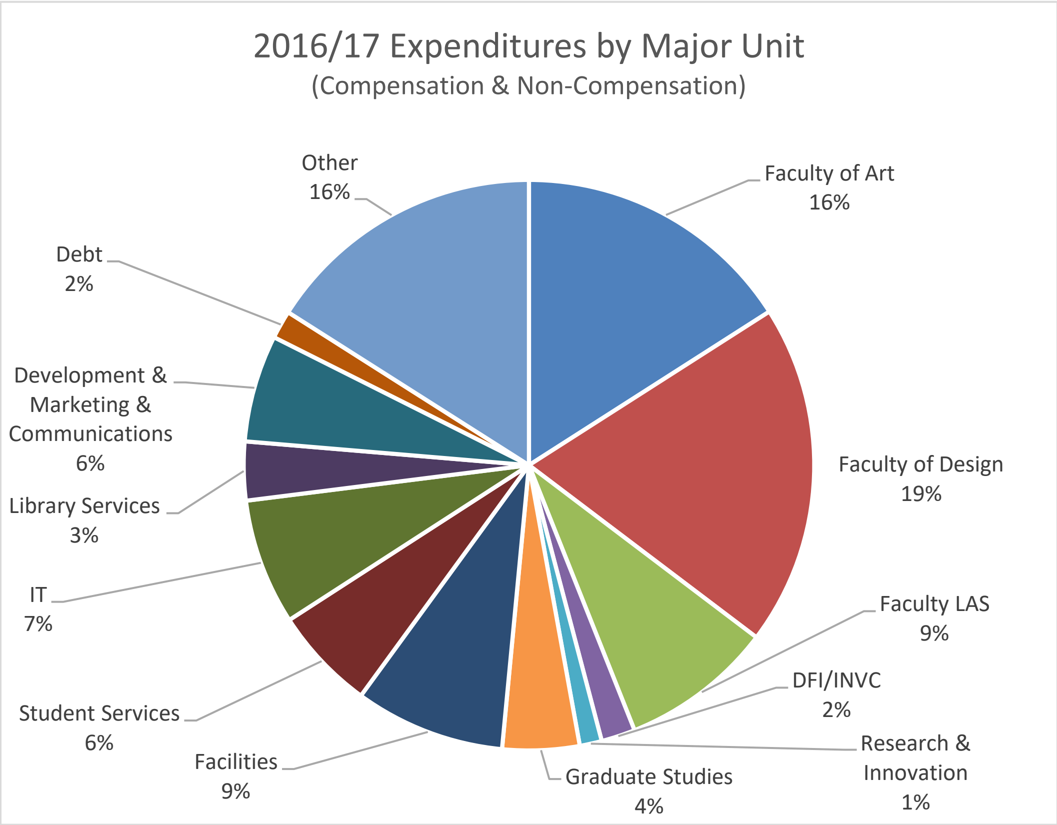
There is no allocation for new and replacement furniture and equipment (FF&E) and renovations, however the university receives a Facilities Renewal Grant of $700,000 from the province for minor renovations and deferred maintenance that can also provide for certain FF&E needs.

c) Contingency

A contingency provision of $500K has been reserved for unexpected and unfavourable variances.

Total expenditures are splintered finely across many different operating units (Table 3) making it challenging to undertake major interventions if necessary in year over year budget exercises.

Table 3: 2016/17 Expenditures by Major Unit (000's)



The scale of the remedial action challenge for 17/18 becomes clear in this splintered context – a 3.5% cut of total expenditures is larger than the budgets of some units (ie. Libarary Services, Research and Innovation) and almost half of others (ie. IT, Student Services, Development and Marketing & Communication). (The 'Other' category is comprised 18 even smaller units such as the Writing and Learning Centre, Studio Management, Human Resources and Finance, each with expenditure budgets of 1% or less of total expenditures.) .

The portfolio-based approach rather than a unit based approach to developing a remedial action plan for 17/18 is expected to assist in addressing this issue.

B. BUDGET RISKS ASSESSMENT

Possible events or risks in the 2017/18 Budget planning year which could lead to either favourable or unfavourable variances from projections are:

Favourable	**Unfavourable**
Higher retention and/or intake rates than assumed ($6,000 FTE)	Lower retention and/or intake rates than assumed ($6,000/FTE)
Higher enrolment rates for graduate student programs ($12,000/FTE)	Lower enrolment rates for graduate students and/or higher proportion of international students ($ 12,000/FTE)
	Inability to meet remedial action target of 3.8% of expenditures
	Higher than expected utility consumption ($100,00)
	Higher than expected legal consultant and labour relations costs ($100,000)
Higher than expected misc. revenues including executive training initiatives	Lower than expected misc. revenues ($200,000)
	Inability to meet operating fund donation targets. 10% of target = $70,000
	Arbitrated Faculty compensation settlement exceeds mandate (1% = $220,000)

Enrolment-based risk – whether favourable or unfavourable – typically presents the most significant potential variable to projection assumptions. The exposure to variance is monitored at points from June to September, but it is not until September of each year that some certainty is achieved. The risk of an unfavourable variance for 17/18 may be moderated by the current pattern of a high number of first-choice applications and a continuing strong trend in international student interest.

C. **FY 17/18 BUDGET REMEDIAL ACTION PROCESS**

Consistent with the multi-year financial forecast presented to the Board of Governors and OCADU community last month, remedial action of $2.5 m (3.5% of total expenditure) will be required under the 17/18 Operating Budget in order to balance the budget - through a combination of permanent and one-time reductions of which 30% are permanent and 70% one-time only.

The proposed remedial action plan for the upcoming year will not be developed as a simplistic “across the board” reduction by budget unit but on a portfolio basis Each member of the Executive Team (President, Vice President and Vice-Provost Students). will recommend a 3.5% expenditure reduction of their total respective portfolios (in other words, the reduction may or may not be equal across the budget units in the portfolio but will be 3.5% in the overall portfolio). Nevertheless, budget unit holders are being requested to identify 3.5% savings from unit budgets in order ultimately to fully assess remedial action strategies.

Following consultation with their respective budget unit holders, each Executive Team member will share their recommended reductions with the Executive Team in writing by April 30, 2017. As part of the submission, an assessment of associated issues and ramifications of the recommendation will take place.

The Executive Team will meet to review recommendations prior to May 15, 2017 and formalize the overall Remedial Action Plan. Impact and risk analysis will form part of the assessment of the final Remedial Action Plan.

The plan will be reviewed with the Budget Advisory Committee prior to a report on the plan being provided to next round of AFRC and Board meetings.

The exploration of a portfolio-based budget model may evolve as a productive and somewhat more decentralized way for a small university to engage expenditure reduction strategies.