ACCOUNTING FOR OPERATING BUDGET UNCERTAINTIES IN THE PLANNING PROCESS

The preparation of a University budget is very complex and requires making assumptions about revenue and expenses. In making these assumptions, the Budget Advisory Committee (BAC) must take into consideration the uncertainties inherent in certain budget line items. The BAC has adopted a conservative approach to ensure that any changes to these assumptions will still allow for sufficient resources to provide for a balanced budget.

The significant budget uncertainties that are considered by BAC are:

1. Campus Alberta Grant

   The Provincial Campus Alberta Grant is the largest single revenue line item for the University, which comprises approximately 64% of the University's revenue budget. The Campus Alberta Grant is not normally formally confirmed by the Provincial Government until the province's budget is announced usually in March or April but since the University's fiscal year begins in April this causes concern when preparing the budget due to the significant impact any changes to the grant can have on the institution's finances.

   There is greater anxiety regarding the Campus Alberta Grant for the upcoming year due to the funding model review for Alberta post-secondary institutions currently being undertaken by the Ministry of Advanced Education. The impact to the University is unknown; however, this poses a significant risk since we have been informed that there is no new money to be allocated to Alberta post-secondary institutions, just a reallocation of the current funding available. It is anticipated that the implementation of the new funding model will impact the 2018-19 fiscal year and beyond.

   With the Alberta economy still in a downturn and the price of oil remaining low, this will influence the Campus Alberta Grant allocations. Any major fluctuation in this grant has substantial implications for the sustainable financial position for the University.

2. Tuition Revenue / Student Enrolment

   Tuition fee revenue comprises approximately 28% of the University's annual revenue budget. The change in tuition revenue year over year depends upon the tuition fee rates and student enrolments.

   In the recent past, the maximum annual tuition fees percentage increase was equivalent to the Alberta Consumer Price Index. However, since June 18, 2015 the Provincial Government has frozen tuition fees and mandatory non-instructional fees at 2014-15 levels. The Province has recently conducted a review of tuition fees, the results of which have not been made available, but the Province has announced that tuition fees will continue to be frozen at the 2014-15 levels. The only exception to the frozen tuition fee regulation is international tuition fees which may be increased by the institution.

   Tuition revenue is also influenced by student enrolments. The Campus Alberta Planning Resource (CAPR), provided by the Provincial Government, anticipates a shift in the age distribution for Alberta learners over the next ten years; while overall population growth is anticipated to be 15.2%, the projected growth of 18-24 year-olds is much lower at 3.1%. There is much competition amongst post-secondary institutions for students, so the University must maintain its recruitment efforts to ensure students are well aware of the high quality programs that exist at the

University of Lethbridge. Significant efforts have also been put into maintaining and enhancing student services to improve our student retention rate. The Fall 2016 to Fall 2017 full-time new high school student retention rate was 78.4%, which has been increasing over the past several years.

3. Investment Income

   There is significant uncertainty and variance in investment income, which comprises approximately 3% of the University's revenue budget.

   The investment managers and the change in the investment strategy from segregated to pooled funds and asset mix were modified in 2015-16 and this had a significant impact on the 2016-17 investment income results. The new investment managers are not as active in buying and selling investments and therefore realized income has decreased compared to prior years. The University needs a longer-term timeframe to determine the impact on the budget and, therefore, an investment income reserve has been set up in case realized investment income falls short of the budget.

   There is also a new and emerging risk because government granting agencies are adding terms and conditions that require interest income allocations to conditional funds held by the University. The impact is a reduction in General Operating investment income.

   The other major influence on investment income is the performance of the markets. The Board of Governors Finance Committee manages this risk using a diversified investment portfolio to meet our objectives and specific performance standards related to expected rates of return.

4. Exchange Rates

   The majority of the University's expenditures are in Canadian funds, but when the exchange rate shows a significant downward trend, as we have experienced in recent years, the impact of this severely reduces our buying power, especially for library acquisitions and information technology contracts which typically are paid to US vendors.

5. Compensation

   The largest component of the University's expenditures is salaries and benefits. Salary adjustments are based on contract negotiations with the respective unions and assumptions for the negotiated increases are built in to the budget. These assumptions may or may not be accurate and thus can have a substantial impact on the overall budget. Attracting and retaining quality faculty and staff continues to remain a Board of Governors priority.

6. Destination Project (new Science and Academic Building) Lights on Funding

   The new science and academic building is scheduled to be completed in Spring 2019, with move in scheduled in Summer 2019. We expect the building to be operational and ready for classes in September 2019. When the Provincial funding for the project was approved in 2016 the University was told that the lights on funding (operational costs to operate the facility) were included in the Province's budget planning but since that time, due to Alberta's poor economic environment, this funding is in jeopardy. The total Alberta Government budget 2017 allocation for lights on funding for all post-secondary institutions was $2 million, which falls significantly short of institutional demands and thus there is uncertainty regarding the availability of the required facility operating funding for the Destination Project (Phase I). This adds considerable uncertainty to our operating budget.

7. Student Mental Health Funding

   The University is grateful for the grant funding received from the Provincial Government in the past few years in support of mental health programs and supports. This funding is a conditional grant with funding ending in April 2019 and it is not known the amount of funding that will continue past this date. There are increasing budgetary requirements for implementing additional supports for our students, which directly impact our student experience.

8. Information Technology Contracts

   The cost of information technology contracts is increasing in significance each year as the University continues to implement technology that has long term maintenance and ongoing licensing components.

9. Pension Plan Contribution Rates and Employee Benefits

   Most employee benefits are negotiated with the respective employee groups, but there are a few, most notably the pension plan contribution rates and health care premium costs, that are paid by the University but are set by external agencies, that can increase significantly year over year.

10. General Inflation Pressures

    Just as for all households, there are general inflation increases in most expenditures and the University needs to anticipate the impact of these changes on the budget allocation to each budget unit. The University's expenditure budget increases have been outpacing the revenue budget increases, which adds additional pressure on trying to balance the budget.

11. Deferred Maintenance

    Deferred maintenance refers to maintenance projects that are required for building and equipment upkeep, but have been postponed generally due to a lack of funds. Deferred maintenance can allow minor repair work to evolve into more serious conditions.

    In order to be a top destination university, our facilities must be well maintained. The University allocates a portion of its operating budget to address deferred maintenance projects. Deferred maintenance on our facilities is estimated at $147 million (2016: $138 million) based on a facility condition report completed by the University in January 2017. This means that if the University undertook all the maintenance projects it would require $147 million.