UNIVERSITY OF TORONTO

REVIEW OF THE NEW BUDGET MODEL

MARCH 3, 2011

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AND RELATED PLANNING PROCESSES

MARCH 2011

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EXECUTIVE SUMMARY

In 2010, the Provost struck a committee to evaluate the budget methodology and associated planning processes that were implemented in 2007-08. The Committee was asked to appraise the strengths and weaknesses of the model, its adherence to the principles outlined by the original Budget Review Task Force, the incentives and disincentives that have emerged, and the effectiveness of the model as a tool for stakeholder engagement and informed resource allocation.

Following its review, the Committee concluded that the budget model is serving the University very well and that no significant change in direction is required. The Committee does, however, recommend several minor adjustments to the methodology for allocating revenues and costs. These changes will more accurately reflect current organizational structures and ensure that budget allocations are more appropriately matched to divisional activities.

In addition, the Committee recommends the establishment of working groups to further review the cost allocations to UTSC and UTM for central information technology services, and the cost sharing arrangement between divisions for the human resources services of Professional Faculties North and Professional Faculties South. A working group to review issues related to funding central vs. divisional libraries is also recommended. This last working group should be deferred until the arrival of the new incoming Chief Librarian.

Finally, the Committee recommends some changes to the annual budget consultation processes for both academic divisions (the Academic Budget Reviews) and shared service divisions (the Divisional Advisory Committee). The proposed changes are intended to add further clarity and transparency to the budget allocation and multi-year planning processes, and to increase the academic divisions' level of engagement in integrated shared-services planning.

INTRODUCTION

In 2006-07 the University of Toronto adopted a new budget model (NBM)[1] for budget allocations, with full transition to the model occurring in 2007-08.

At the time of implementation, it was agreed there would be a review after three years. This was considered adequate time for all divisions to adapt to and gain stability under the new model. The Provost has hence requested a review of the methodologies and related planning processes of the budget model. The review addresses the following broad questions:

1. Is the budget model working in a manner that ensures resources are allocated to support academic planning?
    - Is the model continuing to uphold the principles outlined by the Task Force?
    - What are the strengths of the model?
    - What are the challenges of the model and how can they be addressed?
2. Are incentives properly aligned?
3. Are there unintended disincentives or disparities?

This review was conducted within the framework of the original principles of the NBM, as outlined in the Task Force Report. It should be noted that when the report refers to the "model" or the "NBM" it includes not only the mechanics of the model itself but also the related planning processes that feed into, and decisions that are outcomes of, the model. The Committee was directed to keep in mind two key points:

1. That the budget model must work within the constraints of the University's operating environment, including the provincial funding framework (with inter-divisional inconsistency and sometimes irrationality in BIU weights and tuition fees), inadequate federal funding for the indirect costs of research, external economic factors, regulatory and statutory requirements, accountability to stakeholders, University policies, etc. The Committee recognized that the budget model cannot eliminate these constraints, but can direct the University's response in ways that ensure academic priorities are upheld.
2. That the discussion should focus on issues having a material impact on budget allocations or incentives. The Committee agreed to focus on issues of a financially material nature, whether measured in dollars or impact on the academic mission.

[1] The Task Force Report: New Budget Model (January 2006) is available at:
http://www.provost.utoronto.ca/Assets/Provost+Digital+Assets/Provost/publication/Budget/finbudrev.pdf

The New Budget Model: Implementation Report (July 2006) is available at:
http://www.provost.utoronto.ca/Assets/Provost+Digital+Assets/Provost/publication/Budget/InterimReport.pdf

SECTION 1: COMMITTEE MEMBERSHIP AND SCOPE OF THE REVIEW

The Review Committee included the original budget model implementation committee members plus additional academic divisional representatives to bring a broader perspective to the review. Members of the Committee were asked to participate with the understanding that they represent the institution as a whole, and not just their home divisions. Committee members were:

Horatio Bot	Assistant Dean, Faculties of Nursing/Architecture, Landscape & Design
Christine Capewell	Director, Business Services, University of Toronto Mississauga
Nancy Edwards	Faculty Controller, Faculty of Medicine
Catherine Gagne	Chief Administrative Officer, Faculty of Applied Science & Engineering
Sally Garner (chair)	Executive Director, Planning & Budget
Jeevan Kempson	Assistant Chief Administrative Officer, University of Toronto Scarborough
Sandeep Malik	Senior Manager, Planning & Budget
Helen Morissette	Director, Financial Services, University of Toronto Scarborough
Tim Neff	Chief Administrative Officer, Faculty of Medicine
Trevor Rodgers	Manager, Planning & Budget
Isaak Siboni	Assistant Dean and Chief Financial Officer, Faculty of Arts & Science
Joe Weinberg	Chief Administrative Officer, Ontario Institute for Studies in Education

The Committee received assistance from Jenny Cheng and Al Lecointe, Senior Planning and Budget Analysts, Planning and Budget (P&B). The Committee held over twenty hours of meetings between June and November 2010, with a significant amount of material circulated and reviewed between meetings.

To ensure the review represented diverse perspectives, the Committee also solicited input from senior staff in shared-service divisions. Specifically, this group was asked to comment on the following points:

- Impact of the NBM on engagement between academic and service divisions
- Clarity on strategic priorities, service levels and related costs
- Integration of services provided centrally vs. divisionally
- Tri-campus issues

Written submissions were received from several senior staff in shared-service divisions and individual responses are included in Appendix E.

This report is a consensus document; in cases where there were differing views amongst committee members, members attempted to reach a recommendation that addressed the concerns of all. The Committee worked as a cooperative and collaborative group, with all members having equal input into the outline herein.

SECTION 2: STRATEGIC OVERVIEW AND FINDINGS

The Committee finds that the new model is working effectively in meeting its original objectives and upholding the principles identified by the Task Force. While there are minor technicalities that require adjustment, the model is serving the University well. The Committee does not find any persuasive reason to move away from, or significantly modify, the New Budget Model.

The Committee began with a general discussion, looking at two broad themes: (1) the strengths and challenges of the model from both a strategic and a technical perspective; and (2) whether the model is working in a manner that is consistent with the principles outlined by the Task Force.

2.1 STRENGTHS AND CHALLENGES OF THE NEW BUDGET MODEL

STRENGTHS

The Committee noted the following key strengths of the NBM (supporting rationale is outlined in more detail in section 2.2 below):

- The new model provides improved quality and quantity of <u>information</u>, presenting a framework for multi-year planning and decision making, advocacy and accountability;
- The new model provides enhanced <u>transparency</u> for all stakeholders – senior administration, faculty, students, staff, governors;
- There is a greater <u>engagement</u> by all stakeholders – senior administration, faculty, students, staff, governors;
- The new model provides clearer <u>incentives</u> for academic and shared-service divisions to align budget decisions (revenues and costs) with academic goals as well as across divisions;
- The new model has led to an increased awareness of risk areas, leading to improved <u>risk management</u>.

One compelling example of the strengths noted above is the difficult fiscal and budget situation with which the University was faced over the period of the 2008 market meltdown, leading to the cancellation of the 2009 endowment payout. The NBM provided the framework in which productive discussions could be held, transparent and clear decisions could be made, and targeted actions could be taken. Rather than resorting to the blunt across-the-board budget cut tool of the past, additional funds were provided only to those divisions most impacted by the loss of endowment revenue. Divisions displayed discipline and creativity in dealing with what otherwise could have been a disastrous financial challenge.

CHALLENGES

The Committee noted the following challenges within the NBM environment:

- The NBM is an important tool in planning for resource allocation. Having said that, the heightened focus on revenues and costs demands that university leaders remain vigilant in ensuring that academic planning remains the primary factor driving decisions. Accurate and timely information, transparency and stakeholder engagement all play a role in ensuring that sound academic planning continues to flourish. The annual academic and shared-service review processes is one way in which there is an important check-and-balance mechanism to uphold academic priorities.

- Under the NBM, academic divisions are exposed in a more varied fashion to the fluctuations in the institutional budget and external economic factors. The assessment and management of risk have become a crucial element of divisional planning; principals, deans and senior administrative staff in academic divisions must ensure that risk management plays a central role in their planning processes. While this is ultimately a positive result of the new model, because divisional leaders are frequently the ones best equipped to manage risk, the institution as a whole must remain attentive to risk factors.
- Some divisions have noted that they have experienced a gap between expectations for what was expected the model could achieve and actual outcomes. This is most evident around the issue of control of university-wide costs. Recognizing that many decisions appropriately reside with central administration, academic divisions had perhaps expected more control. While greater control may not be possible, or desirable, greater transparency, understanding and collaboration should remain the objective.
- The model now behaves as a "hub-and-spoke model", whereby divisions work with the centre on planning; there is little formal or explicit inter-divisional planning to harmonize initiatives. This places additional onus on the central hub to propagate potential divisional budgetary integration. Improved inter-divisional processes must be considered as the model continues to evolve.
- In order to leverage the model and related planning processes to maximum advantage, a more highly skilled and sophisticated skill set is required of senior administrators in divisions and at the centre. A moderate level of additional resources has been added to fill this gap; still more is needed.

2.2 CONSISTENCY WITH THE PRINCIPLES OUTLINED BY THE TASK FORCE

The Committee reviewed the principles outlined by the Task Force:

a) **The University and all its divisions should follow a policy in which major divisional revenues, division-specific operating and overhead costs, central administrative costs, and common facility and overhead costs are all delineated and transparent to the central administration, the divisions, and governance.**

The Committee concludes that this principle has been upheld. Full details on revenues and costs are provided annually to all divisions as part of the budget packages. A data pack of analytical information has been developed using information derived from the model. Additional revenue and cost information is available to a broad group of divisional financial staff through the University's portal. The Budget Report, Long Range Budget Guidelines and the Blue Book have been redesigned to provide full transparency on revenues and costs at the institutional and divisional levels. Governing Council members have repeatedly expressed that the budget is now more transparent, clear and focused. The process of ensuring full transparency evolves each year as users of the model become more knowledgeable and sophisticated in their need for, and use of, information.

b) **Record keeping must not become so onerous that accounting becomes an end in itself. As an objective, the administrative costs associated with the implementation of a new budget model should not exceed, and ideally be less than, current costs.**

The Committee concludes that this principle has been generally upheld. A moderate level of additional human resources has been added so far in academic divisions to manage the planning process. Further resources may be required to ensure all divisions are operating at an optimal level.

No additional resources have been required at the centre. In the Planning and Budget office the competencies and requirements of staff working within the model have shifted and staff have been retrained or reassigned as needed.

In terms of IT resources, the model operates within the existing IT environment and system changes have not been required as a result of the model itself. Having said that, the demand for accurate and timely data has increased significantly and stakeholders across the institution are demanding that the IT infrastructure keep pace with their needs.

c) **Budget allocations should provide incentives for initiatives that generate new revenues and/or lead to savings in the University's operating costs.**

Overall, the Committee agrees that, within the restrictions of the provincial higher education system, divisions are provided incentives to increase revenue and reduce costs. There was a sense by some members that the model promised more than it delivered in this regard. With undergraduate and graduate enrolments highly controlled by the Provincial government, a range of flexibility on tuition fee increases, the obligation of minimum funding guarantees for graduate students and other financial assistance policies, and wage settlements either negotiated or arbitrated for the University as a whole, some divisions experience fewer degrees of freedom than others.

Nonetheless, divisions are demonstrating new and inventive ways to look beyond the usual techniques of managing their budgets: creative academic programs are being developed, enrolment management has become more strategic at all levels, divisions are collaborating on launching new joint programs or on sharing resources, service divisions are further collaborating with academic divisions to eliminate duplication of service, carryforward funds are being used strategically to fund start-up costs.

d) **Divisions should strive to generate revenues to cover division-specific operating and overhead costs, as well as a pro rata share of core services and a fair share of common facilities that are regarded as university-wide resources.**

The Committee agrees that the new model provides more complete information upon which revenue and cost decisions can be made. Divisions have a better understanding of the direct and indirect costs associated with existing or new initiatives and take these into consideration when making strategic and operational decisions.

e) **The nature of the University's operation and funding environment is such that revenue and expense cannot and <u>should not always be balanced at the level of program or division</u>. When justified by the University's academic priorities, budgetary mechanisms should make it possible to support a program or activity where revenues and costs are not matched.**

The transition from the old to the new budget model was implemented in a manner that preserved the integrity of divisional budgets. Historical levels of subsidies across divisions have been preserved through the University Fund Reference Level. The Reference Level was designed in part to recognize that revenue and expense cannot and should not always be balanced at the level of program or division. Strategic decisions have been made each year by the Provost to adjust budget allocations beyond the Reference Level, with an eye to upholding academic priorities.

f) **The assignment of revenues and costs must be done in a fashion that encourages and supports inter-divisional activity at all levels of teaching and research, rather than reinforcing the creation or maintenance of a series of isolated academic units.**

It is evident that divisions are beginning to leverage the model as a tool for understanding and planning inter-divisional activity. Collaboration on delivery and funding of shared services is increasing. Cross-divisional academic activities are gradually being re-examined, using information from the model to support decision making. Several working groups are in process to attempt to document and quantify existing and potential new agreements. The Committee agrees that this is a feature of the model that could be more fully leveraged.

g) **Divisions are <u>accountable</u> for ensuring compliance with statutory obligations and University policies. Cost reduction measures must be consistent with academic plans and the objective of maintaining excellence in all aspects of the University's operation.**

The academic and shared-service annual review processes ensure that excellence, academic planning and compliance with statutory obligations and University policies remain a top priority in the allocation of resources.

In summary, the Committee concludes that the new model brings an improved and rational framework to the manner in which resources are allocated across the University. The areas of tension that have been brought to bear are the result of increased stakeholder engagement, and ultimately lead to greater accountability and better management of resources.

SECTION 3: DETAILED REVIEW OF BUDGET MODEL METHODOLOGIES AND RELATED PLANNING PROCESSES

The detailed review of the model was guided by the major components of the model and the various planning processes upon which the model relies. Over the three years that the University has operated in the NBM environment, the Planning and Budget office has maintained a list of issues for review. These issues have been either identified by P&B staff or brought to the attention of P&B or the Provost by divisional leaders. Committee members were asked to review the list and provide additional issues, if any. The Committee reviewed submissions from divisions, background documents prepared by P&B, and other supporting data. The review broke down the complex model into the following more measurable elements:

1. Attribution of revenue
2. Allocation of university-wide costs
3. Allocation of centrally-funded student aid expense
4. University fund: basis for contribution and process for incremental changes
5. Adjustment-to-actuals process
6. Planning processes (academic and shared-services)
7. Inter-divisional teaching

The Committee agreed that recommendations for change be divided into those to be implemented immediately vs. those requiring a longer term horizon or further discussion.

Prior to considering specific changes to the model, the Committee considered whether approved model changes should be made on a retroactive or prospective basis. The Committee's view is that changes should be made on a prospective basis. The NBM was developed in consultation with, and moreover through, the active participation of divisional representatives. Divisions engaged in extensive work to arrive at a pragmatic and principled approach of revenue allocation and cost sharing. There was (and still is) general agreement on the structure of the NBM. This agreement was forged through negotiations and compromise at all levels. Any changes to the terms of the NBM, if applied retroactively would break this agreement. Only errors should be considered for correction retrospectively. The University has lived through three years of the new budget model and worked through years more to develop it; it cannot change the past by information acquired post hoc.

Recommendation #1:

That changes to the model resulting from this review apply prospectively, and that the impact of such changes should be calculated using the 2010-11 budget model to determine an appropriate offsetting University Fund adjustment.

Recommendation #2:

That errors identified through the review process be corrected retrospectively.

3.1 ATTRIBUTION OF REVENUE

OPERATING GRANTS

Provincial operating grant revenue is allocated to divisions on the basis of average grants per BIU. That is, grants from all provincial funding envelopes are combined to create an effective BIU value and then distributed evenly across all BIUs. The assumptions underlying this approach are:

- all targeted envelopes will eventually disappear and will be rolled into the university's base operating grant
- within each targeted envelope the government funding per BIU is approximately the same

This methodology removes the complexities associated with corridor funding, targeted envelopes, and non-enrolment related funding envelopes. It effectively spreads all funding envelopes, and any unfunded BIUs, evenly across all BIUs and does not rely on alternate revenue drivers for grants not directly funded based on enrolment (e.g. key performance indicators, quality).

a. Mechanism for reviewing and defining BIU pools

The revenue attribution methodology for operating grants starts by calculating an effective BIU value for the University. With few exceptions, all grant envelopes are included in this calculation. That is, all provincial funding is distributed evenly across all BIUs. Certain targeted provincial funding envelopes are excluded from the calculation because they differ significantly in BIU value. Currently the only exclusion from the effective BIU calculation is funding for MD students as these are funded at a much higher level than the standard BIU value ($39K vs. $5K)

The budget model Implementation Report stated that as new funding envelopes are announced, they would be assessed as to whether or not it is appropriate to include them in the effective BIU calculation. The Committee discussed both the process for reviewing BIU funding pools and the threshold of significance at which enrolments should be separated into a separate funding pool.

Recommendation #3:

That Planning and Budget continue to review BIU funding rates on an annual basis and separate out into separate funding pools those enrolments that differ from the standard BIU funding rate by more than 1% or $50, whichever is less. The number of new BIU pools will be monitored periodically to ensure overall coherence is maintained.

a. Mechanism for spreading BIU discounts

Discounted BIU funding arises as a result of a system-wide shortfall of funding (system-wide discount) or as a result of particular division exceeding enrolment targets (internal discount). Since the implementation of the NBM, the University has been faced with the need to plan for system-wide discounted operating grant funding for both undergraduate and graduate enrolments. Effective 2010-11, the Provost announced that internal discounts will be applied to the division responsible for the funding shortfall, thereby eliminating the need to spread internal discounts across all divisions. The Committee discussed how to manage system-wide discounts, keeping in mind materiality, simplicity and alignment of incentives.

Recommendation #4:

That internal discounts resulting from variances to divisional targets be applied to the individual division; and that system-wide discounts be applied evenly across all divisions.

TUITION FEES

Revenue from tuition fees is attributed to each division based on divisional student FTEs and tuition fee levels. Adjustments are made to account for funds set aside for student aid and other variations such as uncollected fees and surcharges on unpaid fees.

The Committee reviewed the existing model for projecting net tuition fee revenue and the manner in which adjustments are applied. Certain detailed elements of the tuition model were identified as too complex, others were considered appropriate. Retained fees revenue and minimum charges revenue are attributed to divisions, using university-wide historical rates. Fees arrears revenue is attributed directly to the division on whose behalf they are collected. The Committee agreed that all were reasonable. P&B will continue to provide a high level of detail on tuition in the annual budget package, as requested by divisions.

INVESTMENT INCOME

Investment income is attributed to divisions based on each division's share of total attributed revenue from all other sources. There were no issues raised regarding the attribution of investment income. Revenue should continue to be attributed based on divisional shares of revenue from all other sources.

OTHER INCOME

Revenue from application fees is attributed based on the number of applications to each division. Other miscellaneous revenue is a relatively small amount and includes bank machine fees, depreciation recovery, parking recovery, overhead from real estate and ancillaries and investment management fees. It is attributed based on each division's share of total attributed revenue from all other sources. There were no issues raised regarding the attribution of other income; revenue should continue to be attributed based on current drivers.

ENDOWMENT INCOME

Endowment income for chairs and student aid is included in the operating budget revenue, offset equally on the expense side. There were no issues raised regarding the attribution of these revenues other than the one issue noted below. Revenue should continue to be attributed based on current drivers.

Approximately $6M that does not "belong" to any one division is included in the total annual ~$30M payout from the endowment. Currently, the revenue and offsetting expense (in and out) are spread across all divisions so that there is no impact on any divisional budget other than the small impact on revenue as a cost driver. However, including the $6M in the revenue attribution does distort the alignment between the attribution and the actual divisional payout. For example, the annual endowment payout that supports student aid in Arts and Science is about $4.6M, but with their share of the "general university" portion, their revenue allocation is $6.6M. This leads to unnecessary confusion in the planning process.

An alternative approach is to leave the "general university" portion of both the endowment revenue and student aid expense allocations "below the line". This is consistent with the way some other revenue items are handled in the model, i.e. revenue from joint programs and hospital CRCs.

Recommendation #5:

> **That revenue from non-division-specific endowed student aid funds in the University's budget be reflected below-the-line (i.e. not attributed to any division) but should remain clearly transparent.**

CANADA RESEARCH CHAIRS (CRC)

Canada Research Chair funds flow directly to divisions through divisional income. Revenue is flowed to divisions at 100%. There were no issues identified relating to the attribution of Canada Research Chairs. Revenue should continue to be attributed based on Tier I and Tier II campus-based CRCs by division.

RESEARCH OVERHEAD

This includes revenue from research funding agencies, foundations, industry, and other sponsors to support the indirect costs of doing research. The full amount (100%) of this revenue is attributed directly to the division in which the research takes place.

a. Do we need to maintain the 75/25 split that is currently in the budget for federal indirect costs (FIDC)?

The Committee agrees that the current process is cumbersome and it was likely that it had been set up to align with the old 75/25 sharing arrangement in place prior to the implementation of the NBM. Now that 100% of federal indirect costs are directed to divisions, it would be preferable to simplify the accounting. The Committee consulted with the Office of the Vice President Research (OVPR) on the feasibility of allocating 100% of revenue from federal indirect costs as part of the annual operating budget, with no holdback of 25% for an in-year transfer. OVPR recommended that the current methodology continue for another year to allow OVPR enough time to consult with divisions and design a revised process for reporting to sponsors. Planning and Budget will follow up with OVPR before finalizing the 2012-13 budget cycle.

b. Could we simplify the distribution of research overhead revenue further? Could there be a common mechanism for all types of overhead?

At the time of the original implementation, revenue from research overhead was divided into several subcategories based on research sponsor. Each line item was attributed based on historical average revenue from that sponsor. Revenue was withheld and distributed in-year based on actuals.

Effective 2010-11, Planning and Budget simplified the allocation using a single line item and revenue from all sources as a driver. Revenue continues to be withheld and distributed in-year based on actuals. The Committee agreed with the approach and recommends no further change.

c. Hospital-based Canada Research Chair (CRC) overhead revenue

Hospital-based CRC overhead revenue has historically not been included in the University's budget. Each year, when revenue from hospital-based CRCs was flowed into the University it was treated as a positive variance, with lack of clarity as to where the revenue should be directed.

Recommendation #6:

That hospital-based CRC overhead revenue be included in the University's budget and attributed to the Faculty of Medicine.

3.2 ALLOCATION OF UNIVERSITY-WIDE COSTS

Before considering the individual cost bins and cost drivers, the Committee discussed the broader issue of allocating costs using total revenue as a cost driver.

REVENUE AS A COST DRIVER (RCD)

Revenue as a cost driver is used to attribute costs in several cost bins of the model. Revenue, as defined for use as a cost driver, includes operating, divisional and research revenue. The Committee discussed whether RCD is defined correctly and whether it is being used to allocate costs in the appropriate bins. Divisions have requested that we review the inclusion of research revenue in the cost driver, and CFI grants in particular.

The Committee discussed whether RCD is being used too extensively and could therefore become a disincentive to increasing revenues. At the time the model was developed this was debated extensively with the objective of minimizing costs allocated based on RCD. The Committee reviewed the costs in the bins where RCD is used as a driver (bins 3, 4, 11 and 12). The overall rate for this driver remains below 6%. The Committee agrees that allocating these bins using RCD is appropriate because it is simple, transparent and a reasonable measure of the level of financial activity of a division.

The Committee then turned to the question of excluding research revenue from the RCD driver. It was unanimously agreed that research revenue must be included in the driver in keeping with the principles of the model:

> *"Divisions should strive to generate revenues to cover division-specific operating and overhead costs, as well as a pro rata share of core services and a fair share of common facilities that are regarded as university-wide resources. For this purpose, 'core services' consist of services such as snow removal where a specific divisional cost cannot be readily assigned, and 'common facilities' consist of units such as libraries where costing might reasonably occur on the basis of some combination of pro rata share and utilization."*

The federal government started to provide indirect cost (IDC) funding in 2001-02, with an effective rate for the University of Toronto of slightly less than 20%. This is currently contributing about $20M to the University's operating budget, which continues to be considerably short of the actual institutional cost of research. Without a change in the funding formula, each additional dollar of research funding places a higher burden on the University's operating funds.

The Committee acknowledges the impact of including research revenue in the cost driver, particularly for research-intensive divisions; the unfortunate reality is that research-intensive divisions draw on the operating resources of the institution.

The Committee considered the exclusion of CFI grants from research revenue as used for RCD. The nature of CFI projects was discussed. Overall the Committee does not find evidence to support excluding CFI grants from the driver because activity resulting from CFI grants does generate additional costs.

BIN 1: OCCUPANCY COST

This bin includes costs for caretaking, utilities, regular and deferred maintenance and central classroom management. The bin is charged to St. George divisions only; UTM and UTSC manage and fund their own campus operations. The bin is broken down into sub-bins and costs are allocated based on multiple drivers: utilities and caretaking costs are accumulated on a per building basis and assigned based on net assignable square meters (NASMs). Shared classroom space is allocated based on classroom usage. Other costs are grouped and allocated based on NASMs. Other than comments noted below, no changes were considered or recommended.

b. Is the cost driver for the allocation of Office of Space Management (OSM) costs appropriate?

Currently, the cost of OSM space is distributed based on the share of classroom hours booked. The Committee discussed the issue of unused capacity and whether a portion of the OSM classroom costs should be included in the unassigned space category when the classroom is used for only a few hours per week, rather than pro-rating the total costs to users of the classroom. The Committee discussed the incentives for using OSM space and the materiality of the unused classroom hours.

Recommendation #7:

That:

- **the direct cost of classroom hours used by academic divisions be allocated based on share of total academic usage; and**
- **the cost of unused hours and the indirect costs of OSM be allocated based on divisional share of total space (NASMs);**

c. Is the cost driver for the cost of unassigned space appropriate?

The Committee reviewed the subcategories of space that fall within the "unassigned" space category. The cost of this space is currently allocated on the basis of total revenue. The Committee felt that this might not be an appropriate driver as revenue and space are not logically linked. The objective is to ensure that incentives are aligned properly with the acquisition and disposition of space.

Recommendation #8:

That the cost driver for unassigned space be changed from revenue as a cost driver (RCD) to total divisional share of total space (NASMs).

BIN 2: INFORMATION TECHNOLOGY

This bin includes the costs of the Chief Information Officer (CIO) portfolio and the central IT Fund. Since the original implementation of the NBM, central information technology services at the University have been reorganized under a CIO. Former IT support groups have been regrouped into new service groups. The Committee reviewed the structure of the Information Technology Bin, which was based on the old organizational structure, (CNS, AMS, SIS, etc.) and mapped this to the new structure within the CIO's portfolio. The Committee consulted with CIO staff on the mapping. Cost drivers remain as a combination of revenue (RCD), number of students and number of faculty and staff. Appendix B lays out the cost drivers in more detail. The Committee noted that the differences in the structure of the CIO portfolio are minor and recommends the following change to the sub-bins:

Recommendation #9:

> **That a revised sub-bin structure be adopted for the Information Technology Bin, as outlined in Appendix B.**

The Committee requested clarity on divisional access to the IT Fund. The IT fund is a centrally held tri-campus fund primarily used by the Chief Information Officer to support IT initiatives. Decisions on IT priorities are determined by the Information and Technology Services Priorities and Accountability Committee which has representation from tri-campus academic divisions and central administrative units. Final decisions for spending are approved by the Vice Provost, Academic Operations.

Recommendation #10:

> **That consideration of tri-campus needs be fully included when the I+TS Priorities and Accountability Committee and the I+TS Process and Technology Committee analyze proposals for new initiatives.**

The Committee discussed the renewal and maintenance costs of the Research Information System (RIS). The annual operating costs are included within the IT Bin. The one-time-only funds allocated in 2010-11 to begin development of a new research system are also part of Bin 9, the Research Bin. This allocation is appropriate in that research users will benefit from the new system and should bear the cost accordingly.

The Committee discussed the IT discount provided to UTM and UTSC. The model provides a 12% discount to UTM and UTSC to recognize "that certain services provided by CNS cannot be used by UTM and UTSC because of their distance from the St. George campus. In particular, these include Desktop Support and Inter-building connectivity." Given the changes in IT services over the past few years, the Committee agrees that the discount level should be re-considered.

Recommendation #11:

That a working group be established, including Planning and Budget, the CIO, Information Technology Services (ITS) staff and IT and finance staff from UTM and UTSC. The mandate of the working group is to review the services provided by central ITS to all divisions, to identify where UTM and UTSC are unique due to their status of being campuses as well as divisions, and to recommend an appropriate discount for IT services for these campuses. Discussions are underway.

BIN 3: UNIVERSITY MANAGEMENT

This bin includes the costs of the Offices of the President, Governing Council, the Vice-President and Provost, the Vice-President, University Relations, all portfolios that cannot be logically included in any other cost bin and where their activities span all areas of University management. It also includes the group of central costs known as Other Institutional Costs. These costs are not directly related to the day-to-day operations of the President's office however they fall under the President's jurisdiction. The cost driver is revenue (RCD).

The Committee agrees that Bin #3 includes the appropriate costs and uses the appropriate cost drivers. The Committee notes that the bin includes 50% of the budget for the portfolio of Vice-Provost Students. At the time of implementation of the NBM, the Vice-Provost Students was also the Deputy Provost and it was therefore appropriate to include some portion of the portfolio in Bin #3. The position is no longer also Deputy Provost, and the Committee recommends the following. The Centre for Teaching Support and Innovation (CTSI) was moved to the portfolio of the Vice Provost Students in 2009. This cost should also now be moved to Bin 10.

Recommendation #12:

That the Centre for Teaching Support and Innovation and 50% of the Vice Provost Students portfolio currently in Bin #3 be moved to Bin #10 (Students).

BIN 4: FINANCIAL MANAGEMENT

This bin includes the costs of the Office of the Chief Financial Officer, Internal Audit and Procurement Services. It also includes an appropriate portion of the costs of the Office of the Vice-President Business Affairs. Financial Management costs reflect all types of activity being undertaken at both the institutional and divisional level. They cannot be tied to any one particular measure such as number of staff or students, value of research awards or amount of space occupied. The cost driver is revenue (RCD).

No issues were raised relating to the Financial Management bin; no change is recommended.

BIN 5: HUMAN RESOURCES

This bin includes the costs of the central Human Resources services, such as Staff Development, Pension, Payroll, etc., that are available to all employee groups. The Committee agrees that Bin #5 includes the appropriate costs and uses the appropriate cost drivers (faculty and staff FTEs). The Committee discussed the fact that casual and sessional staff groups are not included in the faculty FTE driver. The original thinking at the time of implementation was reiterated: data collection for those groups poses a significant challenge. In keeping with the principles of the model, complexity, materiality and transaction costs were all considered too onerous to justify modifying the driver. Also, many HR services used by casuals and TAs are provided at the divisional level. Approximately 95% of Human Resources users are included by including only FTEs in the cost driver.

Human resource services are provided to the smaller academic divisions through two offices: Professional Faculties South (PFS) and Professional Faculties North (PFN). Both the PFS and PFN offices, as well as the academic divisions, have expressed concern about how services are paid for by the client divisions. Currently the costs are built into the reference level budgets of the divisions, with no capacity for growth or change to be funded by the client divisions. Incremental costs are inequitably borne by the host divisions (PFS – Engineering and PFN – OISE).

Recommendation #13:

> **That a working group be established, including the Assistant Vice President, Human Resources, Planning and Budget, host divisions and representatives of client divisions. The mandate of the working group is to review the services and costs for PFS and PFN and to recommend the appropriate and sustainable funding model for these HR services. (The working group has completed its work for PFS and recommended changes will be implemented for the 2011-12 budget cycle. The group is continuing to work on PFN issues and aims to complete its work in summer 2011.)**

BIN 6: PENSION DEFICIT AMORTIZATION

The deficit in the University's pension plan, calculated in 2004, is being amortized over a 15-year period. This bin covers the annual payments and costs are allocated based on 2004-05 budgeted salaries of appointed staff, with no adjustment to recognize the $150K pension cap. During the original NBM discussions, the Steering Committee, in consultation with the Provost's Executive Committee, noted the following:

"The fixed cost amount should be allocated based on a fixed salary expense as the cost driver. Any incremental cost in future years should be allocated on an updated annual salary expense. No cap will be used in either calculation. Analysis shows that the difference in allocations to divisions between using a cap and not using a cap is immaterial. The fixed calculation will be done based on the 2006-07 expense budget, using 2004-05 budgeted (B-6) salary expense of appointed employees. Allocations of additional pension expense, after the fixed allocation, will be calculated based on total salary expense of all appointed employees (regardless of participation in the pension plane) as per the prior year B-6."

The University is once again facing a deficit in the pension plan. The next valuation must be filed by July 1, 2011. The University is in the process of considering various funding strategies but, regardless, it is anticipated that an additional special payment of $30M, over and above the existing $27.2M, will be funded from the operating budget, starting in 2011-12. Further special payments may be required in the following several years. As per the above statement, the cost driver for the additional special payment will continue to be the budgeted (B-6) salary expense of appointed employees, updated to reflect 2010-11 salaries.

The Review Committee does not recommend any changes to this approach.

BIN 7: ADVANCEMENT

This bin includes the costs of the operations of alumni affairs (ongoing administration of alumni affairs, alumni activities and alumni database) and the administration of major gifts and campaigns. The cost driver for alumni affairs costs is the ten-year rolling average of degrees awarded (as a proxy for number of alumni) and the cost driver for development costs is the ten-year rolling average of funds raised.

Since the implementation of the NBM, central advancement services at the University have been reorganized. Staff members have been partially regrouped into new service units. The Committee reviewed the structure of the Advancement Bin, which was based on the old organizational structure, and mapped this to the new structure within the portfolio. The Committee consulted with Advancement staff on the mapping and concluded that the existing sub-bins are still appropriate.

Alumni relations costs are allocated based on a rolling ten-year average of degrees awarded. The Committee reviewed the use of degrees awarded as a driver from two perspectives:

a. Does the inclusion of alumni from one-year programs (i.e. B.Ed, various professional masters) unfairly inflate the cost driver?

The Committee observed that there are many one-year programs across all divisions in the University and these are all affected in a similar way by this driver. Overall the Committee does not find evidence to support excluding one-year programs from the driver, as a graduate is a graduate in terms of basic services provided, regardless of how long they have been at the University.

b. Does the 10-year average of degrees awarded unfairly skew costs toward newer divisions, which have far fewer total alumni? Would total living alumni be a more appropriate driver?

Newer divisions have expressed a concern that the degrees awarded driver unintentionally penalizes them because of their relatively faster growth in enrolment. As their enrolment increases, their share of annual degrees awarded increases relative to divisions whose enrolment is in steady state. Several observations were noted. First, the degrees awarded database is managed by the Planning and Budget Office and is a readily available source of driver data. Second, the count of degrees awarded is more accurate and consistent than the count of total living alumni, which relies on irregular, one-off updates and voluntary identification. Third, cost increases are relative only to the baseline driver share that was captured in the reference level UF. Finally, the 10-year average smoothes cost increases over a significant time period.

The Committee also discussed the potential or perceived "unfairness" of the model whereby some divisions pay a significant share of alumni relations costs, while accruing relatively little benefit in terms of alumni donations. The Committee discussed the role of Alumni Relations and its connection to donor gifts. It was pointed out that basic Alumni Relations services are provided for ALL alumni, regardless of the gifts received. These services include: the Magazine, annual programs, the Development Information System (DIS) and a portion of the Advancement office administration. The Committee discussed a principle of the model, which is to recognize the cost of services used by a division, regardless of the benefits obtained.

No changes are recommended.

BIN 8: LIBRARY

This bin includes the costs of library services and acquisitions across the central University library system. It does not include the costs of divisional libraries. The cost driver for library acquisitions is a formula based on research revenue, student and faculty FTEs. Library service costs are attributed based on faculty and student FTEs. The UTM and UTSC divisions receive a discount on service costs in consideration of their physical distance from the central library.

a. Discounts for divisional libraries not funded by the University of Toronto Library System

At the time of the original implementation of the NBM, the Committee discussed the possibility of discounting central library costs for those divisions that manage their own libraries. Larger examples of these more independent divisional libraries include Law, Music, UTM and UTSC.

The Committee agrees that without a full-scale review of the library system there are few meaningful changes the Committee can recommend at this time. The Committee will seek an opportunity for input to future discussions on the library system, in particular noting the following:

- Institutional priority to maintain #4 library ranking (costs/benefits)?
- Functional allocation of resources – central vs. divisional
- Mandate of a library: research vs. study space
- Labour costs, shift from people resources to IT resources
- UofT library as an Ontario resource
- Rapidly changing technology

b. Inclusion of CFI grant revenue in research revenue as a cost driver

The Committee discussed the appropriateness of including CFI grants in research revenue as a cost driver for serials and electronic materials acquisitions. This issue was raised by some divisions questioning the link between an infrastructure grant and research activity as related to library resources. The Committee agrees that the CFI program funds research-related infrastructure rather than core research activity, and therefore recommends the following:

Recommendation #14:

That CFI grants be excluded from the research revenue driver for the library bin.

That if/when a full-scale review of the library system is undertaken the Committee be provided an opportunity for participation and input on budgetary matters.

BIN 9: RESEARCH ADMINISTRATION

This bin covers the costs associated with the Office of the Vice President, Research, including Research Services, Oversight and Compliance and Innovations and Partnerships. The cost driver is the rolling three-year average of research revenue.

Since the implementation of the NBM, the central research portfolio has been reorganized. Staff members have been regrouped into new service units. The Committee reviewed the structure of the Research Bin, which was based on the old organizational structure, and mapped this to the new structure. The Committee consulted with OVPR staff on the mapping and concluded that a new bin structure and associated cost driver data are necessary. The initial budget model development focused on finding activity-based drivers wherever possible and reducing the costs driven by revenue alone.

The recommendation of OVPR is to move from the current single cost driver (research revenue) for all of Research services, to four separate cost drivers to better align with the new groups within the portfolio and the services they provide.

Recommendation #15:

That a revised sub-bin structure be adopted for the Research Bin, as outlined in Appendix C.

The Committee also questioned whether the definition of research revenue for the cost driver is gross or net of funds flowed to other institutions. Planning & Budget noted that hospital-based research revenue is excluded.

BIN 10: STUDENT RECRUITMENT AND REGISTRARIAL SERVICES

The costs of the administrative services associated with recruitment, registrarial services and student aid and awards for undergraduate and graduate students are included in this bin. There are multiple sub-bins with unique cost drivers, including: student FTEs and head count, number of applications and number of OSAP applications.

a. Centre for Teaching Support and Innovation (CTSI)

The Centre for Teaching Support and Innovation was moved to the portfolio of the Vice Provost Students in 2009. This line should be moved to cost bin 10.

Recommendation #16:

That the cost associated with the Centre for Teaching Support and Innovation be moved to bin #10 and that the cost be allocated on the basis of faculty FTE.

b. International Student Exchange Office (ISXO)

The International Student Exchange program is open to degree-seeking students registered in the faculties of: Arts & Science at St. George, University of Toronto at Scarborough, University of Toronto at Mississauga, Applied Sciences & Engineering, Physical Education and Health, Law, Music and the School of Graduate Studies. Students registered in professional faculties (MBA, PT/OT, Medicine, Dentistry, etc.) access service through their own faculty for study abroad opportunities. The current driver in the model is undergraduate applications. This driver is not consistent with access to the service.

Recommendation #17:

That the costs associated with the International Student Exchange Office (ISXO) be allocated on the basis of total graduate and undergraduate FTEs in divisions eligible for ISXO services.

c. Financial Aid and Awards

The cost driver for the service costs associated with undergraduate financial aid and awards is the number of OSAP applications. The Committee debated whether or not this is the appropriate driver.

Some Committee members questioned whether the service cost of providing student aid should be rolled into the cost of the student aid itself (i.e. whether the driver should be tuition revenue, in line with the driver for student aid).

The majority of committee members agree that costs should be roughly aligned with utilization of student aid funds; activity of this department is driven by student need, not relative tuition levels, and therefore the cost driver is appropriate.

BIN 11: UNIVERSITY-WIDE ACADEMIC EXPENSE

The University-Wide Academic Expense cost bin includes funds held by the Vice President and Provost to support academic activities across all divisions of the University. These include, for example, the Academic Transitional Fund, Academic Service Initiatives Fund, Provost Reserve and Contingency, and Research Allowance for Endowed Chairs and University Professors. The cost driver is revenue (RCD).The only question raised regarding this bin is whether Provost's contingency funds should be driven based on operating revenue only (i.e. not RCD which includes research revenue) as contingency funds are perceived to have no relationship to research activity. Planning and Budget noted that the allocation of contingency funds by the Provost relate directly or indirectly to all types of activity, including research. No change is recommended.

BIN 12: UNIVERSITY-WIDE GENERAL EXPENSE

This bin covers general expenses at the institutional level in support of academic and administrative activities. These include legal fees, insurance, the Administrative Priorities Fund, membership fees in COU, AUCC etc. It also includes amortization of loans held centrally. Discussions identified only one recommended change below. The cost driver is revenue (RCD).

The Committee reviewed the allocation of centrally-held debt service costs for the Exam Centre and Multifaith Centre. These two loans have been until now incorrectly attributed to all divisions (tri-campus) rather than the St. George divisions only. The Committee agreed that this should be adjusted and that this error should not be offset by a UF re-allocation.

Recommendation #18:

That

- **on a prospective basis UTM and UTSC be excluded from debt service costs related to the Exam Centre and Multifaith Centre; and**
- **a retroactive correction in the amount of approximately $500K be funded on a one-time-only basis to UTM and UTSC.**

3.3 ALLOCATION OF EXPENSE FOR CENTRALLY-FUNDED STUDENT AID

The University provides need-based aid in two forms. UTAPS (University of Toronto Advance Planning for Students) grants are awarded by Admissions and Awards to students who have reached the maximum for government aid from Ontario (OSAP) or other Canadian provinces, or aboriginal band funding, who have assessed need beyond that maximum. In addition, many students who may or may not have qualified for government aid and UTAPS do qualify for grants awarded through the academic divisions on the basis of assessments of their individual circumstances. Divisions lacking sufficient resources of their own to meet need draw on central student aid resources managed by Admissions and

Awards.[2] Centrally-funded student aid also includes merit awards, support for international and part-time students and doctoral completion support.

a. Process for establishing budgets for divisionally-managed undergraduate student aid

Three divisions manage their own undergraduate student aid: Law, Medicine and Rotman. The Committee questioned whether the existing process is working satisfactorily and consulted with all three divisions. No change is recommended.

b. Undergraduate tuition as a student aid driver

Undergraduate student aid is allocated on the basis of FT undergraduate tuition. Planning and Budget explained that its enrolment projection model does not separate out full-time tuition since the model is based on FTEs. Collecting separate data just for this driver is time-consuming.

Recommendation #19:

That undergraduate student aid be allocated on the basis of total domestic undergraduate tuition, which is a readily-available data source.

c. OISE's share of doctoral thesis completion grant pool (renamed Doctoral Completion Awards in 2010-11)

Up until 2010-11, Masters and PhD students at OISE did not have access to the master's bursary funds or doctoral thesis completion grant fund, despite the fact that OISE has been contributing to these expense bins through the cost model.

Recommendation #20:

That

- **on a prospective basis OISE students be eligible to receive funds from the Doctoral Completion Award fund and the Master's bursary funds; and**
- **a retroactive correction in the amount of $220k be funded on a one-time-only basis to OISE.**

3.4 THE UNIVERSITY FUND (UF)

UNIVERSITY FUND CONTRIBUTION

The University Fund performs two primary functions with regard to divisional budget allocations: it preserves historical integrity (reference level) and it is the primary mechanism for adjusting budgetary allocations to support academic planning.

The University Fund contribution is calculated as 10% of total attributed revenue from operating grant, tuition fee, investment income and other income. The fund is used by the Provost in order to balance a complex set of academic priorities and needs.

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[2] Annual Report on Student Financial Support, January 2010

In April 2009 the Provost received a memo from the three Arts and Science deans requesting that doctoral stream tuition revenue be exempt from the UF contribution calculation because 100% of that revenue source flows back to students for the graduate funding commitment. The Committee reviewed the memo and concludes that this revenue should not be exempt. Graduate student tuition revenue is one of many sources of revenue with costs directly or indirectly tied to it; exempting it would require further examination of other revenues sources tied to costs, the end result not being in the spirit of the model of sharing of most revenues and costs.

UNIVERSITY FUND ALLOCATION

Incremental UF allocations are made annually by the Provost after all divisional academic reviews are complete. Allocations take into account academic priorities, the student experience, budget constraints, leveraging of government or donor opportunities and so on. The Committee discussed the UF allocation process and recommends:

Recommendation #21:

That:

- **multi-year allocations be considered in order to enhance divisional planning; and**
- **in the spirit of full transparency, divisions would like to see a report on annual divisional UF allocations; and**
- **divisions would like more clarity on the principles behind the University Fund allocations.**

3.5 ADJUSTMENT TO ACTUALS

The NBM calls for a slip-year adjustment for each academic division to "true-up" year-end actual revenue and university-wide cost results relative to budgets. Two particular questions were raised:

a. At what level should budget-to-actual variances be broken out and what drivers should be used?

The Committee agrees that material variances (judgment on "material" to be determined annually by Planning and Budget in consultation with Divisional Finance Officers) should be broken out and the same driver used as in the model, where possible.

b. Should University Fund adjustments be credited/charged to year-end variances?

In each of the past three years there has been a variance at year-end between budgeted and actual revenues and costs. The practice has been to credit divisions with positive variances and charge them for negative variances, on a slip-year basis. No UF adjustment has been applied to either positive or negative adjustments. The impact of excluding these adjustments from UF charge or credit is that the true UF contributions of divisions are disguised. This exclusion could also potentially lead to the unintended incentive for divisions to under-budget grant and tuition revenues.

Recommendation #22:

That a University Fund charge or credit be applied to year-end variances. The estimated charge or credit should be taken into consideration during the annual UF allocation process.

3.6 PLANNING PROCESSES

Academic and shared-services divisions prepare long-range budget plans as an integral part of the university-wide budget planning process. These plans progress through the "academic review process" culminating in a meeting with the Provost and an advisory group. Shared-services plans progress through a review process culminating in an individual meeting with the President and an advisory group and then a meeting of the Divisional Advisory Committee (DAC), a group chaired by the President and including a representation of tri-campus Principals and Deans.

ACADEMIC REVIEW PROCESS

The academic review process is a year-long process; the end of one cycle overlaps with the beginning of a new cycle, constantly rolling forward the five-year projections of a division. Budget packages with revenue and expense projections are distributed by P&B in August to Deans and their CAOs. Divisions work with P&B to prepare their submissions, focusing on demonstrating how their long range budget plans support their academic initiatives, in particular enrolment, complement, capital and advancement plans. The Provost meets with each division between October and December. Based on these discussions, final decisions on enrolment plans, faculty complement, capital plans and University Fund allocations are communicated to divisions in January. From there, divisions continue to work with P&B to develop their final budget for the upcoming fiscal year, which begins May 1. Further planning and analysis frequently continues throughout the summer months.

Committee members discussed their observations on the academic budget review process, including: the content of the budget data packages, communication from Planning and Budget, the format of the review meetings, the feedback received from P&B and the Provost after the meetings, and the general usefulness of the process as part of integrated divisional resource planning.

Members agree that there is great value in the process particularly the background work done between P&B and the division, and that it compels divisions to engage in an annual review of their divisional plan. The process also is of great value to P&B and all other Provostial, financial and government relations staff because it brings a diverse group of people to the table to ensure a more completely integrated budget plan. Initial concerns within the University community had been that, through the NBM, financial plans would drive the academic planning. The Committee notes that experience to date confirms that academic planning remains the driving force behind financial planning and financial resources are only one of many factors in an integrated divisional plan.

The Committee recommends the following be considered to enhance the academic review process:

Recommendation #23:

That there is a need for timely feedback letters summarizing the discussions and decisions arising from the academic review meeting. Letters should reiterate undergraduate and graduate enrolment targets, approval in principle of complement plans, and acknowledgment of government relations, advancement and capital priorities.

UNIVERSITY-WIDE COST REVIEW PROCESS (SHARED-SERVICES)

A parallel process takes place for the shared-services divisions. Shared-services include the portfolios under each of the six vice presidents, the Chief Librarian and the Secretary of Governing Council. Budget packages, including projections for compensation increases and cost containments, are distributed by P&B in August to unit heads and their CAOs. Divisions work with P&B to prepare their submissions, focusing on aligning strategic initiatives with budget plans, in particular highlighting how new initiatives support academic priorities. Divisions are asked to provide evidence of consultation with other shared-services divisions and academic units to ensure plans are developed in an integrated manner. The President meets with each division head in December. DAC meets in January to provide advice on priorities and overall spending targets to the President. Final decisions on the allocation of new base and one-time-only funding and cost containment measures are communicated to divisions in January. Divisions continue to work with P&B to develop their final budget for the upcoming fiscal year, which begins May 1. Further planning and analysis frequently continues throughout the summer months.

The Committee discussed moving the timing of the DAC process up earlier in the cycle, as academic divisions have struggled to plan ahead for unanticipated increases in central costs. It was noted that alternative formats and timings had been tried in the past few years and none had been entirely successful. Central cost decisions are made with reference to strategic priorities, set in the context of overall revenue projections. Reliable revenue projections are not available until December, after the academic review process is complete.

Academic and shared-service divisions noted the need for improved communication. Given the decentralization of budgetary information and responsibility, the administrative and academic processes need to inform each other; there must be a continuous conversation. Shared-service divisions would like to see a more inclusive approach where their budget plans are developed in an integrated way with other shared-service divisions. For example, initiatives in a division that require additional IT resources must consult in depth with the CIO's group before new funding is requested. Another enhancement would be more collaboration on joint-initiatives, and so on.

The Implementation Report envisaged a broader and more formalized consultation process (middle tables) regarding central costs. It notes: "To be effective, it is anticipated that this committee will focus its attention on broader issues and service adjustments that have the potential for making a significant difference in the long term, rather than on the minutia of expenses….The nature of the committee's work (DAC) is such that it needs to be decoupled in time from the annual budget cycle deadlines. The process envisaged is one in which the committee provides its advice to the President and Vice-Presidents before the budget setting process begins".[3]

The Committee recommends the following be considered to enhance the shared-services review process:

<u>Recommendation #24:</u>

That:

- **there is a need for more integrated shared-services planning, including particular attention to tri-campus issues; and**
- **consideration be given to the formalized "middle table" structure that was originally envisioned by the Task Force; and**
- **caution must be exercised against developing differential levels of service across divisions, based on ability to pay; and**
- **membership of DAC committee be communicated to all divisions.**

3.7 INTER-DIVISIONAL TEACHING

Following the implementation of the budget model in 2007-08, a Task Force was struck to review the issue of inter-divisional teaching and the extent to which it should be reflected in annual budget allocations. The Task Force noted that, given the variety of inter-divisional teaching arrangements in place, a simple formulaic approach is not possible[4]. For that reason, the Task Force recommended guidelines for revenue and cost sharing that could be broadly applied to various inter-divisional teaching agreements.

The Provost has recently announced plans for an Undergraduate Course Development Fund that will build on the work of the Interdivisional Teaching Task Force and provide incentive funding in addition to the revenue sharing agreement for new interdivisional teaching arrangements between undergraduate divisions and graduate-only units. Incentive funding for arrangements that continue in the long term will be rolled into the University Fund, and hence will be captured in the annual budget allocation. The revenue sharing component of the agreement will be implemented via an in-year budget transfer.

Many of the arrangements that were in place at the time of the budget model implementation are still in place today. Some agreements include an in-year transfer of net revenue while others are built into the original budget based on agreed-upon shares of revenue and costs. The Committee agreed that it should remain at the discretion of individual divisions whether or not a revenue-sharing agreement is included in the net revenue calculation annually. Those built into the model are working well; some agreements have a long history of working well with direct division to division in-year transfers and there is no need to change this. Where divisions find that arrangements are not working well, they may refer to the principles of the Task Force report to guide them in coming to new agreements. Planning

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[3] New Budget Model: Implementation Report, July 2006

[4] Interdivisional Teaching Task Force Final Report, October 17, 2008

and Budget will assist divisions and review new revenue-sharing arrangements as they come forward, as needed.

APPENDIX A: LIST OF RECOMMENDED CHANGES

Revenue Allocation

1. That changes to the model resulting from this review apply prospectively, and that the impact of such changes should be calculated using the 2010-11 budget model to determine an appropriate offsetting University Fund adjustment.
2. That errors identified through the review process be corrected retrospectively.
3. That Planning and Budget continue to review BIU funding rates on an annual basis and separate out into separate funding pools those enrolments that differ from the standard BIU funding rate by more than 1% or $50, whichever is less. The number of new BIU pools will be monitored periodically to ensure overall coherence is maintained.
4. That internal discounts resulting from variances to divisional targets be applied to the individual division; and that system-wide discounts be applied evenly across all divisions.
5. That revenue from non-division-specific endowed student aid funds in the University's budget be reflected below-the-line (i.e. not attributed to any division) but should remain clearly transparent.
6. That hospital-based CRC overhead revenue be included in the University's budget and attributed to the Faculty of Medicine.

University-Wide Cost Allocation

7. That:
   - the direct cost of classroom hours used by academic divisions be allocated based on share of total academic usage; and
   - the cost of unused hours and the indirect costs of OSM be allocated based on divisional share of total space (NASMs).
8. That the cost driver for unassigned space be changed from revenue as a cost driver (RCD) to total divisional share of total space (NASMs).
9. That a revised sub-bin structure be adopted for the Information Technology Bin, as outlined in Appendix B.
10. That consideration of tri-campus needs be fully included when the I+TS Priorities and Accountability Committee and the I+TS Process and Technology Committee analyze proposals for new initiatives.
11. That a working group be established, including Planning and Budget, the CIO, Information Technology Services (ITS) staff and IT and finance staff from UTM and UTSC. The mandate of the working group is to review the services provided by central ITS to all divisions, to identify where UTM and UTSC are unique due to their status of being campuses as well as divisions, and to recommend an appropriate discount for IT services for these campuses. Discussions are underway.
12. That the Centre for Teaching Support and Innovation and 50% of the Vice Provost Students portfolio currently in Bin #3 be moved to Bin #10 (Students).

That a working group be established, including the Assistant Vice President, Human Resources, Planning and Budget, host divisions and representatives of client divisions. The mandate of the working group is to review the services and costs for PFS and PFN and to recommend the appropriate and sustainable funding model for these HR services. (The working group has completed its work for PFS and recommended changes will be implemented for the 2011-12 budget cycle. The group is continuing to work on PFN issues and aims to complete its work in summer 2011.)

13. Library:
    - That CFI grants be excluded from the research revenue driver for the library bin.
    - That if/when a full-scale review of the library system is undertaken the Committee be provided an opportunity for participation and input on budgetary matters.
14. That a revised sub-bin structure be adopted for the Research Bin, as outlined in Appendix C.
15. That the cost associated with the Centre for Teaching Support and Innovation be moved to bin #10 and that the cost be allocated on the basis of faculty FTE.
16. That the costs associated with the International Student Exchange Office (ISXO) be allocated on the basis of total graduate and undergraduate FTEs in divisions eligible for ISXO services.
17. That
    - on a prospective basis UTM and UTSC be excluded from debt service costs related to the Exam Centre and Multifaith Centre; and
    - a retroactive correction in the amount of approximately $500K be funded on a one-time-only basis to UTM and UTSC.

<u>Student Aid Expense Attribution</u>

18. That undergraduate student aid be allocated on the basis of total domestic undergraduate tuition, which is a readily-available data source.
19. That
    - on a prospective basis OISE students be eligible to receive funds from the Doctoral Completion Award fund and the Master's bursary funds; and
    - a retroactive correction in the amount of $220k be funded on a one-time-only basis to OISE.

<u>University Fund</u>

20. That:
    - multi-year allocations be considered in order to enhance divisional planning; and
    - in the spirit of full transparency, divisions would like to see a report on annual divisional UF allocations; and
    - divisions would like more clarity on the principles behind the University Fund allocations.

<u>Adjustment to Actuals</u>

21. That a University Fund charge or credit be applied to year-end variances. The estimated charge or credit should be taken into consideration during the annual UF allocation process.

<u>Planning Processes</u>

22. That:

- There is a need for timely feedback letters summarizing the discussions and decisions arising from the academic review meeting. Letters should reiterate undergraduate and graduate enrolment targets, approval in principle of complement plans, and acknowledgment of government relations, advancement and capital priorities; and
- multi-year plans and commitments would provide a more stable planning platform.

23. That:

- there is a need for more integrated shared-services planning; and
- consideration be given to the formalized "middle table" structure that was originally envisioned by the Task Force; and
- caution must be exercised against developing differential levels of service across divisions, based on ability to pay; and
- membership of DAC committee be communicated to all divisions.

APPENDIX B: REVISED STRUCTURE OF INFORMATION TECHNOLOGY BIN

Budget Component	Recommended Cost Driver	2010-11 Direct & Indirect Costs
Enterprise Applications & Solutions Integration (EASI) 2/3	Revenue as a cost driver	3,292,303
Office of the Chief Information Officer (CIO)		408,885
Planning, Governance & Assessment (PGA)		390,906
Business Operations & Administration (BOA)		542,492
Enterprise Infrastructure Solutions (EIS)	35% - faculty and admin staff 65% - undergraduate and graduate FTE 12% discount to UTM/UTSC on both	7,623,075
Integrated Client Services (ICS)	Same as above	2,624,179
Information Security (IS)	Same as above	902,505
NGSIS (incl 1/3 EASI and ATI)	Undergraduate and graduate FTE	6,455,336
Information Technology Funds	Staff and student FTE	3,425,850
		$ 25,665,530

Comparison by Driver

	Revenue as a cost driver	Undergrad & Graduate FTE	Staff and Student FTE	Faculty & Staff FTE	Total
Existing structure	4,912,910	14,457,152	3,425,850	2,869,618	$ 25,665,530
Recommended structure	4,634,585	13,702,679	3,425,850	3,902,416	$ 25,665,530

Comparison by Division

	2010-11 Cost Allocation		Recommended Cost Allocation		Variance	
A&S	$ 9,036,009	35.2%	$ 9,026,816	35.2%	$ (9,193)	-0.04%
UTSC	2,889,229	11.3%	2,851,329	11.1%	(37,901)	-0.15%
UTM	3,155,119	12.3%	3,107,939	12.1%	(47,180)	-0.18%
DENT	344,241	1.3%	357,231	1.4%	12,990	0.05%
MED	3,472,236	13.5%	3,530,340	13.8%	58,104	0.23%
NURS	279,349	1.1%	280,754	1.1%	1,405	0.01%
PHRM	441,093	1.7%	438,376	1.7%	(2,717)	-0.01%
PE&H	225,155	0.9%	223,886	0.9%	(1,270)	0.00%
APSE	2,424,089	9.4%	2,411,696	9.4%	(12,393)	-0.05%
ARCH	140,574	0.5%	143,241	0.6%	2,667	0.01%
OISE	1,251,123	4.9%	1,258,162	4.9%	7,039	0.03%
FOR	48,890	0.2%	50,030	0.2%	1,140	0.00%
LAW	337,744	1.3%	345,127	1.3%	7,383	0.03%
INFO	215,700	0.8%	219,871	0.9%	4,171	0.02%
MUS	263,906	1.0%	268,134	1.0%	4,228	0.02%
SWK	166,098	0.6%	166,701	0.6%	603	0.00%
MGT	940,426	3.7%	950,167	3.7%	9,741	0.04%
TYP	34,548	0.1%	35,731	0.1%	1,183	0.00%
Total	**$ 25,665,530**	**100%**	**$ 25,665,530**	**100%**	**$ (0)**	**0%**

APPENDIX C: REVISED STRUCTURE OF RESEARCH BIN

Budget Component	Recommended Cost Driver	2010-11 Direct & Indirect Costs
Office of the VP Research	Total Research Funding (3-year Average)	$ 5,188,382
Research Communications		
TIG (Innovations & Partnerships) - 10%		
TIG (Innovations & Partnerships) - 90 %	Number of Research Funding Applications	2,861,205
RSO (Research Services) - 20%		
RSO (Research Services) - 80%	Number of Active Research Funds	3,595,798
ROCO (Oversight & compliance, ethic review) - 67%		
ROCO (Oversight & compliance, ethic review) - 33%	Number of Research Protocols	694,614
		$ 12,340,000

Comparison by Driver

	Research Revenue	Funding Applications	Active Research Funds	Research Protocols	Total
Existing structure	12,340,000	-	-	-	$ 12,340,000
Recommended structure	5,188,382	2,861,205	3,595,798	694,614	$ 12,340,000

Comparison by Division

	2010-11 Cost Allocation		Recommended Cost Allocation		Variance	
A&S	$ 3,049,508	24.7%	$ 3,115,690	25.2%	$ 66,182	0.5%
UTSC	248,224	2.0%	493,748	4.0%	245,524	2.0%
UTM	356,477	2.9%	648,000	5.3%	291,522	2.4%
DENT	284,068	2.3%	221,478	1.8%	(62,589)	-0.5%
MED	5,060,490	41.0%	4,139,495	33.5%	(920,995)	-7.5%
NURS	189,391	1.5%	192,761	1.6%	3,370	0.0%
PHRM	260,998	2.1%	273,252	2.2%	12,254	0.1%
PE&H	22,089	0.2%	56,574	0.5%	34,486	0.3%
APSE	2,041,891	16.5%	1,943,991	15.8%	(97,900)	-0.8%
ARCH	21,632	0.2%	22,213	0.2%	580	0.0%
OISE	288,938	2.3%	588,621	4.8%	299,683	2.4%
FOR	120,037	1.0%	129,189	1.0%	9,152	0.1%
LAW	83,135	0.7%	97,570	0.8%	14,435	0.1%
INFO	137,416	1.1%	114,720	0.9%	(22,695)	-0.2%
MUS	7,036	0.1%	23,670	0.2%	16,634	0.1%
SWK	82,084	0.7%	131,439	1.1%	49,355	0.4%
MGT	86,586	0.7%	147,588	1.2%	61,002	0.5%
TYP	-	0.0%	-	0.0%	-	0.0%
Total	**$ 12,340,000**	**100%**	**$ 12,340,000**	**100%**	**$ (0)**	**0%**

APPENDIX D: IMPACT OF RECOMMENDED CHANGES ON 2010-11 BUDGET

Notional Impact of Recommended Changes on 2010-11 Budget

Used to Calculate 2011-12 University Fund Adjustment

DIVISION	A REVENUE	B STUDENT AID	C UNIV. WIDE COSTS	D=A+B+C NET REVENUE IMPACT	E 2011-12 UF ADJUSTMENT
Faculty of Arts & Science	$ (1,958,043)	$ 1,516,525	$ (19,659)	$ (461,177)	**$ 461,177**
University of Toronto at Scarborough	(661,817)	706,397	(315,082)	(270,503)	**270,503**
University of Toronto at Mississauga	(735,569)	861,167	(385,341)	(259,743)	**259,743**
Faculty of Dentistry	(113,586)	185,624	(47,270)	24,769	**(24,769)**
Faculty of Medicine	(542,474)	568,917	1,177,803	1,204,246	**(1,204,246)**
Lawrence S. Bloomberg Faculty of Nursing	(63,180)	84,666	38,832	60,319	**(60,319)**
Leslie Dan Faculty of Pharmacy	(156,017)	237,624	11,897	93,505	**(93,505)**
Faculty of Physical Education & Health	(61,371)	92,287	(59,339)	(28,423)	**28,423**
Faculty of Applied Science & Engineering	(615,612)	538,282	(124,354)	(201,684)	**201,684**
John H. Daniels Faculty of Arch., Landscape & Design	(26,716)	26,763	(57,149)	(57,103)	**57,103**
OISE/UT	(289,543)	302,100	(134,821)	(122,263)	**122,263**
Faculty of Forestry	(9,169)	9,336	(48,949)	(48,781)	**48,781**
Faculty of Law	(188,671)	187,237	(46,490)	(47,923)	**47,923**
Faculty of Information	(46,531)	46,612	11,699	11,780	**(11,780)**
Faculty of Music	(54,740)	74,882	(187,099)	(166,957)	**166,957**
Factor-Inwentash Faculty of Social Work	(36,584)	36,756	(25,614)	(25,442)	**25,442**
Joseph L. Rotman School of Management	(416,150)	516,110	215,810	315,769	**(315,769)**
Transitional Year Programme	(3,231)	(12,282)	(4,875)	(20,388)	**20,388**
Subtotal	**$ (5,979,004)**	**$ 5,979,004**	**$ -**	**$ -**	**$ -**
Below the line					
Centrally-held Endowments for Student Aid	$ 5,979,004	$ (5,979,004)	$ -	$ -	$ -
TOTAL	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**

APPENDIX E: OBSERVATIONS FROM SENIOR MANAGEMENT OF SHARED SERVICE DIVISIONS

Sheila Brown, Chief Financial Officer

From my perspective, which focuses on the overall financial management and financial health of the University, the new budget model is a huge positive step forward. Its transparency and clear assignment of financial responsibilities makes it possible for us to take advantage of opportunities and tackle financial problems, in a constructive manner, with everyone pulling in the same direction. Given the current problems such as the pension deficit, I think we would be having great difficulty developing strategies if we were still laboring under the old model, which had principals and deans each trying to maximize their share of the pie rather than, as currently, trying to grow the pie. The substantive discussions at the academic budget reviews, focusing on the real drivers of academic and financial performance, are a great example of how the dialogue and actions have changed. I know that you are contemplating some fine tuning, but the overall approach is exactly correct, and absolutely necessary to enable us to survive and thrive going forward.

Christina Sass Kortsak, Assistant Vice President Human Resources

Thank you for giving me an opportunity to provide my comments on the effectiveness of the new budget model from the perspective of my portfolio. I have organized my comments into 4 points based where applicable, on the questions you have asked.

1) Impact on Engagement between Academic and Service Divisions:

From my perspective this has been extremely positive. Within the HR&E portfolio we already had a well established forum (the Human Resource Management Board) for engaging with academic and central divisions on strategic and in some cases more operational HR priorities and issues. As a result of the new budget model we now link these discussions more explicitly to budgetary implications. This has challenged us to demonstrate more clearly and persuasively the business case for new initiatives. It has also lead to interesting and helpful discussions about the ways in which existing services are provided. All of these are very positive developments in terms of both engagement and accountability.

2) Effective Process for Consideration of New Initiatives

Prior to the new budget model there simply was not a process for central divisions to make the case for new investments – or at least not a process that was accessible and transparent. With the new budget model the process for making these requests is more clearly defined. Similarly, there is an improved opportunity to get input on ways of achieving cost savings. We are still working out the kinks in the various consultation processes that lead up to the final budget request but all in all this is working well. For example this year we are requesting a modest investment related to the recommendations arising from the HR Review. By the time our final submission is reviewed by the Budget Committee the request for funds will have been reviewed and shaped by our advisory committee, HRMB, the “mid level” IT committee and the I+TS Priorities Committee.

3) Non Discretionary Funds

It is important that this category of funds remain available to cover cost items that are clearly required to meet legislative or other high risk requirements. It would not be a useful exercise to have to develop detailed business cases for these kinds of expenses.

4) In Year Proposals

One source of frustration is the lack of a process to consider somewhat smaller, in-year initiatives that may arise from time to time. The annual budget process is quite lengthy and it would be useful to have a mechanism to raise issues or opportunities that arise during the year. It is not always possible to anticipate these in advance. There are currently informal mechanisms to do this but these are not transparent and do not necessarily result in the most strategic decision making. It might be effective to set aside a modest amount of money that could be used for in-year administrative opportunities that arise. There may be a fund like this now but there does not seem to be a process for accessing it. Perhaps such a fund could be administered by a smaller group who would receive proposals and make choices based on an agreed upon set of principles or criteria.

Ron Swail, Assistant Vice President Facilities and Services

From my perspective the new budget model has been one of the most forward-thinking changes I have observed at the University since I arrived. With the new budget model, Faculties have been far more interested, specifically the Deans and their respective CAOs, in occupancy costs and overhead costs such as those supplied by Facilities and Services. It has provided my department with an opportunity to explain what we do, how we do it, and how we provide value to the University. The various challenges we face in our day-to-day operation are far better understood and appreciated. CAOs and many Deans recognize the challenges we are facing and have attempted to become involved and support F&S initiatives. Many Faculties have come to us asking how they can support reducing occupancy costs in their buildings and are extremely supportive of initiatives F&S has taken to reduce cost.

Examples of change resulting partially or substantially attributable to the new model:

- Electrical Consumption – for the second year in a row total St. George campus consumption has gone down slightly. We are at a loss to identify exactly why this has happened but beyond our many activities to reduce energy, I suspect the faculties are also more cognizant of the costs of energy and are conserving where they can.
- Capital Projects; we see an broad acceptance of planning for the most energy efficient standards for new buildings. Some examples include
    - Pre new budget: Pharmacy / CCBR – two of the most energy intensive buildings on the campus were designed and built with less than optimal consideration for achieving better energy consumption results

- Post new budget: LEED standards are being considered in almost all new projects:
  - F&S Office / Exam Centre – LEED Gold
  - Global Affairs – will be LEED Certified
  - Rotman – Will be LEED Silver Certified
  - Mining Renovation – will be LEED Silver
  - UTM Instructional Centre – will be LEED Silver
  - UTM Health Science Building – will be LEED Gold
  - UTSC Instructional Centre – designed to meet LEED certification

This fundamental change has been pushed by Facilities and Services and the Real Estate Office for some time but the new model provides divisions with incentives to creating buildings which are more energy efficient, in turn reducing costs for the academic divisions.

Alfred Cheng, Chief Administrative Officer, UT Libraries

Although budget plans for shared service divisions are still being prepared in a similar to the old process, before the introduction of the new budget model, we have noted some positive changes and some areas for improvement:

Strengths:

- The new process requires more strategic planning;
- Budget plans must be more in tune with the University's academic plan;
- There is a positive cultural shift – shared-service divisions must work closer with Faculties;
- Budget requests and initiatives must be prioritized;
- There is more emphasis on renewal, and not just adding dollars to budgets.

Weaknesses:

- There are opportunities for more engagement between shared services units;
- Being a shared service, the Library has very limited ability to generate revenue;
- It would be beneficial if the Library could play a more significant role in decisions affecting the indirect costs allocated to the Library bin (space, human resources, IT, etc.)
- A more developed long-term approach to budgeting would provide a more stable planning environment

Diane Horvath, Chief Administrative Officer, University Advancement

As I was not here prior to the implementation of the new model I cannot make comments relative to the old model, however I can provide some prospective observations.

1. The budget process cover memo provided by Planning and Budget is very helpful, laying out clearly what is expected in divisional budget submissions. A list of the DAC members would be helpful if included in the memo.
2. The templates provided by Planning and Budget are clear and helpful, although minor modifications could enhance them even further.

3. Has the University considered the use of software to enhance the planning process, in particular scenario modeling to look at various alternatives?
4. The gap between the budget submission to Planning and Budget and the presentation to the DAC committee is too large. There is a need for something in the middle, including opportunities for collaboration across units and wider consultation. Perhaps there should be more formal “middle tables” with power to influence both up and down.