BUDGET BRIEF
CONTEXT FOR 2016-17 BUDGET

# 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 65% of the University's revenue budget. Although the Provincial Government normally informs institutions of at least the next fiscal year's percentage increase to the University's Campus Alberta Grant, unfortunately this percentage increase has not always materialized. For example, the University had been informed in writing by the Provincial Government that it would receive a 2% grant increase for each of the years 2012-13, 2013-14 and 2014-15. The 2% grant increase was realized in 2012-13, but at the beginning of the 2013-14 fiscal year the Province announced a 7.3% reduction in the grant. Any major fluctuation in the Campus Alberta 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 that tuition fees could be increased annually was up to the Alberta Consumer Price Index. On June 18, 2015, the Provincial Government announced a freeze to tuition fees and mandatory non-instructional fees at 2014-15 levels for the 2015-16 and 2016-17 fiscal years, and required the rollback of the Management tuition market modifier which was previously approved in spring 2015 by the former Provincial Government. The Province has announced that a review of tuition fees will be done over the next year so it is difficult to predict tuition fee revenue beyond the 2016-17 fiscal year.

   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 over 21.8%, the projected growth of 18-34 year olds is much lower at 6.1%. 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. These efforts have resulted in an increase of 1st year student retention numbers by 3% over the past year, which is a major accomplishment.

3. <u>Investment Income</u>

   There is significant uncertainty and variance in investment income, which comprises approximately 3% of the University's revenue budget. The 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. <u>Exchange Rates</u>

   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 the past year, the impact of this severely reduces our buying power, especially for library acquisitions and information technology contracts.

5. <u>Compensation</u>

   The largest component of the University's expenditures is salaries and benefits. Salary adjustments are based on contract negotiations with the respective associations and unions and assumptions for the negotiated increases are built into 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 Governor's priority.

6. <u>Pension Plan Contribution Rates and Employee Benefits</u>

   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.

7. <u>General Inflation Pressures</u>

   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.

8. <u>Deferred Maintenance</u>

   Deferred maintenance refers to maintenance projects that are required for building and equipment upkeep, but have been postponed 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 $154 million (2014: $153 million) based on a facility condition report completed by the University in January 2015. This means that if the University undertook all the maintenance projects it would require $154 million.