

## 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. Provincial Base Operating Grant

The provincial base operating grant is the largest single revenue line item for the University, which comprises approximately 56% of the University's operating 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.

The University has experienced 24% reduction in the base operating grant over the past 4 years and this obviously has caused significant stress on our budget and operations. It is hoped that there will be no further reductions to the base operating grant over the next few years.

With the Alberta fiscal environment still unsettled due to the global pandemic, stress on health care needs, and major changes expected in the Alberta political situation, these may influence the provincial operating grant allocations and 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 36% of the University's annual operating revenue budget. The change in tuition revenue year over year depends upon the tuition fee rates and student enrolments.

Over the past three years, the University increased the average tuition fees per domestic student by the maximum 7% per year, as allowed by the Provincial Government tuition regulations. Beginning in the 2023-24 academic year, average increases for domestic students will be capped at the percentage annual change in the Alberta Consumer Price Index (CPI) which was assumed in October 2021 to be 1.54%.

Tuition revenue is also influenced by student enrolments. 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.

It is projected that there will be a substantial reduction in the 2022/23 enrolment for undergraduate credit hours due to the impact from COVID-19 and the faculty labour disruption.

### 3. Investment Income

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

Investment income can be volatile in our financial statements due to performance of the investment markets and the global economy, the diversification of the asset mix, and changes in investment managers that may trigger realization in the financial statement investment gains or losses

## BUDGET BRIEF CONTEXT FOR 2022-23 BUDGET

The largest 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, 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 into the budget. These assumptions may or may not be accurate at the time the budget is being formulated 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. 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.

The University expends concerted efforts in reviewing all licenses and in negotiating more favourable terms in existing site licenses.

### 7. Utilities

The University's utilities budget is expected to increase by 32% in 2022/23, approximately \$1.5 million due to influences from the global economy. There is still an element of risk in this budget assumption since the Science Commons facility has not been fully occupied for an entire year, with the opening of the facility in September 2019, and the impacts from COVID-19 and restricted access to campus during 2020 to 2022. Rising gas prices is also having a negative effect on the utilities budget.

The University mitigates the risks in utilities costs by negotiating long term contracts with suppliers.

### 8. Insurance Premiums

Insurance premiums are projected to increase by 18% in 2022-23. This increase is attributable to the global risks and uncertainty due to the pandemic, fraud risks, property/casualty incidents becoming more evident, and the steady increase to global natural disaster insurance losses.

The University is a member of Canadian Universities Reciprocal Insurance Exchange (CURIE) which was created specifically to handle the specialized insurance needs of universities across Canada. Being a member of CURIE has resulted in favourable insurance premiums compared to those premium costs in the open insurance market.



## BUDGET BRIEF CONTEXT FOR 2022-23 BUDGET

### 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 significantly increase 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. The University currently has 42 buildings on campus totaling 237,535 gross square meters averaging 30.7 years of age. Due to the age of the buildings, deferred maintenance on existing facilities continues to be a matter of concern. Deferred maintenance is not reflected in the University's financial statements since it is not a liability or a commitment for accounting purposes. The provincial government has normally provided annual infrastructure maintenance grants to address deferred maintenance on campus academic facilities.

Deferred maintenance on our facilities is estimated at \$226 million based on a facility condition index (FCI). To ensure facilities are maintained properly and keep the FCI at a reasonable level, it would require \$103 million be spent on deferred maintenance projects by 2024, including ancillary and residential buildings. For more information on capital projects and deferred maintenance please refer to the University's [Capital Plan](#).