2016-17 | Fiscal Framework

A guide to the upcoming budget

Contents

This report contains certain forward-looking information. In preparing the Fiscal Framework, certain assumptions and estimates were necessary. They are based on information available to management at the time of preparing the budget. Users are cautioned that actual results may vary.

Throughout the text in this report, financial values have been rounded to the nearest thousand unless otherwise stated.

Introduction

Some may ask, what is a fiscal framework and why do we need one?

The fiscal framework has been designed to document current and forward looking thought on budgetary planning. It is hoped that by documenting this thought and providing some background that collegial discussion can occur to ensure we are investing where investments are needed. For all intents and purposes this framework should be considered a "living document." Although the framework may evolve, it is anticipated that the core targets established will continue to guide us directionally even if specific needs and strategic plans change over time.

It is important to note that the framework is a fairly high-level document establishing goals and forecasting at a macro level. It is designed using comparative metrics and concepts of sustainability. At its core it recognizes revenues and expenses must balance. We ended fiscal 2015-16 with $11,000 unrestricted after 50 years of operation. Our margin of error is limited and our budgetary environment is constrained as depicted in the illustration below:

Budget constraints	Political environment	Demographics	Financing structure
Limited flexibility	**No flexibility**	**Negative flexibility**	**No flexibility**
• Majority of revenue is regulated. • Majority of costs are salary, wages and benefits tied to union agreements.	• Province's fiscal flexibility is very limited. • Increasing tuition is politically complicated for the Province.	• Demographics indicate a declining cohort of 18-20 year olds in the coming years. This has been worked into our future enrolment estimates.	• We cannot raise equity. • We must balance our revenue and expenses.

These constraints are coupled with the fact that our revenue is growing by $3 million slower than expenses, assuming flat enrolment and no expansion in service levels, as depicted on page 12. Unless we structurally adjust our spending we will continue to face budget mitigation measures to achieve the Board of Trustees mandate of a balanced budget or better.

Some may ask, what is happening to the revenue and expense model? As users of this report may know, we started a project in fiscal 2014-15 on this topic. There have been two reports published to date that can be found at **brocku.ca/finance/faculty-and-staff/revenue-expense-allocation-pro**. The revenue and expense model was never intended to be a budget model. It was intended to help identify where revenues and expenses are being spent. This said, in time, as the data requirements for the model are refined, this revenue and expense model could develop into a budgetary model. If that were to happen, it would tie into the overarching fiscal framework presented here.

We have a $300-million budget to deploy, and to achieve great results we need to capitalize on the opportunities and meet the challenges that are ahead. We are Brock – One Brock – the sum of its students, faculty, staff, volunteers, supports and the external community. Let's continue working towards a terrific today and tomorrow!

Financial results

In planning for the future it can be useful to look back and take stock. The following table illustrates the financial results of the University compared to budget and prior year actual. The information is presented on a funding basis, which represents committed cash, and is based on the audited financial statements prepared in accordance with accounting standards for not-for-profits (NFPS). A reconciliation of the two presentations can be found starting on page 20 of the Annual Report found at **brocku.ca/finance**

($000s)	Funding		NFPS		Funding	NFPS
	2014-15 Actual	2014-15 Budget	2014-15 Actual	2014-15 Budget	2013-14 Actual	2013-14 Actual
Revenue						
Student fees	145,946	146,224	145,946	146,224	135,646	135,142
Grant revenue	94,594	95,535	93,701	94,962	95,324	94,750
Internal chargebacks	7,111	6,097			4,665	
Other revenue	51,134	45,484	73,086	66,577	48,285	69,385
Total revenues	**298,785**	**293,340**	**312,733**	**307,763**	**283,920**	**299,277**
Operating costs						
Personnel costs	(193,865)	(197,185)	(193,041)	(196,991)	(195,160)	(193,048)
Other operating costs	(97,406)	(99,376)	(102,817)	(113,345)	(89,525)	(105,247)
Total operating costs	**(291,271)**	**(296,561)**	**(295,858)**	**(310,336)**	**(284,685)**	**(298,295)**
Mitigation target		3,221		3,221		
Funding surplus (deficit)	**7,514**	**-**	**16,875**	**648**	**(765)**	**982**

Statement of operations metrics

The following metrics were developed to identify areas of strength as well as improvement. They detail key operating metrics on a per-student headcount basis of Brock versus the median and weighted-average of the 14 other Canadian comprehensive universities.

By student headcount	Brock		Median(1)		Average(1)	
	April 2015	April 2014(2)	April 2015	April 2014(2)	April 2015	April 2014(2)
Student fees (primarily tuition)	7.75	7.23	8.20	7.89	7.79	7.62
Grant	5.91	5.92	10.52	10.61	11.09	11.36
Personnel costs	10.26	10.33	12.89	13.29	13.36	13.37
Scholarships	0.94	0.96	1.14	1.14	1.38	1.42
Interest on long-term debt	0.40	0.39	0.31	0.27	0.28	0.27
Investment income	0.09	0.09	0.67	0.58	0.67	0.65

(1) Calculated using financial information from 14 other comprehensive universities.
(2) Metrics have been adjusted to account for reclassifications and restatements of Brock and certain universities in the comparator group.

A few observations: Brock is slightly below median on student fees, which is mainly the result of lower ancillary fees; the grant revenue per-student metric dispels the commonly held assumption that all students are funded on an equal basis; although Brock has the lowest personnel costs per-student, it does not specifically speak to any one reason (i.e. productivity, employee levels, etc.); and the interest and investment income metrics are in line with the following financial health metrics.

Financial health metrics

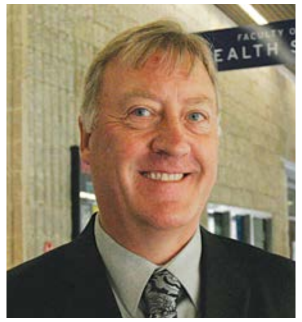
	Brock		Median(1)		Average(1)	
	April 2015	April 2014(2)	April 2015	April 2014(2)	April 2015	April 2014(2)
Primary reserve ratio	10.7%	3.4%	25.2%	28.2%	28.0%	22.6%
Debt burden ratio	3.2%	3.6%	2.8%	2.0%	3.0%	2.8%
Interest burden %	2.7%	2.5%	1.9%	1.8%	1.6%	1.6%
Interest coverage	4.55%	2.39%	6.8%	9.0%	6.29%	7.05%
Viability ratio	19.8%	7.0%	91.6%	78.9%	89.0%	69.5%
Employee future benefits per student(3)	($0.61)	($2.23)	($3.40)	($4.59)	($3.55)	($4.37)
Endowment per student headcount	$4.34	$3.99	$7.88	$7.26	$7.44	$6.97

(1) Calculated using financial information from 14 other comprehensive universities.
(2) Metrics have been adjusted to account for reclassifications and restatements of Brock and certain Universities in the comparator group.
(3) The employee future benefit reserve per student of $0.05 has been excluded from Brock's April 2015 figure of comparative purposes.

Refer to page 27 of the 2014-15 Annual Report for explanations of the financial health metrics.

Message from leadership

Jack Lightstone, President and Vice-Chancellor, Brock University



Neil McCartney, Provost and Vice-President, Academic

Gary Libben, Vice-President, Research

Brian Hutchings, Vice-President, Administration

Everyone has invested considerable time in recent years on matters of financial sustainability. Through the engagement of so many in this process, numerous recommendations have been brought forward, which has brought the budget more or less back in line where revenues balance with expenses.Perhaps the single largest request has been for more information and documentation on subject matters ranging from teaching to research and even financial planning. It is hoped that this framework will help provide more information on the topic of financial planning.

The goal of the framework is to recognize our history and budget environment, and using key metrics, help us address the looking forward observations and resource allocation questions to ensure a fiscally sustainable Brock University.

Given the current fiscal framework we operate in, we do not expect implementing the plan to be easy.

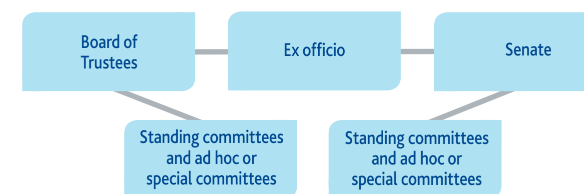
The development of a framework is in keeping with the Board of Trustees motion that was passed on June 25, 2015 that requires the University to achieve a balanced budget on an annual basis. This motion should not come as a surprise recognizing the Board of Trustees' fiduciary responsibility over the financial affairs of the University and given sustainability is a component of our strategic plan.

To all that have been involved and/or touched by the financial planning process in recent years, we have made a lot of progress on financial planning, we thank you for your cooperation and efforts and we hope this document is a continuation in that process.

Governance at Brock University

The University was incorporated in 1964 through The Brock University Act (the Act), a Statute of the Province of Ontario. The University is governed by the Act and its bylaws (the Bylaws). The Act provides that except as otherwise specifically assigned to the Senate, the government, conduct, management and control of the University's property and the conduct of its business and affairs is vested in the Board of Trustees (the Board). The Senate is responsible for the education policy of the University. This bicameral system of governance, consisting of two governing bodies – the Board and the Senate – is shown below.

The bicameral system of governance

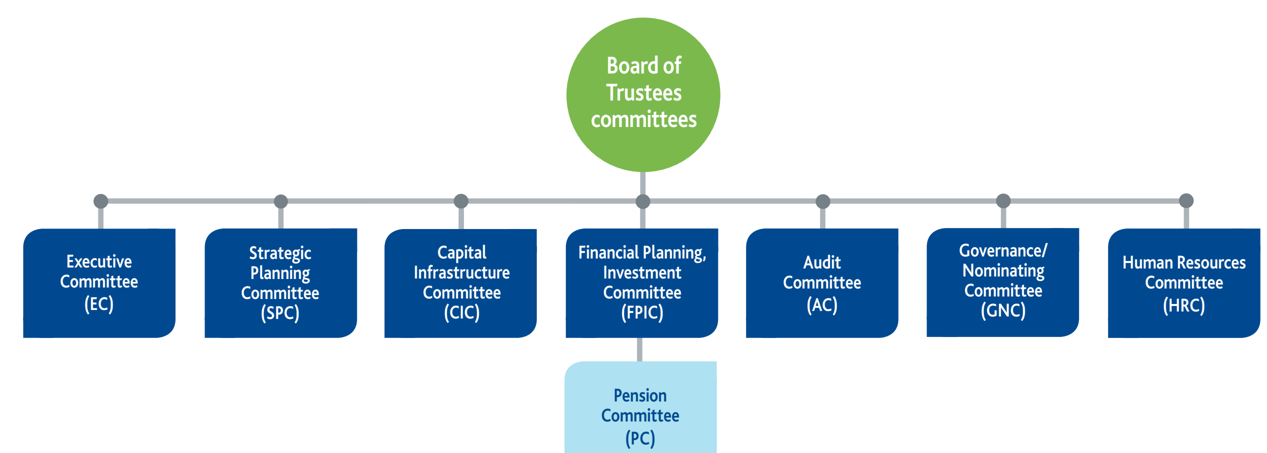


2015-16 Board of Trustees

The Board consists of 30 members, including 22 community members elected by the Board, as well as three Brock students, three faculty members and two staff members elected by their respective constituencies. The Chancellor and the President and Vice-Chancellor are ex officio members of the Board.

Board of Trustees members

30



Senate

67

The Senate currently consists of 67 members, including 36 elected full-time teaching staff and professional librarians, two members of the Board, six undergraduate students, two graduate students and one Alumni Association representative elected by their respective constituencies. There are also 20 ex officio members of the Senate.

2015-16 Senate members

Members ex officio

20

- Shirley Cheechoo (Chancellor)
- Jack Lightstone (President and Vice-Chancellor)
- Neil McCartney (Provost and Vice-President, Academic)
- Greg Finn (Vice-Provost and Associate Vice-President, Academic)
- Anna Lathrop (Vice-Provost, Teaching and Learning)
- Barry Wright (Interim Dean, Goodman School of Business)
- Ejaz Ahmed (Dean, Faculty of Mathematics and Science)
- David Siegel (Interim Dean, Faculty of Education)
- Thomas Dunk (Dean, Faculty of Social Sciences)
- Carol Merriam (Interim Dean, Faculty of Humanities)
- Peter Tiidus (Dean, Faculty of Applied Health Sciences)
- Michael Plyley (Dean, Faculty of Graduate Studies)
- Barb Davis (Registrar and Interim Associate Vice-President, Enrolment)
- Jonathan Younker (Interim University Librarian)
- John Suk (Chair, Board of Trustees)
- Spencer Dawson (BUSU, Vice-President, Finance and Administration)
- TBA (Vice-Provost and Associate Vice-President, Enrolment, Management and International)
- Gary Libben (Vice-President, Research)
- Thomas Winger (Acting Interim-President, Concordia Seminary)
- Brian Hutchings (Vice-President, Administration)

Note:
Faculty of Applied Health Sciences (AHS);
Goodman School of Business (GSB);
Faculty of Education (FOE);
Faculty of Humanities (FOH);
Faculty of Mathematics and Science (FMS)
and Faculty of Social Sciences (FOSS).

Full-time teaching staff/professional librarian representatives

36

- Kate Bezanson (FOSS)
- Irene Blayer (FOH)
- Jeff Boggs (FOSS)
- Poling Bork (FMS)
- Jonah Butovsky (FOSS)
- Christene Carpenter-Cleland (FMS)
- Maureen Connolly (AHS)
- Christine Daigle (FOH)
- Sheng Deng (GSB)
- Fayez Elayan (GSB)
- Heather Gordon (FMS)
- Paul Hamilton (FOSS)
- Scott Henderson (FOSS)
- David Hutchison (FMS)
- Nota Klentrou (AHS)
- Jennifer Li (GSB)
- Dan Malleck (AHS)
- Tanya Martini (FOSS)
- Jane McLeod (FOH)
- Christie Milliken (FOSS)
- Laurie Morrison (Library)
- Joe Norris (FOH)
- Shauna Pomerantz (FOSS)
- Lynn Rempel (AHS)
- Linda Rose-Krasnor (FOSS)
- Barbara Sainty (GSB)
- Larry Savage (FOSS)
- Sid Segalowitz (FOSS)
- Erin Sharpe (AHS)
- John Sivell (FOSS)
- Susan Sydor (FOE)
- Terrance Wade (AHS)
- Heather Whipple (Library)
- David Whitehead (GSB)
- Sakoieta Widrick (FOE)
- Vera Woloshyn (FOSS)

Representatives of the Board of Trustees

2

- Mario De Divitiis
- Kristine Freudenthaler

Alumni Association representative

1

- James O'Brien

Undergraduate student representatives

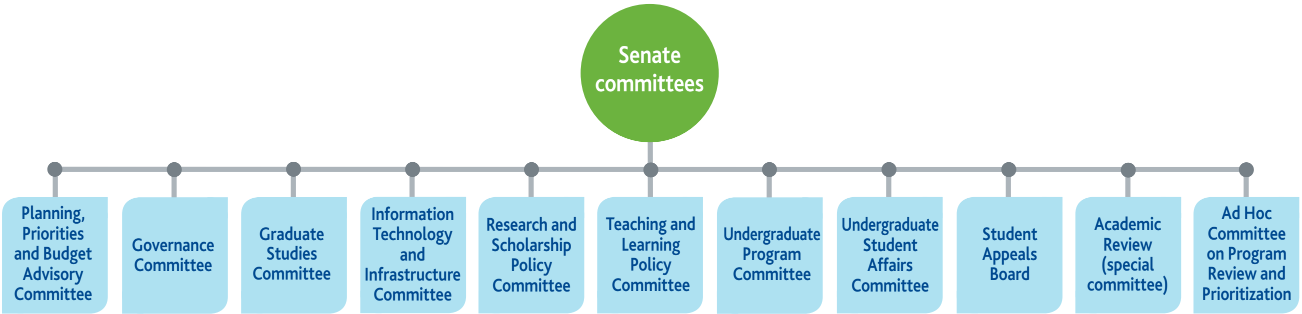
6

- Amalia Banava
- Matt Campbell
- Nigeria Goli Emiko Murphy
- Sarah Nagib
- Sam Piccolo
- Jeremy Steinhausen

Graduate student representatives

2

- Bryan Giordano
- Julia Polyck O'Neil



Planning Priorities and Budget Advisory Committee

15

The Senate's Planning, Priorities and Budget Advisory Committee (PPBAC) defines its terms as follows: it undertakes the responsibility to advise Senate regarding advice to the Board of Trustees in respect to the consistency of the budgets, policies, plans, and prioritization processes with academic policy, as well as their consonance with the goals of the University. The PPBAC advises Senate regarding the following:
a) The principles of allocation of the University budget and determination of strategic objectives and prioritization processes.
b) The academic and fiscal priorities of the University.
c) The academic and fiscal challenges of the University.
d) The budget system and strategic planning processes, and any proposed changes in the budget system and strategic planning processes of the University.
e) Matters requiring institutional advocacy.
f) Any other matters referred to it by the Senate or Senate Governance Committee.
The following are the 2015-16 PPBAC members:

Members

7

- Nota Klentrou (FMS) – Chair, Information Technology and Infrastructure
- Barbara Sainty (GSB) – Vice-Chair, Graduate Studies
- (TBD) – Chair, Research and Scholarship Policy
- Linda Rose-Krasnor (FOSS) – Chair, Governance
- Susan Sydor (FOE) – Chair, Teaching and Learning Policy
- Heather Gordon (FMS) – Chair, Undergraduate Program
- Lynn Rempel (AHS) – Chair, Undergraduate Student Affairs

Students

2

- Lee Belding – graduate student
- Spencer Dawson – undergraduate student

Ex officio

6

- Scott Henderson (FOSS) – Senate Vice-Chair
- Jack Lightstone – President and Vice-Chancellor
- Neil McCartney – Provost and Vice-President, Academic
- Greg Finn – Vice-Provost and Associate Vice-President, Academic
- Peter Tiidus (AHS) – Faculty Dean
- Ejaz Ahmed (FMS) – Faculty Dean

Brock's Mission Statement

Brock University flourishes through the scholarly, creative, and professional achievements of its students, faculty and staff. Offering a range of undergraduate and graduate programs, Brock fosters teaching and research of the highest quality. As a diverse and inclusive community, we contribute positively to Canada and beyond through our imagination, innovation and commitment.

Brock's values

Brock is committed to seven core values that inform and strengthen our actions.

1. Integrity and respect
2. Freedom of thought and expression coupled with academic responsibility
3. Unique student experience
4. Innovation
5. Accountability and stewardship
6. Sustainability
7. Generation and mobilization of knowledge

Integrated Strategic Plan and Strategic Mandate Agreement

Brock University's Integrated Strategic Plan, which has been endorsed by both the Board and the Senate, sets out the University's strategic priorities, representing the principles of allocation of the University, as follows: (the full Integrated Strategic Plan can be viewed at **brocku.ca/webfm_send/18651**)

Strategic priorities

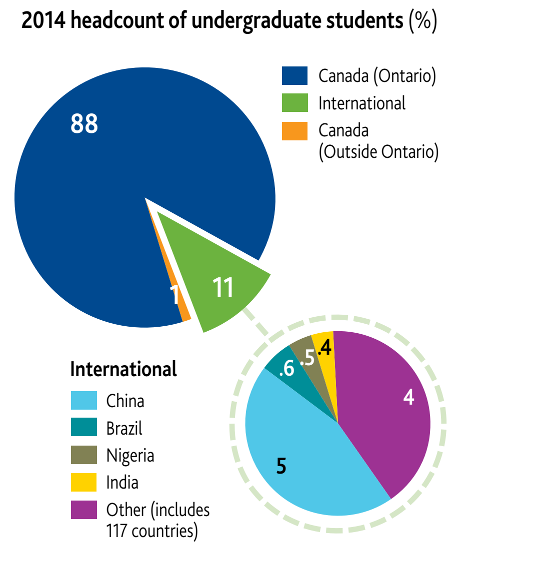
1. Ensure Brock is a preferred place to work and study.
2. Support Brock's undergraduate student-centred focus while maintaining excellence in graduate education.
3. Foster excellence in research, scholarship and creativity.
4. Serve the social, cultural and economic well-being of the University, as well as the local, national and global communities.
5. Encourage transdisciplinary initiatives.
6. Promote internationalization.
7. Practise accountability, fiscal responsibility and stewardship.

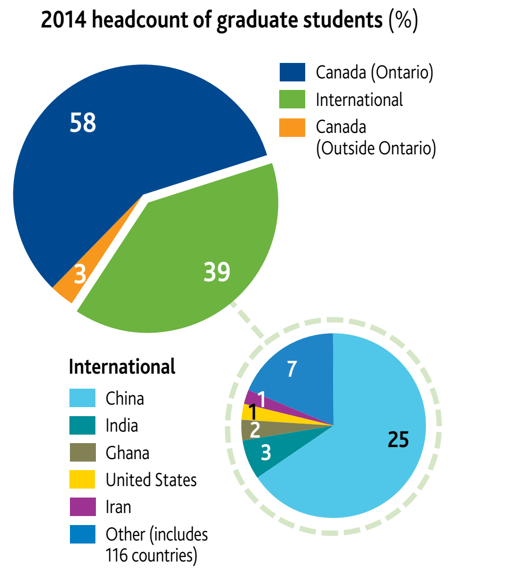
Brock University's Strategic Mandate Agreement (SMA), responds to the Ministry of Training, Colleges and Universities' (MTCU) request that every college and university in Ontario prepare a document that would articulate the mandate and vision of each institution. Brock's SMA was the culmination of a sustained process of integrated strategic planning and was informed by the Integrated Strategic Plan. The three pillars/priorities as detailed in the SMA are as follows (The 2014-17 Strategic Mandate Agreement can be viewed at **brocku.ca/webfm_send/32300**):

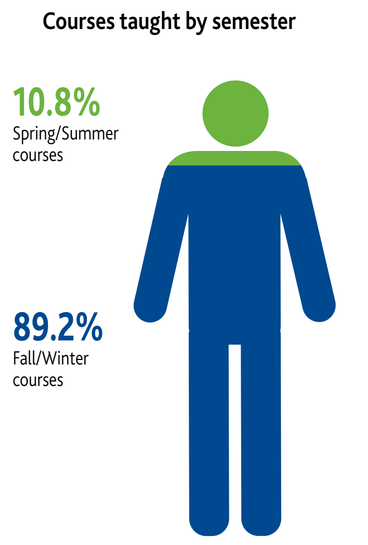
Pillars/priorities

1. Serving the 21st Century Learner – Putting students first. This pillar includes but is not limited to the move to online offerings, enhanced Spring/Summer offerings and expansion of service learning opportunities.
2. Establishing Trans-disciplinary Research Hubs and Developing New Graduate and Undergraduate Programs. The five TD hubs created are: Brock-Niagara Centre for Health and Well-Being; Institute for Advanced Bio-manufacturing; Lifespan Development Research Institute; Social Justice Research Institute; Sustainability: A Trans-disciplinary space for Transformative Change.
3. Building a Network of Partnerships that Promote Prosperity through Entrepreneurship, Innovation and Creativity. This pillar includes but is not limited to the Niagara Observatory; the BioLinc; Centre for Healthy Development; and the Centre for Lifespan Development Research.

The big picture

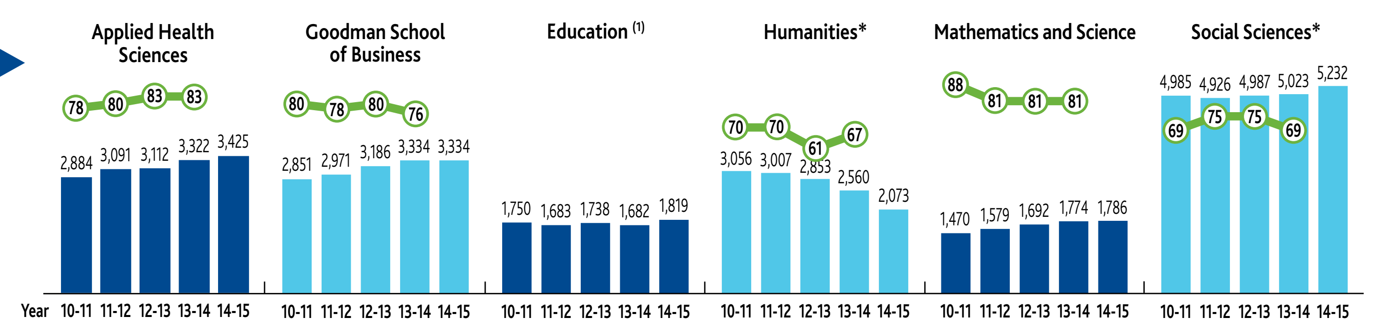






The information presented here is intended to provide a high-level view of student activity in the University. The metrics illustrate continued demand for our programs. In 2015-16 there is a one-time blip in the Faculty of Education as they transition from a one-year program to a two-year program. The only other Faculty with an identified reduction in enrolment is Humanities, which the President, Provost and Deans are encouraged to discuss with Senate. This reduction in student enrolment accounts for almost $13 million in lost tuition and grant funding yet the cost structure of the Faculty, despite some effort, has not reduced consecutively. This imbalance has meant as other Faculties' enrolment increased, there have been no new resources to allocate to them.

Student headcount by major



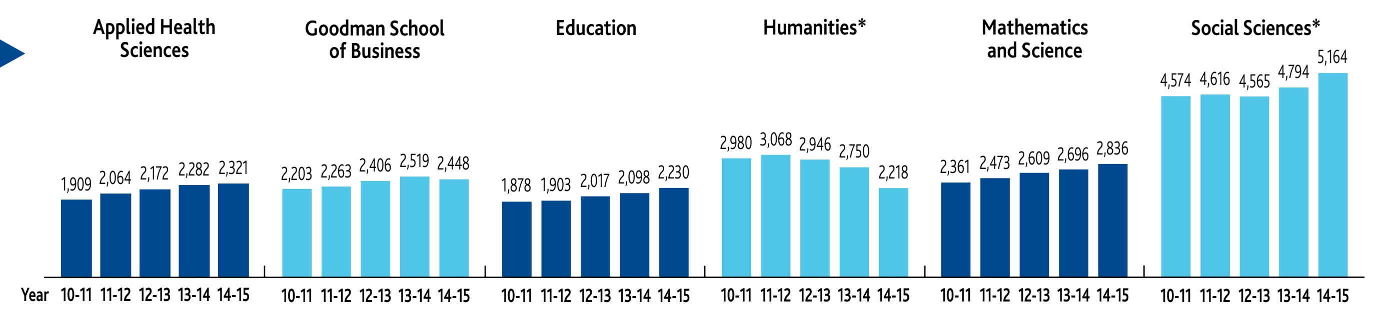
Fall student headcount full-time (FT) and part-time (PT) by Faculty of major.

(%) of flow-through of students from Year 1 to Year 2.

(1) (%) of flow-through of Education is not included since the majority of students are enrolled in a one-year program.
(2) Figures include undeclared Arts students, which are not included in any of the Faculties in the above charts.

	2010-11	2011-12	2012-13	2013-14	2014-15
Undergraduate (FT)	14,077	14,439	14,672	14,853	14,911
Undergraduate (PT)	2,264	2,217	2,210	2,146	2,243
Graduate (FT)	932	1,028	1,180	1,298	1,259
Graduate (PT)	604	506	450	391	411
Total (2)	**17,877**	**18,190**	**18,512**	**18,688**	**18,824**

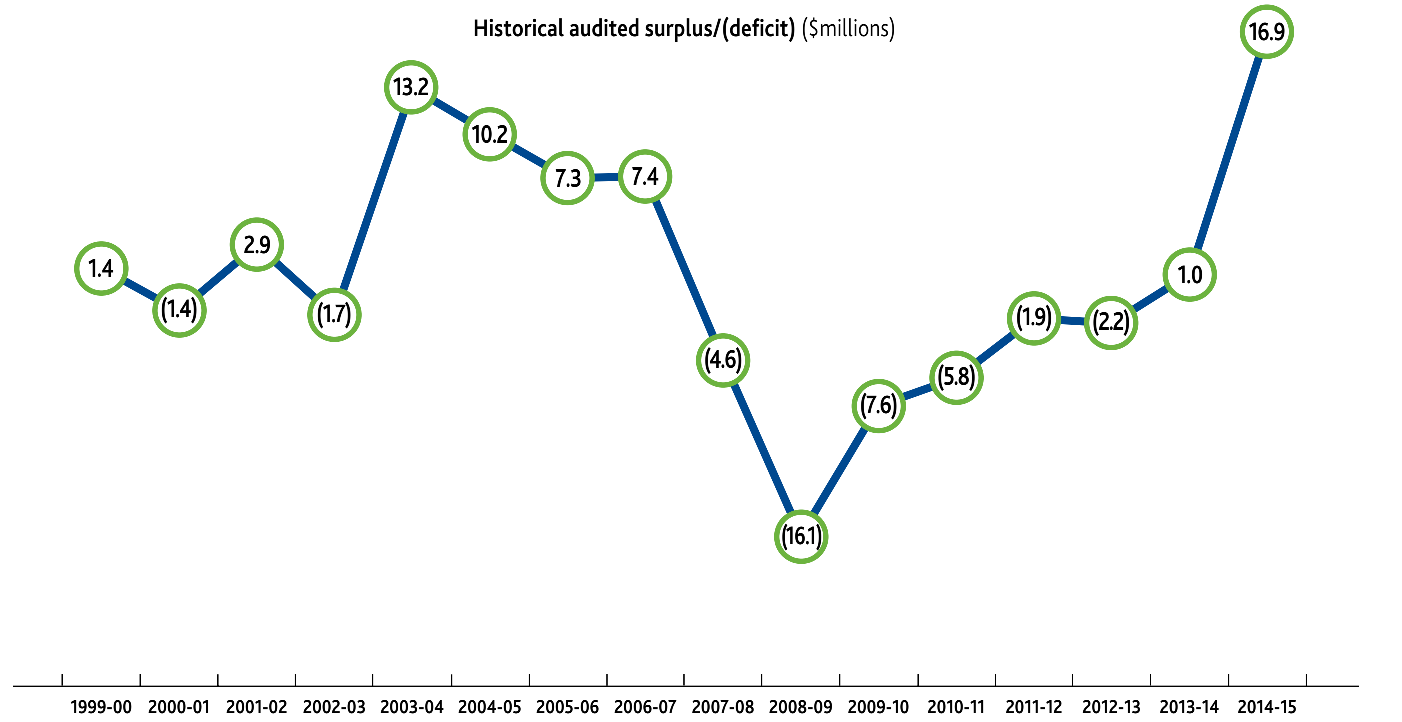
Student full-time equivalent



Full-time equivalent (FTE) student by teaching department/program.

*See the Applied Linguistics adjustment note on the Big Picture pullout in the 2015-16 Budget Report.

	2010-11	2011-12	2012-13	2013-14	2014-15
Undergraduate	14,792	15,207	15,400	15,724	15,835
Graduate	1,113	1,180	1,315	1,415	1,382
Total	**15,905**	**16,387**	**16,715**	**17,139**	**17,217**



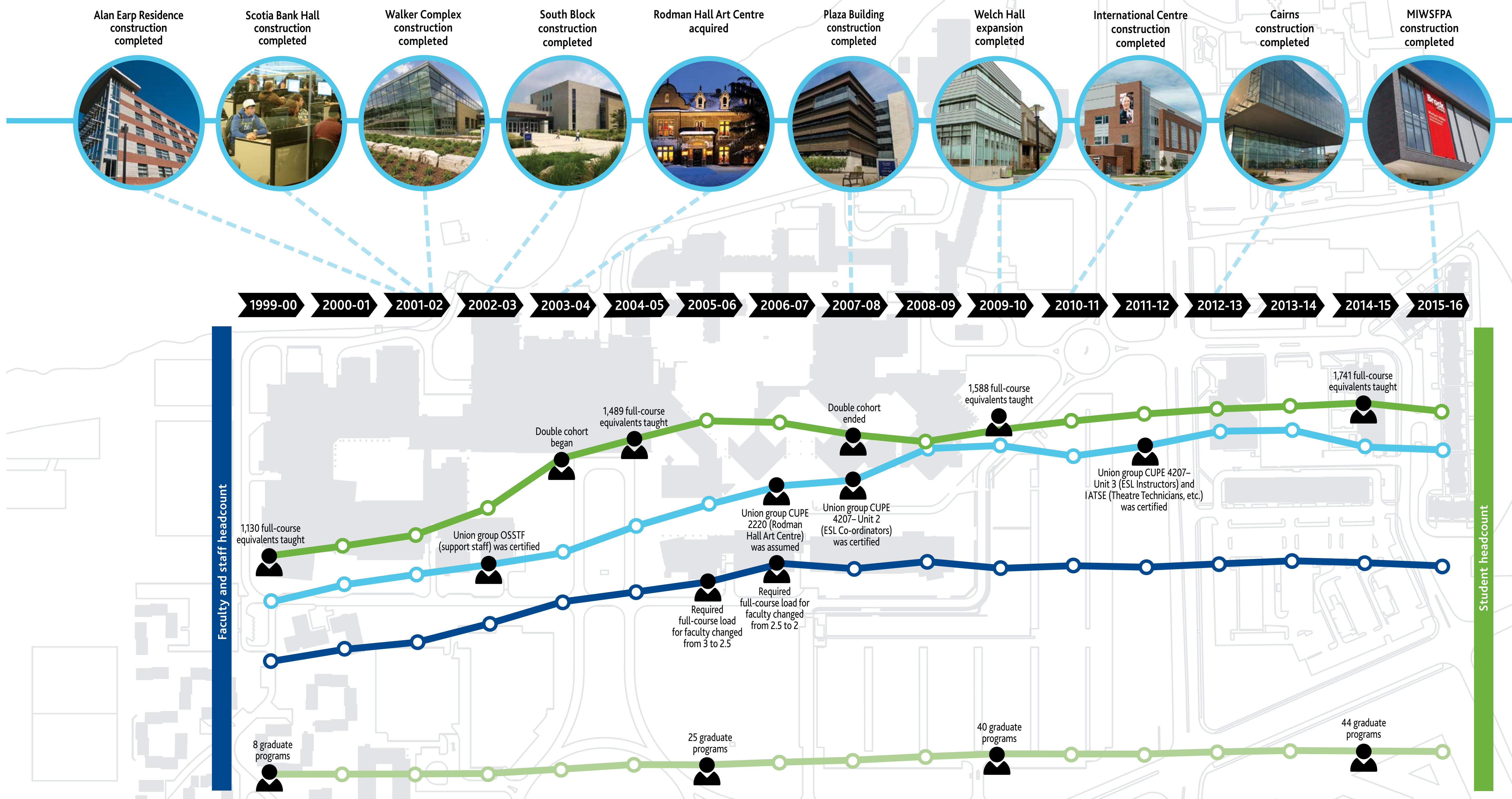
Note: The figures were obtained from the audited financial statements of Brock University, which were prepared in accordance with the Canadian generally accepted accounting principles for not-for-profit organizations (1999-00 to 2010-11) and in accordance with Canadian accounting standards for not-for-profit organizations (2011-12 to 2014-15).
*These figures do not reflect the mark-to-market changes in the pension valuation resulting from recent CICA Handbook section changes.

Historical timeline

In planning for the future it can be useful to look back and ask "how did we get here?" The chart and historical timeline provided here attempts to rewind the clock and identify some key decisions with significant financial impact that have occurred since 1999-2000. These key decisions have been identified on the timeline along with undergraduate and graduate student headcount and faculty, professional librarians and staff headcount. The chart begins in 1999-2000 as this is when Institutional Analysis began publishing these data points (**brocku.ca/institutional-analysis/brock-facts**). It also closely coincides with when the move to a comprehensive university was proposed and endorsed. An interesting observation is that the student to faculty and librarians and the staff to faculty and librarians ratios are the same level or lower in 2014-15 as they were in 1999-2000.

Note: The faculty and professional librarians headcount figures accumulated and presented by Institutional Analysis as part of Brock Facts, represent roster data (i.e. all employees holding a faculty position in academic year). The staff headcount figures are from the Human Resources Information System (HRIS) and represent headcount as of Oct. 1 of each year.

Historical timeline



	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Faculty and librarians	348	380	399	449	507	533	560	609	595	614	596	603	599	608	616	611	603
Ongoing staff	506	552	580	606	637	708	766	816	831	915	923	895	922	961	964	919	912
Staff to faculty and librarians ratio	1.5	1.5	1.5	1.3	1.3	1.3	1.4	1.3	1.4	1.5	1.5	1.5	1.5	1.6	1.6	1.5	1.5
Graduate headcount	638	639	647	671	858	1,065	1,053	1,169	1,259	1,419	1,544	1,536	1,534	1,630	1,689	1,670	1,649
Undergraduate headcount	10,346	10,777	11,269	12,458	14,669	15,532	16,356	16,284	15,747	15,431	15,949	16,341	16,656	16,882	16,999	17,154	16,813
Student to faculty and librarians ratio	32	30	30	29	31	31	31	29	29	27	29	30	30	30	30	31	31

Source: Brock Facts. Visit **brocku.ca/institutional-analysis/brock-facts**

Budget environment

Prior to diving into the fiscal framework let's first look at the budget environment. The budget environment for the University is dominated by government policy, enrolment, and dare we say, ourselves. These same factors were identified in last year's budget report and continue today.

The topics identified in this section should not detract from the emphasis put on the Strategic Mandate Agreement or Integrated Strategic Plan. This discussion on the budget environment only serves to highlight three areas that significantly impact the fiscal framework and budget development.

Government policy

The University continues to appreciate its strong and positive relationship with the Province of Ontario (the Province) and acknowledges the necessity of many of the decisions the Province has had to make, given its current fiscal constraints. The Province continues to be an exceptional supporter of the University as demonstrated through its financial contributions to recent infrastructure projects, including the Cairns Family Health and Bioscience Research Complex (Cairns), the Marilyn I. Walker School of Fine and Performing Arts (MIWSFPA) building, and most recently the new Goodman School of Business Building. The Province has also made significant pledges in the area of deferred maintenance to increase our funding from approximately $609,000 in 2013-14 to $2.2 million in 2018-19. This funding is reflected in the fiscal framework projections.

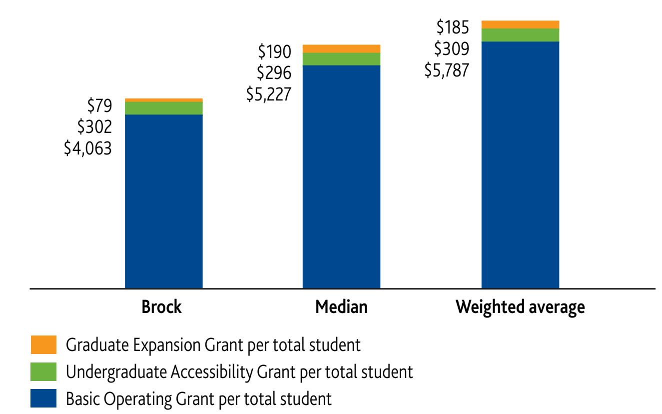
In past budget reports, we noted several decisions made by the Province that have impacted our budget significantly. These included: a change in the tuition framework, limiting the average tuition increase for domestic students who are enrolled in government-funded programs to be no greater than three per cent, compared to the previous five per cent limit; cutting the University's core operating grants (note: the core operating grants represent the Basic Operating Grant, the Undergraduate Accessibility Grant and the Graduate Expansion Grant.) by one per cent in 2013-14 and one per cent in 2014-15; the introduction of a $750 fee per international student; changes to student payment dates, flat fee and deferral fees, impacting investment and service charges; and changes to funding and enrolment caps in our Faculty of Education. In aggregate it is estimated these changes have cost the University in the neighbourhood of $30 million in lost revenue over the past three years. While all the changes have been difficult, the most problematic policy impacting us today is that there has been no inflation on the operating grants in a decade, yet the costs they fund are all increasing by at least the rate of inflation. This means that approximately 33 per cent of our revenue will not see an increase at all, assuming our enrolment stays flat.

Going forward, the Province is currently in the process of renewing its funding framework. Recognizing at this time that the Province has developed nothing more than points for consideration, the framework has been designed with the funding model that exists today. This said, it is also designed to accommodate a change in the funding framework should one develop.

Readers may also find it interesting that based on a recent internal review, we now believe we receive virtually the lowest core operating grants per student and per BIU from the Province when compared to all other universities in Ontario (see Chart 1).

Chart 1

2014-15 Core Operating Grants per total student headcount
Brock vs all Ontario universities



Readers may ask how this is possible. Many might be unaware that approximately 95 per cent (based on 2015-16 budget) of the core operating grants are actually fixed regardless of enrolment changes (read more on page 29 of the 2015-16 Budget Report). In the future and as the Province's review of its funding framework unfolds, discussions will need to continue regarding this differential. It may be of interest if we were funded for each student on the BIU formula or by FTE we could stand to receive between $9.5 million and $9.7 million (see page 28) more in grants than we currently do.

In addition to these financial restraints, it has also been noted that through the Province's new program-approval processes tied to the SMA, the Province has reduced our ability to chart our own course on program development and offerings, whereby the path to approval of new programs now requires extensive Provincial review.

Enrolment

While there continues to be an expectation that we can grow our international student population, concern regarding enrolment growth domestically has been highlighted both by last year's application numbers from first-choice applicants to Brock being down 12.7 per cent and the applications for 2016-17 down four per cent; as well as by the anticipated reduction in Ontario's population of students between the ages of 18-20 as shown in the Statistics Canada data (see Chart 2).

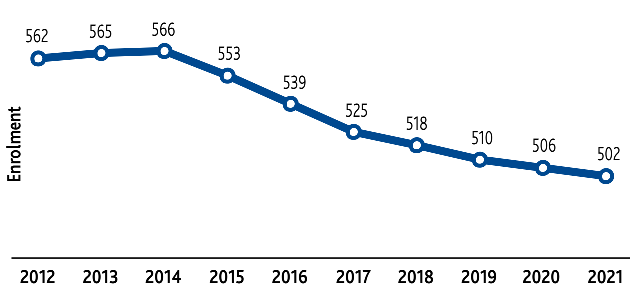
In light of this information, as part of the 2015-16 budgeting process the Office of the Registrar had created two comprehensive multi-year undergraduate enrolment forecasts, accounting for change in admission intake more than one year into the future. This model was informed and updated by the Strategic Enrolment Management plan. The forecast and financial impact is shown in Table 1. In the first scenario, 2016-17 intake is forecast flat to 2015-16 with subsequent academic years being modelled on the Ontario population projections, including the impact of the Faculty of Education changes.

The reason for the increase in 2016-17 is because it reflects the rebound in the Faculty of Education enrolment. Remember the Province temporarily cut the intake in 2015-16 to create capacity so it could change the length of the teacher education program from one year to two. If we look past this, other enrolment is projected to decline.

Note: scenario 1 was used to forecast the tuition and grant revenue in the 2015-16 budget and in the fiscal framework. In scenario 2 the assumptions are the same, with the exception of 2015-16 intake, which was forecast to reduce by 110 students. The resulting impact is a decrease of 496 students in 2015-16 (financial impact of $7.5 million) and a further cumulative decrease of 762 students in the subsequent four years (financial impact of $3.3 million).

Chart 2

Ontario population 18-20 year-olds (000's)



Source: Statistics Canada.

Table 1: **Undergraduate enrolment projections 2015-2020** (includes Teacher Education, excluding incoming exchange students)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Scenario 1: Enrolment (FT/PT) headcount	17,063	16,688	16,701	16,494	16,364	16,198
Estimated year-over-year change		(375)	13	(207)	(130)	(166)
Scenario 2: Enrolment (FT/PT) headcount	17,063	16,567	16,481	16,196	15,997	15,805
Estimated year-over-year change		(496)	(86)	(285)	(199)	(192)
Scenario 1: Estimated financial impact		Tuition decrease = $1.57 million	Tuition decrease = $1.26 million			
		Grant decrease = $4.08 million	Grant decrease = $1.41 million (Note: Grant no longer declines once it reaches the fixed portion – max loss is $5.49 million)			
Scenario 2: Estimated financial impact		Tuition decrease = $2.07 million	Tuition decrease = $3.19 million			
		Grant decrease = $5.40 million	Grant decrease = $0.09 million (Note: Grant no longer declines once it reaches the fixed portion – max loss is $5.49 million)			

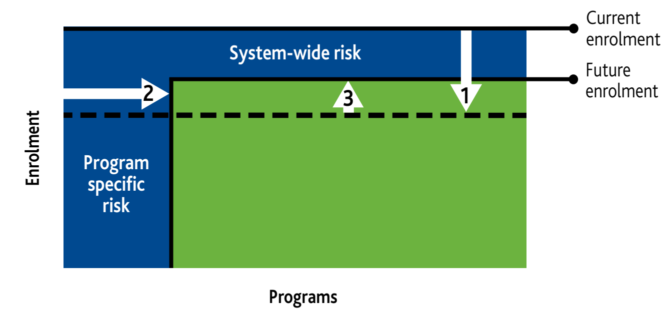
Represents a 5% decline over 5 years

Represents a 7% decline over 5 years

Source: Ontario Universities Application Centre – January 2015.
Note: This table was forecasted March 2015.

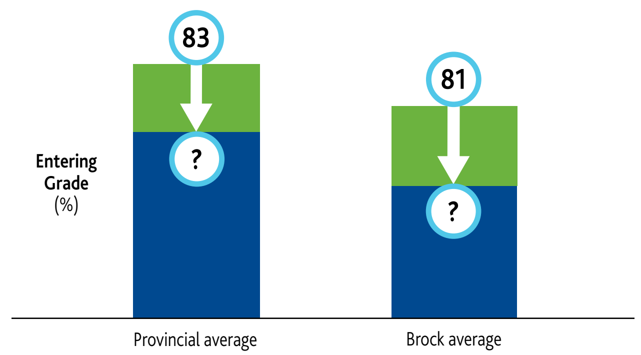
In addition to the systematic risks of population decline addressed by the Office of the Registrar enrolment scenarios (illustrated by arrow 1 in Chart 3), it is important to realize that there are a number of other factors affecting enrolment. As noted in the pullout, the Faculty of Humanities student headcount enrolment is down approximately 1,000 students over the past five years while all other Faculties have seen growth in enrolment. This may be due to certain trends in students' programs of interest, and while the number of domestic students may be decreasing, those applying to university may be focusing more in certain program areas and less in others, resulting in program specific risk (illustrated by arrows 2 and 3 in Chart 3). This ultimately may mean that the decrease is realized disproportionately across Faculties.

Chart 3



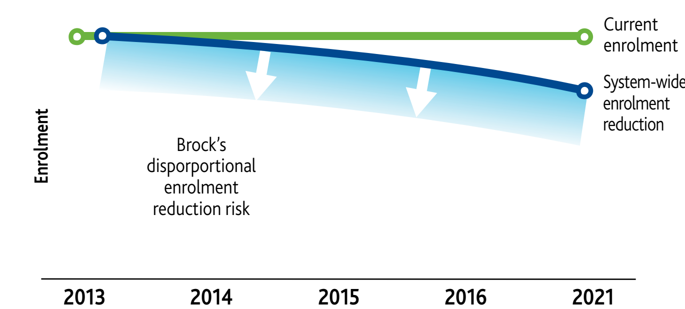
Of further concern is what is illustrated in Charts 4 and 5. These charts address the question: "What if an enrolment decline is not felt proportionally by all Ontario universities?" It is possible that we could see a disproportional drop in student enrolment compared to other universities because as Chart 4 illustrates, our average entering grade is already lower compared to other Ontario universities.

Chart 4



If other universities lowered their entering average requirement to maintain enrolment, we will need to assess our response. We could see something similar to Chart 5 if we experience a disproportional enrolment decrease.

Chart 5



The reality is that predicting enrolment is difficult and there are many action items we can and have started to implement, including enhancement of recruitment efforts, the increase of scholarship budgets and the development of a strategic enrolment plan. It is encouraging to see individuals across the University showing a continued willingness to get involved in recruiting. This said, the Academic Program Review identifies that we have programs with low enrolment and for those programs we need to assess next steps. Historically we have continued to push growth programs in order to subsidize lower enrolment and the most costly programs. Going forward, the answer may not be in growth because many of those programs may find themselves at capacity. The answer may be that we will be forced to figure out our "right size" at a program level.

Ourselves

Going forward we are looking at revenue growth of 1.97 per cent and operating costs growth of 3.01 per cent if enrolment levels are constant. This creates an annual requirement to find one per cent or approximately $3 million annually in mitigation. If enrolment declines by one per cent, we could be looking at requiring an additional $1.8 million in mitigation. This is illustrated in the following chart (this chart was first presented in the 2015-16 budget report.):

Chart 6

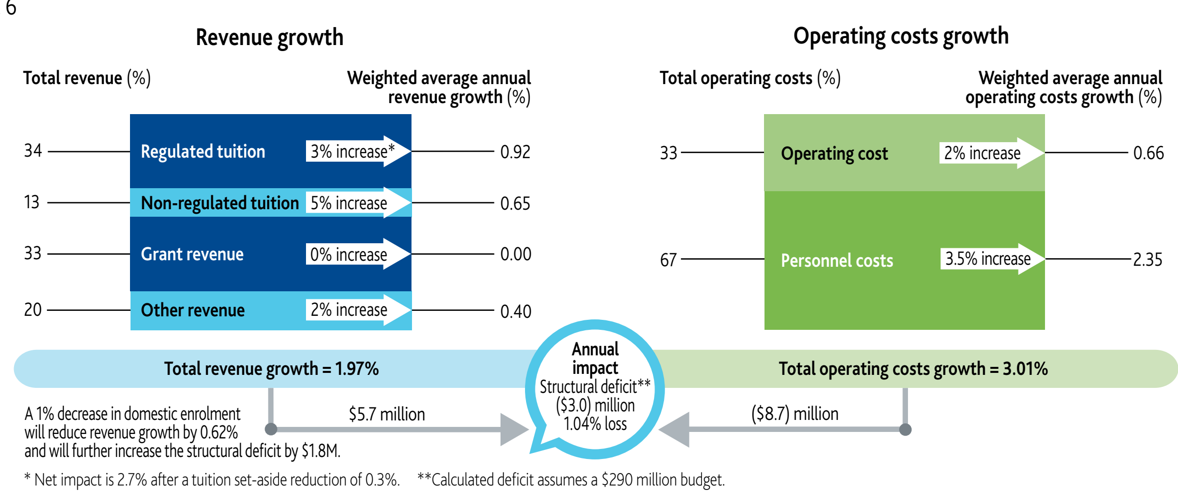
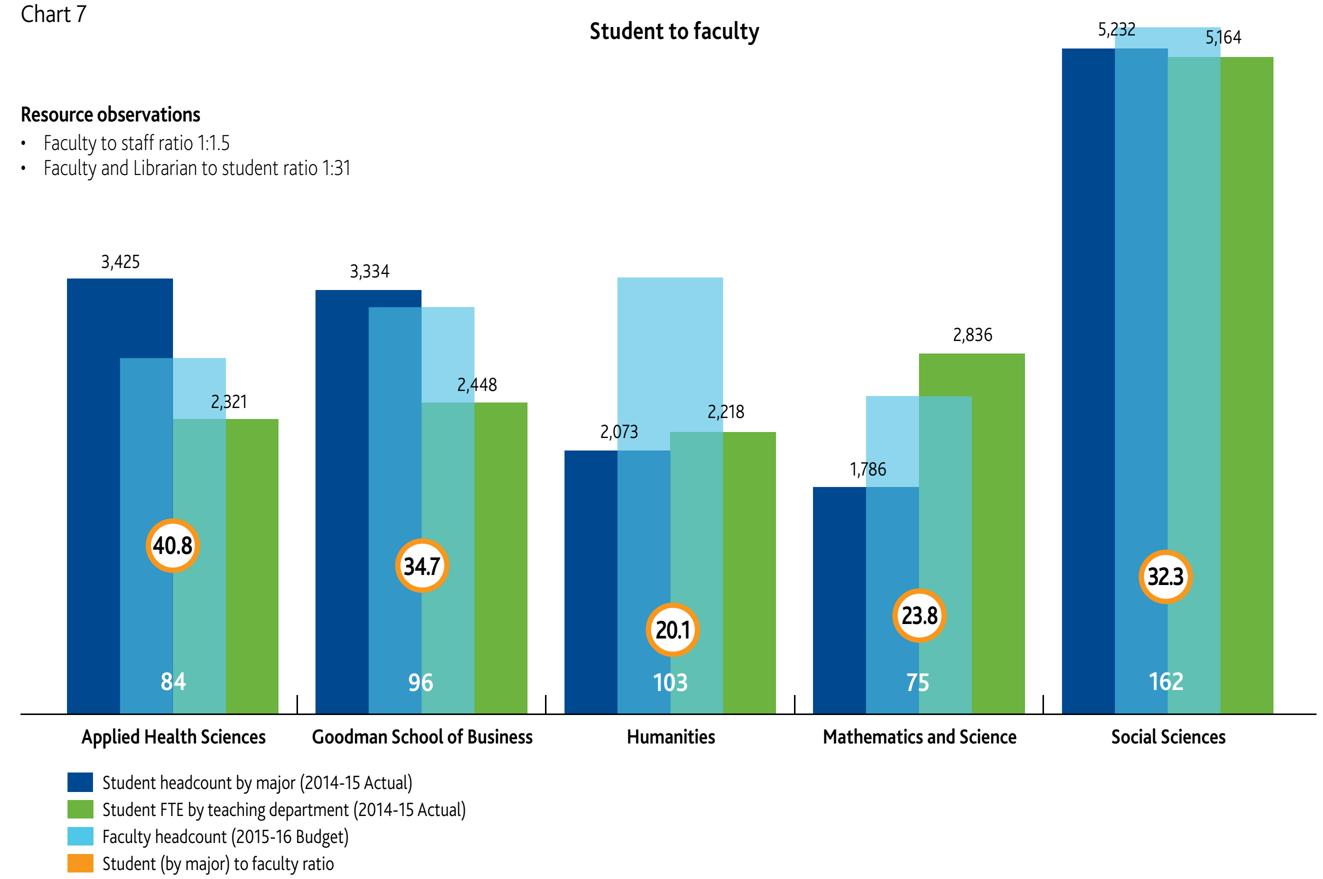


Chart 7



So why talk about "ourselves" as an aspect of the current fiscal environment? It's because we all ultimately have the power to recommend changes to the programs we offer and how we offer them, our areas of focus, the pay raises we seek, and how resources are allocated.

The budget committee is open to any recommendations. As already noted, these recommendations can be sent to **budgetreport@brocku.ca**

Using the term insolvency may be a bit extreme; however, if our growth in costs continues, and declining enrolment materializes, it could be a risk. Working towards a structurally balanced budget will minimize this risk.

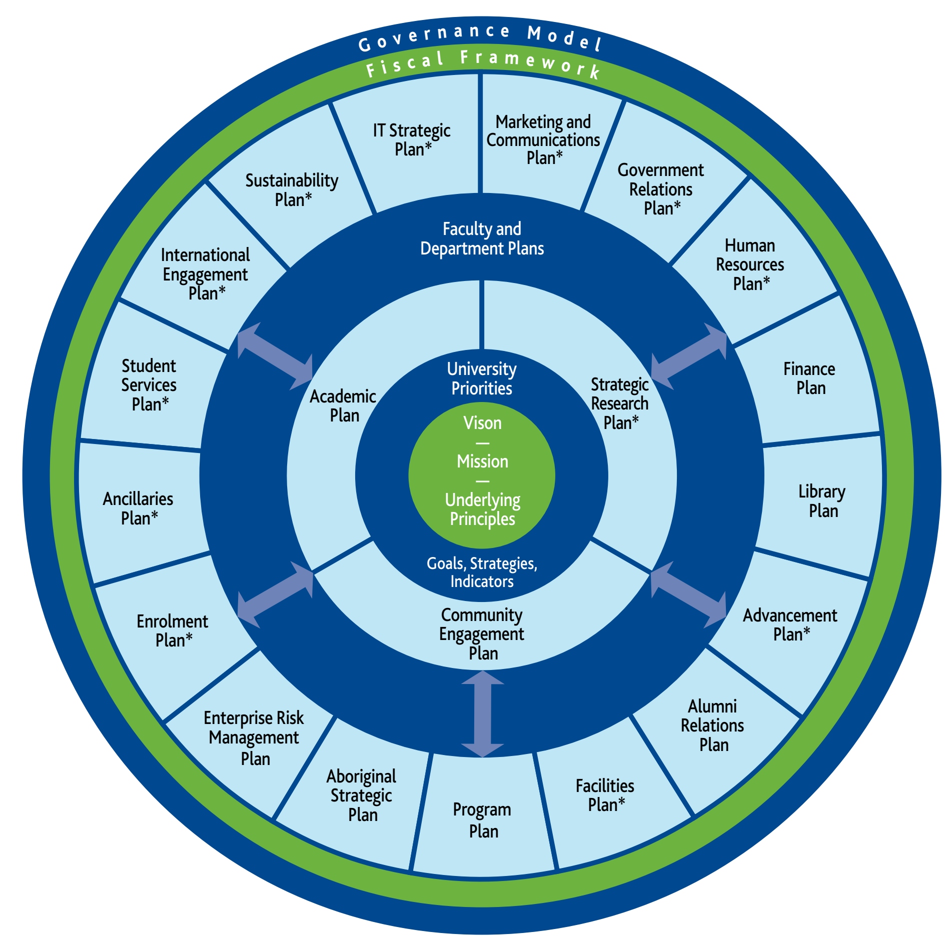
The fiscal framework is designed to help guide the distribution of resources, but it is not designed to make decisions by itself.

Going forward, we must look to ourselves to make real decisions that will take us out of the repetitive process of budget mitigation. We have a great University with some amazing programs and research. We need to ensure we don't stand in our own way.

Fiscal framework

Introduction

This fiscal framework is designed to support budgetary planning. If nothing else it helps identify that funding sources are limited and supports a route for their investment in a transparent manner. **The goal of the model is to recognize our history and budget environment and using key metrics help us address the looking forward observations and resource allocation questions to ensure a fiscally sustainable Brock University.** The objective is not to replace or even compete with the revenue and expense allocation model in development at **brocku.ca/finance/faculty-and-staff/revenue-expense-allocation-pro** but to document budgeting thoughts and related direction. In doing so, a potential financial outcome has been illustrated (see pages 20-21) based on proposed targeted guidance that is really universal across all revenues and expenses rather than isolated to specific units. Should we decide to embrace a revenue and expenses allocation model for budgeting purposes down the road, it is envisioned it would integrate as a component of this framework adding greater definition at the unit level. To this point, the framework is developed to recognize "One Brock" and through that lens initialize and document financial planning. This fiscal framework, while being a planning tool with respect to budgetary considerations, is expected to support strategic planning. In the sections that follow regarding the specifics of the fiscal framework, numerous plans are identified – some in place, some in progress and some perhaps outstanding but required. The fiscal framework's intent is not to establish an "edict." Through its development additional and ongoing planning requirements were identified. These same requirements are consistent with those identified by both the Senate and Board of Trustees. The planning model identified below was actually identified when reviewing other universities' planning processes. It came from Simon Fraser University. The plans or components referred to in this fiscal framework have been identified with an "*".



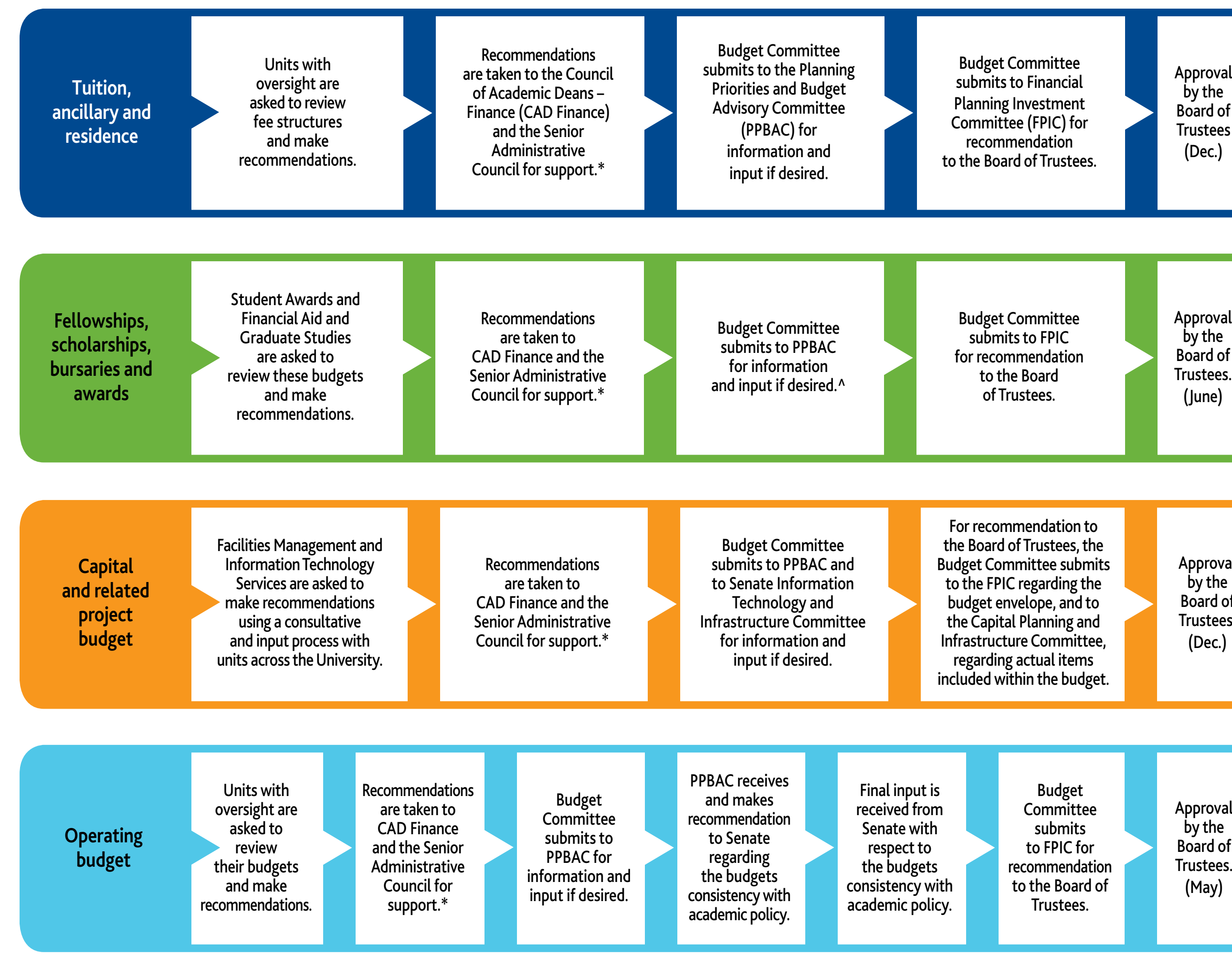
The fact that not all plans in the planning model are addressed in this fiscal framework is not to say that all the plans are not integral to the University or have a relationship with the fiscal framework. Rather, as stated at the beginning of this fiscal framework report, the fiscal framework is expected to evolve as time progresses. What is interesting about this model of planning is how governance of Senate and the Board of Trustees, followed by the funding available, form the outer boundary to hold the plan together. The visual is then one of core principle based planning followed by more detailed planning and then moving out to units for tactical planning. It further identifies the relationship that exists where a high degree of sharing must occur between tactical and aspirational goals where units look to implement and achieve the desired outcomes as set out in the planning exercise.

Timeline and process

The budget process is one that starts each year soon after the completion of the prior year budget and completes in May at the beginning of the new budget year. The budget is subdivided into a number of different sections and reports to allow for sufficient review, discussion, and time for implementation. These components are as follows:

Budget components	Approval	Rationale
Tuition, ancillary and residence	December	Approving these components in the time frames identified allows information to be published prior to the start of the upcoming fiscal year(s) to support students in planning and to support recruitment and retention activities.
Fellowships, scholarships, bursaries and awards	June	
Capital and related project budget	December	The majority of capital-related activity occurs in the spring and summer when the campus is generally less busy. Approving this budget in December allows for planning and procurement processes to commence so projects can be "shovel" ready come spring or summer.
Operating budget	May	This is the final component of the budget process. When the operating budget is proposed, the aggregated consolidated budget with the three components approved between June and December are also included in the budget submission. The operating budget is done last to allow for course and people planning, with the approval coinciding with the beginning of the fiscal year the budget relates to.

The budget components are approved by the Board of Trustees at the recommendation of the Financial Planning and Investment Committee. The fiscal framework acts as a financial guide in their development. The components are aligned with the University mission after much consultation. To this point consultation occurs throughout the development of each budgetary component. The general process of initial consultation to final approval can be visualized as follows:



* If changes are required units are consulted.

^ If there are changes to the adjudication and awarding of scholarships, bursaries and awards, these are taken through other Senate Committees as appropriate.

Information on the committees identified above can be found at **brocku.ca/university-secretariat** with the exception of the Budget Committee and CAD Finance. The Budget Committee consists of the President, Vice-Presidents, Vice-Provost/AVP Academic, AVP Human Resources and AVP Finance. The CAD Finance committee consists of the Provost/VP Academic, Vice-Provost/AVP Academic, Vice-Provost Teaching and Learning, all Deans, Librarian, and supported by the Registrar, Director of Faculty Relations and the AVP Finance.

Guidance

Specific guidance on the funding budget revenues and expenses can be found on the pages identified in the graphs on the following page.

The guidance provided in this framework is relatively straightforward. We spend more of our operating dollars on salary than comparative Ontario comprehensive universities. This will need to change over time while maintaining and improving quality. Further, we need to invest in areas such as the library, technology, our space through deferred maintenance, and student recruitment and retention. Therefore, the key aspects of this framework are as follows:

Tuition and grants

- Student tuition and grants are almost entirely regulated by the Province of Ontario. This framework incorporates the 5 per cent undergraduate enrolment decline, which was originally outlined in the 2015-16 Budget Report.

Our people

- Personnel costs are 72 per cent of operating expenses, while other Ontario comprehensive universities average only 68 per cent, based on the Council of Ontario Finance Officers (COFO) reporting 2013-14.

Our operating resources

- Our library is second last in acquisition funding compared to other comprehensive universities per *Maclean's*.
- Further investment in technology is essential in order to compete.

Our space

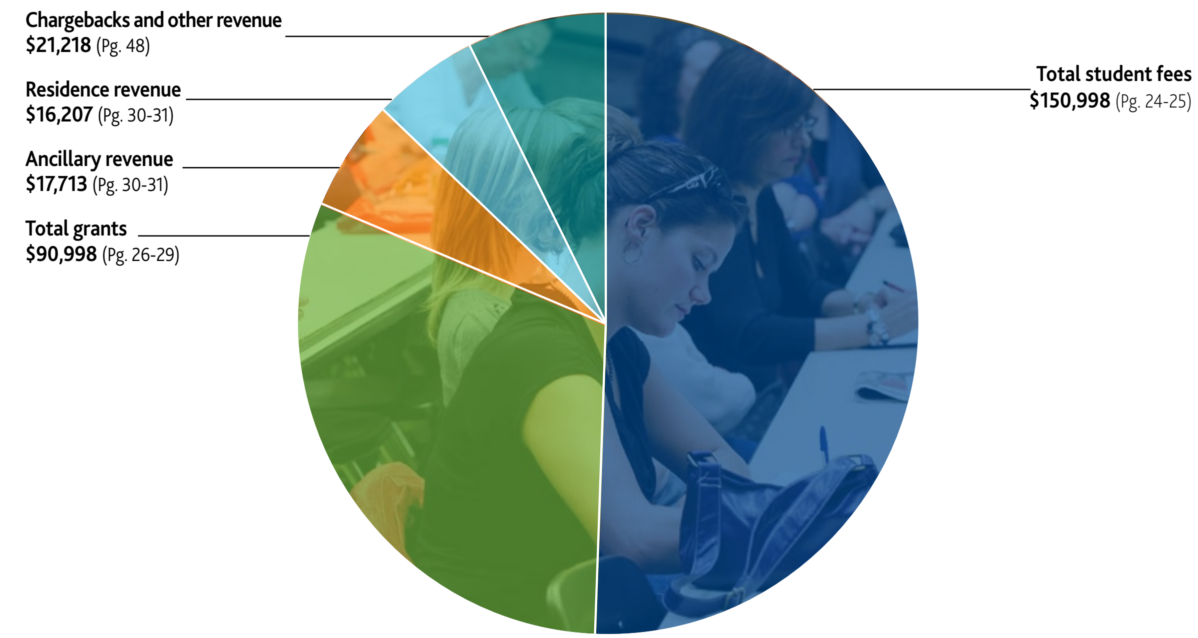
- Our infrastructure has a facility condition index of 0.18 compared to an Ontario University Index of 0.10.

Demographics

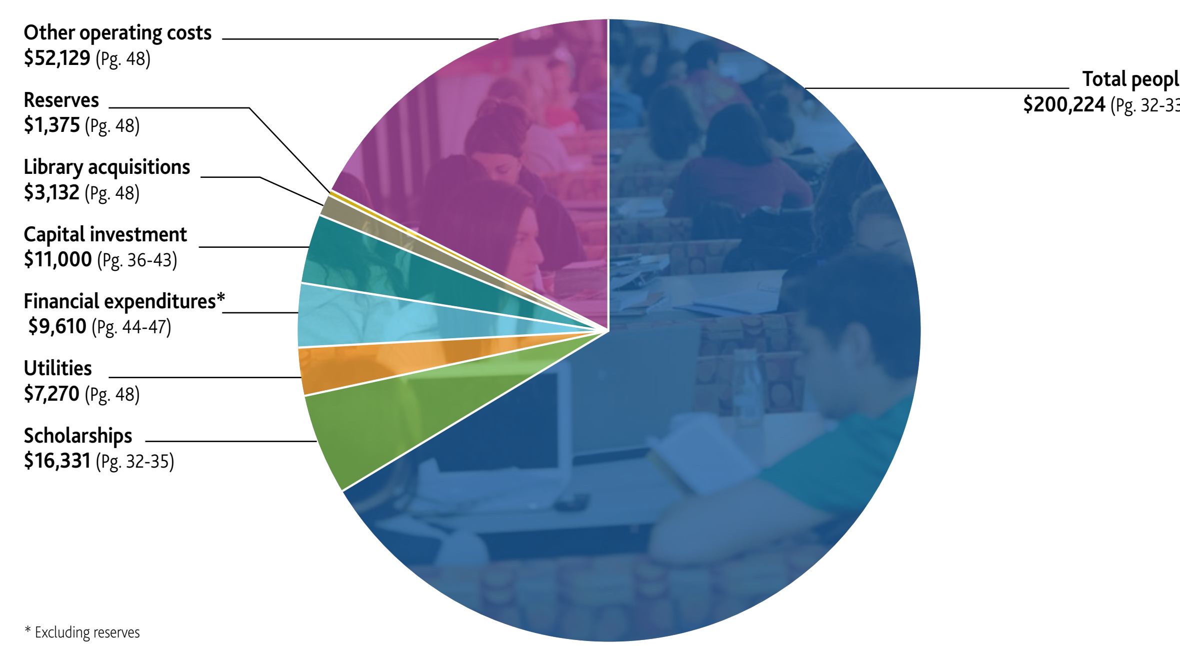
- The demographic outlook requires a further emphasis on student recruitment and retention. This will require greater funding for students through scholarships, bursaries, and awards.

The following charts identify the relative size of each revenue and expense component, based on the 2015-16 funding budget, as well as where the specific guidance can be found in this document.

Chart 8: ($000s)



Total budgeted revenue $297,134



Total budget expenses $ 301,071

Forecast

We reiterate that this framework contains future oriented information. It is the accumulation of financial information obtained from units across the University. In preparing the following forecasts and budgets, certain assumptions and estimates were necessary. These assumptions and estimates are based on information available to Financial Services at the time of preparing the following forecasts and budgets. Users of this information are cautioned that actual results may vary.

At a high level if the target guidance was achieved and the guidance has been applied or put forward as "assumptions" below, the following financial outcomes identified in "Illustrative funding budget A," would follow, as identified below:

Table 2: **Illustrative funding budget A**

($000s)	2014-15 Actual	2015-16 Budget	2016-17 Forecast	2017-18 Forecast	2018-19 Forecast	2019-20 Forecast
Revenue						
Student fees	145,946	150,998	157,634	162,921	169,033	175,006
Grants	94,594	90,998	92,254	91,239	90,613	89,810
Additional Facilities Renewal Program funds			(17)	423	865	1,306
Additional parking revenue			400	410	420	431
Other operations	58,245	55,138	56,241	57,365	58,514	59,683
Total operating revenue	**298,785**	**297,134**	**306,512**	**312,358**	**319,445**	**326,236**
Expense						
Total personnel costs	***(193,865)***	***(200,224)***	***(200,224)***	***(202,476)***	***(204,501)***	***(206,666)***
Financing costs						
External financing costs	(9,454)	(9,610)	(9,591)	(9,573)	(9,556)	(8,651)
Debt payment reserve	(475)	(475)	(745)	(1,022)	(1,303)	(2,480)
Financing costs total	(9,929)	(10,085)	(10,336)	(10,595)	(10,859)	(11,131)
Repair and maintenance and capital replacement						
Deferred maintenance (DM)	(5,700)	(6,018)	(3,325)	(7,111)	(7,697)	(8,287)
Capital (non DM)	(6,008)	(4,982)	(8,939)	(6,016)	(7,811)	(9,228)
Repair and maintenance	(11,344)	(11,957)	(12,196)	(12,440)	(12,689)	(12,943)
Repair and maintenance and capital replacement total	(23,052)	(22,957)	(24,460)	(25,567)	(28,197)	(30,458)
Scholarships	(15,265)	(16,331)	(17,741)	(18,485)	(19,247)	(20,028)
Library acquisitions	(2,897)	(3,132)	(3,882)	(4,310)	(4,746)	(4,841)
Purchased services	(8,853)	(10,360)	(10,567)	(10,779)	(10,994)	(11,214)
Utilities and taxes	(9,362)	(10,215)	(10,215)	(10,215)	(10,215)	(10,215)
Cost of sales	(7,176)	(8,165)	(8,328)	(8,495)	(8,665)	(8,838)
Other operating	(20,872)	(19,602)	(20,759)	(21,436)	(22,021)	(22,845)
Total non personnel	***(97,406)***	***(100,847)***	***(106,288)***	***(109,882)***	***(114,944)***	***(119,570)***
Total operating expense	***(291,271)***	***(301,071)***	***(306,512)***	***(312,358)***	***(319,445)***	***(326,236)***
Budget surplus /(deficit)	**7,514**	**(3,937)**	**(0)**	**(0)**	**(0)**	**(0)**
Library acquisition ratio		1.0%	1.3%	1.4%	1.5%	1.5%
Personnel as a % of COFO Budget	72.5%	71.9%	70.9%	70.5%	70.2%	69.6%

Strategic investments

- Debt payment reserve: trues-up debt costs to increase at 2.5%/year.
- To lower personnel costs as a percentage of overall budget to bring closer alignment to other universities.
- Additional investment in scholarships.
- Investment in Library acquisitions to increase the Library acquisitions ratio.
- Includes additional investment in recruitment in 2016-17.
- Additional investment in new capital projects based on the capital funding model.

Assumptions ($000s)

2016-17	2017-18	2018-19	2019-20
Flat	1% inc. + $250(1)	1% inc.	1% inc. + $150(1)
Based on capital funding model.			
Based on capital funding model.			
Based on capital budget	Based on capital funding model.		
Based on capital budget (ex. $1 m reserve in 15-16)	Based on capital funding model.		
2% inc.	2% inc.	2% inc.	2% inc.
$1,078 inc. (UG); $332 inc. (Grad)	$300k inc. + 2% each year		
$750 inc.	$350k inc. + 2% each year		2% inc.
2% inc.	2% inc.	2% inc.	2% inc.
Flat			
2% inc.	2% inc.	2% inc.	2% inc.
2% inc.+ $150 (insurance) + $275 (recruit.)*	2% inc. + $250(1)*	2% inc. + $150(1)*	2% inc. + $380(1)*

* Includes additional International Student Recovery fee of $356k in 2016-17 and flat in remaining years.
(1) Includes an allocation from the capital funding model for operating and personnel costs related to core information technology applications.

Budget submissions

As units throughout the University prepare their budgets for submission the following points are considered integral to that process:

- Budgets should be prepared so they are consistent with the academic policy and the goals of the University.
- Budgets should be zero-based. They should take into account historical budget to actual experience as well as future requirements.
- Budgets should be clear and easily understood. Key changes should be communicated such as, changes in personnel and related financial implications, impact of salaries, wages and benefits expenses, impact of changes in student and/or other significant revenue and expense drivers, new/expanded and/or discontinued initiatives.

Unit budgets related to Administrative Units must be submitted by Dec. 15 and Academic Units are due to be submitted by Jan. 15. Prior to submitting each unit lead should review their budget with their reporting President or Vice President.

Budget guidance at a unit level can be found starting on page 50.

In order to achieve the overall forecasts, all units will be expected to work towards the guidance formulated in detail in the sections that follow.

Risks to framework

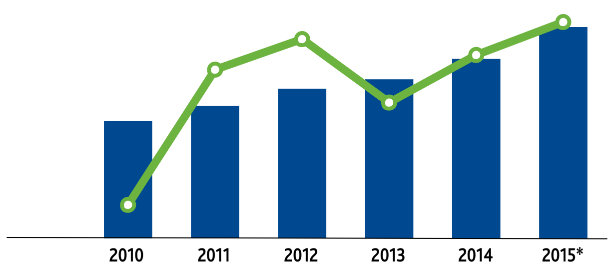
When looking at the framework it is important to recognize it is forward looking and requires a number of estimates and assumptions which were made using information available at the time of preparing this report. Along these lines, the following page identifies some risks to the framework. By design the fiscal framework was put forward as flexible. For example, in the event new funding opportunities or new expense pressures arise such as those identified in Table 3, the funding formula provides for one of two options:

1. The impact can be spread across all units mathematically by way of the funding envelope percentages (pages 50-51); or
2. Strategic adjustments could be made to specific units to accommodate and/or implement the change (pages 50-51).

Table 3: **Risks to framework**

Risk	Comments
Enrolment	As noted in the budget environment enrolment, is projected to decline. Any variation in the enrolment estimates will impact the financial forecast and actual results.
Provincial government policy	As noted in the budget environment section of this report, provincial government policy has been a major factor during budget development in the past couple of years. Any change in government policy could impact the financial forecasts and actual results. Some examples of Provincial government policy decisions include: new program approvals, tuition regulations, grant funding (note: a new funding formula is currently being developed by the Province), cap-and-trade legislation (note: legislation has just passed but the details of implementation have yet to be finalized), Freedom of Information interpretation changes (note: these requirements are constantly evolving, most recently changes were noted with respect to sharing competitive bid information) and Ontario Pension Plan broader public sector purchasing directives.
Pension plan	The following chart illustrates recent investment returns of the pension plan.

Chart 9 **Pension Plan as of June 30 pension year end** ($000s)

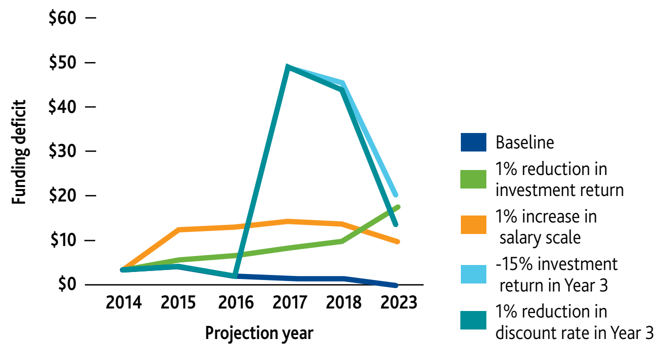


	2010	2011	2012	2013	2014	2015*
Assets	251,387	283,889	301,612	341,391	402,252	440,675
Return	8.6%	13.8%	3.0%	11.1%	16.7%	11.7%

*As of April 30, 2015.

As a result of the returns and an improvement in the discount rate, the actuarial valuation on the plan was updated as of July 1, 2014 which indicated the fund was 99.1 per cent funded on a going-concern basis and 105 percent on a solvency basis. This was a significant improvement from the July 1, 2011 valuation. This aside, there are risks leading into the next valuation to be performed for July 1, 2017.

Chart 10 **Sensitivity of funding deficit** ($000's)



As an example, if we experience a 15 per cent reduction in investment value or a one per cent reduction in the discount rate, the plan could go from almost being fully funded to a $50 million deficit, which would require a significant increase in operating budget contributions to reduce the deficit. Any variation from the current actuarial valuation will impact the financial forecast and actual results.

Tuition

Targeted guidance

Tuition rates are set at the median of other universities in the Province of Ontario.

When setting tuition rates government policy and regulation must be followed. The target tuition rate is the median of other universities in the Province of Ontario. When a reasonable number of comparators is not available tuition rates will be determined by the Provost subject to input from Dean(s) as appropriate. Where discounting is considered appropriate due to supply and demand dynamics or concerns of affordability the fellowship, scholarships, bursary, and awards strategy and related budget is to be utilized.

What is it?

The University funds approximately 48 per cent of its operations through tuition revenue. In dollar terms this represents approximately $144 million of which 86 per cent comes from undergraduate or other qualification courses and 14 per cent from graduate courses. The calculation of tuition is fairly straight forward, tuition rate multiplied by enrolment. The tuition rate is regulated for domestic students, which represents 71 per cent of all tuition revenue, and unregulated for international students, which represents 29 per cent of all tuition revenue. Tuition varies by program and in some cases year of study. Tuition rates can be found at **brocku.ca/finance/students**. Specific budgetary information can be found on this topic at **brocku.ca/finance/university-financial-information/budget-reports**

History

The establishment and setting of tuition rates has always been directed by provincial government policy with an eye to supply and demand dynamics. In recent years the University has unofficially adopted a policy of moving tuition to the average in the Province of Ontario. Should discounting be required the fellowship, scholarships, bursary and awards budget is utilized to accomplish this requirement.

Risks and mitigation

Rate

Risks	Mitigation
• Affordability of programs (actual and perceived) • Foreign exchange • Government policy and regulation	• Fellowship, scholarships, bursary, awards strategy • Ongoing dialogue with the government

Volume

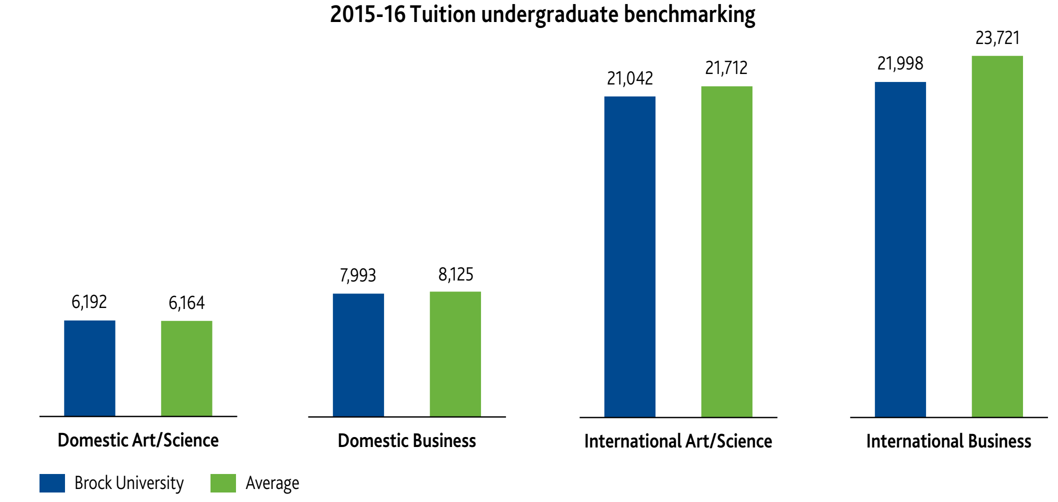
Risks	Mitigation
• Program quality • Program offerings • Program availability • Reputation (teaching, research, service) • Government policy and regulation • School-age population decline	• Strategic enrolment plan • Academic review process • Research strategy • Marketing and communication plan • Enterprise risk management plan • Ongoing dialogue with the government • International planning • Student service planning

Key performance indicators

The following chart illustrates our undergraduate tuition positioning based on tuition rates for fiscal 2015-16. It indicates we are in line with the target guidance.

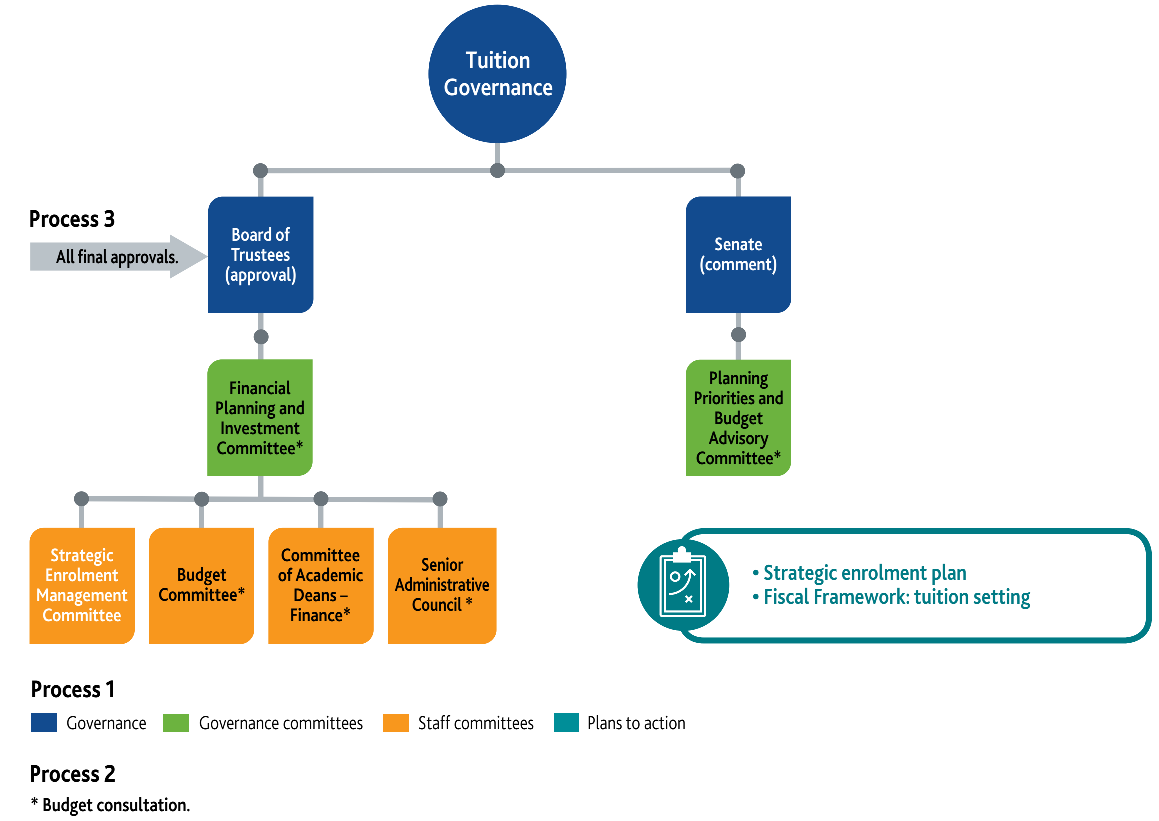
Chart 11

2015-16 Tuition undergraduate benchmarking



Delegated authority

The Financial Planning Investment Committee (FPIC) has the responsibility to establish tuition fees and make recommendations to the Board of Trustees, which has the responsibility to approve tuition fees.

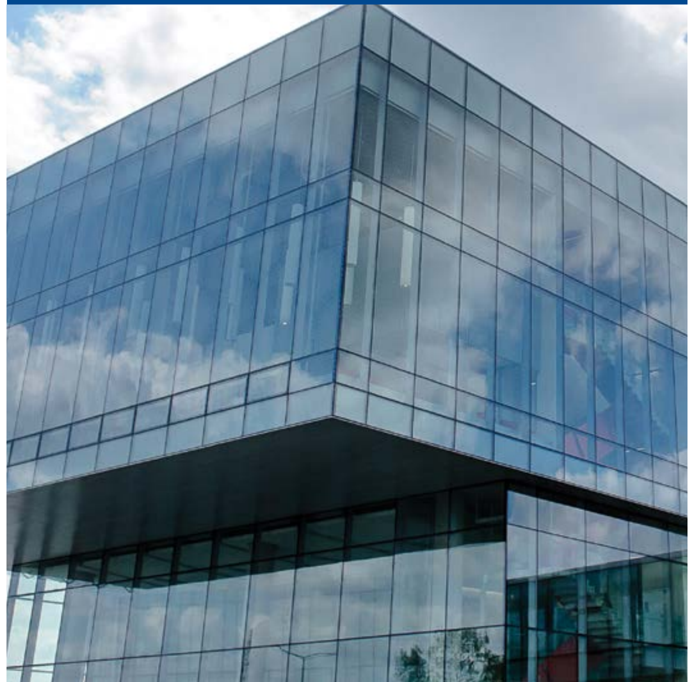


Grant

Targeted guidance

To receive in the range of the average operating grant per Basic Income Unit (BIU) and Full-time Equivalent (FTE) of the other universities in the Province of Ontario.

Adherence to government policy and regulation with the direction to maximize the grant where appropriate. Constructive dialogue with the Province of Ontario regarding the subject of operating grants is a priority.



What is it?

The University funds approximately 31 per cent of its operations through grant revenue. In dollar terms this represents approximately $91 million, of which 90 per cent comes from operating grants and 10 per cent from specific purpose grants. The grants identified here do not include grants specifically identified for research projects. This section focuses on the operating grants. The calculations around the operating grants are straight forward and discussed annually in detail in the budget report. A common misconception is that the operating grants are 100 per cent variable. In fact, the majority of the operating grants are fixed. We only receive variable funding if there is positive domestic growth over a base year. For undergraduate funding (Undergraduate Accessibility Fund), the base year is currently 2010-11. At Q2 2015-16 the estimated variable undergraduate funding represented approximately $3.8 million (i.e. 665 BIUs at 1.5 weight). Specific budgetary information can be found on this topic at **brocku.ca/finance/university-financial-information/budget-reports**

The calculation for the variable portion of the undergraduate funding is as follows:

Undergraduate Accessibility Fund

BIU	FTE (5 full courses = 1 FTE)	Formula (BIU x 5402.98 – 2386 x FTE x 0.99)	Funding per FTE	Number of FTEs with grant at $3,818, 000
1	1	1 x 5402.98 – 2386 x 1 x 0.99	$3,041	1,255
1.5	1	1.5 x 5402.98-2386-1-0.99	$5,742	665
2	1	2 x 5402.98 – 2386 x 1 x 0.99	$8,336	458

The numbers above are not in ('000s).

The undergraduate programs have been classified for purposes of the BIU as follows:

Classifications

Faculty	Business Income Unit (BIU)
Goodman School of Business (GSB)	1 – 1.5
Faculty of Applied Health Sciences (AHS)	1 – 2
Faculty of Education (FOE)	1 – 2
Faculty of Humanities (FOH)	1 – 2
Faculty of Mathematics and Science (FMS)	1 – 2
Faculty of Social Sciences (FOSS)	1 – 2

Information on BIU classifications can be obtained through the Registrar's Office.

Similar to undergraduate funding, the variable portion of the graduate funding (Graduate Expansion Grant) is based on growth in master's and PhD FTEs over a base year, currently 2007-08. However, this funding is only up to a maximum number of FTEs, which in 2015-16 were 643.41 master's FTEs and 105.08 PhD FTEs. See the 2015-16 Budget Report for further information.

History

The grant framework currently in effect was established back in the early 2000s. It consolidated the prior grant program into one basic operating grant and provided for enrolment-based grants, which from time to time were rolled into the basic operating grant. The enrolment-based grants encouraged a significant period of growth, which also significantly grew the Province's university participation rate. Important to note is that there has been no inflation on the enrolment-based grants since the new grant program was established. This helped university growth because there was no other way to cover the increasing cost of universities. Further, from the beginning, and over time, differences in funding per BIU and FTE have emerged, which stem from institutions' previously negotiated grants, as well as the mix and structure of programs that were developed and changed.

Risks and mitigation

Rate

Risks	Mitigation
• Government policy and regulation • Program structure • Program offerings	• Ongoing dialogue with the government • Strategic enrolment plan • Academic review process • Enterprise risk management plan

Key performance indicators

The following charts illustrate our grant per BIU and grant per FTE positioning based on grant data for fiscal 2015-16. If we could move to the average BIU or FTE it could represent between an additional $9.5 million and $9.7 million.

Chart 12

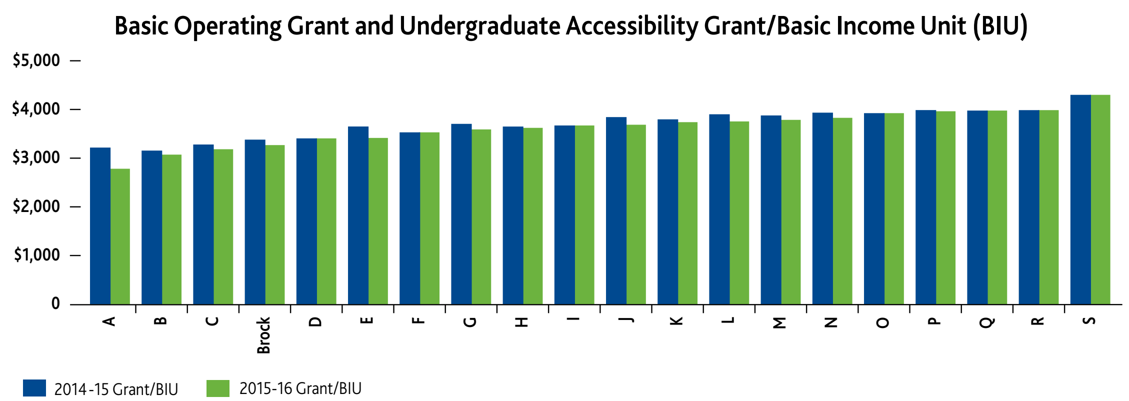
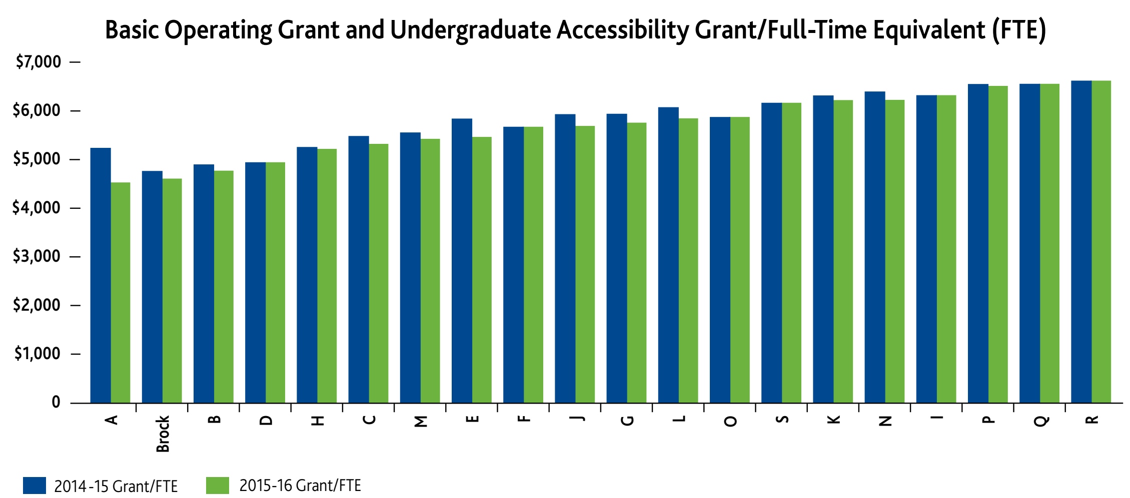


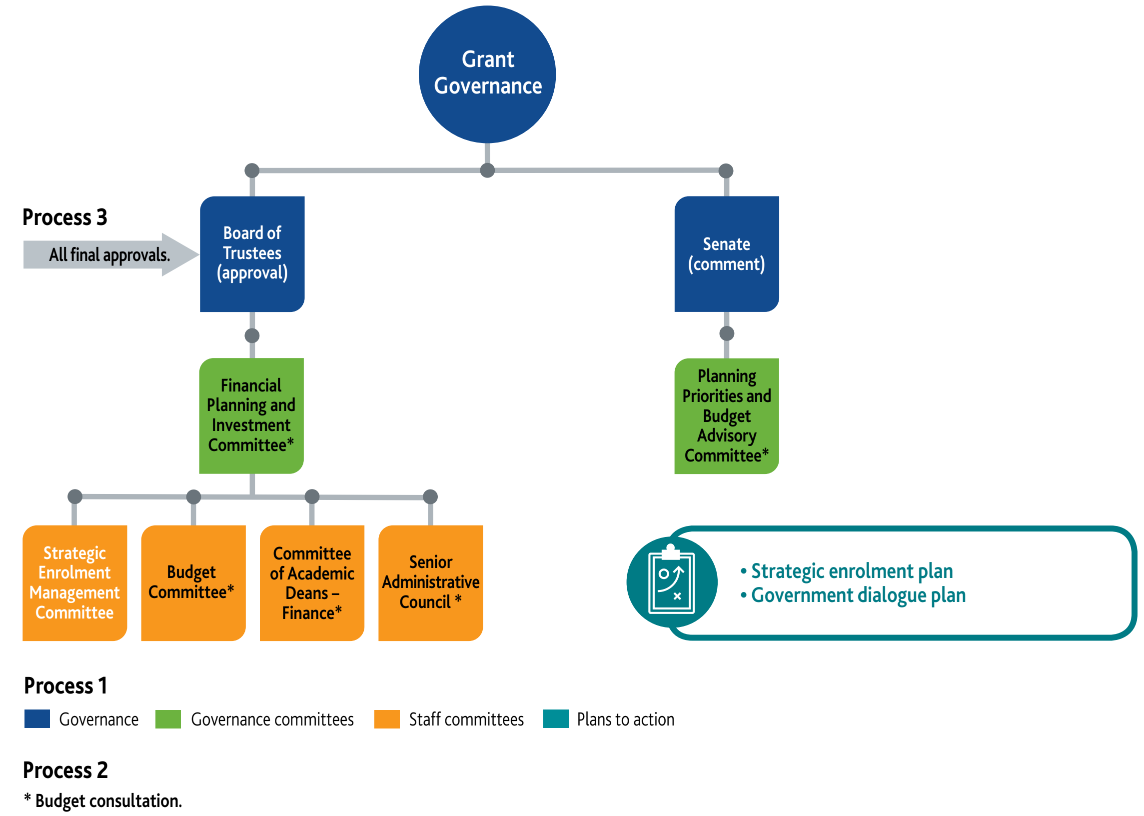
Chart 13



Note: The names of the universities have been removed for anonymity purposes.

Delegated authority

NA – Province of Ontario mandated.



Ancillary and residence

Targeted guidance

Grow the annual structural contribution to the operating budget by 20 per cent over the next five years.

Establish pricing that is reflective of service and offerings that balances characteristics of supply and demand. Any pricing strategy should recognize these services are complimentary to the core activities. Where possible, consideration should be provided to how ancillary and residence operations and pricing integrate with the core activities of the University.

What is it?

The University earns approximately 11 per cent of its revenue through ancillary services and residence revenue. These units include: Campus Store, Parking Services, Conference and Event Services, Hospitality Services and the Department of Residences. The 2015-16 budget report illustrates that on a net basis these units contribute $5.7 million to the core operations of the University. Specific budgetary information can be found on this topic at **brocku.ca/finance/university-financial-information/budget-reports**

History

The ancillary and residence services offered on campus has grown as the University has grown. Looking back, the last significant change to these offerings occurred when the Campus Store moved to the Plaza building when the last residence was built. In recent years ancillary services and residence services have operated trying to achieve short-term guidance targets, while in some cases, like the Campus Store, have experienced declining revenue per student.

Risks and mitigation

Rate

Risks	Mitigation
• Laws and regulations • Quality of offerings • Demand for offerings • Availability of offerings • Enrolment volume	• Enterprise risk management plan • Strategic enrolment plan • Marketing and communication plan • Ancillary and residence plans • Residence master plan • Parking master plan

Key performance indicators

The following table illustrates the change in net contribution to the operating budget from ancillary services and residence and the five year target:

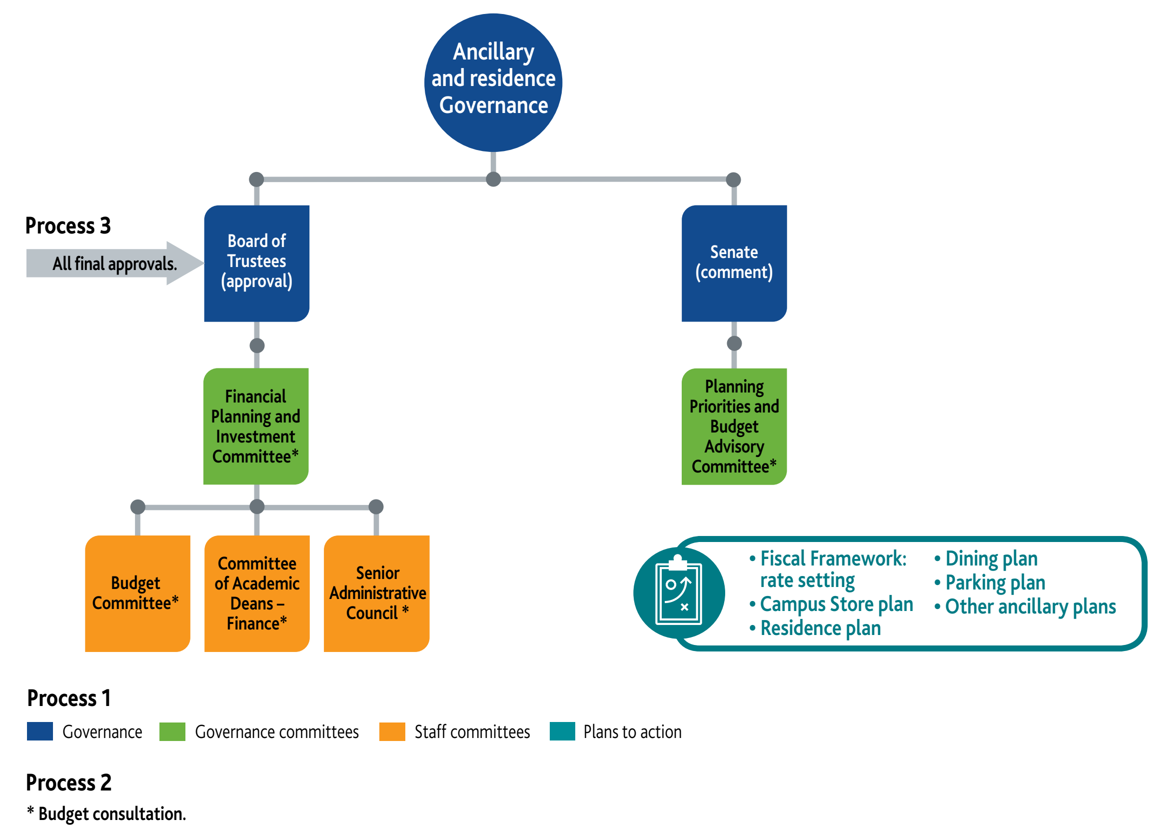
Classifications

Units $(000s)	2015-16 Budget	5 year target
Campus Store	1,372	7,163
Parking Services	2,145	
Conference and Event Services	412	
Hospitality Services	827	
Department of Residences	940	
Total	**5,696**	

This chart illustrates the guidance is on total ancillary and residence operations and not on one specific unit.

Delegated authority

The Financial Planning Investment Committee (FPIC) has the responsibility to review ancillary services and residences through the budget, which it recommends to the Board of Trustees, which has the responsibility to approve ancillary and residence rates.



Salary and benefits

Targeted guidance

Achieve a ratio of salary and benefit expense as a percentage of total operating expenses of 70 per cent or lower.

Establish compensation and hiring strategies that support engagement and productivity while working towards and then maintaining total salary and benefits at or below 70 per cent of total expenses using COFO reporting on expenses.

Where obligations for post-employment benefits exist, a funding strategy is required to maintain generational equity.

Maintain a funding envelope no lower than $900,000 per year to establish a fund, much like the pension fund, to pay for future retirees post-retirement benefits. This $900,000 envelope must be over and above what is included in each year's budget to cover current post-retirement benefits to support the fund accumulations. Any investment income earned on the fund is to be reinvested in the fund. When the fund equals 100 per cent of the liability, the funding model of post-employment benefits should be reviewed.

What is it?

Salary and benefits are the single largest expense we have. We have eight different unionized groups on campus and one non-unionized group. The largest union is the Brock University Faculty Association (BUFA). The most significant benefit expense is our hybrid pension. The term hybrid refers to the fact the pension plan has a guaranteed minimum pension but if the plan does better than expected the employee receives that benefit.

History

Our salary and benefits based on the funding basis are as follows:

	2012-13 Actual	2013-14 Actual	2014-15 Actual	2015-16 Budget
Salary and benefits	185,499	195,160	193,865	200,224
% increase		5.2%	(0.7%)	3.3%

It is interesting to see these costs have increased in recent years despite 86 positions being reduced and approximately $6 million in annual savings that were realized when the pension structure improved. At June 2014 the pension fund was 99.1 per cent funded on a going concern basis and 105 per cent funded on a solvency basis. While the pension plan has seen financial improvement over the past couple of years we continue to have certain obligations for post-retirement benefits, which at April 30, 2015 were valued at $19.6 million. In fiscal 2014-15 we started setting aside $900,000 per year to fund post-retirement benefits.

Risks and mitigation

Rate

Risks	Mitigation
• Government policy and regulation • Compensation expectations for performance • Pension (see chart that illustrates risks on page 23) • Enrolment volume	• Ongoing dialogue with the government • Compensation strategy • Organizational design strategy • Pension Committee and related Statement of Investment Policies and Procedures (SIPP) • Strategic enrolment plan • Fiscal framework • Enterprise risk management plan

Key performance indicators

Chart 14 illustrates our salary and benefits as a percentage of total operating expenses compared to our Ontario comparators in the comprehensive category. Included in this group are Queen's, Windsor, Carleton, Guelph, Laurentian, Ryerson, York and ourselves.

Delegated authority

The Human Resources Committee (HRC) has the responsibility to recommend the compensation strategy and agreements to the Executive Committee for approval. The Financial Planning Investment Committee (FPIC) has the responsibility to establish affordability limits through the budget which it recommendations to the Board of Trustees, which has the responsibility to approve the budget.

Chart 14

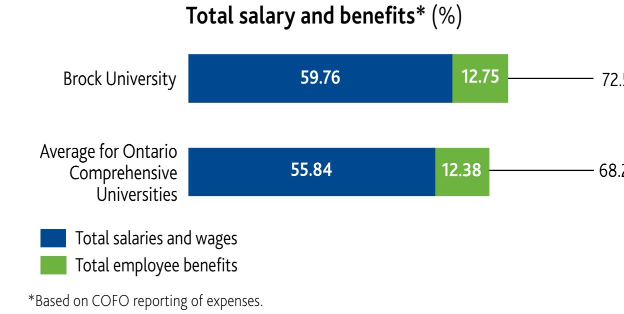
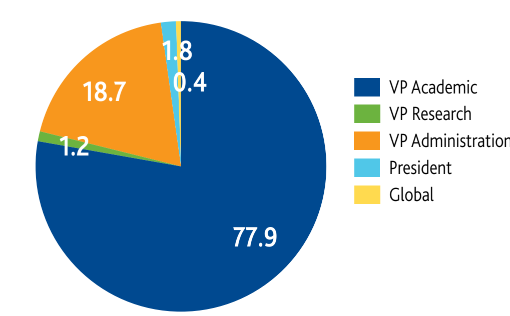
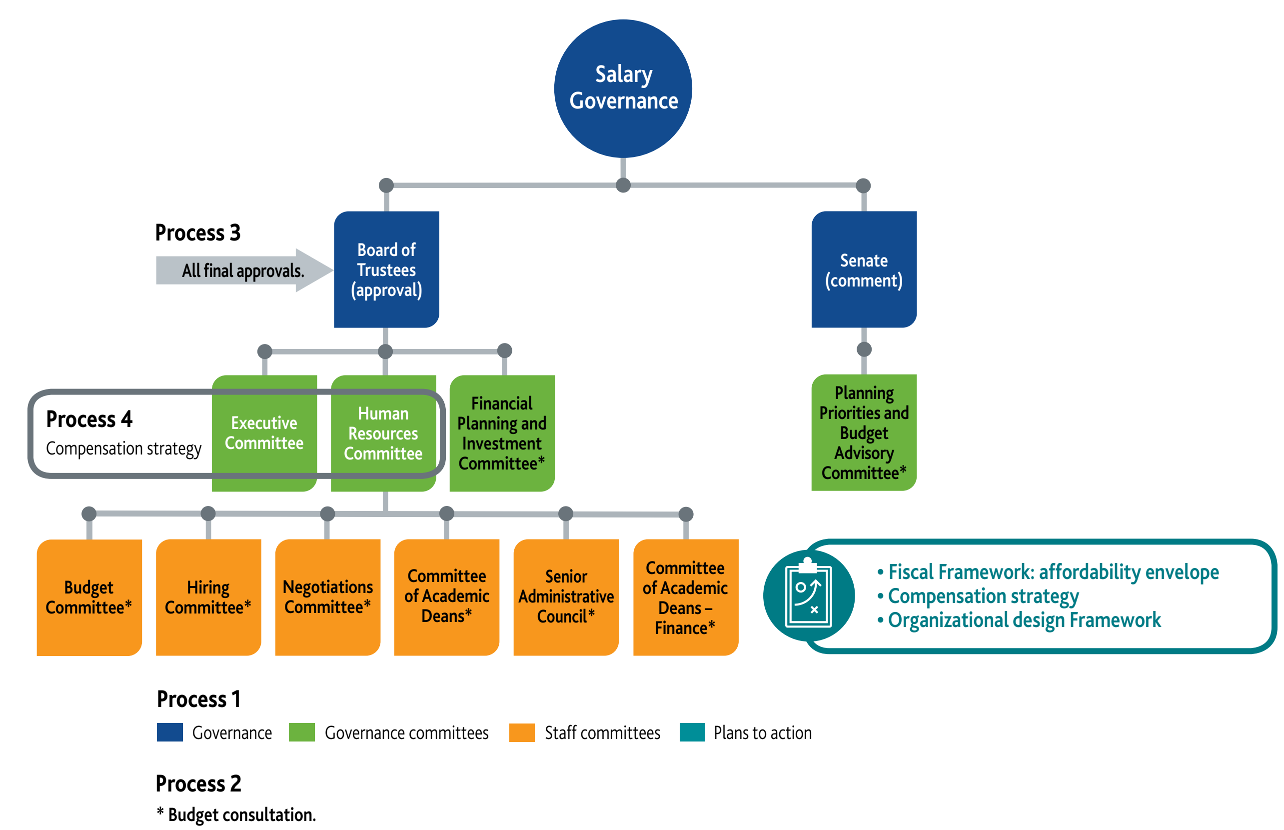


Chart 15





Scholarships

Targeted guidance

Maintain a fellowships, scholarship, bursaries and awards budget in the top 50 per cent of comprehensive universities as identified in the annual *Maclean's* survey.

Establish a fellowships, scholarships, bursaries and awards budget that celebrates student successes and talents and is reflective of program supply and demand dynamics to support recruitment and retention. When setting the fellowships, scholarships, bursaries and awards strategy all laws and regulations must be followed.

What is it?

Fellowships, scholarships, bursaries and student awards are used to attract, retain and celebrate students and their successes. The financial support provided helps students in their educational pursuits. The Brock Act in section 13 outlines that "the Senate is responsible for the educational policy of the University, and, with the approval of the Board in so far as the expenditure of funds is concerned, may enact by-laws and regulations for the conduct of its affairs, and, without limiting the generality of the foregoing, has power, to deal with all matters arising in connection with the awarding of fellowships, scholarships, bursaries, medals, prizes and other awards."

While the Act does outline that the Board of Trustees oversees the "expenditure of funds," and the Senate oversees the "awarding" of fellowships, scholarships, bursaries and awards, it should be noted there are some that are mandated by the Province (ie. Student Access Guarantee).

History

The fellowships, scholarships, bursaries and awards on campus are funded 92 per cent through the operating fund and eight per cent through endowments. The split between undergraduate and graduate is approximately 60 per cent and 40 per cent. In dollar terms this is approximately $10 million and $7.2 million.

Risks and mitigation

Rate

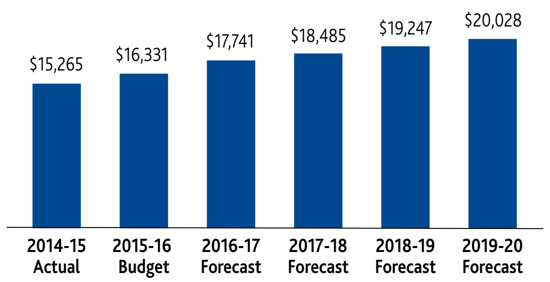
Risks	Mitigation
• Government policy and regulation • Demand for offerings • Enrolment volume • Funding for non-recruitment and retention awards	• Ongoing dialogue with the government • Strategy enrolment plan • Academic review process • Fiscal framework • Enterprise risk management plan • Donor relations planning

Key performance indicators

Chart 16 illustrates the undergraduate and graduate fellowships, scholarships, bursaries and awards in 2015-16 and the aggregate forecast for the next four years:

Chart 16

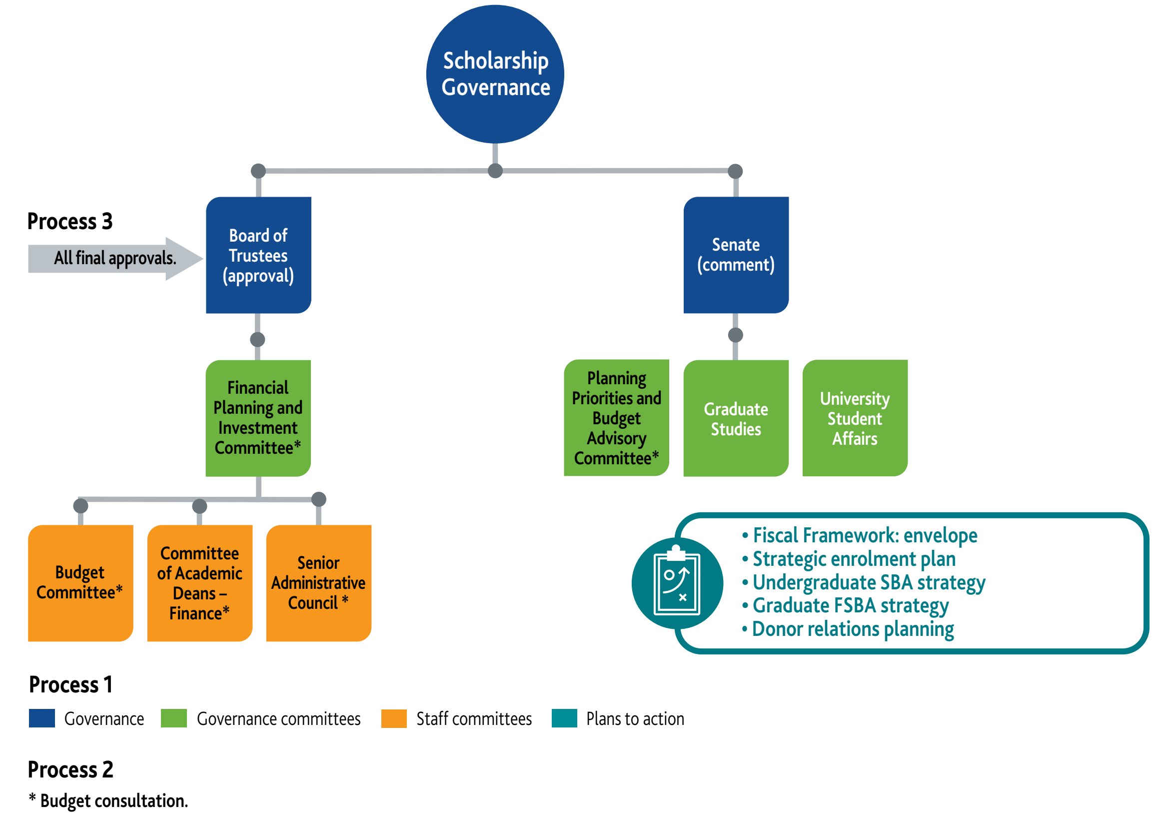
Undergraduate and graduate fellowships, scholarships, bursaries and awards ($000s)



The split is estimated at 40 per cent graduate and 60 per cent undergraduate. In addition to the fellowships, scholarships, bursaries and awards in Chart 16, an additional $1.42 million is funded from endowments and in-year donations.

Delegated authority

The Financial Planning Investment Committee (FPIC) has the responsibility to review proposed financial changes to fellowships, scholarships, bursaries and awards and make recommendations to the Board of Trustees who has the responsibility to approve the fellowships, scholarships, bursaries and awards budget on an annual basis. The Senate has the authority to establish the type and reasons for awarding fellowships, scholarships, bursaries, and awards. This is accomplished through the Faculty Handbook and the Graduate and Undergraduate Senate committees.



Capital

Targeted guidance

To increase the contribution to the capital and related project program for Facilities Management annually by a minimum of the construction price index plus new government funding identified for capital.

Reduce the Facilities Condition Index (FCI) to the average of Ontario Universities by 2036.

Providing and maintaining infrastructure that meets the needs of students and staff is critical. In establishing the long-term capital and related projects plan for infrastructure, a ranking system is to be utilized to support the selection of projects and communication of that selection. Projects selected must tie into an integrated infrastructure strategy that reduces risk and supports students, faculty and staff while working towards the FCI target.

To increase the contribution to the capital and related project program for Information Technology annually so it grows to $5 million by 2019-20.

In establishing the long-term capital and related projects plan for information technology, a ranking system is to be utilized to support the selection of projects and communication of that selection. Projects selected must tie into an integrated information technology strategy that reduces risk and supports students, faculty and staff. When setting this strategy all laws and regulations must be followed.

What is it?

The capital and related projects budget was first established in 2013-14 and has developed over time. This is not to say the University did not perform capital projects prior to 2013-14, except to say it was then that structure around the program was developed. The budget primarily concentrates on capital assets, which are discussed below, but also includes costs that are more project-related. An example is the implementation of the new accounting system. It is a significant project that requires one-time implementation funding but in the end there really is no tangible item that we will own.

The term 'capital asset' refers to tangible items with a useful life greater than one year, or a repair or renovation that extends the useful life of an existing capital asset. Examples include everything from buildings to vehicles to computers and library books.

Although there are many different types of capital assets, the rationale for purchase is usually either the capital assets are required for new investment or for deferred/current maintenance. At the University, recent major new investments include Cairns and the MIWSFPA buildings, while examples of deferred maintenance include the Mackenzie Chown fire alarm and the recent roof replacements performed around campus.

When considering how to pay for the purchase of capital assets there are two commonly considered models. One is borrowing and repaying the debt over time (for more discussion on debt see pages 44-47) and the other is pay-as-you-go, which refers to accumulating the funds required to purchase the capital asset in advance. In a university setting this often refers to funds raised from donations, government grants, or in-year budget dollars.

Borrowing

Advantages	Disadvantages
• If the funds can be borrowed, the capital asset can be purchased immediately instead of waiting to save up the funds. • Repayment is normally made over the useful life of the asset. For some assets that have long lives, like buildings, this means that users can pay for it as they use it over time by contributing to the debt payments. In our environment this would normally be by way of student tuition payments or government grants.	• Interest costs can be seen taking funding that otherwise would have been available for other initiatives • Debt can reduce the amount of flexibility an organization has to take advantage of future opportunities.

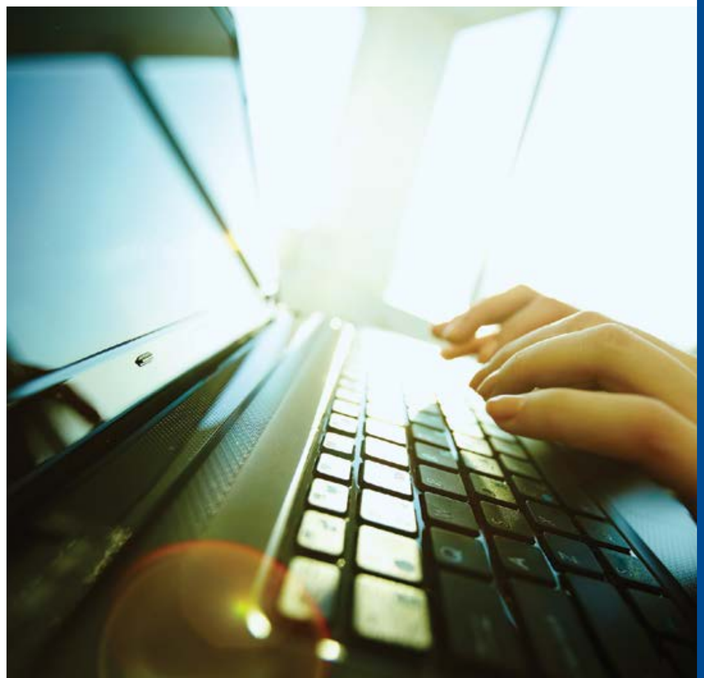
Pay-as-you-go

Advantages	Disadvantages
• No requirement to make future payments which can be seen freeing up funds for other initiatives. • When debt is limited or zero the organization is more likely to be well positioned to take advantage of future opportunities.	• Capital asset purchases can be seen as being delayed as an organization needs to accumulate enough funds prior to purchase. • Current users can be seen as paying for assets they may not use. The pay-as-you-go model is analogous with a pay it forward strategy. People that came before the current users of the capital assets paid for the capital assets being used by current users. Current users then pay for capital assets for future users and so on.

Some of the advantages and disadvantages of these strategies are as follows:

When contemplating the amount of investment required to fund new capital assets, the question really comes down to affordability and return on investment. When there is a positive financial return on investment the concept of affordability takes care of itself; however, when there is no readily identifiable positive financial return on investment but the planned capital asset purchase has other non-financial positive benefits, then the question of affordability does get raised. From a quantitative perspective it could be suggested that affordability is achieved provided the budget remains balanced, quality across the organization is maintained and the funding envelope is sufficient to maintain capital assets.

When contemplating the amount of investment required to fund deferred maintenance, a commonly taught practice is to invest an amount equal to amortization annually. The problem here is maintenance requirements are not constant throughout time on a building, and often are limited in the initial years after new infrastructure is built; this model does not factor in the time value of money. The other complexity is that when a capital asset, like a building, is originally built it likely includes significant investment in planning, architectural drawings and other costs that get capitalized and amortized, but from a deferred maintenance perspective these amounts do not need to be re-purchased. If we look at Cairns as an example, at April 30, 2015 we had capitalized $110 million in costs, but if we look at the recent condition assessment performed by VFA Inc. that reviewed future deferred maintenance requirements, it noted a current replacement value of only $70.8 million. The point here is the financial statements produce annual amortization of $2.8 million on Cairns from $110 million being capitalized, but projected deferred maintenance is forecasted from a current replacement value of $70.8 million, which if we calculated annual 'amortization' would only be $1.8 million. The difference in annual amortization is $1 million and illustrates a potential initial over-investment in deferred maintenance if we funded straight from the financial statement amortization for this building. Furthermore, once an asset is fully amortized, this method would indicate that no further maintenance is required, which is unreasonable, for as infrastructure ages it normally gets more costly to maintain. For these reasons, many organizations obtain deferred maintenance schedules indicating what maintenance should be performed by year and base their future deferred maintenance funding requirements from these estimates. In fact Facilities Management is building their infrastructure strategy on this model. The tables and charts on the following six pages illustrate how the model works and the forecasted outcomes. The model utilizes the estimated deferred maintenance requirements used in the FCI calculation and rolls the balance year to year with additions for inflation and new maintenance requirements offset by reductions for investment spending to reduce the balance. As the Facilitates Management infrastructure strategy is further developed it will be able to "fit" into the funding model as both are being built and adjusted as the updated engineering studies are completed.



FISCAL FRAMEWORK | Guidance by object

History

Our current capital assets are as follows:

Capital assets:

April 30, 2015 ($000s)	Cost	Accumulated amortization	Net book value
Land	58,805		58,805
Buildings	488,280	178,129	310,151
Furnishings and equipment	48,385	39,162	9,223
Library books	41,112	39,942	1,170
	636,582	257,233	379,349

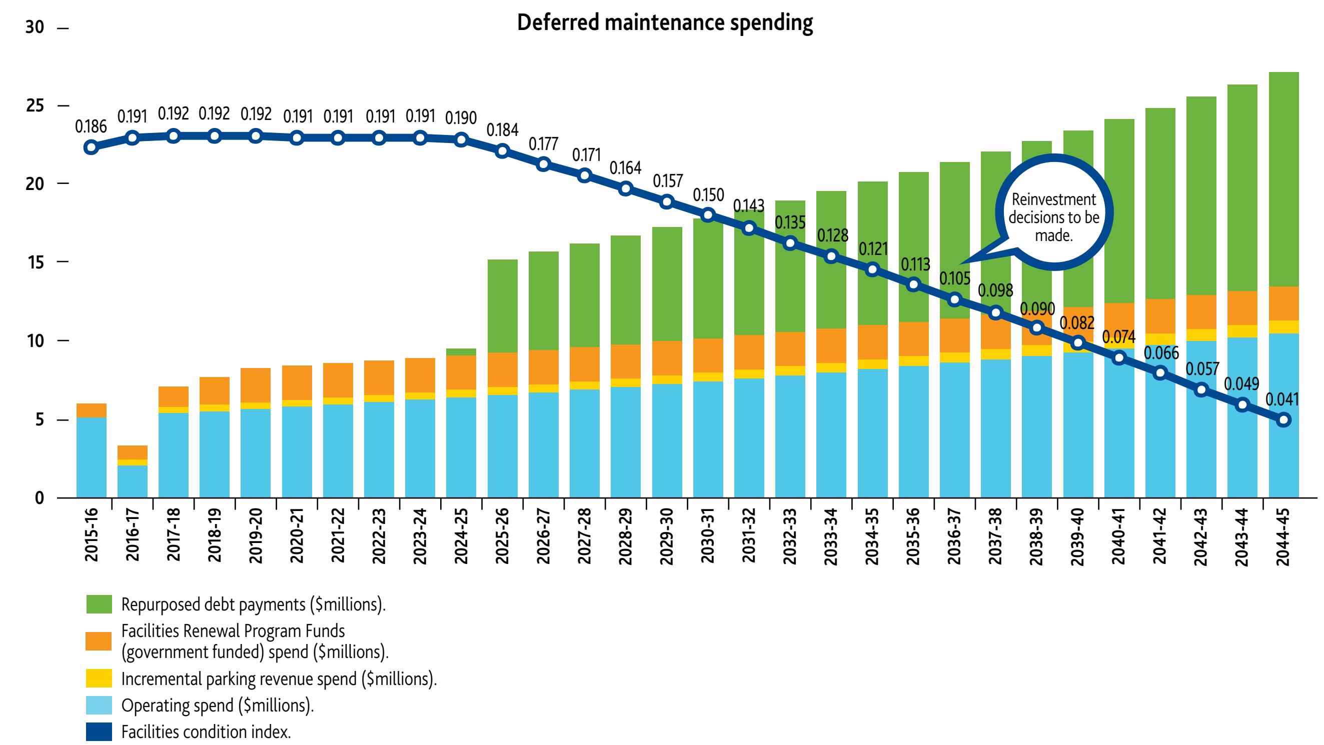
April 30, 2014 ($000s)	Cost	Accumulated amortization	Net book value
Land	58,805		58,805
Buildings	470,406	165,113	305,293
Furnishings and equipment	48,232	38,734	9,498
Library books	40,713	39,438	1,275
	618,156	243,285	374,871

Included in buildings is $45,152,417 (2014 – $33,678,384) of construction in progress that was not amortized during the year.

The increase in net book value of capital assets is due to the following:

($000s)	2015	2014
Balance, beginning of year	374,871	362,560
Purchase of capital assets funded by deferred capital contributions	10,329	16,846
Purchase of capital assets internally financed	833	7,130
Purchase of capital assets financed by proceeds of long term debt	5,033	
Purchase of capital assets financed by accounts payable	4,717	4,635
Sale of land		(309)
Amortization of capital assets	(16,434)	(15,991)
Balance, end of year	379,349	374,871

Chart 17



Recognizing the majority of our capital assets related to land and buildings, 97 per cent in fact, we tend to highlight and monitor the condition of our buildings. The common metric to monitor condition is the Facilities Condition Index (FCI). Currently we have an FCI of 0.186 while the Ontario University average is 0.1. This is the result of years of pushing off deferred maintenance needs.

Looking back over the past couple of years, the turning point of the capital program really occurred when the Board of Trustees endorsed a motion to invest $6 million in deferred maintenance in the 2014-15 budget:

The intent of the $6 million contribution was to at least maintain deferred maintenance at current levels. This recognized that even as deferred maintenance projects are undertaken new requirements for maintenance will come forward. Looking forward, the funding model forecasts a deferred maintenance funding envelope greater than $6 million and growing in order to take into account future maintenance needs as well. The potential impact the funding model will have on FCI is graphically shown in Chart 17 above.

Note: Through the forecasted level of investment in deferred maintenance, the FCI is expected to remain constant while the outstanding debt on the MIWSFPA and Cairns buildings are repaid. This is not to say the FCI could not improve in the next 10 years. For example, the FCI in the chart above does not reflect any change in use of properties that could have a significant impact on FCI. If we just consider the planned demolition of the greenhouse (now that the Cairns greenhouse is operational), the deferred maintenance on Taro Hall (that is being addressed through the Goodman School of Business build), the changes to the Rodman Hall organizational structure and the potential future considerations at Hamilton Campus and Lockhart Drive, it is expected the FCI could improve by approximately 140 basis points alone.

Risks and mitigation

Rate

Risks	Mitigation
• Government policy and regulation • FCI • Changing program need • Changing student and employee need	• Ongoing dialogue with the government • Organizational design strategy • Strategic enrolment plan • Space plan • Fiscal framework • Campus Plan • Infrastructure strategic plan • Deferred maintenance strategic plan • Information technology strategic plan • Enterprise risk management plan

Key performance indicators

The following has been developed as a forecasted road map to achieve the established targets. It outlines our current and forecasted funding model and the impact on the Facilities Condition Index (FCI).

Opening deferred maintenance (DM) balance.

+ Inflation on the opening DM balance growing at Construction Consumer Price Index (CPI).

+ New deferred maintenance of 1% of the current replacement value (CRV); the 1% was determined as a growth target after reviewing the 30 year Cairns and Schmon Tower asset replacement schedules prepared by engineers.

− DM spend – funded by operating (starting at $6 million in 2015-16 and growing at Construction CPI each year) except for a temporary "blip" in 2016-17 to fund the post-MIWSFPA space moves and repurposing.

− DM spend – funded by parking revenue (starting at $0.4 million in 2016-17 and growing by Construction CPI each year).

− DM spend – funded by increase in Facilities Renewal Program funds grant (additional $0.441 million in each of 2017-18, 2018-19 and 2019-20).

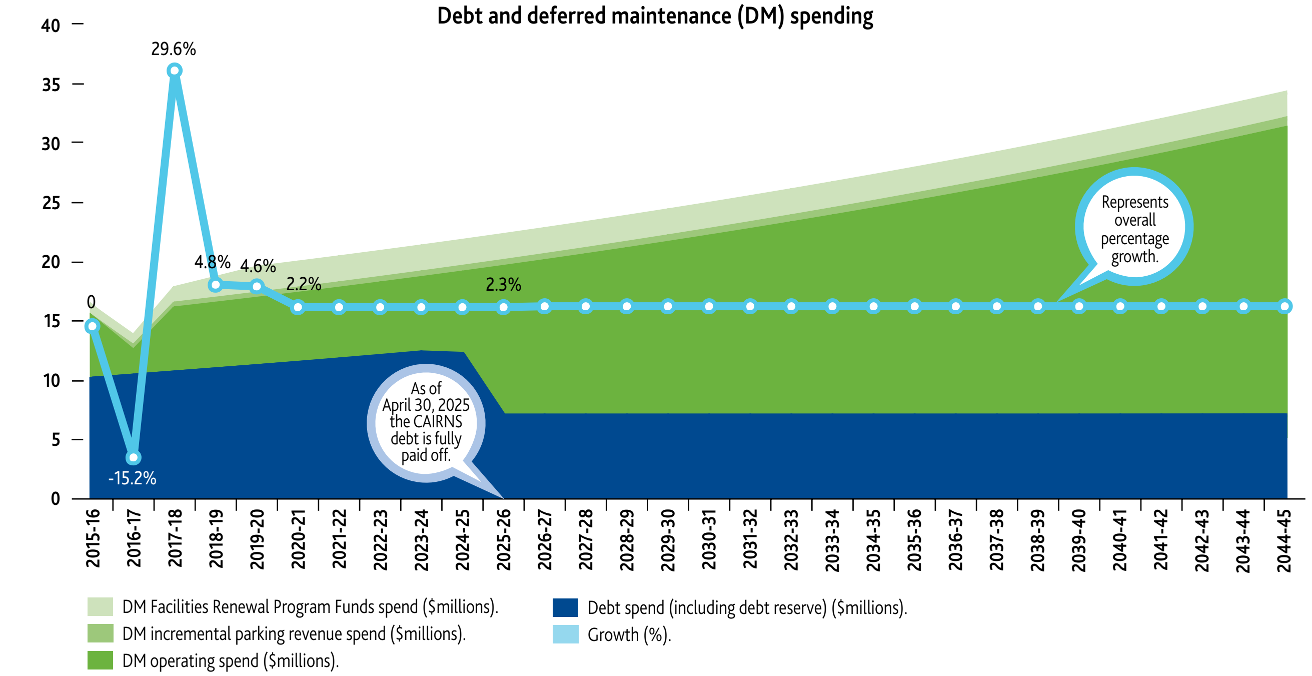
− DM spend – repurpose of debt payments (starting in 2024-25).

= **Yearly closing deferred maintenance value**

	2015-16	2025-26		2035-36		2044-45	
	Current value	Current value	Future value	Current value	Future value	Current value	Future value
FCI	0.186	0.184	0.184	0.113	0.113	0.041	0.041
DM	$134,248,444	$132,754,930	$169,937,534	$81,600,731	$133,712,299	$29,393,309	$60,150,685
CRV	$722,267,022	$722,267,022	$924,562,852	$722,267,022	$1,183,518,617	$722,267,022	$1,478,052,574

The formula and components of funding on page 42 can be illustrated as follows:

Chart 18



The formula and components of funding on page 42 and the above graph translates into the following funding:

Capital and related debt service cost

($000s)	2015-16B	2016-17B	2017-18F	2018-19F	2019-20F	2020-21F	Total
Capital and related project budget	13,800	12,264	13,127	15,508	17,514	17,899	90,112
Debt servicing costs*	10,084	10,336	10,595	10,859	11,131	11,409	64,414
Total	**23,884**	**22,600**	**23,722**	**26,367**	**28,645**	**29,298**	**154,516**

*Debt servicing costs are growing by the construction price index. The additional funds are allocated to debt repayment.

Capital and related projects

($000s)	2015-16B	2016-17B	2017-18F	2018-19F	2019-20F	2020-21F	Total
Operating	9,118	10,399	11,822	13,762	15,327	15,712	76,140
Ministry's facility renewal program (FRP)(estimated)	882	865	1,305	1,746	2,187	2,187	9,172
Operating plus FRP	10,000	11,264	13,127	15,508	17,514	17,899	85,312
Reserves	3,800*	1,000					4,800
Total	**13,800**	**12,264**	**13,127**	**15,508**	**17,514**	**17,899**	**90,112**

* The 2015-16 budget includes the use of the $2,800 reserved in 2014-15 for the financial system.

Capital and related debt service cost

($000s)	2015-16B	2016-17B	2017-18F	2018-19F	2019-20F	2020-21F	Total
Principal payments	2,171	2,262	2,356	2,458	1,967	1,963	13,177
Interest payments	7,438	7,329	7,217	7,098	6,684	6,509	42,275
Debt reduction	475	745	1,022	1,303	2,480	2,937	8,962
Total debt payments	**10,084**	**10,336**	**10,595**	**10,859**	**11,131**	**11,409**	**64,414**

Facilities Management capital and related debt project budget

($000s)	2015-16B	2016-17B	2017-18F	2018-19F	2019-20F	2020-21F	Total
New or "flexible"	2,482	4,763	2,608	2,673	2,740	2,809	18,075
Deferred maintenance	6,018	3,325*	7,111	7,697	8,286	8,440	40,877
Total	**8,500**	**8,088**	**9,719**	**10,370**	**11,026**	**11,249**	**58,952**

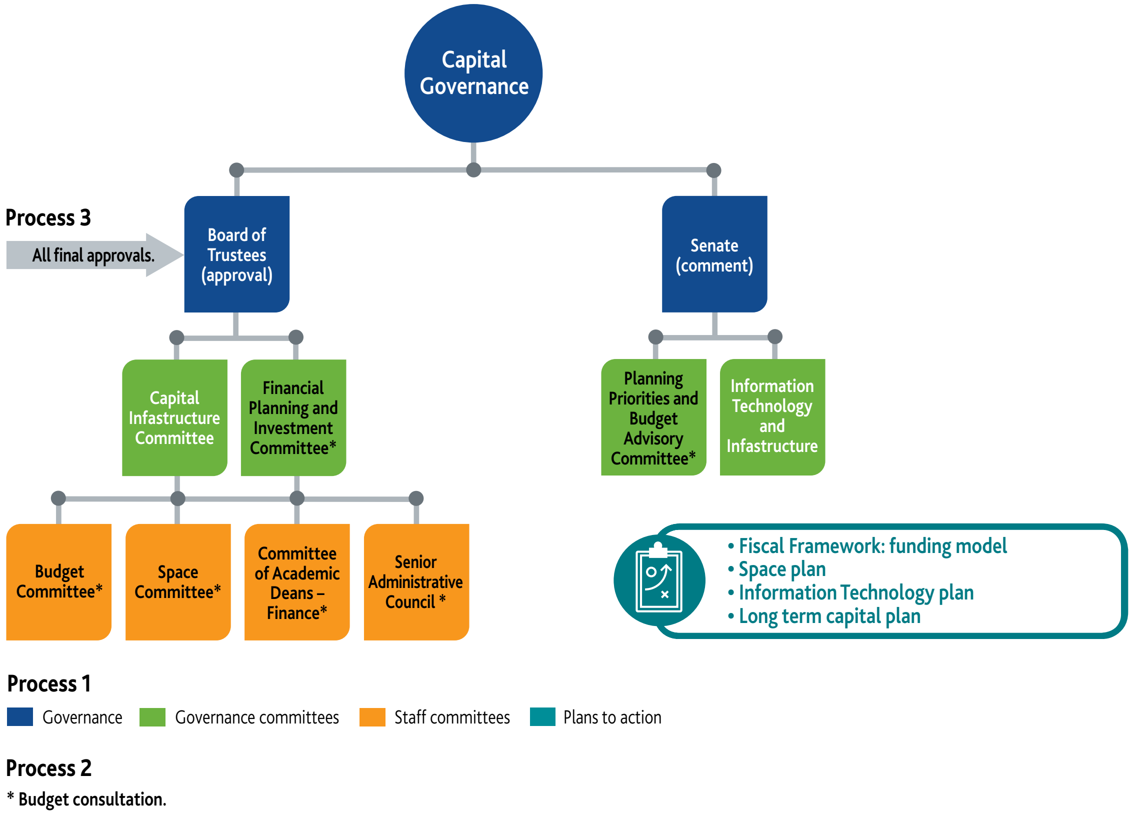
Information Technology Services capital and related debt project budget

($000s)	2015-16B	2016-17B	2017-18F	2018-19F	2019-20F	2020-21F	Total
New or "flexible"	1,500	2,537	1,576	1,615	1,656	1,697	10,581
Core applications	3,800	1,639	1,832	3,523	4,832	4,953	20,579
Total	**5,300**	**4,176**	**3,408**	**5,138**	**6,488**	**6,650**	**31,160**

The forecast model includes increased funding from the Facilities Renewal program funds, which will be added incrementally to the funding envelope. The other contributions increase at the construction price index, which is illustrated at 2.5 per cent for the forecast – the forecast shows 2.3 per cent growth because direct government contributions are not forecasted to grow as there is no inflation forecasted into the current formula – (these contributions could change in time.) Once the MIWSFPA and Cairns building debts are repaid those funds are repurposed to the capital program, and as the remaining residence debts are repaid those funds are split between the sinking fund and additional incremental dollars for the capital program. This last point recognizes the debt payments were originally required to pay for capital assets and once the debts are repaid those funds are being repurposed to maintain our capital assets as they age. Equally as important, and as already noted, the forecasted FCI does not take into consideration the repurposing, demolition, special one-time funding opportunities (i.e. Goodman School of Business building renewal), or even sale of assets. These actions could have significant impacts on our FCI.

Delegated Authority

The Capital Infrastructure Committee (CIC) has the responsibility to approve the projects associated with the Capital and Related Projects budget within the funding envelope allotted. The Financial Planning Investment Committee (FPIC) has the responsibility to establish affordability limits (known as the funding envelope) through the fiscal framework and the budget that recommends to the Board of Trustees, which has the responsibility to approve the budget on an annual basis.



Debt and borrowing

Targeted guidance

No new debt.

The financing model and funding envelopes allotted in the capital program are based on a pay-as-you-go model that forecasts no new debt. New capital requirements are highly dependent on donations and/or other incremental sources of funding not already worked into the fiscal framework. The intent of this target is not to limit flexibility as from time to time there may be requirements to temporarily cash flow a capital project or even a contingency. The intent is to identify that long-term structural debt is not forecasted in the framework.

To repay the loan on the Marilyn I. Walker School of Fine and Performing Arts (MIWSFPA) by 2019-20; the loan on the Cairns Family Health and Bioscience Research Complex (Cairns) building by 2024-25; the debt (other than the bond) on residence loans by 2029-30.

The financing model emphasizes debt repayment with increasing contributions to debt repayment equal to the construction consumer price index. The increase is applied to accelerate the debt repayment so that funds can be repurposed to tangible investments and to ensure when the debts are repaid that the funds repurposed maintain their purchasing power.

An annualized rate of return on the sinking fund of 5 per cent from 2015-16 to final payment in 2045-46.

In 2005 we took out a 40 year bullet for $93 million. This means in 2045 we need to repay this loan. The funding plan in this framework is based on a five per cent annualized rate of return plus additional payments starting when the debt (other than the bond) on residence loans is fully paid in 2029-30.

What is it?

Financing is a process of borrowing funds at a specific point in time to pay for an immediate need. The funds are normally borrowed from a financial institution like a bank or capital markets where multiple lenders may come together to purchase an organization's bonds. Regardless of the form of borrowing the end result is a debt to the organization. These funds are the repaid over a predefined period.

Generally speaking there exists a concept of "good" debt and "bad" debt. The term "good" debt normally refers to situations where funds are borrowed to produce a positive financial return on investment. A relevant example would be to build a residence. The nice thing about this example is our residences have shown to have a positive impact on the student experience and to produce a positive return on investment. In fiscal 2015-16 it is anticipated that the net contribution to the operating budget will be $940,000 after covering all debt payments. To an individual this concept is a lot like borrowing money to invest in a rental property where a positive return is anticipated and on a more basic level it could be borrowing money to purchase a car so an individual can get to and from work. The term "bad" debt normally refers to situations where funds are borrowed with no financial return on investment. A relevant example would be to cover operating losses. When an organization begins borrowing to cover operating losses that organization's ability to continue operating comes into question. To an individual this concept is a lot like constantly spending more than they make and continuing to borrow the difference whether by way of credit card or line of credit. Eventually the individual will no longer be able to attain credit and bankruptcy can follow.

For this reason most public sector organization limit borrowing only for the purpose of raising funds for capital and related projects. This said, all capital projects do not necessarily have positive financial returns on investment. It could be argued that the building of the Marilyn I. Walker School of Fine and Performing Arts will not have a positive financial return on investment although it is hoped that it will have a positive impact on students and faculty. In the public sector this can make decisions over borrowing complicated. Sometimes public sector organizations argue that while the capital or related project being borrowed for does not have a direct positive financial return, the impacts on other aspects of the organization may include improved reputation, which although much more difficult – perhaps impossible – to forecast, could produce long-term positive financial return for the organization.

While the intent here is not to oversimplify the basics of borrowing rather just to touch on high level concepts of what and why organizations borrow. The last concept we will touch on is the duration of borrowing for a capital project. Fundamental to duration, which really refers to the time period one expects to pay back the debt, is that it should not be longer than the expected useful life of the capital asset being purchased. This concept is best illustrated by going back to the individual example earlier about purchasing a car. An individual would not want to be paying for the car after it no longer worked. When one looks at debt at the University, one might say, "all debt is related to buildings some of which have lasted even longer than 50 years. When then are the replacement terms generally less?" The answer here is the assets referred to relate to real estate, and while real estate tends to last it also requires significant maintenance and upkeep after a number of years. One model and the model proposed, is to reinvest the debt payments back into capital preservation to maintain the buildings once the debt has been paid off. The concept here is that when a building is first built the hope is repairs and maintenance will be minimal but as time goes on the need for repairs and maintenance will grow. As the debt is repaid those debt payments can be repurposed.

Outstanding debt

($000s)	Actual 30-April-14	Actual 30-April-15	Budget 30-April-16	Forcast 30-April-17	Forcast 30-April-18	Forcast 30-April-19	Forcast 30-April-20	Forcast 30-April-21
Bond	93,000	93,000	93,000	93,000	93,000	93,000	93,000	93,000
Cairns	26,925	26,269	25,583	24,863	24,109	23,319	22,491	21,623
Residence	17,513	16,801	16,037	15,215	14,333	13,385	12,366	11,271
Marilyn I. Walker School of Fine and Performing Arts (MIWSFPA)		17,400	16,680	15,960	15,240	14,520		
Total debt	**137,438**	**153,471**	**151,300**	**149,039**	**146,682**	**144,224**	**127,857**	**125,895**
Total FTE	**19,882**	**20,056**	**19,712**	**19,642**	**19,455**	**19,357**	**19,306**	**19,384**
Total debt/FTE	**6,913**	**7,652**	**7,676**	**7,588**	**7,540**	**7,451**	**6,623**	**6,495**
Debt reduction strategy								
Sinking fund	4,770	5,462	5,735	6,021	6,322	6,639	6,970	7,319
Debt repayment reserve		475	950	1,695	2,717	4,020		2,937
M. Walker donation – MIWSFPA		5,045	5,181	5,321	5,465	5,612		
Other donations – MIWSFPA		250	324	399	473	548		
Total assets for debt reduction	**4,770**	**11,232**	**12,190**	**13,436**	**14,977**	**16,818**	**6,970**	**10,256**
Net debt	**132,668**	**142,239**	**139,109**	**135,602**	**131,705**	**127,405**	**120,886**	**115,639**
Net debt/FTE	**6,673**	**7,092**	**7,124**	**6,970**	**6,835**	**6,646**	**6,322**	**6,023**

History

Our current outstanding debt and five-year forecast is shown in the table above.

In addition to the debt, the table above illustrates reserves set aside for debt repayment and the sinking fund.

Risks and mitigation

Rate

Risks	Mitigation
• Government policy and regulation • Changing program need • Changing student and employee need	• Fiscal framework

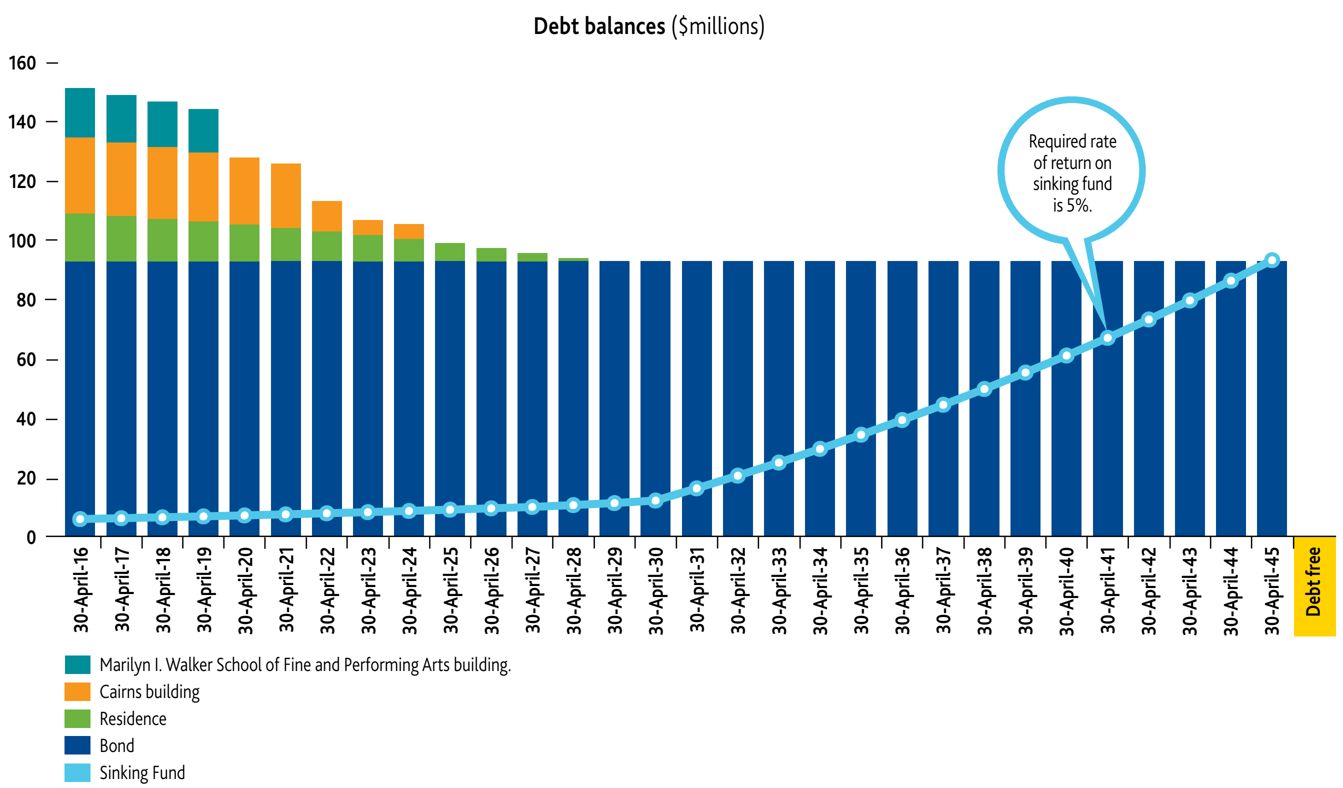
Key Performance Indicators

The following chart, identifies the forecasted repayment plan for each outstanding debt:

Salient to the debt financing model is no new debt planned. The model concentrates fully on debt repayment. This said, the Board of Trustees does have the authority to issue additional debt. If this was to occur, and keeping with the discussion above, it is recommended that debt only be issued where:

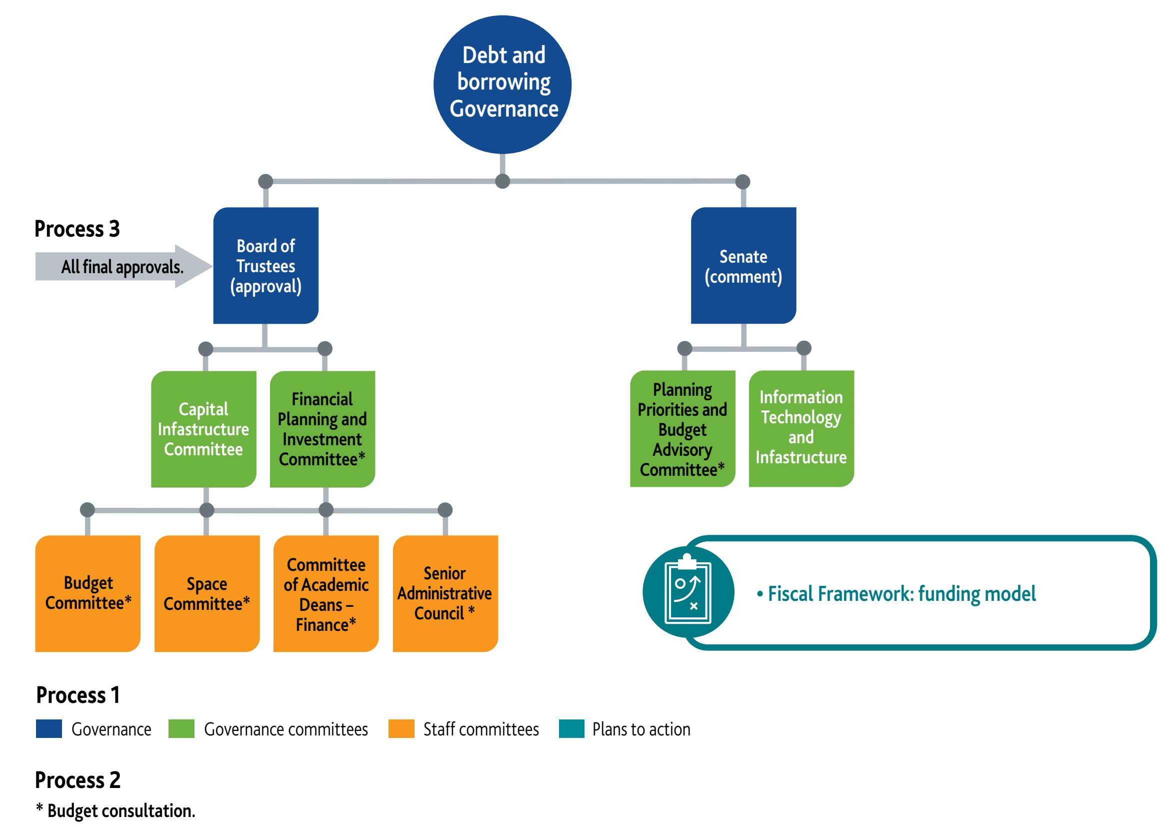
1. The debt is for capital purposes.
2. A strong financial case can be made with significant visibility to a reasonable rate of return that considers capital, maintenance and operating costs.
3. The capital project is forecasted to be net cash flow positive within two to three years.

Chart 19



Delegated Authority

The Financial Planning Investment Committee (FPIC) has the responsibility to establish affordability limits (known as the funding envelope) through the fiscal framework and the budget that it recommends to the Board of Trustees, which has the responsibility to approve the budget on an annual basis. While the fiscal framework makes no recommendation for additional debt, and in fact concentrates on the repayment of debt, the fiscal framework does not limit the FPIC's authority to recommend to the Board of Trustees that debt financing be approved. This said, the target guidance is no new debt so any recommendation for debt would be expected to be accompanied by a strong plan with significant visibility toward repayment.



Other salient guidance

The intent of the framework is not to establish guidance for every type of financial transaction and/or line in the financial statement, but to create guidelines for many of the major financial activities and by doing this other activities will follow. The preceding pages identified a number of areas of guidance. The following are some additional areas which need specific mention.

Salient guidance

Component	Target	Mechanism to support and/ or influence the target
Utilities	Hold budget line flat and absorb increasing water and hydro rates.	Conservation initiatives.
Library acquisitions	Within four years (starting from May 1, 2016) our library budget will rank among the top five in the *Maclean's* University Rankings survey for comprehensive universities.	Plan and find savings elsewhere in the budget. Recognizing the need and cost of building more student space, the library is planning to investigate offsite storage opportunities. Down the road consideration may be given to joining the U of T Downsview library project facebook.com/universitytoronto/videos/10152760663650999/)
Unrestricted net assets/reserves	The best investment is an investment in ourselves. Where future liabilities are identified it is expected reserves will be established to cover their cost. This framework supports the immediate reinvestment of revenue back into the University to support initiatives related to recruitment, retention and risk mitigation (i.e. pension, employee future benefits, litigation).	Unrestricted net assets are the product of surplus.
Chargebacks, other revenue and other operating costs	These have been forecasted in the report at a two per cent increase for illustrative purposes. Budget developers are asked to take a bottom-up approach and review these revenues and expenses to ensure revenue is maximized and other operating costs are not higher than required. Note: Going forward chargebacks are being reviewed for elimination where appropriate. In 2016-17 the land line chargebacks and certain facilities management charges will be eliminated.	Approval to budgeting – Budget submissions page 21.

Guidance by function

Unit guidance

The framework provides a number of targets at the global perspective. The obvious questions units have is how does this relate to me and how do we operate within the framework? This can be answered in three stages:

1. The specific budget and financial planning processes and submission requirements as outlined in the Fiscal Framework will need to be followed. (see Budget Submissions section on page 21)
2. Units are subject to the global target guidance. (see pages 15-48) Specifically units are expected to apply the global target guidance, where applicable, understanding that it can only be achieved if operationalized at the unit level.
3. Units will also see they are grouped within certain funding envelopes that are grouped by function. It is anticipated that units within the funding envelopes would work together towards achieving guidance.

Obviously the fiscal framework only works if each envelope achieves guidance, but what happens if guidance cannot be met by an envelope? The framework is designed so units work together. The Budget Committee reserves the right to accept or require adjustments to a unit's budget and by way of this process either approve an envelope as being under or over budget. Ultimately as the Board of Trustees has approved a motion that each year we need the funding budget to balance or do better (i.e. end in a surplus), we do need to work toward the revenues and expenses at least balancing.

Envelope weights

The envelope weights are a mechanism of translating target guidance to the unit level.

They are established recognizing our past and adjusted for strategic direction and decisions. The expectation here is that each year the envelopes would initially be forecasted as the prior year budget weightings and then be adjusted for things such as: actual experience; enrolment and grant changes; organizational planning; legislation changes; student expectation; known and/or perceived inequities and global target guidance.

The goal here is to recognize that the unit budget allocations today may not be appropriate for tomorrow but any changes to unit budget allocations should be transparent for purposes of review. The framework is intended to move us away from across-the-board increases and/or reduction. It recognizes our units have certain short- to mid-term structural costs, but planning for these strategically over time will allow us to adjust budget allocations.

In this respect the envelope weights will continue to strategically evolve. Annually, units can expect an updated multi-year forecast and upcoming guidance to be released in October.

($000s)	2014-15 Budget		2014-15 Actual		2015-16 Budget	
	$	%	$	%	$	%
Total Teaching Faculties	125,045	60.2%	120,546	57.9%	127,131	60.4%
Total Academic Support	13,642	6.6%	12,707	6.1%	13,469	6.4%
Total Student Specific	6,701	3.2%	5,671	2.7%	6,661	3.2%
Total Shared Services	21,027	10.1%	19,776	9.5%	21,018	10.0%
Total Ancillary	(5,162)	-2.5%	(6,550)	-3.1%	(5,696)	-2.7%
Facilities Management	13,709	6.6%	13,405	6.4%	15,242	7.2%
Campus Security Services	1,854	0.9%	1,765	0.8%	2,328	1.1%
Hybrid Space	(68)	0.0%	(241)	-0.1%	(191)	-0.1%
Utilities, Taxes and Insurance	7,517	3.6%	6,378	3.1%	7,329	3.5%
Financing	6,483	3.1%	5,446	2.6%	5,652	2.7%
Scholarships, Bursaries and Student Awards	13,820	6.7%	13,476	6.5%	14,855	7.1%
Capital	6,302	3.0%	8,167	3.9%	6,458	3.1%
University Global	(207,649)	-100.0%	(208,060)	-100.0%	(210,319)	-100.0%
Total University	**3,221**	**1.6%**	**(7,514)**	**-3.6%**	**3,937**	**1.9%**

($000s)	2015-16 Budget (revised)*		Strategic investments	2016-17 Guidance		Difference vs. 2015-16 Budget (revised)	
	$	%	$	$	%	$	%
Total Teaching Faculties	127,322	60.3%		125,479	58.0%	(1,843)	-1.4%
Total Academic Support	13,546	6.4%	+ $750 - Library Acq.	14,172	6.6%	626	4.6%
Total Student Specific	6,823	3.2%		7,053	3.3%	230	3.4%
Total Shared Services	21,203	10.0%		20,896	9.7%	(307)	-1.4%
Total Ancillary	(5,663)	-2.7%	Contrib'n. up 2% + $400 parking rev.	(6,176)	-2.9%	(513)	9.1%
Facilities Management	15,284	7.2%		15,063	7.0%	(221)	-1.4%
Campus Security Services	2,346	1.1%	+ $150	2,496	1.2%	150	6.4%
Hybrid Space	(191)	-0.1%	- $4	(195)	-0.1%	(4)	2.1%
Utilities, Taxes and Insurance	7,329	3.5%	+ $150	7,479	3.5%	150	2.0%
Financing	5,652	2.7%	+ $252	5,904	2.7%	252	4.5%
Scholarships, Bursaries and Student Awards	14,855	7.0%	+ $1,410	16,265	7.5%	1,410	9.5%
Capital	6,458	3.1%	+ $1,264	7,722	3.6%	1,264	19.6%
University Global	(211,027)	-100.0%		(216,158)	-100.0%	(5,130)	2.4%
Total University	**3,937**	**1.9%**		**-**	**0.0%**	**(3,937)**	**-100.0%**

* The 2015-16 Budget has been revised as a result of the allocation of certain salary costs, which were budgeted centrally, to other Units. This revised budget was included for comparison purposes.

GUIDANCE BY FUNCTION
51
2016-17 Fiscal Framework

Financial risk framework

In reviewing our financial risk framework there are both academic and operational components. These are identified throughout the framework and accompanied by mitigation actions or strategies. These subject matters may have been discussed in other parts of the financial framework because they can impact the financial outcome of our University. As the University develops its Enterprise Risk Management (ERM) program it will become apparent that each identified risk has a financial component. The financial risks and information identified below will be used as a component of the ERM program and to drive the budgetary framework.

Financial risks – traditional concentration

Foreign currency – purchases

Risk assessment	Risk response	Control environment	Supporting budgetary directive
Rationale Our purchasing power in foreign currency is subject to change with changes in currency. This can impact budgets negatively if the Canadian (CDN) dollar depreciates in comparison to other foreign currencies. **Quantification** The only currency we do significant purchases in is the United States dollar (USD). The value of those transactions in USD equals $4.35 million. **Units impacted** The whole, University but the most significant individual unit is the Library.	**Mitigation** A natural, although partial, hedge program has been developed to utilize student payments made in USD to pay USD purchases. The program is estimated to hedge approximately 23 per cent of USD purchases. **Continuous improvement** We continue to communicate with foreign students to ensure they realize they can make student payments in USD through Western Union and pay lower fees than if they had translated the funds into CDN dollars first.	**Responsible VP** Vice-President, Administration (VPA) **Monitoring** Performed by Financial Services. **Control activities** Purchases are subject to the Delegation of Authority and other policies such as the purchasing policy. The currency for payment of a purchase is identified by accounts payable who transacts payment in either CDN or USD subject to the approval of the Director, Accounting and Treasury. **Information and communication** The majority of information and communication on the subject occurs during budget development when units are encouraged to bring forward foreign currency risks for assessment and planning. Throughout the year Financial Services identifies significant USD payment requirements through Purchasing.	**Recommendation going into fiscal 2016-17** Recognizing the risk response does not specifically address the Library budget line the following supporting budgetary directive is recommended: That a Library funding objective be established to ensure that within four years (starting from May 1, 2016) our Library budget will be of a sufficient amount to rank among the top half in the *Maclean's* University ranking survey for comprehensive universities, subject to investigating offsite storage opportunities (ie. Library joining the U of T Downsview library project **facebook.com/universitytoronto/videos/10152760663650999/** and developing processes that are sufficiently transparent to Senate on how the acquisition budget is allocated allowing Senate to provide comment if desired.

Foreign currency – student fees

Risk assessment

Rationale

Our international students can be impacted by changes in currency. Potentially this could impact enrolment and budgets.

The complexity we face is twofold. First, predicating currency moves is difficult at best. Second, the University budget is in CDN dollars and to increase or decrease it annually due to currency would create significant and complex volatility.

Quantification

Currently foreign student tuition represents approximately $40 million or 28 per cent budgeted tuition revenue.

When looking at specific countries China makes up almost half of all international students. 117 different countries make up the remaining international students population.

Units impacted

The students themselves in terms of affordability and the whole University as tuition is the largest revenue source to our budget.

Risk response

Mitigation

The process here has been one of balance. Recognizing re-pricing to foreign currency fluctuations, may not be practical. We have, over the last two years, developed a model to compare our international student fees in CDN dollars to other Ontario Universities and have worked towards the median. The model, while it really looks through foreign currency, has at least established a relative benchmark that ensures our pricing strategy is reasonable in the context of Ontario Universities.

Continuous improvement

Financial Services will be looking to extend benchmarking of University tuition into the United States, and Student Awards and Financial Aid (SAFA) and the Faculty of Graduate Studies will be looking at bursary mechanisms that could be used if certain significant currency fluctuations were met and students would otherwise meet certain criteria identified as appropriate for financial assistance.

Control environment

Responsible VP

VPA

Monitoring

Performed by Financial Services.

Control activities

Students fees are developed through the budget process and recommendations to the Financial Planning and Investment Committee (FPIC) for approval by the Board of Trustees.

Information and communication

The majority of information and communication on the subject occurs during budget development when the Senior Administrative Council, Council of Academic Deans – Finance and Budget Committee are consulted and provide student fee recommendations to the Financial Planning Investment Committee for approval by the Board of Trustees.

Supporting budgetary directive

Recommendation going into fiscal 2016-17

A transparent currency impact assessment, coupled with financial need criteria will be developed by Student Awards and Financial Aid and the Faculty of Graduate Studies, to be applied to international students, both undergraduate and graduate. Recognizing there may be some differences in recruiting and student needs and between the undergraduate and graduate programs once developed.

Foreign currency – investments

Risk assessment

Rationale

Our investment returns are impacted by foreign currency when we translate global investments back into CDN dollars. This can have an impact on contributions required for the pension, pensioners pension payments and amounts distributed from endowments.

Quantification

Foreign investments are held in the following investment funds, which at April 30, 2015 were :
($000s)

Pension = $440,675
Endowment = $81,695

In both these funds almost 50 per cent of the assets are in global equities and 50 per cent of those assets are in United States currency.

Important to note is the pension uses Aberdeen and Walter Scott as investment managers and the endowment fund only uses Walter Scott. The primary reason for two global investment managers in the pension plan is the larger size of investable dollars.

The above highlights investments in global funds but it is fair to say that even investments in Canadian companies in CDN dollars can be impacted by foreign currency if those companies do business in foreign jurisdictions. This exposure has not been quantified as it is not readily available.

Units impacted

The whole University.

The actuarial assumption of the pension plan is for a six per cent rate of return. If actual returns differ our budget and pensioners receiving a defined contribution payment are impacted.

The endowment policy requires for the endowments to maintain purchasing price parity from when the original donation was made. This requires a rate of return of at least inflation plus the spending rate. The Bank of Canada target for the core inflation rate is two per cent and in recent years the spending rate has been set at 3.5 per cent. This equates into a required 5.5 per cent rate of return.

Risk response

Mitigation

The traditional way to mitigate foreign currency risk is through hedging. We started hedging the USD risk in the pension plan after the CDN dollar appreciation to parity. We have never hedged foreign currency in the endowment fund.

In 2013, Financial Services performed an analysis of the cost of the hedge and questioned what the established goals were. This led to a review by external subject matter experts that was presented and considered by the Pension Committee and the Financial Planning and Investment Committee.

The conclusions of the review were:

- When looking at long term portfolios, such as the pension and endowment, currency fluctuations in the long-run work themselves out.
- Hedging has administrative costs.
- The subject matter experts suggested the CDN dollar was likely overvalued.
- In the short term currency fluctuations do impact portfolio results and as a result can impact our contributions to the plan related to the minimum guarantee and the pension payments that pensioners receive.

Recognizing this information the Pension Committee recommended and the Financial Planning and Investment Committee approved the unwinding of the USD hedge. This occurred in 2013. Since ending the program the CDN dollar has gone from approximate parity to approximately 70 cents compared to a USD. This has been positive to the investment portfolios.

As of January 2016 the University was not hedged for any foreign currency. This said, when the CDN dollar increases to other foreign currency, losses could be recognized, although they may be temporary in the long-run. This can have an impact, as identified in the review, on the near-term required contributions to the plan and pension payments to pensioners. For this reason, the external subject matter experts that we use for managing the investments and the Pension Committee and the Financial Planning and Investment Committee continue to monitor foreign currency with an emphasis on USD and have recently presented a tactical hedging strategy that is being considered.

Continuous improvement

Continue to monitor currency and the tactical hedging strategy.

Control environment

Responsible VP

VPA

Monitoring

Coordinated by Financial Services, and in the case of the Pension, Human Resources as well. This is done in preparation for the Pension Committee and Financial Planning and Investment Committee.

Control activities

As identified in the mitigation section, hedging decisions are subject to analysis and advice from external subject matter experts and ultimately requires the approval of the Financial Planning and Investment Committee.

Information and communication

Investment reporting is ongoing. Additional information on investment returns of the pension (as of June 30, the pension year end) can be found at **brocku.ca/webfm_send/36215** and the audited financial statements of the plan also quantify further foreign currency risk. Further, an annual pension meeting is held and everyone enrolled in the pension is invited, see **brocku.ca/webfm_send/36454** for the most recent invitation. Additional information on the endowment investment returns results can be found annually in the budget report and annual report and audited financial statements of the University. All audited financial statements, budget reports and annual reports can be found at **brocku.ca/finance/university-financial-information**

Supporting budgetary directive

Recommendation going into fiscal 2016-17

Consider a tactical hedging program with respect to the USD for the endowment and pension plan.

Market returns – investments

Risk assessment	Risk response	Control environment	Supporting budgetary directive

Rationale

Investment market returns can impact the contributions required for the pension, pensioners pension payments, amounts distributed from endowments, availability to make the future $93 million bond payment in 2045, and to support future post-retirement benefit costs for retirees also known as Employee Future Benefits (EFBs).

Quantification

As of April 30, 2015 we have the following amounts invested in bonds or equity markets: ($000s)

Pension = $440,675
Endowment = $81,695
Sinking Fund = $5,462
EFB reserve = $887

Units impacted

The whole University.

The actuarial assumption of the pension plan is for a six per cent rate of return. If actual returns differ, our budget and pensioners receiving a defined contribution payment are impacted.

The endowment policy requires the endowments to maintain purchasing price parity from when the original donation was made. This requires a rate of return of at least inflation plus the spending rate. The Bank of Canada target for the core inflation rate is two per cent and in recent years the spending rate has been set at 3.5 per cent. This equates into a required 5.5 per cent rate of return.

The sinking fund is currently designed to repay the $93 million bond payment in 2045 using a five per cent rate of return with additional contributions starting in 2024-25.

The EFB reserve was established to ensure obligations to current and future retirees can be met. At April 30, 2015 the current obligation of all non-pension employee future benefits was actuarially determined as $19.646 million. Starting in fiscal 2015-16 the budget incorporates a $90,000 annual payment to the reserve (this is over and above annual payments to current retirees). Provided a 5.5 per cent compounded rate of return, this reserve is estimated to grow to cover 100 per cent of the current and future retirees portion of the liability over the next 20 years.

Mitigation

It is recognized that from year to year always achieving actuarial, expected, anticipated or forecasted returns may not be possible. These returns as identified under the "units impacted" section are anticipated over the long-term. To achieve these objectives we mitigate risks to investment return through governance, including the use of a Statement of Investment Policies and Procedures that can be found at **brocku.ca/webfm_send/35232** for the pension, and other policies related to non-pension which can be found at **brocku.ca/finance/Policies-and-Procedures/policies-procedures**. This includes processes to monitor, analyze, and take action when recommended as appropriate. To assist in this process external subject matter experts are utilized. These include investment consultants, investment managers and actuaries.

Monitoring

We utilized external subject matter experts to monitor investment returns including market conditions, support and lead investment manager selection decisions, and monitor their relative performance, which includes regular reporting on the stock and geographical selection outcomes of the investment managers. This information is reported through Financial Services, and in the case of the Pension, also through Human Resources to the following committees:

- Pension Committee **brocku.ca/webfm_send/29585** (monthly return data with semi-annual performance reporting on the specific investment managers)
- Financial Planning and Investment Committee **brocku.ca/webfm_send/30349** (return performance at each of the five meetings with semi-annual performance reporting on the specific investment managers)

Analysis

The committees identified above receive the information as identified under "monitoring," and on an as needed basis request further analysis from external subject matter experts. Examples of areas where further analysis is sought include:

- Impact and recommendations for the low yielding bond market.
- Options and recommendations when selected investment managers underperform.
- Advice on asset allocation.

Action

The committees above receive and approve recommendations on regularly scheduled meeting dates based on the results of the monitoring and analysis procedures.

In between those meetings Financial Services, and in the case of the Pension, Human Resources, works with external subject matter experts. At the advice of the external subject matter expert meetings can be called through the chair of any committee.

Responsible VP

VPA, although the FPIC has the final call regarding investment decisions.

Monitoring

Coordinated by Financial Services, and in the case of the Pension, Human Resource as well. This is done in preparation for the Pension Committee and Financial Planning and Investment Committee.

Control activities

As identified in the mitigation section, investment process and decisions are subject to both policy and ultimately the approval of the Financial Planning Investment and Investment Committee.

Information and communication

As identified in the mitigation section, investment reporting is ongoing. Additional information on investment returns of the pension (as of June 30, the pension year end) can be found at **brocku.ca/webfm_send/36215** as well as the audited financial statements of the plan. Further, an annual pension meeting is held and everyone enrolled in the pension is invited. See **brocku.ca/webfm_send/36454** for the most recent invitation. Additional information on pension investment returns results can be found annually in the Budget Report and Annual Report and audited financial statements of the University. All audited financial statements, budget reports and annual reports can be found at **brocku.ca/finance/university-financial-information**

In place as of fiscal 2015-16

Going into fiscal 2015-16, the pension is considered for all intended purposes as fully funded; given the last valuation noted it was 99.1 per cent funded on a going concern basis and 105 per cent on a solvency basis. This just leaves us funding the normal and expected contributions to the plan.

The endowment fund now has all funds "above water" meaning all funds are now at a value of the original donation plus inflation.

The sinking fund is currently two years ahead of plan in terms of being able to pay off the $93 million bond. This is a result of strong investment returns in the past two years. More on this can be found on page 44.

The EFB reserve, which was just established, is on track to grow to 100 per cent of the current and future retiree's portion of the EFB liability over the next 20 years. More on this can be found on page 23.

Interest rates

Risk assessment	Risk response	Control environment	Supporting budgetary directive

Rationale

A portion of our debt is in floating interest rate debt instruments. This can impact budgets negatively if interest rates were to rise.

Quantification

Our combined floating interest rate debt is $43.669 million which relates to the MIWSFPA and Cairns.

Units impacted

The whole University.

Mitigation

Interest rate swaps have been entered into that fix the interest rate. This program has fixed the related interest on the MIWSFPA at 2.45 per cent and Cairns at 4.69 per cent.

Continuous improvement

A debt reduction strategy has been put in place to reduce our debt recognizing our debt burden and interest burden on the operating budget is approximately 40 per cent higher than the median of other comprehensive universities.

Specifically, our 2015 debt burden ratio is 3.2 per cent and the median is 2.8 per cent and the interest burden ratio is 2.7 per cent and the median is 1.9 per cent.

Responsible VP

VPA

Monitoring

Performed by Financial Services.

Control activities

Per the Delegation of Authority Policy borrowing and budgets are subject to the approval of the Board of Trustees. The University debt levels and requirements are monitored through the financial reporting processes including Q2, Q3 and year end reporting. The University's borrowing and repayment strategies are approved through the budget process by the Board of Trustees and specific transactions through the approval of individual motions of the Financial Planning and Investment Committee.

Information and communication

The majority of information and communication on the subject occurs during budget development, the distribution of the Finance Connect newsletter and through the financial reporting processes including Q2, Q3 and year end reporting, which can be found at **brocku.ca/finance/university-financial-information**

In place as of fiscal 2015-16

In the fiscal 2015-16 budget, a debt reduction reserve was established with annual contributions of $475,000. This, coupled with regular payments and applying donations for MIWSFPA building to debt reduction, will lead to the early repayment of the MIWSFPA building debt.

We could effectively have the same debt burden and interest burden as the median comprehensive university (as of April 30, 2014) by 2028 if the savings from the early repayment of the MIWSFPA building debt were used to repay other outstanding debt.

More on this, including a forward looking outstanding debt chart, can be found on pages 44 to 49.

Tax

Risk assessment	Risk response	Control environment	Supporting budgetary directive

Rationale

While we are a not-for-profit organization that does not pay corporate income taxes we do collect and pay HST, pay a payment in lieu of property taxes to the City of St. Catharines, and remit various payroll taxes and deductions (income tax, eht, cpp, ei). If an error is made in tax calculations it can impact the budget or individuals participating in the activity requiring a tax calculation.

Quantification

For the year ended April 30, 2015, we paid and/or collected the following in tax:

HST charged and/or paid net of: ($000s)

Rebates and ITC's = $4,100
Property tax = $1,210
Income tax = $37,200
CPP* =$9,080
EI* = $4,200
EHT = $3,240
Total of these taxes equals $59,032.

As an aside our budget recorded $96 million in grant revenue for the year ended April 30, 2015. So without trying to apply any multiplier for additional economic activity the University may produce, in the Niagara region, it alone sends approximately 62 per cent of its grant back in some form of tax or to various government agencies.

* = employee and employer portions combined.

Units impacted

The whole University.

Mitigation

To mitigate the risk of error the following actions are taken:

- **Education** – staff within Financial Services and Human Resources monitor changes primarily through literature obtained through the CPA and HRMA.
- We utilize the expertise of subject matter experts (KPMG and PWC). Examples in the past two years are: PER accounts, payment-in-lieu, Section 211.

Historically three areas that caused some concern, although financially they were not material, were the following:

- Payroll taxes on contractors (a process is now in place where purchasing and/or accounts payable has been identifying contractors paid through cheque requisition and notifying Human Resources to perform an assessment of employee vs. contractor)
- HST on taxable activities (billing and cash receipts now look for changes in revenue activity to identify new areas where goods and services are being provided to ensure an appropriate assessment of the HST implications occurs).
- Tax implications when making foreign purchases. Presently, Purchasing has a half-time person that supports the movement of goods and services across the border. Additional communication in this area is planned, given there can be times when we need to self-assess, and changes in the US have required us to provide confirmation of our taxable status in order to do business with US companies.

Continuous improvement

We just completed a two year review by CRA on HST where three issues were identified and have since been corrected.

Going forward it is the intent of Financial Services to improve communication efforts on this topic to ensure those impacted are more aware of the tax requirements of activities they are involved in.

The new accounting system will also be designed with identification triggers to automate the checking and identification of taxable activities.

Responsible VP

VPA

Monitoring

Performed by Financial Services and Human Resources.

Control activities

The control environment over revenue and expenses, including related taxes, is governed by approved policies of the Board of Trustees. The most significant being the Delegation of Authority policy and the Purchasing policy.

The key organizational design control we use in the identification, collection, remitting and reporting of taxes is segregation of duties.

Recognizing the tax environment is always changing, Financial Services and Human Resources are involved in educational activities to remain current and utilize subject matter experts.

Information and communication

As identified in the continuous improvement section the information and communication of tax issues is something that should be improved. In the past year tax issues related to both research in lieu of salary and professional expense reimbursement accounts, have received significant discussion and communication and policy changes have resulted.

The comments under "recommended for fiscal 2015-16" identifies there is much more to be done in this space in terms of communication.

Recommendation going into fiscal 2016-17

As denoted in the continuous improvement section, additional communication on this topic is likely required. This communication should include FAQs. In addition to information on taxable activates and foreign purchasing, additional communication on tax slips such as T2202 (employment expense) and T2200E (scholarships) will be included in this communication.

Utilities – commodity

Risk assessment	Risk response	Control environment	Supporting budgetary directive

Rationale

Approximately 2.4 per cent of our budget relates to hydro, natural gas and water charges.

Historically these utility costs have been known to experience temporary spikes, which can impact budgets. The trend in recent years for water and hydro rates has been one of moving higher. For example water cost $836,000 in 2010-11 and $1.053 million in 2014-15 and purchased hydro cost $964,000 in 2010-11 and $1.192 million in 2014-15. Our largest individual utility purchase is natural gas which has increased from $799,000 in 2010-11 to $1.284 million 2014-15.

Quantification

Important to note is the 2.4 per cent quoted as relating to hydro, natural gas and water charges represent direct costs to third parties and do not include costs associated with producing our own electricity.

We currently spend approximately $4 million on the co-gen annually on personnel and operating costs (including capital, repair and maintenance on the co-generators themselves) in addition to the purchase of natural gas. This translates into a cost per Kwhr of $0.074. These figures do not incorporate the deferred maintenance identified by VFA required to the co-gen building.

This section focuses on the risks associated with the commodity purchases of water, hydro and natural gas:

Units impacted

The whole University but more directly, the utility budget for non-residence buildings and the residence budget.

Mitigation

We utilize four mitigation strategies when it comes to commodity costs. They are as follows:

- **Volume** – conservation efforts are in place. These are governed by the Sustainability Committee led by the AVP Facilities Management.
- **Volume** – efficiency projects, which sometimes invest some initial investment but produce a positive payback. An example is the GE water treatment project that was noted on page 84 of the 2015-16 Budget Report.
- **Rate** – The co-gen unit itself acts as a natural hedge against rising hydro prices. Although these prices do not tend to spike they do tend to increase annually at a rate higher than inflation.
- **Hedging** – We have been hedging natural gas prices for the past several years using external subject matter experts. The model has been to fix the natural gas price for a percentage of estimated usage for one year, two years and three years out.

Continuous improvement

- Facilities Management is continuously looking for ways to reduce the consumption of utilities. Financial Services is recommending any project with a payback of three years or less should be put forward for approval outside of the normal envelope established for the capital budget. The funding would come from utility savings being reviewed.

Responsible VP

VPA

Monitoring

Performed by Facilities Management.

Control activities

The purchase requirements of utility commodities are governed by the Delegation of Authority policy and the Purchasing policy. Recently it was identified the Delegation of Authority policy could be improved to include specifics on hedging.

Historically all hedge contracts were approved by the Capital Infrastructure Committee. Going forward Financial Services and Facilities Management is recommending that the Financial Planning Investment Committee should approve these contracts. The lead on the hedge program will remain Facilities Management with support from Financial Services.

The Sustainability Committee acts as a monitoring group over usage to work on reducing our carbon footprint.

Information and communication

Communication on this topic is primarily concentrated on reducing consumption as this is the area that the broader University committee can support more readily. This communication comes from Facilities Management and the Sustainability Committee

Recommendation going into fiscal 2016-17

As noted in the continuous improvement section, Financial Services is recommending that energy efficiency projects should be put forwarded to the Board of Trustees for approval outside of the normal envelope established for the capital budget provided a payback of three years can be established. The three year limit recognizes the farther out these projects are from the original investment the more complicated tracking and assessing become. Key to this proposal is that the funding would come from utility savings.

Environmental contamination

Risk assessment

Rationale

Our programs use certain hazardous chemicals and materials, including radioactive and biohazardous materials.

In addition the land where the MIWSFPA building is located is a brownfield site that requires monitoring as a result of contamination prior to our purchase of the property for $1. A Risk Assessment (RA) was submitted to the Ministry of the Environment and Climate Change (MOECC). The RA outlined how the site could be managed to reduce the risk of occupants, plants or animals coming in contact with the contaminants. The MOECC reviewed and accepted the risk assessment and issued a Certificate of Property Use (CPU). The CPU and RA will require ongoing monitoring.

Quantification

The only known environmental site contamination is the site identified in the rationale above: the land where the MIWSFPA building is located. A three year monitoring program has been established in accordance with Province of Ontario requirements. The full cost of the program has been accrued and recorded in the audited financial statements in the amount of $24,000. Additional monitoring or remediation past the three years is not known at this time and as such any cost is not quantifiable.

Units impacted

The whole University.

Risk response

Mitigation

The newly formed Academic Safety Committee (which is an amalgamation of the existing Biosafety Committee, Radiation Safety Committee, Science Safety Committee and addition of a Travel Safety Committee), which includes representatives from Science Stores, key subject matter expert stakeholders, as well as Health, Safety and Wellness, continue to be consulted and provide recommendations on lab issues such as spill response, the purchase, use, storage and disposal of hazardous chemicals and materials on campus as well as other lab related hazards and practices. Health, Safety and Wellness is responsible for the management of the external hazardous waste disposal contract.

Since occupancy of MIWSFPA Health, Safety and Wellness is managing the environmental oversight of the property:

- To comply with the CPU Brock oversaw the installation of hard and soft cap barriers over the entire property.
- Before occupancy of the site the University completed indoor air quality sampling, which confirmed the sampled parameters were within legislated limits.
- A Vapour Monitoring Program was initiated to comply with the CPU to address the presence of petroleum impact in the soil and ground water in the former boiler area at the site. The vapour monitoring results to date are below the trigger levels.
- A new position was created with Health, Safety and Wellness for an Environmental Health and Safety Officer; part of the individual's responsibilities is to ensure any environmental issues at the MIWSFPA site are addressed and to manage the ongoing monitoring requirements.

Continuous improvement

As noted above, a number of committees have recently been restructured into one, an Environmental Health and Safety Officer (this position is not new) to enhance the risk mitigation efforts related to a variety of topics, including environmental contamination.

Going forward we continue to monitor and review our insurance coverage.

Control environment

Responsible VP

Provost/VPA for preventative contamination.

VPA known contaminations.

Monitoring

Health, Safety and Wellness maintains overall responsibility related to environmental contamination. The Academic Safety Committee provides consultation and recommendations as required.

Specifically related to the MIWSFPA building, a consultant, WSP Canada, was hired to complete the biannual cap inspections, which are required by the CPU to ensure the continuing integrity of the cap as long as the contaminants remain present on the property and to complete an annual report to the MOECC. This report is focused on the following:

- A three year ground water monitoring program has also been established by the CPU. WPS Canada will be conducting the monitoring until the end of 2017 at which time we will make a recommendation to the MOECC as to whether the sampling program should continue.
- The chimney at MIWSFPA was determined to be a habitat for Chimney Swifts, a threatened species. In accordance with the Ministry of Natural Resources requirements a Chimney Swift watch program has been initiated to observe the Chimney Swift activity at the site and in the surrounding area. If the Chimney Swifts do not return to the MIWSFPA chimney the construction of a new habitat onsite may be required.
- A Soil Management Plan was created as required by the CPU to ensure that contaminated soil and ground water are managed in compliance with all applicable environmental laws.

Control activities

Health, Safety and Wellness provides updates on the activities of the Academic Safety Committee, matters of environmental contamination as changes to known contamination and plans are identified, and/or if investigations into known or suspected environmental contaminations are noted. The risks are reviewed in coordination with a subject matter expert when appropriate and recommendations are made.

Protocols have been put in place related to the purchasing of hazardous chemicals and materials, including radioactive and biohazardous materials.

Information and communication

Reporting occurs to the Human Resources Committee at least annually or more frequently should a matter require approval of a Board of Trustees committee per the Delegation of Authority.

Supporting budgetary directive

In place as of fiscal 2015-16

To oversee and manage the ongoing monitoring cost of MIWSFPA building $11,000 was set aside in the 2015-16 budget. Going forward the budget for the monitoring requirements will be reviewed annually. Additional monitoring or remediation past the three years is not known at this time.

The costs associated with running the Academic Safety Committee is built into budget.

Litigation

Risk assessment

Rationale and quantification

Litigation is considered a confidential matter of the University – for further information on coverage please contact Chabriol Colebatch, University Secretary.

Units impacted

The whole University.

Risk response

Mitigation

Brock utilizes a combination of in-house and external subject matter experts to advise on matters of litigation.

Continuous improvement

Matters requiring legal expertise have increased in recent years as legislation impacting us has evolved. Some of these matters include contract, patent, employment, human rights and equity and freedom of information.

We currently have three lawyers on staff, one in the Office of the University Secretariat, one in the Office of Research and, just recently, one was added in Human Rights and Equity (this position is not new but the fact the position is now held by a lawyer is).

Control environment

Responsible VP

Provost/VPA matters related to the Brock University Faculty Association (BUFA).

VPA all other matters, may consult on matters related to BUFA.

Monitoring

The Secretariat regularly leads a review of litigation matters with the assistance of a subject matter expert.

Control activities

The Secretariat reviews any litigation requirements and/or risks in coordination with a subject matter expert when appropriate and recommendations are made.

Information and communication

Reporting occurs to the Audit Committee annually, or more frequently should a matter require approval of a Board of Trustees committee per the Delegation of Authority.

Supporting budgetary directive

In place as of fiscal 2015-16

Matters of litigation, regardless of the financial outcome (positive or negative) are not budgeted until known.

Insurance

Risk assessment	Risk response	Control environment	Supporting budgetary directive
Rationale and quantification Insurance is considered a confidential matter of the University – for further information on coverage please contact Leigh Harold – Director, Health, Safety and Wellness **Units impacted** The whole University.	**Mitigation** Brock utilizes an external subject matter expert to advise on matters of insurance coverage. **Continuous improvement** In 2014 we underwent an Expression of Interest (EOI) and a Request for Proposals (RFP) for non-CURIE insurance services. This process resulted in improved insurance coverage with a reduction in premiums. A full-time employee to administer the insurance program was hired in November 2015. This is a new position.	**Responsible VP** VPA **Monitoring** The University regularly reviews insurance coverage with the assistance of a subject matter expert. **Control activities** The University's insurance broker provides updates and trending on new emerging risks. The risks are reviewed in coordination with a subject matter expert and recommendations are made. Matters of insurance that impact employees are communicated through the Human Resources website. **Information and communication** Reporting occurs to the Financial Planning and Investment Committee at least annually or more frequently should a matter require approval of a Board of Trustees committee per the Delegation of Authority.	**In place as of fiscal 2015-16** The budget incorporates the cost of insurance.

Next steps in budgeting

It can be just as important to structure the planning process and provide updates to the process as the actual planning that takes place. The following table illustrates a number of projects currently underway within the University that will impact the fiscal framework and future budget development:

Projects	Comments	Enabler
Revenue and expense allocation	**In-progess:** This project was started in early 2015, some may argue it was actually started back in 2008. The most recent reports can be found at **brocku.ca/finance/faculty-and-staff/revenue-expense-allocation-pro.** Currently an effort is being made to obtain better data on the drivers of the model, such as space utilization, and the Deans are reviewing the tuition and grant allocations. **Impact for future budgets and the fiscal framework**: While the current project was designed to look at revenue and expense allocations, it was always identified this information could be used by the Provost and the Deans to establish a budget model for the Teaching Faculty's envelope of the budget. The Deans have commented at previous Council of Academic Deans – Finance (CAD Finance) meetings that they are interested in pursuing this as a model. As this develops, the Teaching Faculty's envelope of the budget will certainly become more defined.	Financial Services through CAD Finance
Data governance	**In-progess:** In late 2015 a committee was established with representatives from units across the University to work on data governance. The goal of the committee is to research what information we want, when, why, how and who should have responsibilities for "what" in terms of information management. In addition, the committee is tasked with establishing common definitions for key data points. The findings are hoped to inform future investment in information systems and process improvements to ensure our people have appropriate information. **Impact for future budgets and the fiscal framework:** The findings of this committee will benefit units throughout the University. In terms of the budget, the findings will help with allocation decisions to support information management. It is further expected that over time greater integration of financial and non-financial information can occur to support budget development decisions and calculations (i.e. data points associated with the revenue and expense allocation drivers).	Financial Services: Data Governance Committee
Multi-year budgeting	**In-progess:** The new accounting system, Workday, is going live May 2016. It has a budget module that will be operational for the 2017-18 budget. This module supports multi-year budgeting, which is an activity done by several universities already to support financial planning. **Impact for future budgets and the fiscal framework:** The forecast provided on page 20 is prepared at a level called the object of revenue and expense level, which provides a directional view but a less accurate one at that. The introduction of multi-year budgeting through Workday at the unit level will enhance financial planning through more timely and accurate forecasts and scenario development to support decision making.	Financial Services: Workday
Senate program prioritization	**In-progess:** Senate completed a process of reviewing academic programs in 2015. Next steps have yet to be commented on. **Impact for future budgets and the fiscal framework:** This document could impact how the Teaching Facility's budget envelope and perhaps others are allocated.	Senate
Human Resources (HR) System	**In-progess:** Included in the approved 2016-17 capital budget was initial funding to research and initiate the process of obtaining a new HR system. **Impact for future budgets and the fiscal framework:** Initial discussions with Human Resources and Information Technology indicate a new system is required, from a financial planning perspective perhaps the greatest benefit would be the integration that would allow for more timely and accurate forecasts and scenario development to support decision making.	Human Resources: Core Application Committee
SIS System	**In-progess:** Included in the approved 2016-17 capital budget was initial funding to research and initiate the process of obtaining a new student information system. At a minimum it is expected this system would include standard registration capabilities along with customer relationship management software, student billing and financial awards modules. **Impact for future budgets and the fiscal framework:** Initial discussions with the Registrar's Office and Information Technology indicate a new system is required, from a financial planning perspective the benefits extend from billing, processing financial awards to more timely and accurate forecasts and scenario development to support decision making.	Registrar's Office: Core Application Committee

Appendix A

Frequently asked questions

If funding is budgeted to complete a project …

Q: Is the funding held for that specific project until completion?

A: Yes, unless it becomes apparent that the project can be completed for less than budget. At this point a budget transfer would occur as per the Delegation of Authority.

Q: And if the project is not completed in the year it was budgeted, are the costs incurred in the following years or years covered by the funding originally budgeted?

A: Yes

Q: And if the project is completed in either a surplus/deficit position what happens?

A: The Capital and Related Project program maintains a Facilitates Management and Information Technology over/short reserve. All surpluses and deficits are closed out to this reserve as per the Delegation of Authority.

The fiscal framework outlines a certain amount of available funding per year…

Q: What happens if a project is expected to take multiple years? Will the funding be budgeted all in the initial year or over the years the project is expected to be completed?

A: For smaller projects, generally defined as less than $1 million, it is expected that the complete project funding requirement be included in the budget of an individual year.

For larger projects, generally defined as greater than or equal to $1 million, the funding could be budgeted over the years the project is expected to be completed. The intent is to match the years with cash flow and specifically identify these projects in the budget. An example of a larger project is the new accounting system – it is financed $3.8 million up front and $1 million in the second year. Another example could be the post-MIWSFPA construction.

Q: Will any of that funding be going into reserves to accumulate funds to do larger capital projects?

A: The fiscal framework certainly allows for funds to be set aside in reserves but it was designed to put funding to work immediately given the significant backlog in deferred maintenance and insufficient core information technology applications.

Q: If limited reserves are to be maintained how would a large capital project get completed if the cost was larger than the funding allocation of any one year and the cash flows would occur primarily in one year?

A: The fundamental requirement of the fiscal framework is that it requires a visible and knowing funding plan for investments. In this situation a capital project could be approved provided a funding plan was put in place. That funding plan may include reducing spending in the following year or years.

Q: If upon approval there is spending on larger capital projects in advance of the cash being budgeted, how will this impact the University's cash flow?

A: Recognizing the size of the capital program compared to the size of the operating budget it is anticipated that such projects could be temporarily funded through working capital and/or the temporarily unspent funding of previously approved capital projects. The concept here is to ensure unspent cash is producing value. It is anticipated that these types of projects will be limited and their impact on cash flow would need to be reviewed as part of the project approval on a case-by-case basis.

Annual reports, budget reports, quarterly reporting can be found at:
brocku.ca/finance/university-financial-information/budget-reports

Revenue and expense allocation information can be found at:
brocku.ca/finance/faculty-and-staff/revenue-expense-allocation-pro

Finance connect newsletter can be found at:
brocku.ca/finance/faculty-and-staff/financeconnect

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