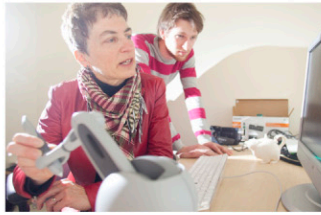


The multi-year budget framework

▣ A component of **The Third Integrated Plan**
2012 to 2016



1 Executive summary

The Multi-Year Budget Framework supports and reflects institutional planning and decision-making at the University of Saskatchewan. The *Third Integrated Plan* (2012/13-2015/16) provides the direction for the university over the next four years, while the Multi-Year Budget Framework provides the accompanying resource plan. There are two main components to this framework: first, it provides a projection of consolidated university revenues for the next four years; second, it provides a detailed projection of revenues and expenses for the operating budget.

Changes in expenditure and revenue patterns at Canadian universities and external shocks, such as those experienced in 2008-09 with the global economic downturn, affect the quality and quantity of services universities provide. The Province of Saskatchewan has maintained a position of economic strength and continued growth during these difficult financial times. The University of Saskatchewan had similarly maintained a solid financial position in the second planning cycle compared to our peers. To meet the mandate set out in the *Strategic Directions*, we continue to pay close attention to the allocation of resources in support of the *Third Integrated Plan*.

We are entering a period of possibility and constraint in the third planning cycle. The Multi-Year Budget Framework will have implications for the implementation of the *Third Integrated Plan*. Priorities identified in the plan will be supported primarily through the use of existing budgets or through the internal reallocation of resources. We will continue to protect and use the Academic Priorities Fund (APF) to support transformational change. Operating budget constraints will require increased attention to costs and the pursuit of revenues outside of the provincial operating grant. Moreover, the transition to the Transparent, Activity Based Budget System (TABBS) will take place in 2012-13, enhancing information to support our financial decision-making.

We have a wide range of resources at our disposal, including approximately 4000 staff, 1400 faculty, capital investments exceeding \$1 billion over the past decade, and total financial activity over \$1 billion annually. Our teaching and research missions are funded from a variety of sources, including: the provincial operating grant, tuition, research revenue, ancillary activities, donations, investment income, capital investments, and other sources. In order to prepare for the third planning cycle, this document outlines key planning assumptions based on publicly available current information, aligns financial support behind institutional priorities, and identifies the potential risks from the financial projections.

Overall, total university revenue is projected to grow over the course of the planning cycle, increasing by 9.8% in 2012-13, with lower rates of growth projected in subsequent years, down to 5.8% in 2015-16 (excluding capital). Modest growth is projected in all accounting funds over the four-year period, with few exceptions. For example, capital revenue will continue to vary according to the priority of projects we undertake and the availability of external funding.

In spite of the overall growth in university revenue, restraint around major sources of operating revenue, including the provincial operating grant and tuition, combined with escalating costs, including deferred maintenance, pension payments, and salaries, are projected to result in an operating budget deficit over the next four years if no mitigating actions are taken. The extent of financial pressure on university operations and measures required to rectify the imbalance will require careful consideration. Short-term mitigating strategies will be developed for 2012-13, as well as a long-term plan to ensure the sustainability of the university's operating expenditures in the third planning cycle and beyond.

2 Introduction

The Multi-Year Budget Framework provides the resource strategy to support the priorities identified in the Third Integrated Plan. This document is the first step in a two-phase approach to the development of a comprehensive framework. This Multi-Year Budget Framework differs from those developed in the first and second planning cycles, in that it considers all university revenues in order to provide a complete picture of our financial activity. By the end of the third planning cycle, we will have developed a comprehensive framework, which will also project our expenditures. As in past years, the Multi-Year Budget Framework will continue to be reviewed, updated, and presented for approval by the Board of Governors on an annual basis.

University revenues are organized into specific categories called funds for accounting purposes. These accounting funds include: operating, ancillary, student financial aid, research, endowments, and capital funds. To enable discussion of the information behind the Multi-Year Budget Framework accounting schedules, this document is organized according to accounting funds. It is important to note, however, that a variety of revenue sources comprise each accounting fund.

3 Context

This framework considers the macroeconomic context, financing of post-secondary education in Canada and Saskatchewan, potential risks, planning priorities, budget principles, and key budget assumptions in order to project institutional revenues (schedule 1) and the multi-year operating budget (schedule 2) for the third planning cycle. This section addresses the larger context, and is based on the most current information publicly available. The following section discusses the key planning assumptions behind the detailed accounting schedules.

3.1 Macroeconomic context

Over the next four years, the Organisation for Economic Co-operation and Development (OECD) is projecting modest growth for advanced economies, from 1.92% real gross domestic product (GDP) in 2012 up to 2.71% in 2015. However, uncertainty surrounding projections is high.¹ Global economic recovery is progressing slower than was expected, and at different rates in different regions. Recovery is impaired by high sovereign debt and insufficient policy responses, although these factors are expected to wane in 2013.² In the United States, weak growth persists along with lower oil prices and slow labour market recovery.³ Consumer and business confidence is low due to “fiscal uncertainty, weakness in the housing market and household finances, and renewed financial stress.”⁴ In advanced economies, the aging labour force is the main source of pressure in the long-term. Trends also point to the potential for structural and cyclical unemployment internationally.⁵ Commodity prices are at historic highs, with growth and demand projected to remain strong among developing economies, with positive returns for commodity-based economies.

In Canada, as a result of robust fiscal regulations, the recovery has been stronger than in the United States.⁶ RBC Economics is forecasting an increase in Canadian economic growth in real GDP from 1.91% in 2012 up to 2.39% in 2015.⁷ “By the end of 2013, the Canadian economy is expected to return to full capacity.”⁸ Growth will be tempered by the end of the federal Economic Action Plan, however.⁹ High commodity prices and low interest rates continue to enable business investment, and will underpin growth in the next two years. This has resulted in improvements for labour markets. The Canadian economy is still largely dependent on recovery in the United States and internationally. Trade to the United States is tempered by policy barriers related to economic security and the “buy American”

mentality.¹⁰ Low bond yields continue to signal potential changes at the central bank. Energy and climate change are key economic drivers in Canada, as demand for both oil and alternative energy sources continues to rise.¹¹

Saskatchewan will continue to lead Canada in economic growth into 2013, according to RBC Economics. “Saskatchewan is expected to grow considerably faster than the national average.”¹² The strength of the natural resource sector is the catalyst for capital investment and increased production. High commodity prices have driven provincial growth in the last five years.¹³ This, coupled with a strong labour market has resulted in a boom; promoting residential investment, and boosting in-migration to the province. Volatility in developing economies presents some risk to commodity prices, which could result in a “bust” in the long-term.¹⁴ Growth in manufacturing, mining (including recent billions invested in potash sector), and rebounds in agricultural sector are cited by the Conference Board of Canada’s projections as key contributors to our position of relative strength.¹⁵ While economic growth is forecast to be higher in Saskatchewan than other provinces, the Government of Saskatchewan has signaled that reduced spending is a priority, even “while the province’s economy is doing well.”¹⁶

3.2 Financing of post-secondary education in Canada

Nationally, the economic situation is expected to improve slightly in 2012. Still, the federal government and some provinces are running deficits, which is expected to continue at least to the end of 2014. This may result in reduced spending on the part of federal and provincial governments, which is important for higher education due to uncertainty surrounding federal transfer payments. The federal deficit position and reduced spending targets provincially may result in decreased funding for operating, capital, or research projects. Health costs also continue to escalate as a proportion of provincial budgets, placing significant pressure on public resources available for post-secondary education. The Government of Saskatchewan continues to emphasize administrative efficiency. Perceptions of risk must be balanced with commitments from federal and provincial governments to higher education and innovation.

Canada’s science and technology strategy is aimed at bringing business and universities together, yet total research and development spending in Canada is low by international standards. Federal research funding in Canada is highly competitive, particularly for federal tri-agency funding (SSHRC, NSERC and CIHR).¹⁷ Universities across the country are anticipating a decreased pool of funding will be available in support of research in the coming years. In addition, in the absence of a comprehensive national policy framework for funding major science initiatives (MSI), we continue to face challenges in securing operating funding for the Canadian Light Source (CLS) and the International Vaccine Centre. The Province of Saskatchewan continues to demonstrate commitment to investment in research and research infrastructure around the university’s signature areas of research.

Enrolment rates will have an impact on potential tuition revenue over the third planning cycle. In Saskatchewan, provincial immigration policy is increasing diversity, and Saskatchewan is becoming more urbanized. At the same time, the traditional cohort for student recruitment (18-year olds) is declining. Ensuring the accessibility and affordability of post-secondary education is a priority both federally and provincially. It is particularly important in Saskatchewan with our growing population of Aboriginal youth. The university’s recent study on accessibility and affordability will inform efforts in this regard.¹⁸ Furthermore, the expansion of degree-granting status in Saskatchewan may also impact enrolment at the University of Saskatchewan.¹⁹ To assist with enrolment projections and budgeting, we will undertake a strategic enrolment management project in the third planning cycle. Given the increasing diversity of

potential students, and a decreasing traditional cohort, we will continue to develop and implement strategies to attract and retain a diverse body of students.

With respect to funding for pensions, across the country, permanent solvency relief legislation is being sought for both private and public sector pension plans. Manitoba and Alberta have full solvency relief for universities, Ontario has allowed for an extended payment period with the provision of a plan to ensure the long-term sustainability of pension plans.²⁰ Saskatchewan is currently reviewing the funding regime for public sector plans.²¹ Employers bear the risk of ensuring that defined benefit pension plans and investment earnings are sufficient to fund pension benefits. We have three defined benefit plans, therefore public policies for permanent solvency relief remain a critical issue for the university.²²

3.3 Potential risks 2012-13 to 2015-16

There are several major areas of potential risk for the University of Saskatchewan's current Multi-Year Budget Framework. Risks include restrictions on provincial operating grant increases, limited tuition revenue projections, expected pension payments, our ability to secure operating funding for major science initiatives, and added operating costs related to salary and benefit growth, capital renewal and deferred maintenance costs.

Our growing research programs and capital infrastructure are placing pressure on the operating budget. Restraint on major sources of revenue, combined with escalating expenses are projected to leave the university in a position of deficit by 2012-13, compounding and increasing over the course of the third planning cycle. A \$10 million annual pension payment to cover employer liabilities may be required commencing January 2014. The projected pension payments present a major budgetary challenge for the university. The university will, by necessity, take appropriate measures to ensure the budget is balanced by 2015-16; that a transitional strategy is approved in the short-term (i.e. drawing on reserves); and that a long-term sustainable financial strategy is in place to reduce the apparent necessity of periodic adjustments.

To maintain academic programs and services at the same level as 2011-12, an increase of 5.8% to the base operating grant was requested from the Province of Saskatchewan for 2012-13, for a grant of \$300 million. However, this is higher than the projected rate of growth in the provincial economy. For illustrative purposes, an operating grant increase of 4.5% in 2012-13 would create a \$4.0 million deficit in 2012-13. If we were also required to keep tuition at 3% increase without subsidy, it would add \$2.0 million to the deficit in 2012-13. If the grant were further reduced to 4.0% in 2013-14, it would result in a deficit of \$8.5 million for 2013-14.

3.4 Budget principles

As in previous years, we continue to ensure efficiency and effectiveness through strategic planning, which provides the direction for resource allocation and for finding efficiencies. We continue to be guided by our operating budget principles: to have a balanced budget, ambitious yet achievable assumptions, reasonable requests of government, tuition levels based on tuition strategy, market-based salary and benefit settlements, effective resource allocation, and transparency.

When faced with a budget imbalance, we look to diversify revenue sources and to multi-year budget measures. Revenues outside of the operating fund are restricted (as well as some targeted and restricted funding within it), and therefore cannot be used to balance the budget. In consideration of

the potential need for budget reductions, the Provost’s Committee on Integrated Planning (PCIP) will develop principles to ensure that we deliver on our financial accountabilities to the Board of Governors.

4 Multi-year budget framework: phase one (schedule 1)

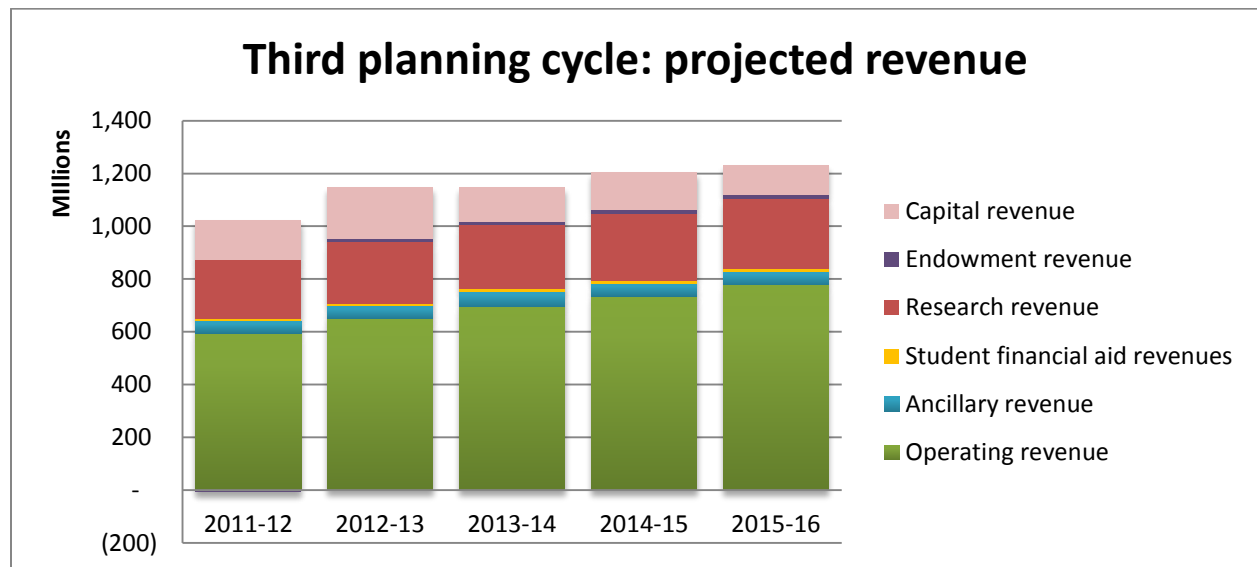
Phase one of the development of a comprehensive framework involved the projection of all university revenues. During the course of the third planning cycle, phase two will build on this framework to include the projection of all university expenses, thus projecting a balance for all of our resources. These financial projections are based on information currently available, and will be updated annually as part of our regular budgeting processes.

4.1 University revenue by accounting fund

We rely on a variety of revenue sources to support our research and teaching missions. Revenue sources include provincial and federal funding, tuition, donations, investment income, and ancillary income. For accounting purposes, revenue is split into funds referred to as operating, ancillary, student financial aid, research, endowments, and capital funds. To convey the information behind schedule 2, the following section is organized according to the university’s accounting funds, rather than by sources of revenue.

For the third planning cycle, we are projecting an overall increase of 21% in revenue, compared to a 36% increase in the second planning cycle. Excluding capital, other revenue sources are projected to increase by 27% overall. The difference is primarily related to the variability of project-based capital funding from 2012 to 2016. Projections are depicted in Table 1 below.

Table 1



4.1.1 Operating fund

Operating revenue is comprised of the provincial operating grant, credit and non-credit course tuition, funding from other governments (i.e. WCVI), and government agencies (e.g. Ministry of Health for clinical services) investment income, donations, and sales and services. The operating fund, which includes all operating revenue, is not equal to the university’s base operating budget, which comprises approximately 71% of total operating revenue. Revenue excluded from the base operating budget is

from non-credit course tuition, other government agencies, spendable income, donations, and miscellaneous sales (i.e. real estate). A detailed discussion of the multi-year operating budget, including revenues and expenses, is provided in the next section. *Operating revenue is currently projected to increase at a decreasing rate between 2012 and 2016.*

4.1.2 Ancillary fund

Ancillary services are sales-producing or self-supporting activities that are supplementary to the institution's primary teaching and research mission. Ancillary revenues include external sales (e.g. residence, bookstore, and food services), real estate income, and other investments. Revenues are projected based on sales targets and established agreements. In 2013-14, as a result of the planned sale of the university's Idylwyld property, revenue is projected to increase substantially in this fund, and will be offset by related expenses. Estimated revenue for the sale of this property are based on current market value. *Outside of the anticipated sale of the Idylwyld property, modest growth in ancillary revenue is forecast over the next four years.*

4.1.3 Student financial aid fund

Student aid includes the revenue that provides direct financial support to students (other than the teaching, research, and services provided). It is comprised primarily of funding from the Government of Saskatchewan for the Saskatchewan Advantage Scholarship, which is matched by funding from the university. Projections are based on the terms of agreements with our provincial partners. This fund represents only a small portion of the resources available for student support, which also include donations, research grants, investments from the APF and other sources. *Modest growth is projected in this fund from 2013-2016.*

4.1.4 Research fund

Revenue in this fund includes dollars received from all external sources in support of research, including funding from federal Tri-Agency, and non Tri-Agency sources. Federal Tri-Agency funding includes revenue from the three granting councils (CIHR, SSHRC, and NSERC). Non Tri-Agency funding includes any other federal or provincial research funding, non-government revenue from grants, gifts, and sponsorship, and investment income. All post-secondary institutions are also supported by the federal indirect costs of research program (FICP). Institutional shares are determined by the FICP based on our relative share of Tri-Agency funding. Revenue generated by the CLS is provided directly back to the CLS, with the remainder being split equally between operating budget and research support.

Research grants comprise 20-25% of the cash balance available for investment and potential earnings. In recent years, increased research funding at the University of Saskatchewan accounted for investment income in the operating budget that was higher than expected, despite low interest rates. The federal deficit position suggests that this trend is not likely to persist.

Due to the risk associated with budgeting based on ambitious targets, we are projecting modest increases in research revenue for the next four years. This approach was selected given the following information on our historical research performance and future targets for research success:

- President MacKinnon has set an ambitious target for the University of Saskatchewan to have Tri-Agency research funding equal to or above the median of our peers;
- In the development of the Third Integrated Plan, all colleges and schools submitted projections for Tri-Agency and non Tri-Agency research revenue;
- Historical data on Tri-Agency and non Tri-Agency research revenue used for budgeting purposes.

Our president set an ambitious target: for the University of Saskatchewan to meet or exceed the median peer-performance in Tri-Agency research funding. The Foundational Document on Research, Scholarly and Artistic Work (2004) also committed us to being among the top ten medical-doctoral universities in Canada, and one of a select few in key areas internationally. However, we have placed at or near the bottom of our peers for total research funding throughout the first and second planning cycles. The median for total research revenue at medical-doctoral universities from 2006-07 to 2009-10 ranged from \$208 million to \$273 million. Our total research funding was significantly lower, ranging from \$140 million to \$204 million over the same period. It would be imprudent to base our budget on this target, due to the significant disparity between historical trends and research funding targets.

In support of the development of the *Third Integrated Plan*, colleges and schools provided their own projections of research revenue. Together, colleges and schools estimated that by 2016, Tri-Agency research revenue would be \$33 million (not including CLS). This implies that Tri-Agency funding is expected to remain at levels equivalent to 2008 research funding. In addition, colleges and schools projected a substantial decline in non Tri-Agency funding to \$83.8 million by 2016. By contrast, actual non Tri-Agency research revenue was between \$114 million and \$155 million at the University of Saskatchewan between 2008 and 2011. This scenario suggests a tradeoff between Tri-Agency and non Tri-Agency support.

For the purposes of this framework, a modest, middle-ground approach was selected based on historical data to project research revenue. This scenario falls between the other two scenarios above and will bring us closer to the President's performance target. *We are projecting modest increases in non Tri-Agency revenue up to \$198.7 million by 2016. Tri-Agency funding is expected to increase modestly by 2.2 to 2.8% annually over the third planning cycle (including CLS), up to \$54.2 million by 2016.*

4.1.5 Endowment fund

Revenues in the endowment fund consist primarily of donations and investment earnings. At year-end for 2010-11, the endowment fund balance was \$205.6 million.²³ Given instability in the markets, in December 2011 the Board of Governors approved a reduction in the distribution of the annual amount available for spending. A two-year phased-in reduction will decrease the current spendable rate from 4.5% to 4.0%. Correspondingly, the Board also approved an elimination of the administration fee on endowed funds.

Endowment earnings are projected using the average asset base from the previous year, less the spending allocation for that year (4.25% in 2012-13 and 4.0% ongoing). The earnings are the product of the base and the long-term yield rate, less the spending allocation for the year. Our strategy is to grow the endowment base over the course of the planning cycle, however, economic volatility and changes in donation patterns across the country may present a challenge.²⁴ Donations are trending more toward annual donations rather than endowments. *Economic volatility, coupled with uncertain returns on investment result in a projection of conservative growth in the endowment fund from 2012 to 2016.*

4.1.6 Capital fund

We are emerging from one of the largest capital programs in our history, with over \$1 billion invested in new construction and renovations over the last decade. Among these investments was over \$300 million for a new Health Sciences Centre, \$110 million for student housing, \$140 million in the International Vaccine Centre, in addition to renovations to the College of Law, the Western College of Veterinary Medicine, the University Learning Centre, and Place Riel, among others. One of the features of this

decade of investment is that it has been supported through a diverse array of funding sources and partnerships.

Amidst these milestones for capital planning on campus, the condition of the majority of our buildings has deteriorated. Coupled with underfunding of maintenance and increasing construction costs, this poses a challenge for the university. The proposed *RenewUS* program will provide a concerted approach to address our deferred maintenance requirements. We have budgeted for this capital priority, and for the completion of projects started in the second planning cycle and ending in the third. This framework does not attempt to anticipate projects that may be approved during the third planning cycle.

Capital revenue is difficult to project as it is generally one-time or project-based funding, derived from a variety of public and private sources. For the purpose of this document, capital revenue is projected based on expected cash flows for projects approved by the Board of Governors, in addition to the funding plan to address deferred maintenance, and requested regular increases to the provincial Sustaining Capital Grant. *At this time, a decline in overall capital funding is projected by the end of the third planning cycle based on the information available.*

4.2 Revenue across accounting funds

In each of our accounting funds, there are two common sources of revenue: donations and investment income. Key planning assumptions are provided below for these revenue sources.

4.2.1 Donations

Donation revenue is calculated based on historical distribution of donations from the last five years across fund types, and is projected annually as a percentage of the target in each fund. On average, over the last five years we have raised approximately \$30 million annually. We are grateful for the generous support of donors, which has funded many initiatives over the years, including research chairs, student aid, major capital projects and other priority initiatives. *Our goal is to continue to grow donation revenue year-over-year in order to meet the President's target of raising \$50 million annually, and we have projected donation revenue accordingly.*

4.2.2 Investment income

Despite our relatively strong financial position, we are not immune to external market volatility. Investment returns have a significant impact on the university's operating income, endowment funds, and on the defined benefit pension plan valuations. The major risks surrounding investment income concerns changes to the forecasted return on investment or the amount available for investment.

Based on a four-year historical average, the budget assumes that a balance of \$300 million will be available for investment. However, the potential impacts of variance in the base are high: a \$50 million reduction in the amount available for investment would result in a negative variance of \$2.6 million. Investment returns from 2012-16 are projected based on a long-term pool rate of 6.0% and fixed income pool returns of 3.0%, given the latest updates from AonHewitt as of December 2011.

Projections are driven by the diversity of our long-term and fixed income investments, and assumptions related to the base amount available for investment. The revenues from investment income (outside of the operating fund) were calculated based on the spending policy (ranging from 4.5% to 4.0%) portion of the endowed asset base, and then split among the funds based on the historical ratio from 2010-11. *Operating investment income is projected at a stable rate over the planning cycle (despite market instability), at approximately \$11.5 million annually.*

5 Multi-year operating budget framework (schedule 2)

Revenue was discussed in the section above with respect to each of the university's accounting funds, including the general operating fund. The university's operating budget does not include all of the revenue in the operating fund, only major sources of revenues and expenditures for core operations. The operating budget excludes miscellaneous ancillary sales, donations, and grants other than the provincial operating grant and funding from other provinces for the Western College of Veterinary Medicine. As part of the supporting resource strategy for the *Third Integrated Plan*, the multi-year operating budget framework assists in preparation of the operations forecast each year, which is our annual funding request to the province. The projections are based on current information, and will be updated annually as part of our regular budgeting process. The detailed schedule of the multi-year operating budget framework is provided in schedule 2.

Over the course of the third planning cycle, operating expenses are projected to exceed revenues. There are four areas of significant risk for the operating budget: restraint around the provincial operating grant, limited potential tuition revenue increases, projected pension payments, and increasing operating costs, including funding capital renewal and deferred maintenance. Before adjustments, we are projecting a structural deficit of approximately \$10.5 million by 2015-16. This assumes the operating grant from the Government of Saskatchewan is provided at the level requested in the Operations Forecast 2012-13. Interim budgetary measures (i.e. use of reserve funding) and mitigating strategies will be developed in 2012-13 in order to balance the operating budget by the end of the planning cycle.

5.1 Operating revenue

The rate of expenditure growth is projected to exceed revenue growth in the operating budget in the third planning cycle. The consolidated revenues outside of the operating fund (and some within the operating fund) are restricted (schedule 1), and therefore cannot be used to balance the operating budget.

5.1.1 Operating grant

The provincial operating grant has traditionally accounted for approximately 70% of our operating budget revenue and is projected to remain at or below that range in the next four years. Our expenses, particularly salary expenses, are projected to grow at a rate which outpaces provincial and federal revenue growth. In addition, both levels of government are planning to cut their operations over the same timeframe. This places significant pressure on one of our primary sources of funding.

The provincial base operating grant presents a risk for maintaining a balanced budget in the third planning cycle. To balance the operating budget, increases to the provincial base operating grant would be required at the level of 5.8% in 2012-13, 5.2% in 2013-14, and 4.6% in both 2014-15 and 2015-16. We will work closely with our provincial partners to address the discrepancy. *The Operations Forecast 2012-13 requested a grant increase of 5.8%, which is higher than forecasted growth in provincial revenues, projected at 4.5% or lower in 2013-14, and 4.0% in the next two years.*

5.1.2 Tuition

Over the last planning cycles, tuition has accounted for approximately 21-23% of operating budget revenue. For the third planning cycle, it is projected to remain at similar levels. Tuition rates are projected to remain at competitive levels in both graduate and undergraduate programs. After ending the tuition management policy in 2008-09, the Government of Saskatchewan chose to hold tuition rate

increases to certain levels by providing additional operating grant in lieu of tuition revenue. The province may choose to continue with this strategy.

Tuition is set by our Board of Governors based on the principles of comparability, accessibility and affordability, and enabling quality education. Across the majority of our programs, tuition rates are comparable at the program level to rates at other medical-doctoral institutions with similar programs. Our undergraduate tuition rates are on average below the median rates, whereas our graduate tuition rates are well below the median. Our tuition is set with an understanding of the total cost for a student to attend university, taking into account the level of tuition along with resources such as financial aid programs and scholarships. We are committed to providing high quality programs and services. Tuition rates are set to ensure that an adequate level of resources is available to reach those objectives. We do not use tuition as a short term measure to balance the budget.

Tuition revenue is calculated based on two factors, tuition rate and enrolment. We continue to be sensitive to enrolment changes, which presents a risk in an environment where natural undergraduate enrolment levels are declining. We are poised to undertake a strategic enrolment management project in the third planning cycle. Changing provincial demographics necessitate this approach. The results of the review of degree-granting status of institutions in Saskatchewan may also have an impact on enrolment, particularly for undergraduate programs. Thus, we have projected only modest enrolment growth over the planning cycle. *Tuition revenue is currently projected to increase by 7.3% in 2012-13, a combination of a 4.64% rate increase and a 2.64% enrolment increase, it is projected at 5.2% in 2013-14, and 4.5% in subsequent years (rate increases only).¹ Beyond 2012-13, enrolment projections are stable at 0% growth (pending the findings of the strategic enrolment management (SEM) project).*

5.2 Operating expenses

The university's operating budget expenses, which include salaries and benefits, pension payments, central utilities, library acquisitions, indirect costs of research, non-salary expenses, scholarships, research scholarly and student support, strategic initiatives, and targeted initiatives are projected to increase in the third planning cycle. *The overall rate of expenditure growth in 2012-13 is forecast at 9.8%, and 6.5% in 2013-14, and decreasing in 2014-15 and 2015-16 to 5.5%, and 4.5% respectively.*

5.2.1 Academic priorities

The Academic Priorities Fund (APF) represents a source of permanent and term funds dedicated to supporting fundamental change at the university. Funding of this nature provides the opportunity to maintain flexibility by supporting specific projects on a term basis and evaluating return on investments prior to committing permanent financial support. The APF will support the areas of focus in the *Third Integrated Plan*:

- Knowledge creation: innovation and impact;
- Aboriginal engagement: relationships, scholarship, programs;
- Culture and community: our global sense of place, and;
- Innovation in academic programs and services.

Due to the uncertain economic climate, in the second planning cycle a number of innovative initiatives in support of the plan were funded on a term basis. A comprehensive review of these initiatives will be

¹ Budget projection as of March 6, 2012. Tuition rates are subject to approval of the Board of Governors.

undertaken in early 2012 to assess outcomes, and whether permanent funding is appropriate. Over the second planning cycle, funding was allocated to the APF each year in preparation for the third planning cycle. The same funding model will ensure funding will be available to support priorities in the *Fourth Integrated Plan*. *\$3.5 million has been set aside to support priorities in the Third Integrated Plan.*

5.2.2 Salaries and benefits

Salaries and benefits constitute the majority of the university's operating budget costs, over 70% on average. Similar to our peer universities, particularly in western Canada, this is one of the main contributors to growth in operating expenses.²⁵ The compensation and benefit principles approved by the Board of Governors will continue to be used to guide salary and benefit decisions over the third planning cycle.

To ensure that we are able to recruit outstanding faculty and staff, we must remain competitive in all aspects of compensation, in accordance with targeted strategies for specific employee groups. For certain employee groups, market analysis shows we are on track, for others, we are at a competitive disadvantage. For the latter, balancing the financial needs of the university where analysis indicates a significant market lag, adjustments may exceed our comparators. As our competitive positioning improves, there will be less pressure on salary and benefit increases, which will be more affordable and sustainable long-term.

Salary and benefit costs are projected to increase annually as a result of our market strategy and normal salary progression. Increases and progression through the salary bands will be offset by turnover and retirement. However, turnover at the University of Saskatchewan is lower than peers at a rate of 2.9%. Turnover in the sector was 7.8% in 2010.²⁶ Our projected increases are a weighted average of aggregated costs across all employee groups and include projected increases, negotiated settlements plus normal progression, net of turnover savings. *The combined effect of all of these factors is that salaries and benefits are projected to increase overall by 6.6% in 2012-13 and by 4.5 to 4.6% in each subsequent year.*

Collective agreements are in place for all bargaining units, all will be negotiated during the third planning cycle, beginning with the Canadian Union of Public Employees Local 1975, which will expire in December 2012.

5.2.3 Pensions

We have a mix of defined benefit and defined contribution pension plans at the University of Saskatchewan. Given the investment returns projected and the estimated long-term bond rate, both the pension going-concern payment (long-term cost of the plan) and solvency position (ensuring sufficient assets to settle the obligations of the plan) are projected to deteriorate for all plans under all investment scenarios. Two solvency proposals are emerging: one involves the elimination of solvency payments but increasing the going concern payment; the other involves retaining the current going concern rules but requiring solvency payments over a ten year period. Payment requirements will be confirmed in December 2012.²⁷ *The most optimistic scenario will likely require a \$10 million annual pension payment over ten years commencing January 2014.*

5.2.4 Capital

The Operations Forecast for 2012-13 identified the following projects as our highest priority major infrastructure projects to be completed within the next three to five years: replace #2 and #3 chillers, central cooling plant; replace boiler #2, central heating plant; replace T1 and T2 transformers (barring

any unforeseen infrastructure failures). Notwithstanding the university's investment, these critical maintenance issues will require additional funding. *Over the planning cycle, a portion of operating budget funds will be allocated to address the backlog of renewal and deferred maintenance needs.*

6 Consultation process

In the development of this framework, sensitivity analysis was conducted to ensure realistic assumptions informed the projections, and that alternative scenarios were considered. Key macroeconomic and institutional factors (key budget drivers) were analyzed. Institutional information was provided through collaboration with various units on campus, including Financial Services, Facilities Management, Human Resources, Research, and Advancement. A committee of experts, including the Conference Board of Canada, RBC Economics and SaskTrends Monitor, provided external economic research. Consultation took place with Finance Sub-Committee and the Planning and Priorities Committee of Council, Dean's Council, the Provost's Committee on Integrated Planning (PCIP), the PCIP Advisory Committee, and our own faculty experts. The Multi-Year Budget Framework will be reviewed annually based on up-to-date information, and as part of our regular budgeting processes.

7 Conclusion

The Multi-Year Budget Framework supports the integrated planning process and ensures alignment of resources behind priorities in the Third Integrated Plan. Through the continuous cycle of planning and resource allocation, implementation, assessment and improvement, we are better positioned to ensure our resources are dedicated to the areas with the greatest impact for our students, staff, faculty and partners, the Province of Saskatchewan and beyond.

The development of the framework has considered the multitude of environment and institutional factors that could affect our financial position. We have identified pressures on major sources of operating revenue and expenses. In summary, the budget forecasts a set of growing financial pressures for the University of Saskatchewan. We know today that if we take no action our operating expenditures will grow more rapidly than our operating revenues. The development of this framework in conjunction with the integrated plan enables us to anticipate these types of financial challenges early on, and to make the appropriate adjustments in a timely manner over a multi-year period.

Considerable effort and consultation will be required to determine the exact implications (program and staff) of the operating budget imbalance for the University of Saskatchewan. In collaboration with the Board of Governors, senior administration, colleges, units and schools, mitigating strategies will be identified in 2012-13. This will be followed by the development of comprehensive strategies to ensure the sustainability of our operating expenses beyond this planning cycle.

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Multi-Year Budget Framework: Phase 1 (Revenue)

2011-12 to 2015-16 (expressed in \$000's)

		2011-12	2012-13		2013-14		2014-15		2015-16	
		Detailed Budget	Projection %	Budget	Projection %	Budget	Projection %	Budget	Projection %	Budget
Revenue										
Operating fund										
Base operating budget	1	420,015		463,030		490,149		511,970		534,576
Other operating	2	172,826		188,044		204,861		223,329		243,498
Operating revenue		592,841	9.8%	651,074	6.7%	695,010	5.8%	735,300	5.8%	778,075
Ancillary fund										
External sales and real estate		44,727		46,457		57,374		48,648		49,960
Other		201		201		201		201		201
Ancillary revenue		44,928	3.9%	46,658	23.4%	57,575	-15.2%	48,849	2.7%	50,161
Student financial aid fund										
Grants and donations		5,501		5,702		5,902		6,103		6,304
Spending allocation, interest and other		4,404		4,047		3,966		4,037		4,109
Student financial aid revenues		9,905	-1.6%	9,749	1.2%	9,868	2.8%	10,140	2.7%	10,413
Research fund										
Non-Tri-Agency funding		163,400		171,600		180,200		189,200		198,700
Tri-Agency funding		49,500		50,100		51,200		52,700		54,200
Other research funding		11,733		11,845		12,184		12,648		13,113
Research revenue		224,633	4.0%	233,545	4.3%	243,584	4.5%	254,548	4.5%	266,013
Endowment fund										
Donations and investment income		(7,287)		12,731		13,680		14,272		14,868
Endowment revenue		(7,287)		12,731	7.5%	13,680	4.3%	14,272	4.2%	14,868
Sub-total University Revenue (less capital)		865,019	10.3%	953,757	6.9%	1,019,717	4.3%	1,063,108	5.3%	1,119,529
Capital fund										
Capital revenue	3	149,462	31.0%	195,869	-33.9%	129,547	8.3%	140,360	-20.0%	112,232
Total University Revenue	4	1,014,481	13.3%	1,149,626	0.0%	1,149,264	4.7%	1,203,469	2.4%	1,231,761

Notes

- For detailed multi-year operating budget, refer to Schedule 2.
- Other operating revenue includes non-credit tuition, spendable income from investments, other government agencies, and miscellaneous sales such as real estate.
- Includes projects approved by the Board of Governors and RenewUS.
- 2011-12 revenues budgeted as of December 12, 2011.

Multi-Year Operating Budget Framework

2011-12 to 2015-16 (expressed in \$000's)

		2011-12	2012-13		2013-14		2014-15		2015-16	
		Detailed Budget	Operations Forecast %	Budget	Projection %	Budget	Projection %	Budget	Projection %	Budget
Revenue										
Provincial base operating grant	1	283,469	5.8%	299,976	4.5%	313,475	4.0%	326,014	4.0%	339,054
Provincial Initiative funding		12,604		24,606		31,897		35,389		38,906
Other provincial funding										
Credit and non-credit course tuition	2	95,449	7.3%	102,417	5.2%	107,742	4.5%	112,591	4.5%	117,657
Other government (WCVI)		19,317	5.8%	20,442	4.5%	21,362	4.0%	22,216	4.0%	23,105
Income from investments		8,000		11,535		11,535		11,535		11,535
Fees and other income		3,976	2.0%	4,054	2.1%	4,138	2.1%	4,226	2.2%	4,319
Total		422,815	9.5%	463,030	5.9%	490,149	4.5%	511,970	4.4%	534,576
Expenses										
Salaries and benefits		287,815	5.2%	302,707	4.6%	316,520	4.5%	330,879	4.6%	346,168
Pension going concern payment		1,471		2,300		5,300		10,000		10,000
Central utilities		19,993	4.2%	20,842	2.6%	21,393	2.3%	21,881	2.2%	22,360
New building space - all other				23		29		29		29
University Health Science new space	3									
Renewal				1,500		2,877		2,877		2,877
Utilities				829		1,749		1,836		1,928
Maintenance				2,144		3,968		4,088		4,211
Student Services Fund	4	788		0		0		0		0
Library acquisitions		9,124	5.0%	9,580	5.0%	10,059	5.0%	10,562	5.0%	11,090
Indirect costs of research grant		-3,212		-3,212	2.1%	-3,279	2.8%	-3,371	2.8%	-3,466
College and unit non-salary expense budgets		25,372	4.1%	26,413	2.0%	26,942	2.0%	27,481	2.0%	28,030
Scholarships		8,538		8,538		8,538		8,538		8,538
Research, scholarly and student support		1,990		1,990		1,990		1,990		1,990
Other operating costs (net)	5	18,314	4.8%	19,189	4.6%	20,072	1.7%	20,411	1.7%	20,758
		370,193		392,843		416,156		437,201		454,513
Strategic initiatives										
Academic Priorities Fund										
First and second cycles		4,458		0		0		0		0
Third cycle		2,500		3,500		3,500		3,500		3,500
Fourth cycle				1,000		2,000		3,000		4,000
Integrated plan initiatives				4,458		4,458		4,458		4,458
Initiative funded										
Medicine accreditation	6	18,910	5.2%	19,888	4.6%	20,796	4.5%	21,739	4.6%	22,744
Medicine class size expansion		16,479	3,332	19,811	3,180	22,991	2,865	25,856	2,865	28,721
Nursing program (net of positions created)		1,796	1,693	3,489	157	3,646	146	3,792	152	3,943
Other Initiatives		2,150	1,845	3,995	(297)	3,698	151	3,849	157	4,006
Student related enhancements (TRS)	7	6,329		10,098		11,415		12,541		13,718
Capital renewal				4,500		5,000		5,000		5,000
Other expenses				622		493		495		495
Total		422,815	9.8%	464,204	6.5%	494,152	5.5%	521,431	4.5%	545,099
Surplus (deficit) before adjustments		0		-1,175		-4,003		-9,461		-10,523
Potential mitigating strategies				1,175		4,003		9,461		10,523
Surplus (deficit) after adjustments				0		0		0		0
Opening balance operating reserve		15,470		15,470		15,470		15,470		15,470
Closing balance operating reserve		15,470		15,470		15,470		15,470		15,470

Notes

- For details on the operating budget schedule, refer to University of Saskatchewan Operations Forecast 2012-13.
- Budget projection as of March 6, 2012. Tuition rates are subject to approval by the Board of Governors.
- University Health Sciences will open during the third planning cycle.
- The Student Services Fund was dissolved in 2011. Priorities are covered by Student Related Enhancements.
- Other operating costs include employee health, development and support programs, legal fees, insurance, copyright costs, and capital cost approved from operating funds.
- The annual increase is a combination of targeted funding and economic increase on all provincial grants.
- Replaces the Student Services Fund.

Multi-Year Operating Budget Framework

2011-12 to 2015-16 (expressed in \$000's)

Scenario 2 - revised provincial base operating grant

		2011-12	2012-13		2013-14		2014-15		2015-16	
		Detailed Budget	Operations Forecast %	Budget	Projection %	Budget	Projection %	Budget	Projection %	Budget
Revenue										
Provincial base operating grant	1	283,469	2.1%	289,365	2.0%	295,153	2.0%	301,056	2.0%	307,077
Provincial Initiative funding		12,604		21,633		31,897		35,389		38,906
Other provincial funding										
Credit and non-credit course tuition	2	95,449	7.3%	102,417	5.2%	107,742	4.5%	112,591	4.5%	117,657
Other government (WCVM)		19,317	2.1%	19,719	2.0%	20,113	2.0%	20,515	2.0%	20,926
Income from investments		8,000		11,535		11,535		11,535		11,535
Fees and other income		3,976	2.0%	4,054	2.1%	4,138	2.1%	4,226	2.2%	4,319
Total		422,815	6.1%	448,723	4.9%	470,578	3.1%	485,312	3.1%	500,420
Expenses										
Salaries and benefits		287,815	5.2%	302,707	4.6%	316,520	4.5%	330,879	4.6%	346,168
Pension going concern payment		1,471		2,300		5,300		10,000		10,000
Central utilities		19,993	4.2%	20,842	2.6%	21,393	2.3%	21,881	2.2%	22,360
New building space - all other				23		29		29		29
University Health Science new space	3									
Renewal				1,500		2,877		2,877		2,877
Utilities				829		1,749		1,836		1,928
Maintenance				2,144		3,968		4,088		4,211
Student Services Fund	4	788		0		0		0		0
Library acquisitions		9,124	5.0%	9,580	5.0%	10,059	5.0%	10,562	5.0%	11,090
Indirect costs of research grant		-3,212		-3,212	2.1%	-3,279	2.8%	-3,371	2.8%	-3,466
College and unit non-salary expense budgets		25,372	4.1%	26,413	2.0%	26,942	2.0%	27,481	2.0%	28,030
Scholarships		8,538		8,538		8,538		8,538		8,538
Research, scholarly and student support		1,990		1,990		1,990		1,990		1,990
Other operating costs (net)	5	18,314	4.8%	19,189	4.6%	20,072	1.7%	20,411	1.7%	20,758
		370,193		392,843		416,156		437,201		454,513
Strategic initiatives										
Academic Priorities Fund										
First and second cycles		4,458		0		0		0		0
Third cycle		2,500		3,500		3,500		3,500		3,500
Fourth cycle				1,000		2,000		3,000		4,000
Integrated plan initiatives				4,458		4,458		4,458		4,458
Initiative funded										
Medicine accreditation	6	18,910	5.2%	19,888	4.6%	20,796	4.5%	21,739	4.6%	22,744
Medicine class size expansion		16,479	3,332	19,811	3,180	22,991	2,865	25,856	2,865	28,721
Nursing program (net of positions created)		1,796	1,693	3,489	70	3,559	71	3,630	73	3,702
Other Initiatives		2,150	1,845	3,995	(297)	3,698	151	3,849	157	4,006
Student related enhancements (TRS)	7	6,329		10,098		11,415		12,541		13,718
Capital renewal				4,500		5,000		5,000		5,000
Other expenses				622		493		495		495
Total		422,815	9.8%	464,204	6.4%	494,065	5.5%	521,269	4.5%	544,858
Surplus (deficit) before adjustments		0		-15,481		-23,487		-35,957		-44,438