SLT 2022-23 Budget Discussion

21 January 2022

This budget paper continues the SLT discussion on budget making for 2022-23 and captures the thoughts arising from the SLT conversations on 23 November 2021. It is an approach that provides some multi-year planning scenarios that include combinations of base budget contributions and annual one-time (bridging) contributions. Although COVID continues, the expectation that we will return to a normal level of enrolments remains, but this return will be delayed into a third and fourth budget year.

There will be a serious lag in enrolments internationally for at least two years due to border closures. Until we get back to a strategic combination of face-to-face and remote course offerings, it also appears that the domestic gap will be a challenge after the unexpected decline in 2021-22. As the resulting revenue gap continues to increase, and we know that government grants will not increase for three more years, some attention needs to be placed on the structural deficit. The following scenarios for 2022-23 are part of a multi-year plan to address the revenue gap. Each scenario also requires varying levels of one-time contributions to balance in the interim.

Addressing a structural deficit earlier rather than later is advised to mitigate increasing financial risk. If enrolments rebound quickly, and faster than forecasted in the upcoming Budget Plan, targeted investments could be possible. Or in other words a dividend could be provided. This would be a great position to be in. The converse is that our projections are not achieved and the structural problem becomes increasingly difficult in future years.

The discussion paper from 23 November, and the projections and estimates are still accurate enough for purposes at this strategic stage of budget planning, a few additional updates are offered in this paper. As highlighted 23 November, the gap would be $16.9M if there were no enrolment changes or tuition increases planned for next year. Also, as noted last year, non-credit fees were impacted by the pandemic, decreasing approximately $3M. This amount is included in the $16.9M gap. As good news, non-credit fees are anticipated to recover partially ($1.7M) which reduces this gap to $15.2M. This gap amount does not include the losses associated with ancillary services.

We anticipate that we can address a portion of this gap through increased tuition revenue (combination of enrolment increases and higher student loads) in 2022-23 (achieve a rebound from the most recent declines). For the purposes of the multi-year planning scenarios below, let's assume that we get back the 6% decline in domestic undergrad revenue, that we experienced this year and 8% of the international undergrad revenue decrease. In both cases, this is what we had predicted in the Budget Plan from last year, so this suggestion simply returns us to those levels and realizes a bounce back from the one academic year that we had unanticipated decreases. This would leave a $9.8M one-time gap at the end of this year which will be used as the starting point for the various multi-year scenarios that follow. Note as explained in more detail later, the percentages used here are credit hour impacts and not headcount. As we have seen last term, there is a far greater drop in credit hours and the typical student load then headcount (approximately 2.4% difference between the two).

With the above enrolment assumptions, along with some additional assumptions, the following would be the resulting challenges next year. With no grant increase (0%), a reasonable salary economic increase, a tuition increase of 3%, graduate enrolment increase of 1%, and a non-credit fee increase of 2% **the structural deficit will be $7.7M** this is an increase from the $3.6M structural deficit budgeted in 2021-22. Input as to the reasonableness of each of these assumptions will be discussed with SLT and the Board.

Scenario A – Zero Base Budget Contribution and One-time Contributions of $17.5M

If we were to once again use a full bridging solution through one-time contributions, $17.5M would be needed.

- $5.8M to cover the 2021-22 shortfall
- $7.7M to cover the structural deficit in 2022-23
- $4.0M to cover the impact of the pandemic on the ancillaries for 2022-23.

The risk associated with this scenario is that it puts pressure on future budgets as the entire base budget structural deficit will need to be achieved through enrolment gains in future years, or even larger reductions in base budget allocations. These actions could potentially create much turbulence for Units and the University.

This scenario would require the most significant increases in international enrolments over the next four years to balance the budget. It would also require significant contributions each year as this scenario will result in a substantial structural deficit into 2023-24, 2024-25 and 2025-26. This would require additional one-time contributions over that time totalling $12.1M. Comments from units indicate that after two years of contributions, there is insufficient one-time funding remaining to be able to afford this scenario.

This scenario and associated assumptions will leave a structural deficit of $7.7M.

Scenario B – 1.6% Base Contribution (approximately $2.6M) and One-time Contributions of $14.9M

In 2021-22 we provided each unit with a budget increase to match the annual salary and benefit increases in their unit. This captured the merit, progression through the ranks, performance pay and benefit increases for the year. The total amount was approximately $2.6M. If we used this amount as the base contribution it would be 100% predictable and definable (very transparent) by the units. An approximation (as benefits would need to be added) of the salary lift on a unit by unit basis is presented in the annual Budget Letter at: Budget Letter | OIR, University of Regina (uregina.ca) .

In addition to the approximately 1.6% base budget contribution, there would still need to be a one-time balancing of the budget through contributions from the units (albeit slightly smaller). The total one-time contributions would be approximately $14.9M

- $5.8M to cover the 2021-22 shortfall
- $5.1M to cover the structural deficit in 2022-23
- $4.0M to cover the impact of the pandemic on the ancillaries for 2022-23.

With realistic enrolment targets for both international and domestic enrolments built into the Budget Plan over the following 4 years, this scenario will result in a structural deficit into 2023-24, 2024-25 and 2025-26. This would require additional one-time contributions over that time totalling $7.8M.

This scenario and associated assumptions will leave a structural deficit next year of $5.1M.

Scenario C – 2.7% Base Contribution (approximately $4.6M) and One-Time Contributions of $12.9M

Scenario C provides a slightly larger contribution to the base budget gap (2.7%) This is equivalent of not providing a salary or benefit lift to each unit for the coming 2022-23 year. For those managers familiar with "envelope funding", this scenario provides all units with exactly the same funding next year that they currently have. It would not adjust the 2022-23 budget at all, and is thus net zero from their current budget. With all unit operating budgets maintained as is, it is recognized that inflation would reduce the resources available to continue the same amount and in most cases growing workload. More specifically, this scenario does not provide any central funding for salary increases and is a form of budget reduction. This approach would help budget-making in subsequent years as it reduces the pressure on the base budget gap (structural deficit) if enrolment targets are not achieved. The total savings would be approximately $4.6M.

In addition to the base budget contribution, there would also need to be one-time contributions from the units of approximately $12.9M

- $5.8M to cover the 2021-22 shortfall
- $3.1M to cover the structural deficit in 2022-23
- $4.0M to cover the impact of the pandemic on the ancillaries for 2022-23.

With realistic enrolment targets for both international and domestic enrolments built into the Budget Plan over the following 4 years, this scenario will result in a structural deficit into 2023-24. This would require additional one-time contributions over that time totalling $1.3M.

This scenario and associated assumptions will leave a structural deficit next year of $3.1M.

Scenario D – 4.6% Base Contribution (approximately $7.7M) and One-Time Contributions of $9.8M

If we decided to adjust base budgets to achieve a balanced budget for 2022-23, then a 4.6% reduction in Unit operating budgets would be necessary. This would necessitate the identification of vacant positions, POOL resources or other base budget expenses to permanently remove from the Unit budgets.

As the structural deficit would be eliminated, there would not be a need for a one-time balancing of the budget through contributions from the units for the base budget part of the budget. One-time contributions in the current year would still be required for approximately $9.8M but then future years would not require any changes in base or one-time contributions.

- $5.8M to cover the 2021-22 shortfall
- $0.0M to cover the structural deficit in 2022-23
- $4.0M to cover the impact of the pandemic on the ancillaries for 2022-23.

This scenario has a very favourable impact on required international enrolment growth required to balance the budget in the following four years.

This scenario and associated assumptions will leave the University with a balanced budget.

General Comments

Note that in the case of Base Budget reduction scenarios that if enrolments come back quickly reductions could easily be reversed as appropriate. The converse is not true if enrolment drops more.

These assumptions do not specifically quantify the different initiations underway with the MOU One-time funding. It is anticipated that the revenue and efficiencies that come from these initiatives are captured in the overall enrolment or revenue increases built into the assumptions above. For instance, the 6% increase in domestic enrolment could result from faculty initiatives, new recruiters, articulation agreements etc. The combination of new initiatives will help meet the enrolment targets.

Future Year Planning

Budget decisions for the upcoming year are difficult without some sense of what the impact is in ensuing years. To assist in the visualization, the tables below break down the assumptions and impacts of the various assumptions for the next five fiscal years.

Scenario C is highlighted as that is the recommended scenario to facilitate a starting point for discussions. Note that all the base assumptions on enrolment bounce back, plus these common assumptions used for the multi-year planning are open for discussion by SLT and the Board.

Common Assumptions (Table 1)

	2022-23	2023-24	2024-25	2025-26	2026-27
Grant Increase	0.0%	0.0%	0.0%	**1.0%**	**1.0%**
Undergraduate Tuition Rate Increase	3.0%	3.0%	3.0%	2.5%	2.5%
Domestic Undergrad Revenue Assumption	6.0%	1.0%	1.0%	1.0%	1.0%
Graduate Tuition Rate Increase	3.0%	3.0%	3.0%	2.5%	2.5%
Graduate Revenue Assumption	1.0%	1.0%	1.0%	1.0%	1.0%

Scenarios (Table 2)

Scenario A	$0.0 M Budget Cut
Scenario B	$2.6 M Budget Cut
Scenario C	$4.6 M Budget Cut
Scenario D	$7.7 M Budget Cut

Structural Deficit for each Fiscal Year (Table 3)

	2022-23	2023-24	2024-25	2025-26	2026-27
Scenario A	$ (7,675)	$ (5,790)	$ (3,977)	$ (2,379)	$ -
Scenario B	$ (5,075)	$ (3,686)	$ (2,476)	$ (1,598)	$ -
Scenario C	$ (3,125)	$ (1,317)	$ -	$ -	$ -
Scenario D	$ -	$ -	$ -	$ -	$ -

One-Time Funds Required to Cover Shortfalls (Table 4)

	2021-22 Operating	2022-23 Ancillary	2022-23 Operating	2022-23 Combined	2023-24 Operating	2024-25 Operating	2025-26 Operating	2026-27 Operating	5 Year Total
Scenario A	$ 5,800	$ 4,000	$ 7,675	$ 17,475	$ 5,790	$ 3,977	$ 2,379	$ -	$ 29,621
Scenario B	$ 5,800	$ 4,000	$ 5,075	$ 14,875	$ 3,686	$ 2,476	$ 1,598	$ -	$ 22,635
Scenario C	$ 5,800	$ 4,000	$ 3,125	$ 12,925	$ 1,317	$ -	$ -	$ -	$ 14,242
Scenario D	$ 5,800	$ 4,000	$ -	$ 9,800	$ -	$ -	$ -	$ -	$ 9,800

The one-time contributions that would be required at the end of this fiscal year include the revenue shortfall for the current year, the Ancillary shortfall anticipated for next year as well as the anticipated deficit for next year. This is totaled in the "2022-23 Combined" column above. The multi-year plan illustrates the additional one-time contributions that would be necessary in each of the ensuing years. Note that these would be in addition to the base budget reductions noted in Table 2 above.

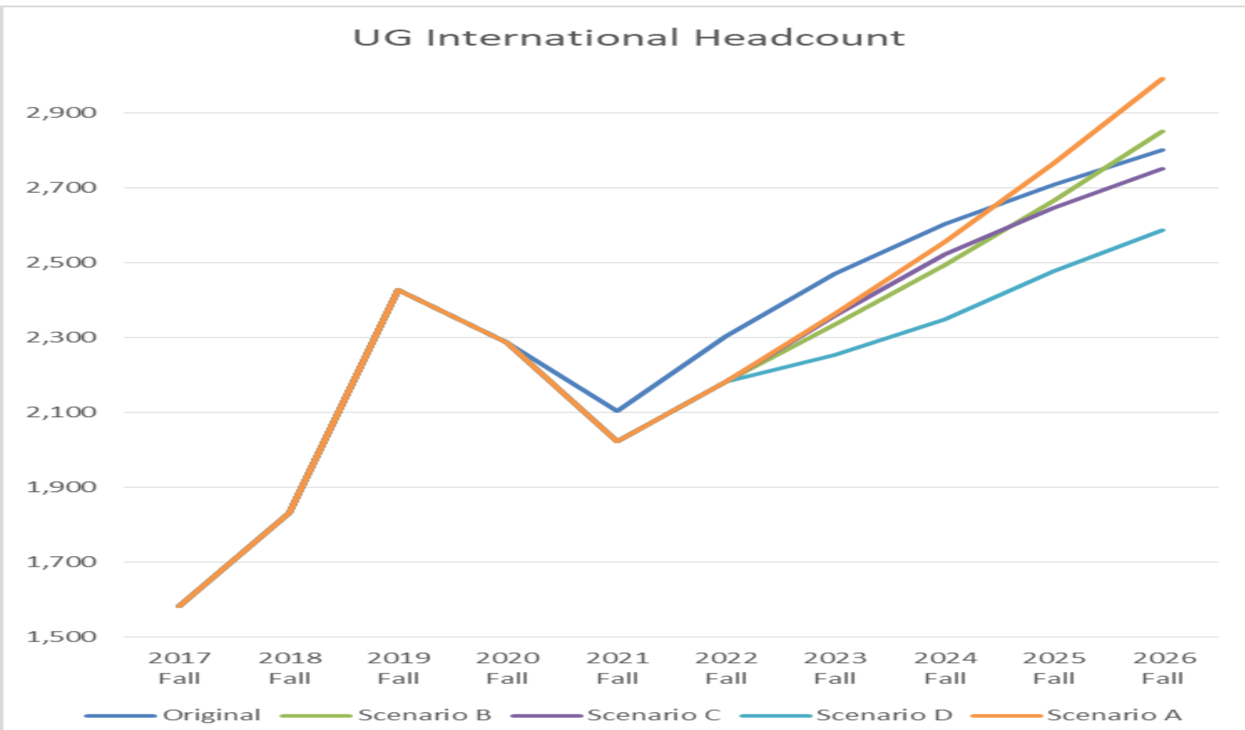
While each of the scenarios above describes what the resulting structural deficit and one-time contributions would be as a result of the decision this year, the following table identifies the different "international revenue recovery strategies" required to attain a balanced budget.

The chart that follows identifies the impact on undergraduate international headcount required under the international enrolment assumptions built into the corresponding scenario. Note that these figures are based on the budget impact of the enrolment changes. This is therefore a combination of headcount and course load. As noted from this year, the difference between the two was approximately 2.4% as students took less classes on average this year (due to limited face-to-face perhaps). So it is anticipated that 2% or more could result from a return and catch to the course loads that a student is taking and not simply an increase in headcount. This argument applies to both international and domestic students.

International Revenue Increase Required (Table 5)

	2022-23	2023-24	2024-25	2025-26	2026-27
Scenario A	8.0%	8.2%	8.2%	8.2%	8.2%
Scenario B	8.0%	6.9%	6.9%	6.9%	6.9%
Scenario C	8.0%	8.0%	7.0%	4.9%	4.0%
Scenario D	8.0%	3.2%	4.3%	5.4%	4.5%

Since the percentages seem challenging, it might be comforting to know that 8% equates to approximately 162 students taking a normal course load. Note that in the year prior to COVID we had a one year increase in international students of approximately 550 students as indicated in the graph below.



It is recognized that we cannot continue to rely on one-time contributions. During COVID every unit does experience some savings due to activity changes, particularly related to travel, hospitality, printing, and in some cases training/education. These sorts of savings will not continue, and the repeated contributions from past savings and deferral of special projects means the well of one-time savings will be (or already is in some cases) dry. Thus it is important when reviewing the charts to recognize the importance in getting enrolments back more quickly, and to eliminate the structural deficit.