Budget Planning – 2020/2021 to 2022/2023

CURRENT FISCAL ENVIRONMENT, BUDGET PROCESS AND TIMELINES

For Board of Governors December 2019

INTRODUCTION

A wide range of internal and external factors need to be considered in determining the fiscal constraints that will challenge Trent University. In the spirit of open communication and developing budget awareness and accountability at various levels of the organization, what follows is a discussion of various budget factors and the implications for Trent as it seeks input for the update of these assumptions.

Budget Process

The budget process begins in the Fall each year with discussions with various groups in the University community regarding the process, current fiscal environment and timelines. In early December, budget developers receive a budget package that includes: their base and RCM budgets updated to reflect salary escalation, inflation and other known changes in staffing and other expenses; budget guidelines and key planning assumptions, including multi-year enrolment projections; in-year financial statements to assist budget owners in monitoring their current year's performance and assessing potential future resource requirements; and a budget adjustment template to aid in the identification of proposed budget reduction strategies or recommended new strategic investments. Budget submissions are due in late January with presentations to the President / Vice-Presidents during February. This year, the intent is to provide a recommended budget to Finance and Property and to the Board of Governors for consideration and approval in March 2020. Appendix A outlines the timelines for this year's consultations and process.

Multi-year Planning

Although multi-year planning was suspended last year due to significant uncertainties identified in the fiscal environment at that time, Trent plans to reinstate multi-year budgeting previously introduced in 2017 as a way to promote longer-term planning and more efficient use of critical resources required to address projected enrolment growth and to align with the University's Strategic Plan. This year's budget cycle will be for the three years 2020/2021, 2021/2022, and 2022/2023.

Each year, the key assumptions used in the rolling three-year budget planning cycle, including enrolment projections, anticipated funding and other revenues, salary and other inflationary pressures, will be reviewed and updated based on relevant changes in the fiscal environment and more current information. These assumptions will then be communicated to budget account owners for their use in preparing their operating plans.

Responsibility Centered Management (RCM)

Responsibility Centered Management (RCM) will continue to be a key consideration, along with other principles including alignment with the University's Strategic Plans, academic needs, and legislative or other mandatory requirements, when prioritizing and recommending new investments and changes to resource allocations.

RCM is an activity-based budgeting model intended to promote stronger linkages to academic goals and priorities. The aim of RCM is to improve financial sustainability by emphasizing the University's strengths in teaching, research and services, and by supporting selected opportunities and innovations. The budget model attributes operating fund revenues to the academic divisions that generate them, primarily through tuition and operating grants largely determined by student enrolment. The decanal units each contribute to a University Fund for institutional strategic priorities, and proportionately share in the indirect costs of the University (for example, library services, information technology, student services, occupancy costs, and administration). The remaining net revenues of each decanal unit, plus any allocation of the University Fund (either for new strategic investments or to partially mitigate the impact of changes during transition) support their direct costs, including instructional staff and resources for the provision of their academic programming.

While RCM does not in and of itself increase net revenue for the University, it does promote innovative and efficient delivery of academic programming and enrolment planning by allowing increased revenue and cost savings to remain in the decanal unit that generates the positive change. The most significant way to improve performance under RCM is to increase revenue by growing enrolment and introducing new programming. Given the recent changes in Ministry funding, including the absence of enrolment growth funding and the shift from corridor funding to at-risk performance-based funding, the decanal units under the RCM will experience more challenges in meeting RCM targets as enrolment growth and new programming may not result in additional revenue for the decanal unit(s) or the University. As a result, more emphasis will be put on finding efficiencies by reducing costs without compromising the quality of programs and services, and without pitting one decanal unit against another in a way that may negatively impact the academic mission of the University.

In a challenging fiscal environment, the RCM approach will, over time, allow the University to position itself in a way that addresses budget challenges and fosters a sustainable budget in the long term by striving to allocate resources in a way that relies on fiscally relevant criteria that can be clearly measured. RCM will be sensitive to Trent's fiscal realities and the complexities that arise. Administrative and support functions will be assessed against available University benchmarks and adjusted accordingly. An important feature will be the availability of some incentive funding to help in the development of new programs and revenue opportunities.

Further information about the University's introduction of RCM is available at: https://www.trentu.ca/financialservices/welcome/financial-statements-budget-reports

KEY ENVIRONMENT FACTORS FOR CONSIDERATION

Fall Economic Statement

The Fall Economic Statement (FES) released November 6, 2019, titled "A Balanced and Prudent Plan to Build Ontario Together", continues its focus to "…put more money in people's pockets, encourage job creation, make communities healthier and safer, build a world-class transportation network and deliver government programs in a smarter way." While the FES did not identify any significant new policies related to the University sector nor did it include any new funding announcements or funding reductions for universities, it did signal a positive shift in tone to engage with the public with a more collaborative approach. The government's plan focused on six categories:

- Make life more affordable;
- Prepare people for jobs;
- Make Ontario more competitive;
- Connect people to places;
- Build healthier and safer communities; and
- Build smarter government.

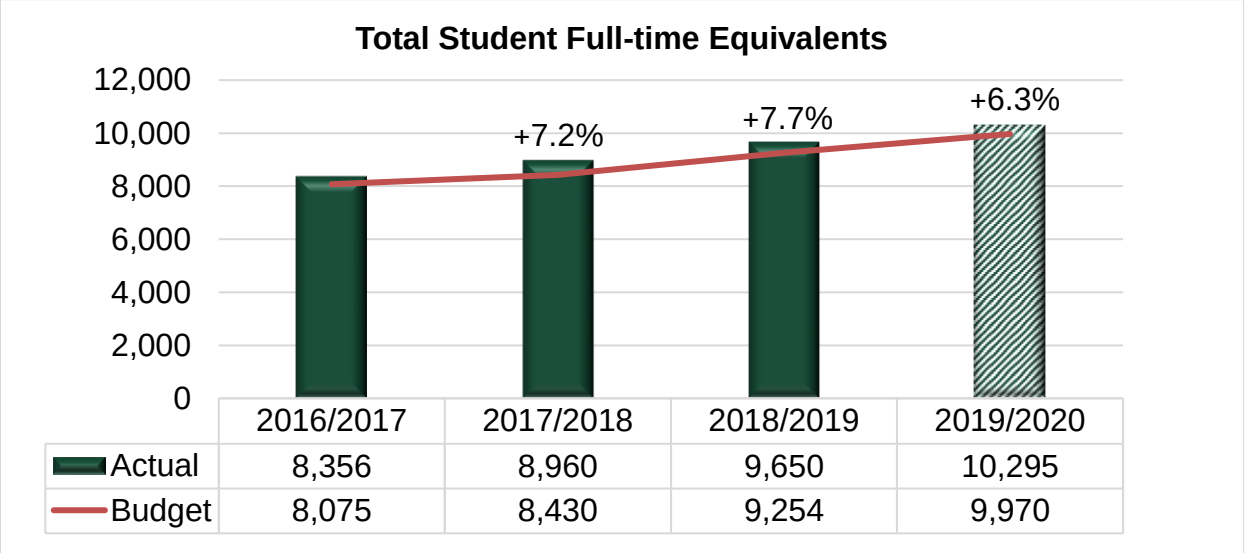
Fall Economic Statement: Sensitivities for Trent

While Ontario universities did not feature prominently in the FES, the Ministry did reaffirm the tuition fee cut and subsequent freeze for 2020/2021, the Student Choice Initiative and the SMA3, including publicizing the performance-based metrics focused on jobs and economic impact that will be tied to 60% of operating funding by 2024/2025. Effectively, fixed Ministry funding (with some at risk) and frozen tuition rates increases operating pressures, creates more reliance on international students, and requires universities to adopt an enrolment growth strategy to offset lost or frozen revenues and inflationary pressures. There were some references in the FES to additional supports for student mental health and indigenous students, but mostly related to K to 12 rather than higher education. Trent, like other institutions, has identified an increase in mental health and accessibility needs and continues to rely on limited special purpose grants, continuation of which has not been confirmed. The Ministry continues to be supportive of the university sector jointly sponsored pension plan, which is positive for Trent as the University works towards joining the UPP in 2022.

Enrolment Projections

The key driver in the University's planning is student enrolment as this generates a significant portion of the University's operating revenue through tuition fees and enrolment-based provincial operating grants. Resources required for academic programing are determined by the number and types of students. Other university operations and support services (e.g. student services, wellness, libraries, etc.) as well as ancillary services (e.g. housing and dining services, etc.) are significantly influenced by the student population.

Trent continues to experience growth in student enrolment exceeding that previously planned. Since 2016/2017, total full-time equivalents (FTEs) are projected to increase by 23% to approximately 10,295 FTEs in 2019/2020.



	2016/2017	2017/2018	2018/2019	2019/2020
Actual	8,356	8,960	9,650	10,295
Budget	8,075	8,430	9,254	9,970

Note: 2019/2020 enrolment projections are based on summer and fall actual enrolment and prior years' experience regarding fall-to-winter ratios and retention rates for winter projections.

For this budget cycle, senior administration is recommending a conservative approach to enrolment projections. This approach will allow the University to plan sufficient resources and address capacity challenges related to growing enrolment while ensuring the budget is flexible to respond to unmet enrolment targets should there be any. The following charts provide preliminary undergraduate head count estimates by campus based on the following high-level budget assumptions:

1. Undergraduate domestic intake will continue to increase in a controlled manner at both campuses. For Peterborough, domestic intake is expected to increase by 2.0%, 1.5% and 1.0% in 2020/2021, 2021/2022 and 2022/2023 respectively. For Durham, domestic intake is anticipated to increase by 5.0% in each of the fiscal years in this budget cycle.

2. Nursing, B. Ed, Upper-Year Social Work and Certificates intake will be held constant at current levels or capped enrolment;

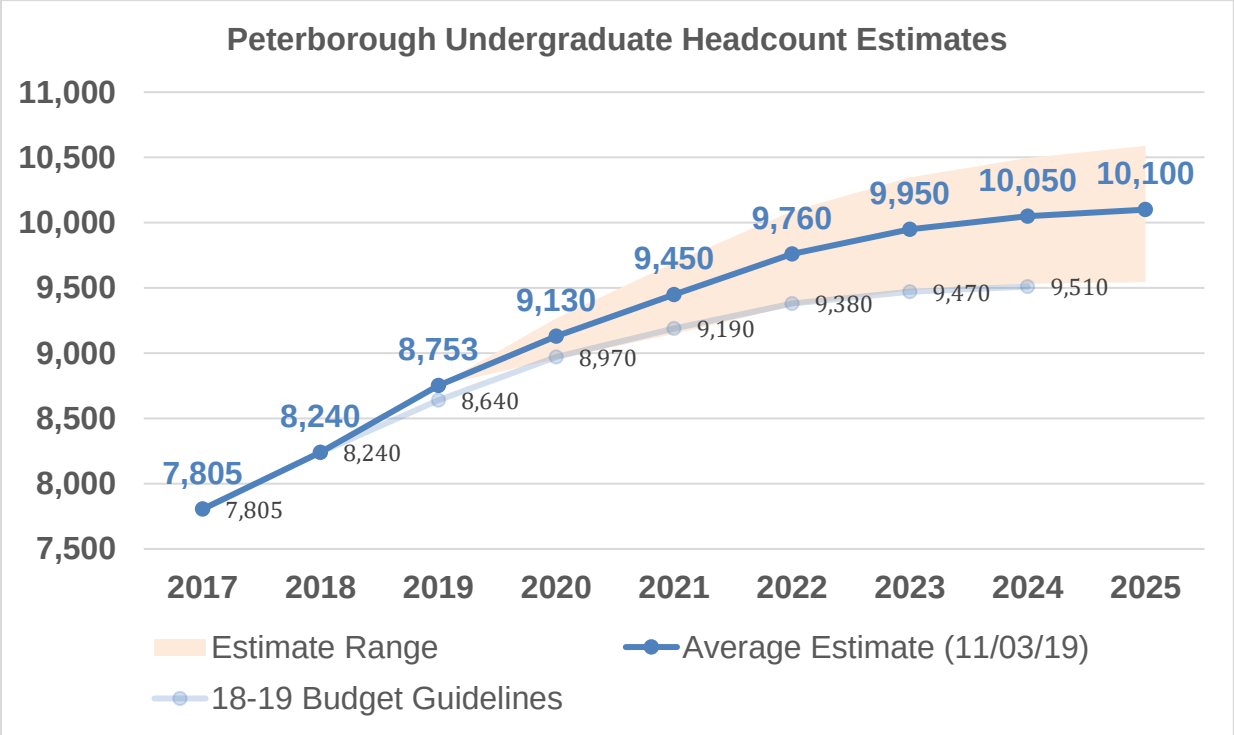
3. The overall goal is to increase international students to at least 10% of Trent's enrolment by 2024 (currently at about 8%). In alignment with strategies for international growth, it is expected that international intake will gradually increase over the next three years;

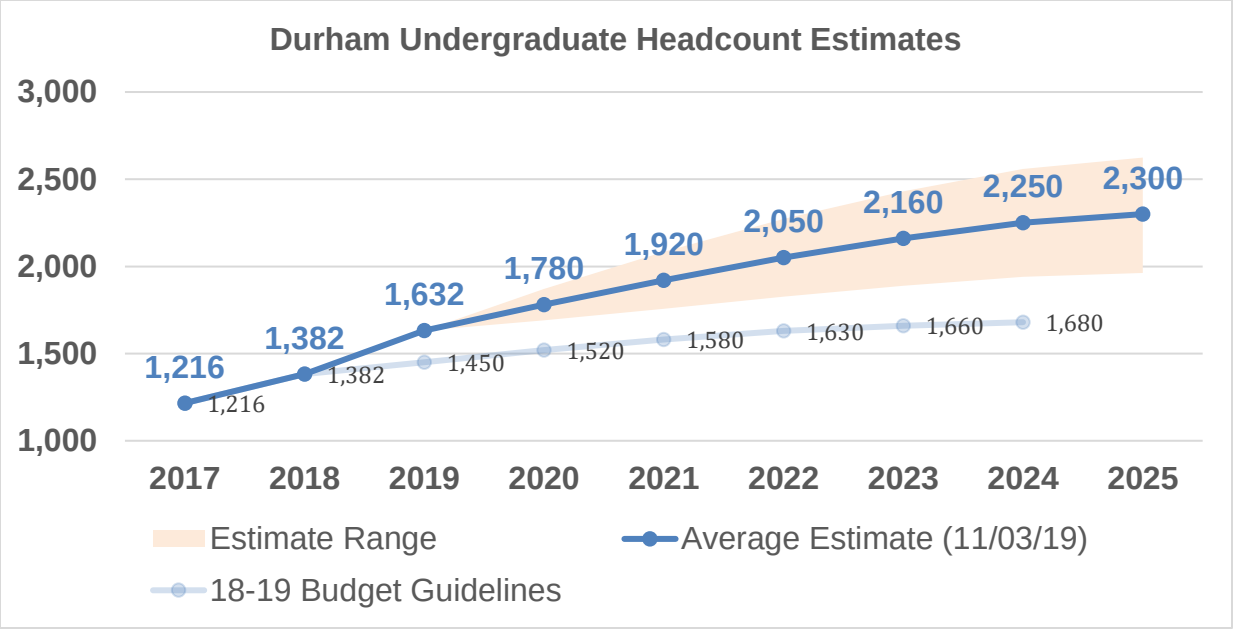
4. Continuation rates will be based on the average of the most recent two years, conservatively adjusted as necessary;

5. New programs to be introduced in 2020/2021 or future fiscal years have not been included in these estimates; it is assumed that any new programs will be revenue neutral in the initial years of introduction and will be considered as new investments in the budget development; and

6. Graduate enrolment will be held at capped graduate spaces for PhD programs and expected 2019 levels for Masters programs, which are currently exceeding the cap. Furthermore, international graduate enrolment is expected to increase by 10% from Fall 2019 counts.

Work is currently being undertaken to convert the head count projections to student full-time equivalents (FTEs) and weighted grant units (WGUs) for the purposes of planning revenues and resources, and for RCM modelling.





Enrolment Projections: Sensitivities for Trent

There are many factors that could substantially alter enrolment projections. Recent changes in the funding formula may alter the behavior of other institutions regarding offers and accepts, or changes to the scholarship program and OSAP program may alter the decisions of students. Discussions are also underway regarding entrance averages that may influence the University's ability to control and gradually slow down intake to within manageable levels. Continuation rates may change depending on student needs or the University's ability to meet higher student demand. The impact of the Durham Expansion project is also uncertain as projections can fluctuate significantly with smaller numbers. The low vacancy rates in Peterborough are creating a housing challenge for recruitment and first year guarantees. The increase in deferrals and reliance on transfer students are also factors that need to be considered. Competition for international students and related external issues such as obtaining visas also present challenges.

The continued increase in enrolment is welcome news for Trent, but also places additional pressures on resources (teaching, support staff, space, infrastructure, etc) required to address the increase in enrolment, especially if enrolment growth is not funded.

Government Grants

The Strategic Mandate Agreement (SMA3) will be a five-year agreement commencing with fiscal 2020/2021. Total eligible funding for the University will be fixed during the SMA3 based on the sum of the 2018/2019 Core Operating Grant (determined using the 2016/2017 corridor mid-point adjusted slightly for 2018/2019 graduate growth), the Performance Grant and Special Purpose Grants. SMA3 will link funding to labour market outcomes with 25% of total eligible funding tied to performance outcomes in 2020/2021 growing to 60% of total eligible funding in 2024/2025.

Performance-based funding will be linked to ten metrics, six of which will be aligned with priorities in skills and job outcomes, and four metrics related to economic and community impacts. The University will establish its own institutional strength/focus metric and institution-specific economic impact metric; the remaining eight metrics are pre-determined by the Ministry. The University will be measured each year against its own targets based on historical performance. The Ministry's intent is to set targets that promote continuous improvement; therefore, the targets and bands of tolerance will be recalculated by the Ministry each year.

The University has the flexibility to weight the metrics that best reflect its differentiated strategic goals. These weightings will identify the portion of performance-based funding at risk for each metric if the University does not perform within the established band of tolerance. The University will have one opportunity during the term of SMA3 to adjust the assigned weightings.

Government Grants: Sensitivities for Trent

Trent's enrolment is projected to increase over the next five years, however under the SMA3 model, enrolment growth will not be funded which has a significant impact on the revenue and resources of the University. For example, projected enrolment for 2019/2020 is over 20% higher than the fixed corridor midpoint value for the five-year period of the SMA3. This translates to approximately $7 million to $8 million in unfunded enrolment.

Failure to achieve performance targets will put performance funding at risk, resulting in lost government funding. If Special Purpose Grants are reduced, there will be an added pressure on the operating budget to reallocate resources to offset the loss of revenue in order to avoid the negative impact of discontinuing these much-needed programs.

With fixed Ministry funding for eligible (primarily domestic) students, universities including Trent will increase their reliance on growing international student enrolment, creating more competition and adding more operating pressures to provide the needed supports for this student population.

Tuition Rate Policy

In March 2019, the Ministry of Training, Colleges and Universities (MTCU) approved the Tuition Fee Framework that mandated a 10% reduction in tuition fees for the 2019/2020 academic year compared to 2018/2019 and a tuition fee freeze for the 2020/2021 academic year. This Tuition Fee Framework applies to all publicly funded programs at each year of study for funding-eligible students (primarily domestic graduate and undergraduate students). This policy is governed and monitored by the provincial government through the annual Tuition Fee Compliance report.

The Tuition Fee Framework does not apply to programs that are ineligible for operating grant funding (e.g. full cost recovery or self-funded programs) and most international students. Therefore, international tuition rates are subject to Board approval. Trent currently has the third lowest international tuition fees of Ontario universities. In an effort to grow international enrolment and remain competitive, senior administration is recommending an increase of 5% for all international undergraduate fees and an increase of 3% for most international graduate research-based and professional programs for each year of the budget planning cycle.

Tuition Rate Policy: Sensitivities for Trent

At this time, the Tuition Fee Framework has not been established for fiscal years beyond 2020/2021. Changes to the policy have the potential to make a significant impact on the University's revenues. With fixed Ministry funding, many universities including Trent, are adopting an enrolment growth strategy reliant on tuition-only revenue to offset inflationary pressures.

Student Aid and Increased Scholarship Utilization

The University has historically provided a high level of student aid relative to comparator universities, consistently standing at or near the top of university rankings in the percentage of its operating budget expended on scholarships and bursaries. Trent was #1 in Canada for scholarships and bursaries in 2019.

Student aid and scholarship expense is a highly variable cost dependent primarily on student enrolment and academic qualifications of the student body. In 2018/2019, Trent made changes to its scholarship program to eliminate full tuition, which has helped mitigate the negative impact of increased enrolment on this expense. No further changes to the program are planned at this time.

Trent currently estimates undergraduate scholarship expenses to be approximately 11.0% of gross undergraduate tuition fees revenue. International scholarship costs are estimated at 6.37% of gross international tuition fees revenue. Both of these assumptions are currently being reviewed based on historical trends.

The Ministry requires universities to reserve a portion of additional revenue resulting from tuition fee increases to eligible domestic students to ensure that institutions can meet Student Access Guarantee (SAG) requirements for need-based student aid, and provide other forms of assistance to students in need. Recent changes to OSAP have increased the University's SAG obligation, making it more difficult to meet other commitments for bursaries, work study programs, and needs-based scholarships. These changes are putting increased pressure on the scholarship budget. The current estimate for tuition set-aside of 6% of tuition fee revenue for eligible domestic undergraduate and graduate students is currently under review in light of these factors.

Student Aid and Increased Scholarship Utilization: Sensitivities for Trent
Careful monitoring of the scholarship program will be required. As enrolment increases, so too does scholarship and financial aid costs. As entrance grades increase, the quality of the student body will increase thereby increasing scholarship utilization. In addition, it will be important to monitor the impact of any changes in the scholarship program with respect to the University's reputation and rankings.

Salaries and Benefits

Compensation increases for all employee groups are based on collective agreements and progression through the ranks and we will continue to see an escalation of salary costs. In 2018/2019, salaries comprised approximately 74% of operating expenditures.

Bill 124 passed legislation in November 2019 restricting salary increases to 1% (excluding merit and step increases) for a three-year period commencing on the expiry of existing collective agreements. Further details are expected to be released soon regarding this initiative and the Executive Compensation initiative.

Based on current information from the University's benefits consultants, Trent is anticipating an overall increase in benefit costs. Indications are that long-term disability may increase by up to 10%, extended health may increase by between 7.0% and 12.0%, and dental may increase by between 5.0% and 10.0%. Increases in benefit costs are currently under negotiation to reduce the impact on the operating budget.

Salaries and Benefits: Sensitivities for Trent
Increases in full-time academic and administrative staff substantially increases the compensation pressures imposed on Trent. Very careful consideration to full-time positions should be considered.

Changes to the collective agreements during the three-year budget cycle may have a significant impact on the operating budget. For example, negotiations have just begun with CUPE1 as that collective agreement expired August 31, 2019. The CUPE2 agreement expires August 2021, the TUFA agreement expires June 2022, and the OPSEU agreement expires July 2022.

Pension Costs

Trent's Defined Benefit Pension Plans remain a funding challenge for both members and the University. Unfortunately for Trent, while asset returns are currently tracking to benchmark with very low fees, they are still below the long-term rate of return required to sustain the going-concern obligations of the Plans without increased contributions and/or future benefit reductions. The largest contributing factor to this problem is, as for all other defined benefit plans, historic low interest rates.

The funding rules for pension plans in Ontario have changed effective for any valuation dates on or after December 31, 2017. The solvency funding target is reduced to 85% of solvency liability. There is now a requirement to include an 8.0% provision for adverse deviations (PfAD), an explicit margin applied to both the going concern liability and normal cost when determining minimum calculations. The resulting increase in liability due to PfAD is only partly offset by the elimination of the conservative margin when calculating the discount rate. These new funding rules affect both registered pension plans.

The TUFA Pension Plan is a registered pension plan for which an actuarial valuation is prepared annually with required filing every three years. Based on the preliminary actuarial valuation at June 30, 2019 (a filing year), the University's normal cost is expected to be 11.48% of payroll. Effective July 1, 2020, going concern and solvency special payments will increase by about $3.5 million. Senior administration is meeting with the Ministry to request continuation of the current solvency relief or approval for a standby letter of credit to defer additional solvency special payments until the conversion into the sector's jointly sponsored pension plan, targeted for January 2022, which will eliminate the requirement for solvency special payments.

The OPSEU/Exempt Pension Plan is a registered pension plan for which an actuarial valuation is prepared annually with required filing every three years. Based on the preliminary actuarial valuation at June 30, 2019 (not a filing year), the University's normal cost is expected to be 10.14% of payroll. Going concern and solvency special payments remain unchanged for 2020/2021.

For the Supplementary Retirement Agreement, annual benefit payments will be required from the operating budget as the assets in the plan were depleted in November 2018.

Pension Costs: Sensitivities for Trent
The solvency deficits and going concern unfunded liabilities for both the staff and faculty plans continue to grow. These effects are realized in and subsequent to a filing year.

Utilities

As work continues on initiatives under the Energy Performance Contract (EPC), scheduled for completion in Spring 2020, energy consumption is expected to decrease. Savings related to the EPC agreement will be used towards financing the project over the next 10 years so will not lead to operating savings during this budget cycle.

Trent is anticipating an announcement pending the Ontario Fair Hydro Plan in early November 2019. In the absence of further information at this time, utilities rates are assumed to be comparable to prior years.

Utilities: Sensitivities for Trent
Careful consideration of the impact of forecasted future rate changes for utilities will be required in developing the budgets for 2020/2021 and beyond as rates may substantially change over the three-year budget cycle.

Capital – Deferred Maintenance

Deferred maintenance on the physical infrastructure remains a problem for all Ontario universities. The deferred maintenance backlog at Trent was approximately $80 million based on the most recent assessment in 2019.

Deferred maintenance and capital projects are currently being determined, which may require additional investments from the operating budget. The current provincial government has not announced the Facilities Renewal Program funding for years beyond 2019/2020. The University typically uses this grant funding of about $500,000 to $750,000 each year to address deferred maintenance.

Capital – Deferred Maintenance: Sensitivities for Trent
Deferred maintenance remains a challenge for Trent and further investment is needed. There is currently no provision in the operating budget for new deferred maintenance.

Capital – Information Technology

The IT Strategic Plan concluded in April, 2017. A process to update the IT Strategic Plan to identify and prioritize needs is currently underway. A recent estimate by IT places this IT capital renewal cost at $1.2 million per annum.

The new Human Resources Information System (HRIS) was recently implemented with a go-live date of November 1, 2019. The one-time implementation costs over the two fiscal years 2018/2019 and 2019/2020 were approved by the Board in fiscal 2017/2018. The on-going operating costs will need to be incorporated into the operating budget.

The IT Strategic Planning Committee is currently in the process of identifying any additional IT requirements that may impact the operating budget.

Capital – Information Technology: Sensitivities for Trent
IT capital spending remains a challenge for Trent and consideration should be given to the level of increased funding needed in this area to support learning and uninterrupted services. There is currently no provision for IT capital renewal in the operating budget.

Appendix A – Timelines

Preliminary Budget Discussions	
President / Vice-President Committee	November 4 & 18, 2019
Finance and Property Committee	November 19, 2019
Faculty Board	November 22, 2019
Administration Planning Group	December 3, 2019
Operations Management Committee	December 3, 2019
Joint Academic Planning & Budget / Provost's Planning Group	December 5, 2019
Board of Governors	December 6, 2019
Special TUFA Joint Committee	December 12, 2019
Colleges and Student Services Committee	January 8, 2020
Budget Preparation	
Guidelines and budget packages provided to Budget Developers	December 6, 2019
Budget submissions due to Financial Services	January 24, 2020
Budget presentations to President / Vice-President Committee	February 10-12, 2020
Budget Update Discussions	
President / Vice-President Committee	March 2, 2020
Administrative Planning Group	March 2, 2020
Provost's Planning Group	March 3, 2020
Operations Management Committee	March 4, 2020
Special TUFA Joint Committee	March 12, 2020
Joint Academic Planning & Budget / Provost's Planning Group	March 19, 2020
Faculty Board	April 3, 2020
Senate	April 7, 2020
Budget Approvals	
Finance and Property Committee	March 17, 2020
Board of Governors	March 27, 2020