



OFFICE OF THE PRESIDENT

OVERVIEW OF THE 2004/05 OPERATING BUDGET

A number of budget documents have been circulated to Board of Governor members, for discussion at the April 30th meeting at which you will be asked to approve the operating budget as proposed for 2004/05. There are two substantive contexts for shaping the budget this year. First, the 2004/05 academic year follows the peak of the double cohort phenomenon, with the flow through of last year's high levels of new student intake of secondary school students from the new and old curricular streams. This should be the final year of double cohort intake. Secondly, it is the second year of implementation of the plan to reduce the cumulative deficit at Trent.

The most significant factor that allows an accurate forecast of revenues in the budget is the level of enrolment. This applies to both tuition and grant projections. Given the significantly higher applicant numbers from secondary schools this year when compared to 2002/03 (i.e. Trent is up 33% in all choices), it is not clear whether typical models used to forecast applicant to registrant ratios will prevail. This will not be known in a preliminary way until classes start in September and for Ministry funding purposes, until the November 1st count is complete. That said, we know from statements made by the Ministry, and from the previous year's actual funding, that "full average cost funding" has been a principle the province adopted in dealing with the double cohort and we hope it will prevail. We have based our enrolment assumptions on the past year's retention experience and previous year's yield rates for top choice students and have adjusted yield forecasts downward (conservative approach) for those who apply to Trent as a greater than third choice option.

Should there be material changes in revenue forecasts as a result of September enrolments or government announcements, a restated budget would be presented at a fall meeting of the Board.

The second context identified above is the strategy to begin to reduce the operating budget's accumulated deficit. As discussed with the Board, contributions from double cohort incremental revenue are being used for that purpose. Included in the main assumptions is a section on double cohort funding. We are tracking the use of these funds separately in order to account for contributions to three areas: the cumulative deficit, referred to as the "pledged contribution" on the budget summary page, the investments to be made in priority areas (buildings, library and information technology) and beginning contributions to an operating reserve. The separate monitoring of double cohort funding will also ensure in our planning that an unsustainable cost structure is avoided post double cohort. In other words, given the current institutional enrolment plan to modestly reduce Trent's overall size once we have managed the flow through of double cohort students, it is critical that expenditures are not all of a permanent nature as we move forward.

Included in the package are comparisons to the 2003/04 operating budget which forecasts a surplus by year end which will be used to prepay the 2004/05 contribution to the accumulated operating deficit. Further, a preliminary three year projection is included that shows a balanced position in 2004/05 Budget, followed by projected deficits in 2005/06 and 2006/07, reflecting the long term structural mismatch between largely frozen revenue rates and increasing costs. As

you know, a university-wide Strategic Plan was approved by the Board in 2003/04, and its priorities will shape this budget and future years' planning as it is updated annually.

As well, four other important factors should be noted by the Board that will contribute to shaping the budget this year and going forward including: (1) a decision by the federal government to fund indirect costs of research as a permanent program, and it has now been incorporated as an on-going revenue source for relevant university expenditures, (2) retention rates derived from 2003/04 growth in student numbers – testing against the forecast cannot occur until mid-September, (3) a Quality Assurance Fund announced in the last provincial budget has been included in the 2004/05 budget proposed at the previous year's level and (4) the evolution of our nursing and teacher education programs.

The Planning Principles that Shape the Budget Presented:

The administration has applied the basic principles adopted by the Board five years ago that included the requirement to achieve a balanced operating budget each year. We continue to agree with the Board's commitment "that Trent's mission can best be accomplished by normally having balanced budgets, and that if deficits occur, there must be a plan to eliminate them within two to three years."

In the absence of inflationary increases in grants and the two year public policy that tuition is frozen at 0 percent per year, the pressures on the model of delivery at Trent continue. The Ministry announcement of one time tuition backfill funding of 1.4%, and that a Quality Assurance Fund will be continued in 2004/05 at \$75m, is welcome news. This is a particularly acute need at Trent when we continue to have some 500 unfunded BIUs (from past student growth) yet unaddressed in provincial funding. We also see that "quality" student growth becomes a key success factor in our admissions cycle processes. The tension continues between what our community affirms as high priority at Trent – course availability, smaller class sizes, expert faculty at the front of the class, and staff that are responsive to their needs – and Trent's ability to fund the current model that characterizes the "Trent experience".

Other Initiatives and Priorities Included in the Budget:

We remain convinced of the necessity to include a strategic investment fund. Over the last two years we have moved a number of expenses covered from this fund to the base budgets of both the Registrar's Office and the Communications Department. As a result the one-time funding available for strategic investments is \$235,000 in this year's budget that will be predominantly focused on recruitment and marketing/promotion priorities. As well, we have maintained a double cohort contingency that will allow us to have some responsive capability to address the unexpected. For purposes of capturing the creation of the new operating reserve, we have included it in your documentation on the strategic investments page. It is not the plan to expend that fund but rather to continue, this year, the multi-year accumulation of a small reserve.

Two years ago, a pilot program was introduced that used bursary and scholarship resources in a more strategic way. Renewable scholarships for students who meet 80% as a minimum standard will be maintained this year attempting to attract high achievers and positively influence both academic performance and retention. We need to review the use of these funds in the context of graduate programs at Trent and the need to ensure Trent's competitiveness in attracting high quality students to these programs as well.

International student enrolments remain steady state in the model, with the possibility of future growth to be considered next year as part of the annual process of the Strategic Plan update.

The budget also reflects the signed partnership agreement with the University of Ontario Institute of Technology and MTCU which anticipates a somewhat ambitious growth in student numbers in that area.

Summary of Highlights in the Budget:

The following points highlight for the Board the fundamental assumptions and inclusions in the operating budget:

1. The balanced budget presented is heavily influenced by enrolment growth, a commitment to do our share in the double cohort years. Growth as a permanent solution to the structural gap that historically exists between revenue and expenditure growth needs to be re-examined as we move into 2005/06 and beyond.
2. For the second year in a row, a 1 percent adjustment for inflation is included. In the past, inflation was absorbed through efficiencies and less desirable changes in program and service delivery. For water, gas and electrical utilities, higher rates of inflation are included at 10, 7 and 5 % respectively. In the area of pension plan contributions, a phased, multi-year approach to significant cost increases is being planned in response to recent actuarial projections for the performance of the Plans' assets and liabilities.
3. Tuition, the second major component of revenue, is capped by government policy for domestic undergraduates at 0 percent per year, for the next two years. The MTCU has further indicated that a review of the provincial funding mechanism, and accountability framework, will be conducted through the autumn of 2004, from which a new, multi-year funding framework will be recommended. A freeze on international and graduate fees for at least one year is also included in the proposed budget, as Trent ranks 5th and 3rd highest in the province in the latest tuition fee surveys in these areas, after ancillary fees are included.
4. Enrolment growth success in 2003/04 while modestly improving the quality of incoming students, and the introduction of the consecutive education program, has positioned Trent favourably to compete for accessibility funding.
5. A number of specific investments will create very positive outcomes from the proposed 2004/05 budget including:
 - 16 "net" new Peterborough tenure track faculty appointments
 - 10 new research fellowships
 - 13 new staff full time equivalents, half of which will be permanent increases
 - \$438,000 of facilities renewal and \$370,000 of deferred maintenance spending on capital infrastructure maintenance or improvements
 - \$262,000 investment in information technology (networking and workstations)
 - Additional operating costs of over \$1.1m have been accommodated for new academic space in the Peter Gzowski College at Symons and Argyle sites as well as the new Chemical Sciences Building
 - a balanced operating budget in 2004/05 with contributions of \$364,000 and \$551,000 to the operating budget's accumulated deficit in 2003/04.