

LETTER FROM THE PRESIDENT



JULY 2018

To all my UMFA colleagues,

I am honoured to be serving as UMFA President for another year, and I continue to look forward to working with the UMFA staff, UMFA Executive, the UMFA Board of Representatives as well as meeting members all over campus.

When you have an accounting professor as the president, unfortunately, you are bound to get a fairly detailed analysis of the university's financial situation. Not wanting to disappoint, here it is. In case you do not have the time to read the entire three pages right now, the executive summary is that UM has surplus resources and the administration has decided not to spend them on us. Instead, the money is going to the Offices of the President and the VP (External), strategic initiatives, and capital projects.

I will start with the budget, which was released for the Board of Governors May 22 meeting.

What has changed?

We have all heard about the new budget model, which has been adopted by several other institutions in Canada. Perhaps as a result, one thing that has changed is that the 2018-2019 budget is clearer than in past years. Another thing that has changed is that unit

resources henceforth will be based on their revenues, which will inevitably vary from their budget.

This is because under the old system units had certainty about the level of resources they had available and the expenditures they were authorized to make. That is no longer the case. The new system will force deans to become even more like central administration, where the focus is first on bringing in the dollars. It will also make it more difficult to commit resources, as they need to worry that revenues might end up being lower than expected.

Another problem with the new budget model is that it appears to incorporate principles that are not best practices. For example, Introductory Managerial Accounting textbooks generally note that allocating common costs (costs that are not directly attributable to individual units, e. g., libraries, university advertising campaigns, VP salaries) to units – a feature of the new budget model (*see footnote 1*) – has been shown mathematically to lead to sub-optimal decision making from the perspective of the entire organization.

To help with what follows, this year's budget and those of years past are all available on the University's [Budget and Planning website](#). The 2017 financial report is available in the latest [agenda discussed by the University's Board of Governors](#) (pages 137-196). The administration's [presentation on the budget model](#) is also available on the University website, and for UMFA's critique of these types of budget models, see our 2016 publication "[Financial Health, at what cost?](#)" For a rather disturbing assessment of a similarly styled budget recently introduced at Queen's University, see John Holmes' "[Queen's University New Budget Model](#)."

What has not changed?

UM budgeted revenues continue to increase. While the provincial government reduced the operating grant by 0.9%, that will be offset by tuition increases, giving an overall budgeted increase of \$15.8M, or 2.4% (*see footnote 2*). Note that UMFA's open letter from the president estimated that revenues would increase \$12.3 million. The Administration's [response to that letter](#) suggested the increase to budgeted revenues would be less:

With respect to the degree to which increased tuition revenue is anticipated to offset the

grant reduction, regrettably this would only be the case if these were the only two variables to consider. We expect the financial impacts from the provincial budget to amount to over \$7.3 million in the 2018/19 fiscal year considering the cumulative impact of the reductions in grant funding, provincial support for Research Manitoba, Access programs and international student health. The increase in tuition fees is anticipated to generate approximately \$9 million in revenue, for a net impact of \$1.7 million.

In fact, the budgeted increases to revenues attributable to tuition and total grants ended up being \$11.5M, very close to UMFA's estimate. Given that, the university should revisit UMFA's suggestions to hire more faculty, provide additional funding for graduate students, and build a childcare facility for the entire university community at Bannatyne.

Expenditures are budgeted to increase by 3.5% (*see footnote 3*). Given that total revenues have only increased 2.4%, in some ways things could have certainly been worse. Note that Université de Saint-Boniface has eliminated faculty positions and will reduce course offerings and services to students, ostensibly motivated by the cuts to the Provincial operating grant of 0.9%. Our hard-won collective agreement prevents the administration from doing that here – Article 28 ensures that only in the most dire economic circumstances can the University even begin to consider laying off those who make the UM happen (teachers, librarians, and researchers), and to do so they have to make a clear accounting of the numbers. However, many of us are working in units where class sizes have increased, course offerings have been cut back, faculty budgets have been reduced time and time again, and colleagues who have left have not been replaced. Things could most certainly be better!

Why are expenses increasing? Based on our experience over the last decade, an important determinant of faculty member workload and quality of education delivered to students (number of sections, number of courses, and number of students in each section) is how much the unit budgets change. While the university's overall budgeted expenditures are up 3.5%, it is not clear by how much any particular unit's budget has increased because this information was not provided in last year's budget (*see footnote 4*). In last year's budget, the administration provided a schedule of strategic investments per unit, but not total funding of units. We do know that the university has promised a "hold harmless" budget, so all units presumably face no cuts. However, that means that units' budgets are

at least being eroded by inflation, and it is not clear what will happen next year. This makes it difficult for units to make decisions that have long-term implications, such as hiring faculty or accepting graduate students.

Where, then, are the increases in spending going? There is no indication that upper administration costs have been trimmed by 15% as the university announced on UM Today on March 28, 2018. There they said that “The University of Manitoba has restructured a number of management positions to achieve a 15 per cent reduction, in support of government expectations and continued prudent fiscal management” and provided 12 examples of positions that had been eliminated, including Directors of Research Grants, Student Life, Bison Athletic Therapy and the International Centre of Students. It appears, however, that the Offices of the President and VP (External), at least, have been spared. In Budget 2017-2018, expenses for the President’s Office were \$1,712,637 and the VP (External) \$12,056, 484, totaling \$13,769,121 (*see footnote 5*). The budget for these two units combined in fiscal 2019 is \$14,880,000 (*see footnote 6*), an increase of 8.1%.

While the new budget has been heralded as allowing greater decentralization, approximately the same proportion of funds appear to be controlled by central administration. In 2017-18, the university budgeted an operating surplus of \$50.3M available for inter-fund transfers (many of which are discretionary, but some of which are not, such as transfers to the long term disability plan) (*see footnote 7*). In 2018-19, the operating surplus is budgeted at \$45.2M (*see footnote 8*), but there is also \$15.7M (*see footnote 9*) of undistributed taxes from the units available for central administration’s strategic initiatives. This is to say that a lot of money that could go to the University’s core functions is going to Central Administration’s strategic initiatives instead.

Where else is the money going? Large amounts of UM’s surplus resources continue to be diverted to capital. When comparing the budgeted transfers to capital for this year and next year, you’ll notice that they are similar (*see footnote 10*):

Budgeted transfers to capital: (\$ thousands)

	<u>2018-2019</u>	<u>2017-2018</u>
Budgeted current year acquisitions	\$15,141	\$20,000
Budgeted other funded projects	10,760	12,880

Budgeted faculty projects	6,669	742
Budgeted unit capital development assessment	5,725	5,549
Budgeted student contributions for tech	<u>3,104</u>	<u>2,834</u>
Total	<u>\$41,399</u>	<u>\$42,005</u>

In the past, actual transfers to capital have been significantly more than budgeted, as budgets tend to be pessimistic, and the resulting surpluses are generally diverted to capital projects. That happened in 2017-18 as well. The 2017-18 budget predicted an operating surplus of \$50.3 million, all of which was expected to be transferred to other funds including the \$42 million above. What actually happened was an operating surplus of \$105 million (*see footnote 11*), \$67 million of which was diverted to capital (*see footnote 12*).

The Bottom Line

UM continues to enjoy record profitability, and faculty continue to compete for resources with the Administration's obsession to erect buildings. This year, the biggest budgeted project is \$34 million of operating funds to be used for the Smart Park Innovation Hub building (*see footnote 13*).

It would be reassuring to know that such important decisions affecting students and employees alike was receiving close scrutiny. But in the Board of Governors agenda, only 20 minutes was allocated for the discussion of the budget, and 15 minutes was allocated for the discussion of the financial statements (*see footnote 14*).

Given more time, would an informed user be able to understand UM's operations? For the second year in a row, UM has deleted a key piece of information that no longer allows UMFA to do the kind of analyses they have done in the past and can be done for nearly every other university in Canada. This information is the amount of cash and investments of UM that are not externally restricted, which instead allow the University to make a decision as to where the money is spent (or not): a piece of information that requires about one inch of space. Without this information, a user of UM's financial statements would not know how much of UM's \$1.26 BILLION (*see footnote 15*) in cash and investments belong to the endowment or are otherwise restricted, and how much is available for core operations. Leaving out such key information certainly casts doubt on any claims of transparency.

So, as we head back into our classrooms, libraries, and labs in September, we will see the truth of the saying “the more things change, the more they stay the same.”

In the meantime, ensure you take the 27 working days of vacation that you are entitled to under the Collective Agreement and enjoy your summer.

In solidarity,

Janet Morrill

UMFA President

1 See attachment 3 of the 2018/19 Budget, where each unit is allocated a portion of Central Support Cost Allocations.

2 See attachment 4 of the 2017/18 operating budget. Total revenues are budgeted to be \$663,924M, compared to \$648,143 in 2017/18 fiscal budget.

3 See attachment 4 of the 2017/18 operating budget. Total expenses are budgeted to be \$618,725M, compared to \$597,872 in 2017/18 fiscal budget.

4 The 2017-18 budget presented strategic expenditures by unit in Attachment 3, but not total expenditures by unit.

5 See “Expenses” of the President’s unit and Vice-President (External) units in Attachment 6 of the 2017-18 Budget

6 See “Expenses” of the Executive (President and External) Cost pool in Attachment 3 of 2018-19 Budget.

7 See “inter-fund transfers” in Attachment 4 of the 2017-2018 Budget

8 See Recommended Resolution on page 1 of the 2018-2019 Budget

9 See attachment 2 of the 2018-2019 Budget

10 See “interfund transfers” in Attachment 4 of the 2018-2019 Budget

11 See “Net Revenue from Operating Activities” on page 27 of the UM 2017/18 financial statements (Page 167 of the June 26 BOG agenda

12 See “Capital Asset Funding” in the interfund transfer schedule on page 17 of the 2017/18 financial statements

13 See Attachment 5, Capital Spending Estimates, of the 2018-2019 Budget

14 See the Board of Governors agendas for the May 22, 2018 and June 26, 2018 meetings

15 See page 26 of the UM 2017/18 financial statements: Cash is \$330M, and Investments are \$929M

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