



Report of the Provost's Task Force on University Budget Models

January 25, 2016

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EXECUTIVE SUMMARY

The Budget Model Task Force's overarching conclusion is that while the current model will necessarily continue to evolve in response to emerging government policy, shifting student demand, mission-critical academic and administrative needs, and the imperative of institutional priorities outlined in the strategic plan, there is evidence to show that the model in its present form has enabled Western to achieve three fundamental objectives: maintain high student quality, retention and graduation rates within the context of a research-intensive university.

In response to its solicitation for input on the budget model from the campus community, the Task Force received 12 written submissions, and approximately 75 people, in total, attended the two town halls held in October. From the documented inputs and discussions heard at the town halls (in addition to discussions heard at the November 26 Leaders Forum and December 4 Senate) the Task Force observed that there appears to be a generally low level of knowledge within the campus community about what the budget model is, how it works, the underlying principles on which it is based, objectives it aims to achieve, and how it has evolved during the past two decades to adapt to changing circumstances. The Task Force report, therefore, devotes considerable attention to a detailed description of the existing model, complemented by an explanation of Western's investment and debt management strategies.

Through its consultations and review of historical data, the Task Force also recognized that the complexity of the budget model presents many inherent and significant communication challenges that need to be addressed in order to better respond to concerns related to the perceived and/or real deficiencies in transparency, community engagement, understanding and trust in the University's financial processes. The findings of the Task Force offer suggestions for how these communication challenges might be overcome. Further, the Task Force recognizes that tackling these challenges will not be quick or easy fixes. Increasing understanding and creating trust in the budget model will take time, thought and involvement by academic and administrative leaders across campus to improve and more actively participate in budget communications. This holds particularly true for Deans, Chairs and other budget unit heads who play essential roles in Western's annual budgeting processes and related communications. It will also require the interest and engagement of all members of the broader campus community.

The Sub-Committee on Graduate Funding made similar overarching conclusions with respect to the need for improved communication in order to respond to a wide range of concerns expressed about student support.

The Sub-Committee observed that the delivery of graduate student support involves a complex array of internal and external funding sources, with allocation strategies designed at the Faculty and program level. While the common goal behind these strategies is always aimed at creating competitive funding packages that will attract and retain top students, the Sub-Committee's work highlighted that the ways packages are assembled vary from Faculty to Faculty, from program to

program, and from student to student – even within the same program – reflecting student-specific eligibility for access to different funding sources.

The complex and decentralized nature of providing graduate student support is not unique to Western; distributed models are typical at other research-intensive universities. It is important to note that the decentralized approach has generally been successful at Western insofar as a total of \$90.9 million in financial support was provided to graduate students during the 2014-15 academic year alone.

Western's decentralized approach to graduate student support has evolved over time to include many different Faculty-based models. These models are in most cases poorly understood, poorly documented and poorly communicated, contributing to many of the concerns expressed by students, program leaders, faculty and staff alike. Therefore, many of the conclusions outlined in the Sub-Committee's separate report focus on suggestions to improve documentation and communication.

Finally, members of the Budget Model Task Force and its Sub-Committee on Graduate Funding wish to thank all students, faculty and staff who shared their thoughts, suggestions and questions in writing and/or took the time to participate in the various consultations related to the work of these two committees.

INTRODUCTION

Background & Impetus

Following the Senate meetings of April 2015, the President & Vice-Chancellor attended a series of town hall meetings across campus to hear and learn about issues important to Western faculty, staff and students. At these meetings, concerns about the University's budget and funding support for graduate students were the most frequently mentioned and resonant issues discussed by community members. Among the comments heard, Western's budget model was described as "broken" and in need of redesign due to the fact that some Faculties are contending with a more highly constrained fiscal reality than others, particularly in some of the non-STEM (i.e., science, technology, engineering, math) disciplines. Other comments included the assertion that Western's administration is prioritizing the accumulation of assets ahead of funding core activities. Suggestions were made that there is little justification or legitimacy for the fiscal austerity measures currently being implemented across campus.

In addition to this commentary shared during the town hall meetings, critiques of Western's budget model have also been evident in other public forums. Some documented examples date back to April 2014 when UWOFA released its report [*"Every Budget is a Choice."*](#) More recent examples are found in the UWOFA report released in May 2015 titled [*"Building a Better Western,"*](#) which includes a sample of faculty opinions and suggestions for improving Western's budget model. Several other examples are found in statements posted on the website [*"100 Days @ Western: The Alternative Listening Tour"*](#).

In response to the assertions and concerns expressed through this critical narrative on Western's budget model, the Provost & Vice President (Academic) struck a Task Force in summer 2015 with a mandate to study the issue in depth and report its findings back to the campus community. At the Task Force's first meeting September 3, a Sub-Committee was struck with a mandate to focus on matters specifically related to funding for graduate students. Following a separate review and consultation process undertaken by both the Task Force and its Sub-Committee September through January 2016, this report is being presented to SCUP and Senate.

See *Appendices* for the Task Force's and Sub-Committee's Terms of Reference and Membership lists.

Consultation & Information Gathering

The Task Force met seven times (September through January) to collect and review historical information, data and opinions on Western's current budget model. As part of its review, the Task Force also studied the University's investment and debt management strategies in addition to reviewing information on alternative budget models (e.g., "Responsibility Center Management" or RCM) employed at comparator universities and the Ivey Business School. The

Task Force also shared information with and solicited input from members of the campus community through several means, including:

- Deans' Retreat, August 31 - September 1, at which the Education Advisory Board presented a summary of the firm's research on university budget models
- Website http://provost.uwo.ca/planning_reports/taskforce.html
- Broadcast emails inviting confidential written submissions and participation in Town Halls
- Advertisements in Western News promoting same as above
- Two Town Hall Meetings held at the McKellar Room, October 20 and 26
- Leaders Forum, November 26
- Senate, December 4

The Task Force's Sub-Committee on Graduate Funding met seven times (September through December) to collect and review historical information, data and opinions on matters specifically pertaining to how Masters and Doctoral level students receive financial support at Western. Due to the complexity and substance of the Sub-Committee's consultations, data review and findings, a stand-alone report was prepared on Graduate Funding; however, key findings of the Sub-Committee are highlighted in the Executive Summary of this report – the balance of which focuses on matters pertaining to the University's budget model and investment and debt management strategies.

AN OVERVIEW OF THE EVOLUTION OF WESTERN'S BUDGET MODEL

Pre-1995: Precursor to an evolving approach to budgeting

Western's current approach to budgeting has evolved during the past two decades and can be described as a "hybrid" version of three more fundamental models employed in various permutations by institutions across the postsecondary sector. In its 2014 study titled "[Optimizing Institutional Budget Models](https://www.eab.com/research-and-insights/business-affairs-forum/studies/2014/optimizing-institutional-budget-models)," the Education Advisory Board (EAB)¹ generally describes these basic model types as follows:

1. **Incremental** – Deploys any incremental resources equally to meet existing commitments, regardless of enrolment fluctuations, student demand for programs, or strategic aspirations in each of teaching and research. In times of decreasing resources, all areas cut equally.
2. **Responsibility Center Management (RCM)** – Deploys resources to academic units in ratio to the revenues they generate. For example, areas where student demand (and hence enrolment) are increasing receive a share of the revenues thereby generated in order to respond to the demand. Similarly, units that create revenue generating teaching or research endeavors receive a share of the revenue to fund the activity.
3. **Performance Based** – Deploys resources selectively to fund institutional priorities and/or new growth.

Details on how aspects of each of these models have been integrated into Western's current hybrid model are explained throughout this report.

Prior to the mid-1990s, Western operated primarily within an "incremental" budget model. In this model, Faculty and Support Unit base budgets had evolved over time to meet historical costs. Any changes to institutional funding coming from government operating grants or tuition increases were applied "across the board" to all academic and support units, with no direct linkage between enrolment fluctuations and adjustments to Faculty budgets, and irrespective of the Faculties' alignment with the strategic priorities of the institution.

By 1993-94 several institutional issues and funding challenges began to undermine the University's reputation. For the first time in Western's history, the average entering grade of its first-year students dropped below the provincial average. Undergraduate enrolment, year-over-year student retention rates, and graduation rates were all in decline. And a troubling public narrative was branding Western with a "party school" image. Making matters worse, Western was grappling to contain an accumulated deficit when a new provincial government was elected

¹ Established in 2007, the **Education Advisory Board** partners with 1,000+ colleges and universities across North America and Europe to help address a wide range of postsecondary planning, budgeting and operational challenges. As an EAB member institution, Western has access to the firm's best practice research, data analytics, technology and consulting services. Members of the Western community can gain access to the full study titled "Optimizing Institutional Budget Models" online at <https://www.eab.com/research-and-insights/business-affairs-forum/studies/2014/optimizing-institutional-budget-models>. Please note that a valid uwo.ca email address is needed to access this site.

to Queen's Park in spring 1995. Overnight, under the banner of the new Premier's "Common Sense Revolution," a province-wide cut to university funding resulted in a 15% reduction to Western's operating grant. Further constrained by a legislated cap on tuition increases and limited means to increase revenue through alternative funding sources, Western found itself in a precarious financial situation that demanded a change in thinking about its approach to planning and budgeting.

1995-2000: Focus on student quality and educational experience

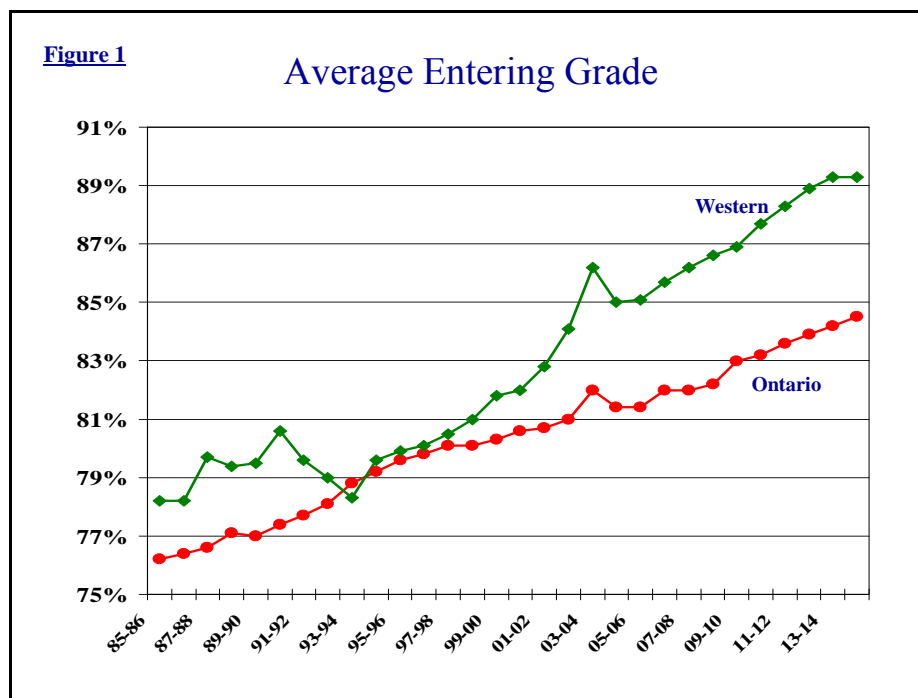
In response to these reputational and fiscal challenges, Western's annual planning and budgeting activities began to focus close attention on enrolment planning, with the goals of improving student quality along with the quality of the educational experience students receive. Accordingly, the budget model began to evolve in support of the institutional priorities outlined in Western's 1995 strategic plan, "[*Leadership in Learning.*](#)" Over the next several years, components of RCM and Performance-based budgeting were introduced into Western's budget model. It should be noted here that beginning in 2003-04, the Ivey Business School became unique among Western's Faculties insofar as it began operating within a pure RCM framework in which the School is responsible for generating all revenue to cover all of its operating costs (i.e., salaries & benefits of faculty and staff, operating expenses, and indirect costs including University services, such as IT, space, libraries, etc.). There were several compelling reasons for moving Ivey to an RCM budget model, including the opportunity to significantly grow HBA enrolments (driven by student demand) at significantly higher tuition rates when compared to student fees charged in other disciplines. Further, the business school is also able to generate additional revenue through ancillary activities (e.g., case publishing, executive education) not necessarily available in other Faculties.

Beginning in 1995-96, first-year undergraduate intake was capped at 4,000 and a single common minimum entrance standard was set for all first-entry programs across campus. Student recruitment efforts were consolidated, and all students receiving an offer of admission were guaranteed room in residence, first-year courses of their choosing and, for those with 80% averages or higher, an entrance scholarship. While such guarantees are now common place at many universities, it was an innovation at the time that set Western apart as a leader in Ontario. Western also began developing modular degree programming to offer students expanded academic choices. At the same time, "Enrolment Contingent Funding" (ECF) was introduced to Western's budget model, which allocated incremental funding to each Faculty to reflect expansions in their respective enrolments. The goal behind ECF was to direct more resources to Faculties where student demand resulted in increased teaching demand and other program costs.

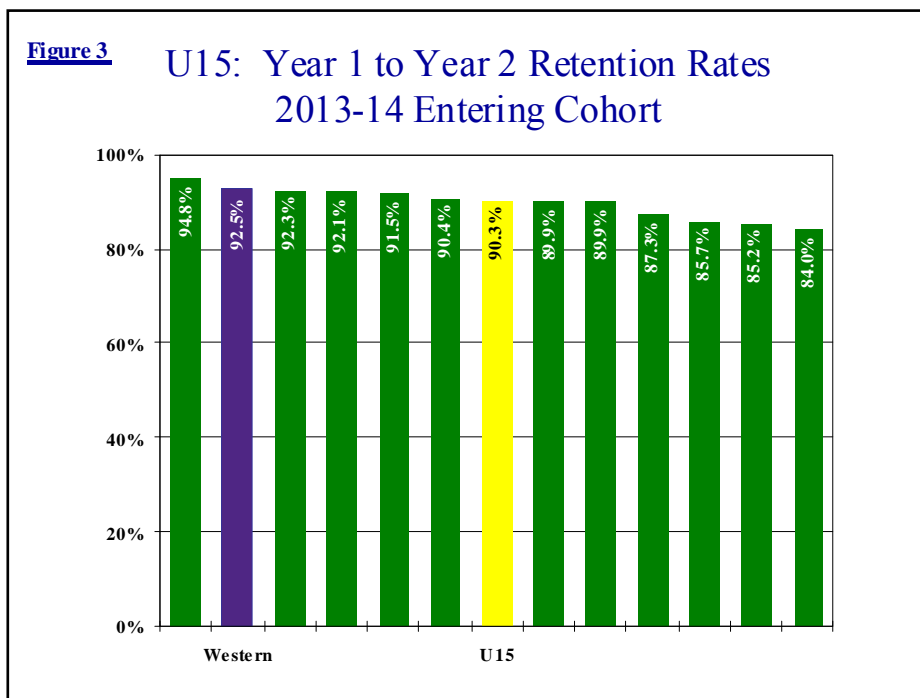
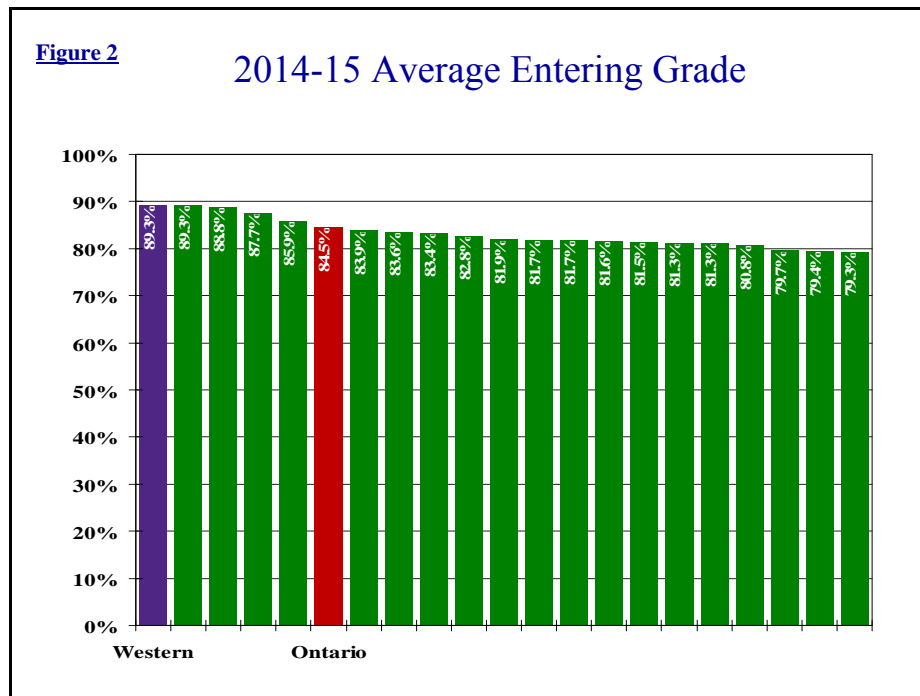
In 1997, Western introduced another component to its budget model: the "Initial Budget Adjustment." The IBA withholds up to 3.0 % (4.5% in 2009-10 and 2010-11 following the global financial crisis) from unit operating budgets each year to provide a centralized pool of funds intended to serve two purposes. First, the IBA is intended to help off-set the inflationary costs of running the University – costs which historically have not been covered by government grants. Such costs include annual salary and benefits increases for faculty and staff (as negotiated through collective bargaining agreements), which continue to be covered centrally – not by

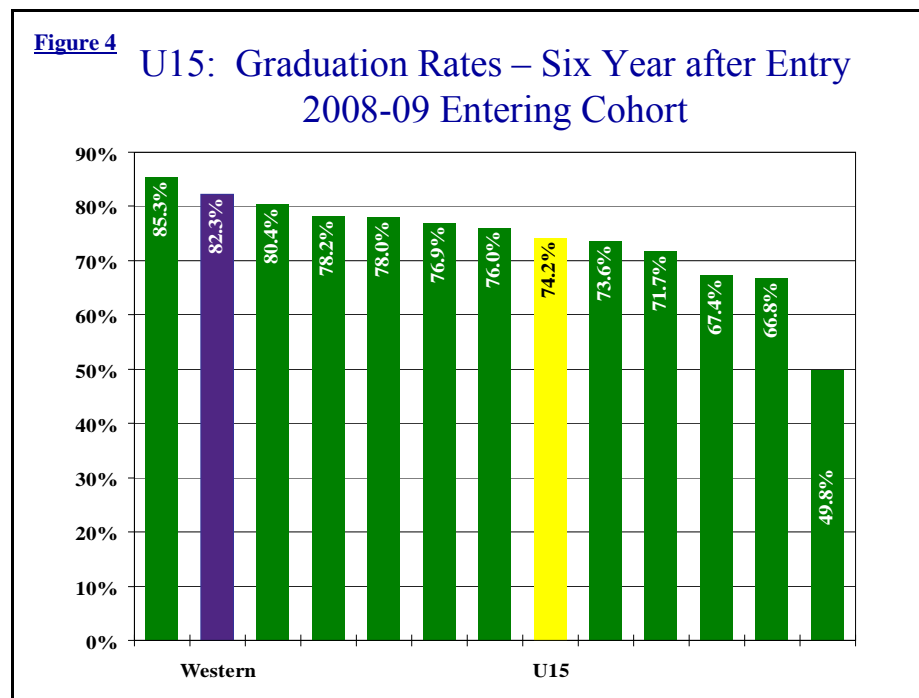
individual academic and support unit budgets. Second, the IBA was initially intended to create a modest central fund to invest selectively in institutional priorities. As part of the annual budgeting process, Faculties and support units are invited to submit proposals to access these central funds in support of special projects and initiatives closely linked to Western's strategic plan. It should be noted, however, that in recent years the IBA has not been sufficient to cover the full cost of salary and benefit increases, and the University has had to manage this shortfall through other cost-containment and revenue-generating measures.

Subsequent to these modifications being made to enrolment planning and the budgeting process, positive trends began to emerge on several key performance indicators. For example, Western's average entering grade rose to the point where its first-year cohort now has the highest entering average among Ontario universities.



As the quality of incoming classes improved, student retention and graduation rates also began to rise to the point where Western currently ranks second on these measures among Canada's leading research-intensive universities.

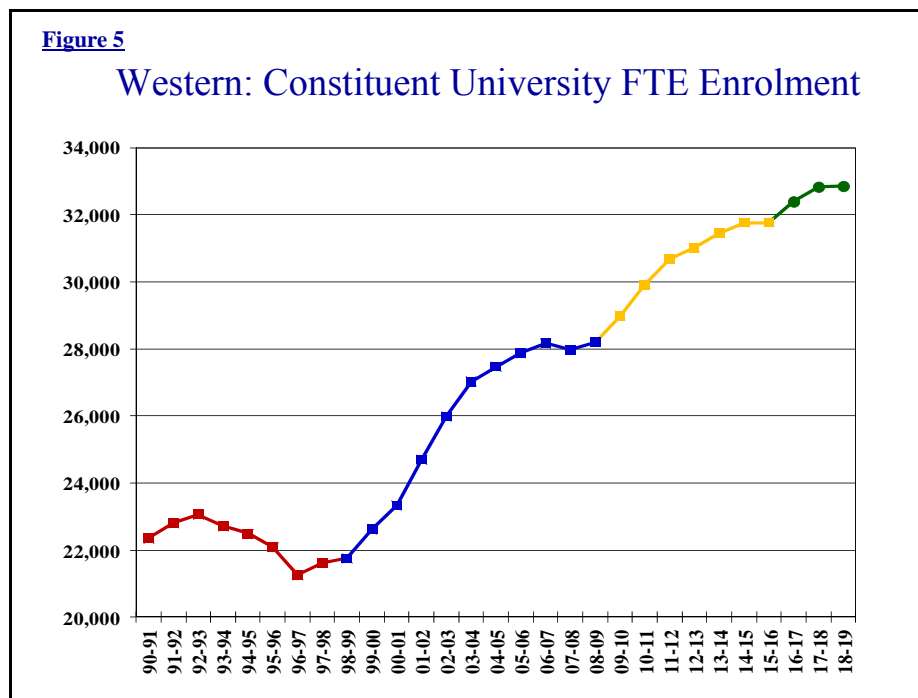




2000-2014: A period of substantial growth in enrolment and revenue

By the turn of the millennium, as first-year undergraduate student entering averages and retention rates continued to rise, and as four-year undergraduate degrees grew in popularity (and the number of students pursuing three-year degrees subsequently diminished), total student enrolment at Western also began to rise. In Figure 5 below, the total FTE student enrolment at Western is illustrated over a 25-year period dating back to 1990. The line represented in **blue** (1998 to 2008) depicts a period of significant growth when first-year enrolment was capped at 4,350. The **yellow** line (2008 to 2015) depicts a period of growth that occurred when Western focused greater attention on graduate expansion and international undergraduate student enrolment. During this time, the long-standing first-year enrolment cap was lifted and Western's entering class rose as high as 5,100 while entrance standards also continued to climb. The **green** line (beyond 2015) depicts future total enrolment which is projected to level out by the end of the decade.

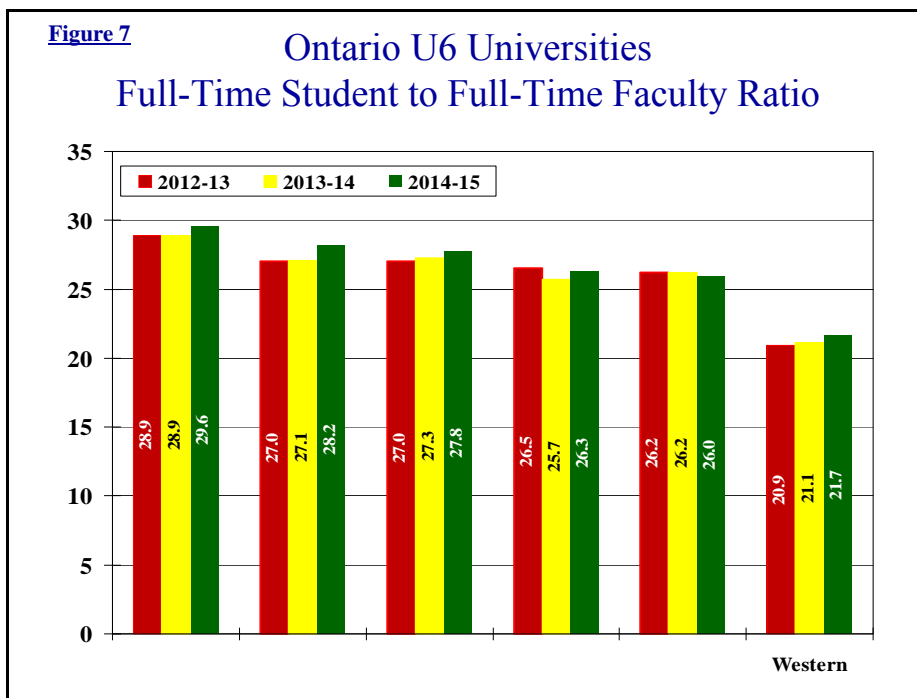
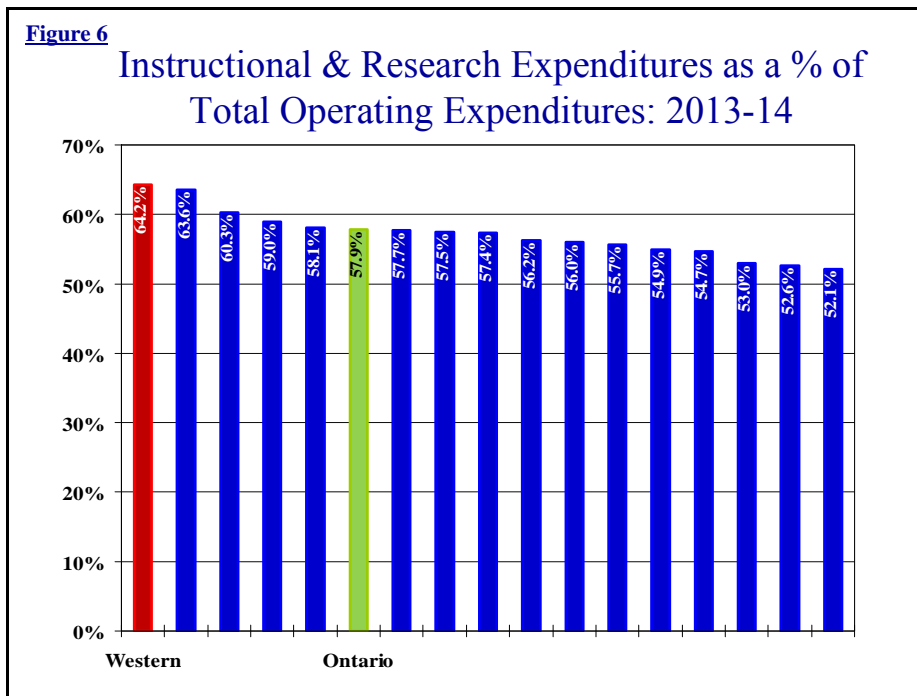
In 2003, a new provincial government elected to Queen's Park initiated a review of Ontario's university and college sector which resulted in the development of the "*Reaching Higher*" plan introduced in 2005. Billed as "the largest multi-year investment in postsecondary education in 40 years," the plan would provide for a \$6.2-billion cumulative investment in higher education by 2009-10, including \$4.275 billion ear-marked for college and university operating grants, which represented a 39% increase compared to the 2004-05 funding base. With this increased investment, the government promised Ontarians they would see "improved access and quality in postsecondary education, better facilities, and that institutions would be held accountable for accomplishing these objectives."



It was during this significant growth period that Western implemented its first multi-year budget plan. Introduced in fall 2002 to start in the 2003-04 fiscal year, this evolution of the budget model aimed to provide the University, its constituent Faculties and support units with a better tool for predicting and managing their revenue and expenditures as well as a tool to aid strategic decision making. Key features of the multi-year budget plan included annual updates to reflect changes in:

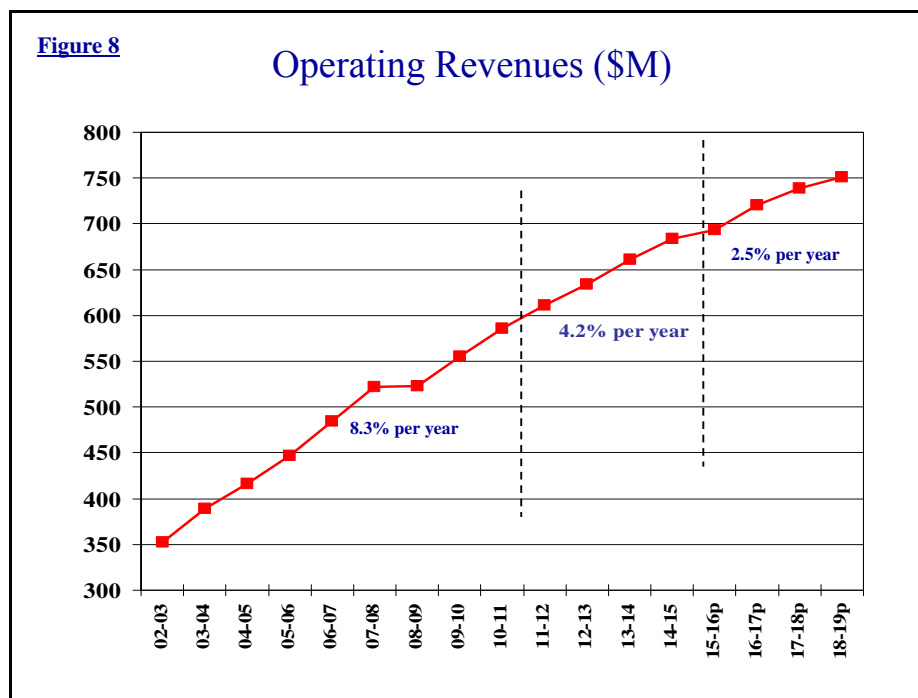
- University-level revenue and expenditure projections;
- Faculty Academic Plans that defined teaching and research priorities of Western's Departments, Schools and Faculties;
- Support Unit Operational Plans that defined the priorities of the non-academic units in support of the University's mission;
- unit-specific detailed budget projections for the planning period;
- faculty and staff complement plans for each unit;
- a University enrolment plan; and,
- new strategic initiatives and associated budget investments.

It was also during this growth period that operating funds allocated to Faculties through various revenue sharing mechanisms were increased to better meet needs at the Faculty level. In fact, Western now spends more on teaching and research as a percentage of its operating budget than any other Ontario university while also maintaining a lower student-to-faculty ratio than any of the province's U6 research-intensive universities.



2014 Forward: A period of significantly attenuated growth

Following the global economic crisis of 2008 and the end of the Ontario government's "Reaching Higher" funding commitments in 2010, Western today has entered into a period of significantly attenuated revenue growth. While the University's operating revenue grew by an average of 8.3% from 2002 to 2011, revenue growth slowed to 4.2% between 2011 and 2015 – despite the fact that undergraduate enrolment experienced a modest expansion during this period. However, now that enrolment growth is leveling out, projected revenue growth for 2016 and beyond is estimated at only 2.5% per year, as illustrated in Figure 8 below.



To complicate matters further, while Ontario's highly indebted government is conducting a funding formula review, it has already signaled there is no new money to invest in postsecondary operating grants. Combined with a legislated cap on tuition fee increases (currently set at 3%, with no decision on what might be allowed beyond 2016) it is evident that constrained resources will put increased pressure on Western to find alternative revenue sources and to contain inflationary costs, which includes employee salaries and benefits, utilities, IT infrastructure, deferred maintenance, and library acquisitions.

It is important to note that approximately 85% of Western's operating revenue is enrolment-related. As a result, the University's approach to enrolment planning – which focuses on the priorities of maintaining student quality and responding to student demand/choice of academic programming – has a direct impact on overall revenues, Faculty-specific enrolment/teaching levels, and associated resource needs. While enrolments are the main driver of revenues and expenditures, in order to pursue the aspirations of Western's strategic plan, the hybrid budget

model is structured to allow for selective investments in areas of priority – including support for educational quality, student experience, scholarship/research, interdisciplinarity, and internationalization.

Specific components of Western's current hybrid budget model as it applies to Faculties are described below.

“Incremental” aspects of Western’s current budget model

Each Faculty has an established base budget which has evolved over time, reflecting changes in enrolments/teaching, strategic/selective investments, and targeted funding from government. The base budgets are adjusted annually in three ways:

1. As noted earlier in this report, an Initial Budget Adjustment (IBA) – which reduces the base budget by 3% – is applied annually. This adjustment is required to help fund inflationary costs, including annual salary increases. It is also intended to provide central funding to support institutional priorities. However, in recent years, the IBA has not covered the full cost of annual salary increases.
2. The full cost of annual negotiated increases in employee salary and benefits is funded centrally, and this incremental amount is added as required each year to supplement Faculty base budgets. As noted above, in recent years, this addition of central funds to Faculty budgets has exceeded the amount removed from Faculty budgets via the 3% IBA.
3. “Faculty Turnover Recovery” adjustments are applied when a tenured/probationary faculty member past age 55 leaves Western. In the current year, the adjustment returns the greater of \$85,000 or 60% of the faculty member's salary to the Faculty budget to enable the hire of another faculty member at the junior level. If the faculty member's departure occurs before age 65, the recovery does not occur until the year in which the member would have reached age 65.

“RCM” aspects of Western’s current budget model

Faculties receive substantial additional ongoing funds through an enrolment-related revenue sharing mechanism. A share of incremental revenue (resulting from enrolment-related grant and/or tuition revenue increases) is flowed to individual Faculty budgets on the basis of the following formula:

- 25% on direct-entry undergraduate enrolments/teaching
- 50% on second-entry (or professional) undergraduate enrolments
- 50% on professional Masters enrolments
- 85% on research masters and doctoral enrolments (the remaining 15% is used to support a program aimed at recruiting doctoral students with external awards)

This funding mechanism is an on-going program that is linked directly to enrolment/teaching levels in recognition of the associated incremental costs.

“Performance-based” aspects of Western’s current budget model

Selective investments in priority areas/initiatives are made at Western in two basic ways:

1. ***Targeted Government Funding Programs*** – As part of its financial support for universities, the Provincial Government, on a regular basis, provides targeted funding in support of growth in specific areas/programs which are identified as government priorities. Examples over the past 15 years include expansion of Software Engineering and Computer Science, expansion and subsequent reduction of teacher education enrolments, nursing expansion, and expansion of various programs in Medicine. A major portion of such funding flows directly to the Faculties offering the programs.
2. ***Academic Priorities Fund (APF)*** – Western continues its long-standing practice of retaining central funds (base and one-time) to support academic initiatives that directly support the University’s institutional priorities in teaching and research as outlined in the most current iteration of its strategic plan. As part of the annual planning and budgeting process, Deans are invited to submit proposals to access the APF for initiatives included in their Faculty Academic Plans that align directly in support of the University’s strategic plan.

Respecting the fact that the value of all requests made to the APF typically exceeds the available funds by a significant margin, a major component of this process involves the Provost’s close review of all APF proposals, which includes discussions with the Deans. The Provost’s final recommendations are informed by advice from the Vice-Provosts, in the context of the following considerations:

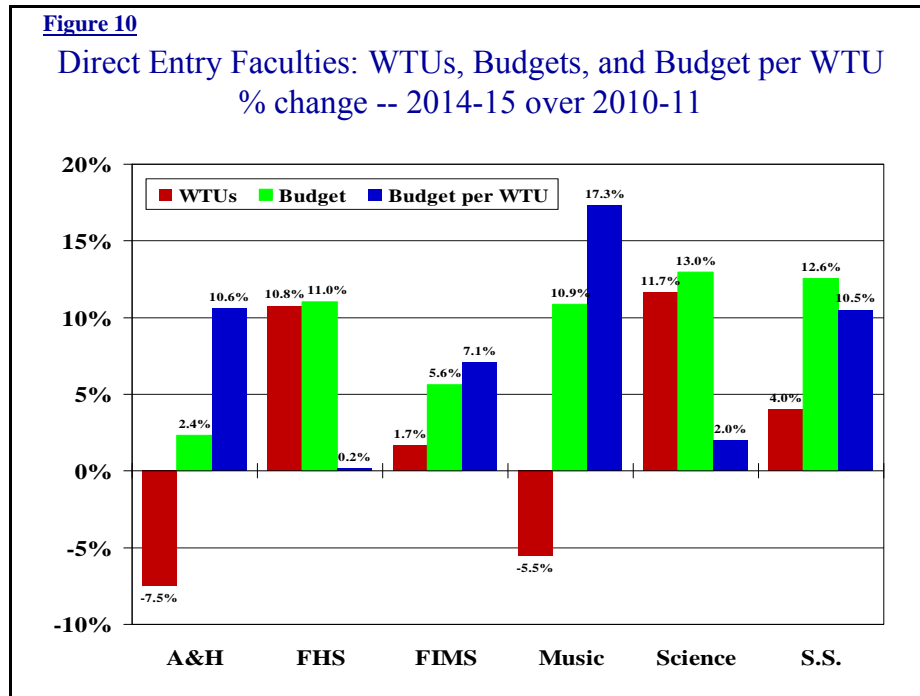
- The Faculty’s overall resource situation relative to enrolments/teaching
- Plans for program expansion and/or development of new graduate and undergraduate programs
- Projected revenue sharing allocations
- Resources relative to similar programs/Faculties
- Cost structure variations among disciplines/Faculties
- Relationship between resources, enrolments, and faculty/staff complements
- Scholarship/research activities and new initiatives, including interdisciplinary or cross-Faculty initiatives

Figure 9 below illustrates changes in Faculty budgets over the most recently completed four-year planning period. Column <a> shows the IBA reductions, column shows the central funding allocations to cover employee salary increases, and column <c> shows the net result which illustrates that, in total, the IBA has not covered the costs of salary increases. Column <d> shows the sum of all other changes to the Faculty budgets possible through the various mechanisms described above, and column <e> shows the net overall impact on Faculty budgets, which equals a total increase of more than \$34.6 million during the fiscal period 2011-12 through 2014-15.

Figure 9**Changes in Faculty Budgets****Total -- Over the Most Recent 4-Year Planning Period: 2011-12 to 2014-15**

		<a>		<c>	<d>	<e>
		IBA	Central Funding for Salary Increases	Sub-Total	All Other Changes	Total Change to Faculty Budgets
1	Arts & Humanities	-2,860,987	3,916,324	1,055,337	-228,135	827,202
2	Education	-1,265,015	1,056,000	-209,015	2,965,772	2,756,757
3	Engineering	-2,357,555	2,435,505	77,950	3,444,168	3,522,118
4	Health Sciences	-2,840,789	3,452,318	611,529	2,451,441	3,062,970
5	Info & Media Studies	-1,022,407	1,226,778	204,371	495,969	700,340
6	Law	-756,543	843,903	87,360	1,600,218	1,687,578
7	Medicine & Dentistry	-6,295,437	5,865,641	-429,796	7,425,412	6,995,616
8	Music	-956,299	1,150,230	193,931	643,577	837,508
9	Science	-5,010,247	5,407,199	396,952	6,870,389	7,267,341
10	Social Science	-5,180,593	6,149,367	968,774	6,052,385	7,021,159
11	Total	-28,545,872	31,503,265	2,957,393	31,721,196	34,678,589

Figure 10 below illustrates the percent change in enrolments/teaching, budgets, and budget relative to teaching for each of Western's Direct-Entry Faculties with regulated tuition. Here, enrolment/teaching is measured in Weighted Teaching Units (WTUs) which capture overall teaching activity within the Faculties by incorporating graduate enrolments, undergraduate enrolments in professional or 2nd-entry Faculties, and undergraduate teaching which is measured in course registrations – irrespective of the student's Faculty of registration.



WESTERN'S INVESTMENT & DEBT MANAGEMENT STRATEGY

Understanding Western's complex budget model requires a complementary understanding of the University's assets and obligations along with its approach to managing investment and debt. As of September 30, 2015, Western held a total long-term investment portfolio with a market value of \$1.02 billion. The investment portfolio includes two major components: *Endowed Funds* (\$554M) and *Non-Endowed Funds* (\$466M). In addition, the University held \$379 million in cash and liquid assets to pay its ongoing operating expenses. The University also carries significant debt – \$298 million as of April 30, 2015 (fiscal year end), with that amount projected to increase to \$330 million based on known construction and renovation commitments.

How Western manages its Endowed Funds

Western's Endowed Funds represent donations held and invested *in perpetuity* with the University's commitment that the investment earnings generated will only be spent for specific purposes as defined by the donors. A generic example of this would be an alumna who donates \$1 million to Western to establish an annual scholarship in support of exceptional students in Faculty X. The principle amount of the alumna's gift would be invested in the long-term portfolio, and 4% of the endowment balance (the current annual payout amount) would be disbursed annually to fund the award, with any residual returns added to the individual endowment account. This treatment of residual returns serves two purposes: to compensate for those years when investment returns are less than the amount of the annual payout, and also to maintain the value of the award into the future.

How Western manages its Non-Endowed Funds

The University invests monies received but not required to pay immediate expenses in the long-term investment portfolio, alongside the Endowed Funds. These monies have many sources but are generally received for specific purposes with specific underlying obligations attached to them. Examples include Faculty and Support Unit carry-forwards, residence and tuition fees received but not yet expended, and cash flows associated with research grants received by faculty but not yet expended. All these funds are invested by the University to generate a return with the understanding that the underlying obligations associated with the revenue source must be honoured and replaced by new amounts over time.

As of September 30, 2015, Western's Non-Endowed Funds had a total market value of \$466 million with the composition as follows:

• Underlying Obligations	\$267 M
• Underlying Market Gains	<u>\$199 M</u>
Total	<u>\$466 M</u>

It is important to understand that the \$199M in Underlying Market Gains is the value that would have been realized on September 30, 2015, if the investments were liquidated. In reality, they remain invested in the long-term portfolio and hence bear the risks associated with fluctuating market returns over time. To manage these risks, two mechanisms are employed: the first is that a buffer amount is maintained beyond the value of the underlying obligations to protect against investment losses; the second is a prudent budgeting practice to limit the use of investment returns for *one-time* initiatives only (i.e., not ongoing operating costs).

The context for the above budgeting practice dates back to the global financial crisis in 2008, when Western's investment portfolio experienced an extraordinary loss in market value, as was the case with investment funds around the world. At the time, Western permitted draws to be made from its Underlying Market Gains to support ongoing operational as well as one-time expenditures, and between 2008 and 2011 a total of \$46.25 million was ear-marked for those purposes. However, when the market value of Western's Non-Endowed Funds dropped below the value of their Underlying Obligations, the planned draws – which included support of ongoing salaries – had to be cancelled so that the Underlying Obligations could be met. As a result, one-time expenditures were placed on hold and, more significantly, staff reductions had to be made. Subsequently, a management decision was taken (with Board support) to restrict the future use of non-endowed investment reserves (i.e., Underlying Market Gains) to support only one-time expenses, such as financing for capital projects, research matching funds, and debt repayment.

In addition to restricting non-endowed returns to support one-time initiatives, Western also developed an annual stress test for its Non-Endowed Funds portfolio. The test simulates a worst-case scenario that models the impact of historical losses in each of the investment classes held in the portfolio, together with concomitant government funding reductions likely to be experienced in a global equity crisis, as well as the draw of monies to support the underlying obligations likely to be experienced at a time of severe financial constraint. This was last completed using fiscal year-end values at April 30, 2014. The result yielded a simulated shortfall of \$27M in cash and liquid assets, and the underlying market gains being reduced to \$54M.

Three key conclusions were drawn based upon this simulation. First, Non-Endowed Funds can continue to be invested alongside the Endowed Funds in a long-term portfolio so long as a sufficient amount of liquidity is maintained outside the portfolio (in the cash and liquid assets balances). Second, a sufficient buffer must be maintained between the underlying obligations and the unrealized market gains. And third, caution must be exercised on withdrawals and commitments made from the underlying gains generated. It should be noted that Western's long-term investment strategy for its Non-Endowed Funds has generated impressive returns for the University for many years. For example, during the 20-year period between September 30, 1995, and September 30, 2015, Western has realized an average annual return of 7.9%.

How Western manages its debt

For an institution of Western's large scale and complexity, a certain amount of debt is required to finance essential capital construction, renovation and maintenance projects that provide faculty, students and staff with the appropriate facilities and infrastructure to meet their teaching, learning, research and service needs. Historically government funding for such capital projects has been limited and in more recent years has been eliminated almost entirely. In the absence of other sources to pay for capital projects, the University has had to turn to debt. To put this in perspective, as of February 2015, Western owned 522,000 square metres of space in 68 major academic buildings; another 258,000 square metres of housing space, including 11 undergraduate residences, four apartment buildings and several smaller buildings for graduate housing; and numerous ancillary buildings including the Western Student Recreation Centre, Thompson Recreation & Athletic Centre, TD Stadium, Boundary Layer Wind Tunnel, Child Care Centre, Ivey Spencer Leadership Centre, and certain facilities at Western's three Research Parks.

Over the last 10 years, Western's annual capital expenditures have averaged \$97M. During that same period, the University's debt grew from \$121M to \$299M, which in the early years provided significant support for new residence projects which have inherent repayment sources. More recent capital projects have largely been for academic buildings which do not have inherent repayment sources. To finance the capital requirements of its buildings and infrastructure, as of April 30, 2015, Western held three forms of debt. It breaks down as follows:

• Debenture, due May 2047	\$189 M
• Mortgages	\$ 9 M
• Bank borrowings, due October 2026	<u>\$100 M</u>
Total	\$298 M

In approving the issuance of the debenture in 2007, the Board of Governors stipulated a requirement that the University establish a "sinking" fund, commencing in 2017, to ensure that adequate savings are accumulated over 30 years to retire the debenture when it becomes due in 2047. It is also worth noting that while Western's debt load is relatively high compared to that of its peer institutions, the University enjoys a favourable credit rating (AA with stable outlook) from Standard & Poor². There are several reasons for this but chief among them is the strong demand from students seeking admission to Western, as well as the level of reserves the University maintains (pointing to the market gains in the non-endowed funds).

² *Standard & Poor's Financial Services LLC (S&P) is an American financial services company. It is a division of McGraw Hill Financial that publishes financial ratings services, research and analysis on stocks and bonds. S&P is known for its stock market indices such as the U.S.-based S&P 500, the Canadian S&P/TSX, and the Australian S&P/ASX 200. S&P is considered one of the Big Three credit-rating agencies, which also include Moody's Investor Service and Fitch Ratings.*

ALTERNATIVE UNIVERSITY BUDGET MODELS

As referenced earlier in this report, the Budget Model Task Force reviewed a report generated by The Education Advisory Board (EAB) titled “*Optimizing Institutional Budget Models.*”³ This same report was also presented and discussed in detail at the annual Deans Retreat held with Western’s senior academic leadership team August 31 & September 1, 2015.

In addition to defining three fundamental university budget models (Incremental, RCM and Performance Based, as described on pg. 3 of this report), the EAB document summarizes key findings from the 35 research briefs it has produced on university budget models between 2008 and 2013. Among the conclusions reached through its research, EAB describes the incremental model as one “that no longer works” because it “ignores differential opportunities and costs.” While incremental budgeting is not without some advantages (e.g., relatively simple for leaders to understand and manage, shares resources equitably, which minimizes year-to-year disruption and “political squabbling”), EAB suggests these advantages are outweighed by the model’s disadvantages, which include the disincentives it creates for growing revenue and controlling costs; the absence of linkages between investments and outputs; and the difficulty of maintaining the model when revenue is no longer growing.

While an estimated two-thirds of North American universities use some form of incremental budgeting, The Education Advisory Board observes that a growing number of schools are adopting Responsibility Centered Management (RCM) models – including Toronto, McMaster and Queen’s in Canada – in which revenue is allocated to the unit that generates it and the unit therefore assumes responsibility for all direct and indirect expenses.

Top reasons for why some institutions choose to shift toward RCM models include the desire to incentivize revenue growth when public funding is on the decline, improve transparency, control costs and increase capacity for strategic investment in institutional priorities. As noted earlier in this report, the Ivey Business School operates under an RCM model. When Ivey adopted this model in 2003-04, there were several compelling reasons for doing so, including the opportunity to significantly grow HBA enrolments (driven by student demand) at a significantly higher tuition rate when compared to student fees charged in other disciplines. Further, the business school is also able to generate additional revenue through ancillary activities (e.g., case publishing, executive education) not necessarily available in other Faculties.

Notwithstanding the success Ivey has achieved while operating under an RCM budget model, it should be noted that The Education Advisory Board has observed instances where American universities that had moved toward RCM models have since begun to retreat from that decision

³ Established in 2007, the **Education Advisory Board** partners with 1,000+ colleges and universities across North America and Europe to help address a wide range of postsecondary planning, budgeting and operational challenges. As an EAB member institution, Western has access to the firm’s best practice research, data analytics, technology and consulting services. Members of the Western community can gain access to the full study titled “*Optimizing Institutional Budget Models*” online at <https://www.eab.com/research-and-insights/business-affairs-forum/studies/2014/optimizing-institutional-budget-models>. Please note that a valid uwo.ca email address is required.

after encountering a range of unanticipated challenges. Indeed, the EAB concludes that the jury is still out on RCM's efficacy to produce desired changes in enrolment, revenue growth and cost containment. What seems evident, however, is that RCM models may work well for some institutions and not for others, depending on their unique circumstances. What is also clear is that the scope of time, money and organizational culture change required to make the transition to an RCM model has proven to be significant at universities that have chosen to embark on the journey.

SUMMARY OF INPUT FROM THE CAMPUS COMMUNITY

In addition to reviewing background information on Western's budget model as well as research on alternative university budget models, the Task Force solicited and reviewed input on the budget model from members of the campus community. The following descriptions summarize feedback received/heard by the Task Force during its consultation period between September 24 and November 26, 2015. During this time, the Task Force received a total of 12 confidential written submissions. It also hosted two Town Hall meetings on October 20 and 26 (attended by ~75 people). As well, background information on Western's budget model and investment and debt management strategy was presented and discussed at the November 26 Leaders Forum and at the December 4 Senate meeting.

All input was received and reviewed by the Task Force under two broadly defined categories. "*In Scope*" refers to comments determined by the Task Force to have a clear bearing on its mandate to assess the strengths and weaknesses of Western's current budget model. "*Outside Scope*" refers to comments determined by the Task Force to fall outside its mandate (e.g., requests and suggestions for increased resource allocation toward specific purposes) but which have been received under advisement for potential consideration in other forums.

In Scope

- 1. Problems with funding support for graduate students and postdoctoral scholars:** Several comments were received and heard on this issue, which were referred to the Sub-Committee on Graduate Funding for in depth review. Please refer to its report for more details.
- 2. Lack of understanding and clear, transparent communication on the budget itself:** Several comments highlighted there is limited understanding by many campus members on how Western generates revenue, how the budget is developed (including the purpose and application of the annual IBA), and how funds are allocated across the academy.
- 3. Barriers to interdisciplinary collaboration:** Comments suggested that Western's budget model should include more mechanisms to increase cooperation between academic units and disciplines while reducing competition and operational/budgetary inefficiencies.
- 4. Change use of non-endowed funds:** Comments suggested that Western's policy of not using investment returns from non-endowed funds to support operating budgets needs to be reconsidered.
- 5. Centralized vs. decentralized provision of administrative services:** Comments suggested that because Western spends less on non-instruction/research activities as a percentage of its operating budget than its peers, duplication of service at the local and central level is particularly inefficient.

6. **Advocacy for a more “participatory” budget model:** Comments suggested that campus community members who will bear the brunt of negative consequences emanating from budgetary decisions should have greater input on how those decisions are made.

Outside Scope

1. **More funding requested:** Several comments asked that more operational or capital funding be allocated in support of specific academic or operational units/functions — ranging from improved campus maintenance to procurement of lab instrumentation.
2. **Differentiated enrolment standards:** Comments suggested that Western's common first-year minimum entering standard across the academy limits potential for maintaining enrolment in specific disciplines where student demand is trending downward, and that this policy should be reviewed.
3. **Students and internationalization:** Comments suggested that sending students abroad works at counter-purposes to the imperative of maintaining and increasing enrolment in some disciplinary areas. Related comments suggested that all students have a modern languages course requirement as a means to increasing enrolment in that disciplinary area.

BUDGET MODEL TASK FORCE FINDINGS

1. While recognizing the need to continue evolving Western's "hybrid" budget model in order to respond to ongoing changes in the external funding environment – as well as to respond to institutional challenges, priorities and aspirations – strong support remains for the underlying principles that drive the current model: maintaining high student quality, retention and graduation rates within the context of a research-intensive university.
 2. The complexity of Western's budget model is an inherent weakness insofar as it presents many difficult communication challenges, especially for senior academic and administrative leaders. Among the various tactics that could be employed to improve budget communication, the following could be considered:
 - a. Senior leaders to host town halls both at the campus and Faculty/Unit level at appropriate times during the annual planning and budgeting cycle
 - b. Make better use of web and other campus media (e.g., Western News)
 - c. Senior university leaders to attend Faculty Council meetings when budget planning is discussed
 - d. Deans to engage Department Chairs and School Directors, and their Administrative Officers more actively in the budget planning process
 - e. Budget unit heads need to engage more actively in finding ways to simplify budgeting processes and related communication.
 - f. Increase opportunities for more timely input on budget decisions at the Departmental level.
 3. A key strength of Western's hybrid budget model resides in its demonstrated ability to evolve over time and to adopt various components found in Incremental, RCM and Performance-based models as a means of balancing the need and desire for – *and tensions between* – academic priorities and revenues, Faculty/Unit autonomy, centralized institutional oversight.
 4. Strong support remains for the University to retain some central capacity to invest selectively in institutional priorities that support Western's overarching mission and vision as offering the best academic experience for students at a research-intensive university that aspires to compete on the global stage.
 5. With the notable exception of the Ivey Business School, which has operated successfully within an RCM framework since 2003-04, the Task Force found no evidence or advocacy during its consultations in support of shifting Faculty budgets further toward an RCM model. Because RCM models require individual Faculties to generate all revenue required to meet all of their expenses, the application of an RCM model would be likely to have disastrous consequences for certain Faculties unable to meet their financial requirements on an independent basis. The Task Force believes that the risks associated with applying an RCM model across all Faculties and Schools would run counter to Western's identity as a
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comprehensive university committed to achieving excellence in the full range of academic disciplines.

6. Confusion arising from the lack of understanding about the purpose and application of the Initial Budget Adjustment (IBA) is a particular weakness of the current budget model. While there is no support for shifting responsibility for the inflationary costs that the IBA is intended to cover from the central budget to Faculties/Support Units, there is a clear need to change the terminology and improve communication on how it works.
7. Particularly during periods of resource constraint that place Faculties and Support Units under extra pressure to increase revenue and control costs, there is an appetite among community members for clearer, more timely, and more transparent communication about how the budget planning process works, how investment and debt management policies work, and how the government funding and tuition policy environment influence and drive budgetary decision-making.

APPENDIX A

PROVOST'S TASK FORCE ON UNIVERSITY BUDGET MODELS

Terms of Reference

Solicit input from the members of the Western community concerning the strengths and weaknesses of the current university budget model (including the budget model for graduate student support), and possible alternative budget models, in supporting the academic mission of our University.

Survey budget models used at comparator universities and attempt to assess how effectively those models support the priorities of those institutions.

Issue a report summarizing the input it receives and its findings before the end of 2015 (extended to February 2016).

Task Force Members

- **Janice Deakin**, Provost & Vice-President, Academic (Chair)
- **Gitta Kulczycki**, Vice-President (Resources & Operations)
- **Bob Andersen**, Dean of the Faculty of Social Science
- **Margaret Steele**, Vice Dean, Hospital & Interfaculty Relations, Schulich School of Medicine & Dentistry
- **Krys Chelchowski**, Director of Administration, Faculty of Health Sciences
- **Matt Davison**, Chair of the Department of Statistical & Actuarial Sciences
- **Craig Dunbar**, Associate Professor, Finance, Ivey Business School
- **Ashraf El Damatty**, Chair of the Department of Civil & Environmental Engineering
- **Helen Fielding**, Chair, Women's Studies and Feminist Research, Faculty of Arts & Humanities
- **Stephen Jarrett**, Legal Counsel
- **Angie Mandich**, Associate Professor, School of Occupational Therapy
- **Thomas Sutherland**, Graduate Student Senator, Department of Chemistry
- **Glen Tigert**, University Registrar
- **Arjun Singh**, Undergraduate Student Senator (Observer)

Resources to the Task Force

- **Alan Weedon**, Vice-Provost (Academic Planning, Policy & Faculty)
 - **Ruban Chelladurai**, Associate Vice-President (Planning, Budgeting, and Information Technology)
 - **M. Karen Campbell**, Special Advisor to the Provost, Vice-Provost Elect (Academic Planning, Policy & Faculty)
 - **Malcolm Ruddock**, Executive Assistant to the President and Provost
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APPENDIX B

GRADUATE FUNDING SUB-COMMITTEE OF THE PROVOST'S TASK FORCE ON UNIVERSITY BUDGET MODELS

Terms of Reference

Collect relevant data in order to document and understand the Faculty-specific strategies and approaches to funding of graduate students at Western.

Identify key issues in graduate student funding.

Identify and document best practices in graduate student funding.

Submit a detailed report on the above to the Provost's Task Force by Nov. 30 2015 (extended to Jan. 19, 2016).

Sub-Committee Members

- **M. Karen Campbell**, (Chair) Special Advisor to the Provost, Vice-Provost Elect (Academic Planning, Policy, & Faculty)
- **Pam Bishop**, Associate Dean (Graduate Studies), Faculty of Education
- **Ashraf El Damatty**, Chair, Department of Civil & Environmental Engineering, Faculty of Engineering
- **Matt Davison**, Chair, Statistical and Actuarial Sciences, Faculty of Science
- **Helen Fielding**, Chair, Women's Studies and Feminist Research, Faculty of Arts & Humanities
- **Tamara Hinan**, President, SOGS and Graduate Student, Department of Political Science
- **Doug Jones**, Vice-Dean (Basic Medical Sciences), Schulich School of Medicine & Dentistry
- **Ruth Martin**, Associate Dean (Graduate Programs), Faculty of Health Sciences
- **Margaret McGlynn**, Assistant Dean (Graduate & Postdoctoral Studies), Faculty of Social Science
- **Tom Sutherland**, Graduate Student Senator, Department of Chemistry

Resources to the Sub-Committee

- **Linda Miller**, Vice-Provost (Graduate & Postdoctoral Studies)
- **Alan Weedon**, Vice-Provost (Academic Planning, Policy & Faculty)
- **Ruban Chelladurai**, Associate Vice-President (Planning, Budgeting, and Information Technology)
- **Malcolm Ruddock**, Executive Assistant to the President and Provost