Every budget is a choice

A look inside Western's financial decisions and resulting priorities

Western president Amit Chakma says the university is in good financial shape. Yet his administration turns around and instructs some academic units to model deep cuts, expand classes and dump limited-duty teachers. Are we short of resources? Nothing could be further from the truth. Western's coffers are actually stuffed – a $202-million surplus was accumulated over a four-year period. How does this make any sense? It's complicated.

In what follows, we explain the choices made by the board of governors and senior administration that give the false impression that the university is facing tough economic times. Some of the choices we will explore include its debt policy, allowing departmental carry-forwards and the shuffling of money through a complex system of layers.

The university's financial practices involve creating operating surpluses and then either transferring these surpluses to unrestricted or restricted sub-funds, or spending the surplus money on buildings or other capital projects. By these means, and through its financial investments, the administration has placed the accumulation of assets ahead of increasing operating expenditures, **for example on teaching.**

We have analyzed the past four years' worth of Western's financial statements and the effect that these decisions have on faculty and staff. Our analysis has been prepared using financial information covering fiscal years ending April 30, for a four-year period from 2009-10 to 2012-13.[1]

Many members will have seen presentations that contain numbers slightly different from those reported here. This can be explained by the different dates used in different presentations. In this analysis, we rely entirely on information contained in the university's audited and supplementary financial statements,[2] budget documents and board meeting minutes. The supplementary statements are not made public, but UWOFA has received a copy.

Budgets are about choices

One useful way of looking at financial statements is to examine the flow of cash into and out of the organization. This analysis provides an interesting perspective on the choices

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[1] The research for this report was done by members of UWOFA's salary committee and reviewed by the UWOFA executive, which is responsible for the views and opinions expressed.
[2] These statements can be reviewed at: http://www.uwo.ca/finance/reports/index.html

that have led to the belt tightening many of us have been asked to do lately. Since the 2009-10 fiscal year, Western has generated $344 million in cash from operations after all expenses such as salaries and supplies have been paid. This does not include cash raised from endowment contributions, borrowing or other sources.[3] Over the past several years, the administration's message has been that funds are tight; there has been pressure on UWOFA members to teach larger classes as well as a move to online learning, which is promoted as a cheaper way to deliver education. For an organization that is able to generate so much money from its operations, why is this necessary? Where does all this money go?

Peeling back the layers

The financial statements consolidate a number of "funds" within the university accounting system. Funds are like mini organizations – they are a complete set of accounting records with assets, liabilities, revenues and expenses. There are three main categories of funds: the operating fund, the capital fund and the reserve fund. Within a particular fund, an organization may choose to create what could be called "sub-funds" for a specific purpose. At Western, the university has created both restricted and unrestricted sub-funds. If a sub-fund is restricted, that is an indication that either the board of governors or an outside entity has restricted how the monies may be used. Internally restricted funds are under the control of the board of governors, and the board normally has the authority to redirect these dollars if necessary. Surpluses in the unrestricted sub-funds can be transferred to a restricted sub-fund if directed by the board. These surpluses can become savings for the future, which could be quite appropriate if, for example, the money was made available to assist with budget shortfalls when needed.

According to the audited financial statements, there has been a striking growth in internally restricted funds over the period under review. The balance in these funds was $373 million at the beginning of the 2009-10 fiscal year, and it has grown to $800 million as of April 30, 2013.[4] These are unspent funds from prior years before the final surplus is determined and ostensibly set aside for some specific purpose. Some of the larger components of the balance are the departmental carry-forwards, which we will discuss later, as well as equipment replacement reserves, capital project reserves and reserves related to research funding. There is little reason to be concerned about reserves related to research funding. These occur because there is a timing difference between when research funds are received and when they are spent. However, many of the other

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[3] Includes: Receipt of deferred capital contributions, changes in deferred contributions and allocation of spending from endowments, as reported in the audited financial statements.

[4] These numbers are from the audited financial statements, which are inclusive of a number of organizations that might not be considered part of the university. Incorporated in these numbers are organizations controlled by the university, such as the Museum of Ontario Archeology, several foundations and businesses related to the Richard Ivey School of Business, the University of Western Ontario Research & Development Park. A full listing is available in Note 1 in the audited financial statements. In other places in this report, we refer to supplementary financial statements, which are provided by the university to UWOFA, and which do not include the financial information for all of these entities. As a result, the numbers chosen from these supplementary statements will differ from those in the audited financial statements.

restricted fund balances increase year after year with no apparent plan to make use of the funds that have been set aside.

The university's financial practices involve creating operating surpluses and then either transferring these surpluses to unrestricted or restricted sub-funds, or spending the surplus money on buildings or other capital projects. For example, in the 2013 fiscal year, the university was working on renovations to the Physics and Astronomy Building and completion of the new Ivey building and Ontario Hall. While these may be worthwhile projects, is this the right way to finance them? How does the province feel about having its general grants diverted from teaching to support capital projects? How do students and their parents feel about having the tuition they pay used in this way?

Unwilling to liquidate investments

A portion of the money that has been set aside has been invested in what some might consider to be risky investments such as equities and hedge funds, as well as some less risky investments such as government and corporate bonds. As of April 30, 2013, the university had total investments of $1.1 billion of which 55 per cent was invested in equities and "alternative investments."[5] This total from the audited financial statements represents the full amount of invested funds under the control of the board of governors and includes endowments. The supplementary statements indicate that this also includes $254 million in operating funds that had been invested as of April 30, 2013. Related corporations and foundations owed the university another $17.8 million. The repayment terms related to these loans are not described in the statements.

When we hear that our employer doesn't have funds available to hire the normal contingent of contract academic staff, or to give pay increases that match those at other universities, it is because they have funds tied up in assets – investments, buildings and equipment – and are unwilling to liquidate any of their investments or finance buildings and equipment through debt in order to allow them more cash to meet operational needs. What they are saying is that when money is used to fund capital projects, or is invested, that is where it stays. This creates a one-way street: money doesn't ever flow back to the operating fund to help with operating deficits or rising costs, or to maintain an appropriate staffing level, no matter how flush the capital or reserve funds are. It would only require a change in policy for the board of governors to transfer money back into the operating fund. **At this university, at this time, any shortfall of operating funds is an artificial problem of the board's own making.**

Debt and deficits

The 2013-14 budget document indicates that the board of governors has an arbitrary policy of allowing total debt of up to $9,209[6] per full time equivalent (FTE) student. This works out to a maximum allowable debt of $285.6 million since there are approximately

[5] Note 5, page 10, Combined Financial Statements for the year ended April 30, 2013.
[6] 2013-14 Operating and Capital Budgets, page 44, limit for 2013. This amount increases by the CPI annually.

31,000 FTE students. As of April 30, 2013, the total debt according to the combined financial statements was $313.2 million, indicating that the organization is slightly over the borrowing limit that has been set. The budget documents indicate that the board approved an excess amount up to $45 million for 2012-13 and 2013-14 that is expected to be temporary. It results from new debt incurred during 2013-14 due to the construction of a new 1,000-bed residence and other capital projects.[7] The important point to note is that the choice of a borrowing limit of $9,209 per FTE student is arbitrary; it is not linked to revenue or expense levels. It appears there is still significant room to borrow if needed. However, with over $1 billion in investments, it would not even be necessary to borrow to finance increased salaries and benefits and improved working conditions for all faculty, including our most vulnerable members. All that is needed is a change in board policy.

It still seems to be a widely held belief that there is a board policy forbidding planned operating deficits at Western. However, the board has rejected any such idea for many years now. The university budgets on a four-year cycle, and accepts that there may be a plan for operating deficits in some years. The ostensible aim is to finish the cycle with a closing surplus of at least $2.5 million. It is not surprising, then, to find a projected deficit in the operating budget for both 2013-14 ($8.8 million) and 2014-15 ($29.1million).[8]

An important point about a university budget is that it can be used as a way of sending signals and influencing perceptions. Projecting a significant operating deficit may be an attempt to convince people that "money is tight" rather than a way of accurately predicting the balance of income and expenditures for the year. Actual outcomes often differ remarkably from what the administration predicted. For example, when considering the 2010-11 budget[9] (the final one of the previous four-year budget cycle), we note that the planned accumulated operating reserve at the end of the cycle was $2.5 million. However, the opening operating reserve in the subsequent four-year plan was $31.4 million![10] The difference is almost $29 million. If the university's budget was based on an accurate prediction of the future, or on a real desire to spend money in a certain way, then we would expect these numbers to be much closer together.

The following two charts, which are based on supplementary financial statements supplied to UWOFA, explain where the university's total operating fund revenue of $645 million for 2012-13 came from and how it was spent.

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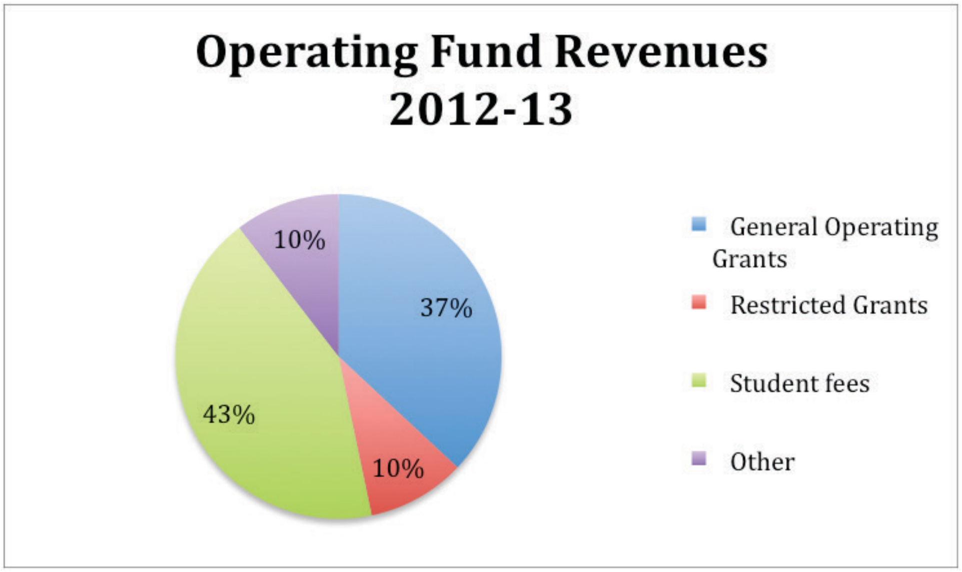
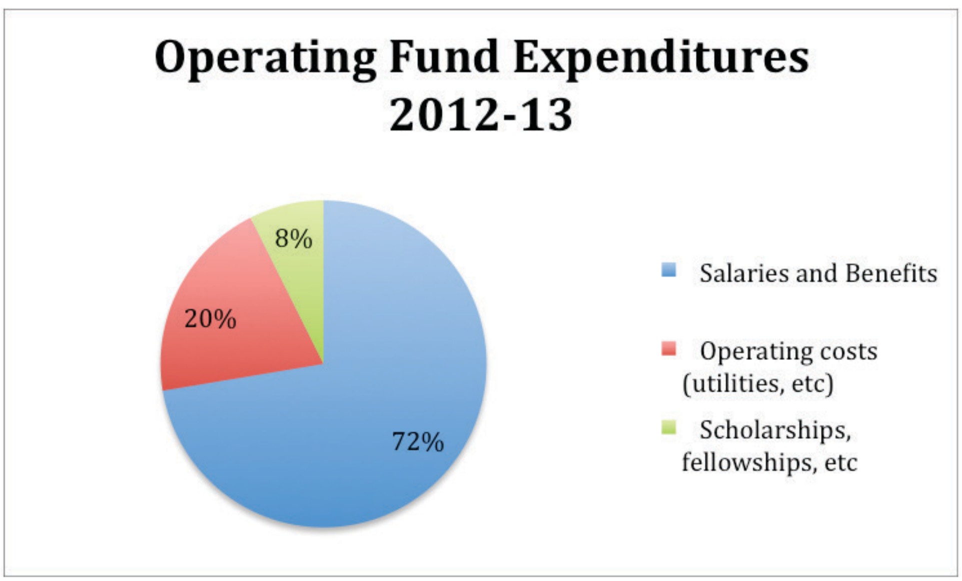
[7] 2013-14 Operating and Capital Budgets, page 44.
[8] Information on these projected deficits can be found in the 2013-14 Operating and Capital Budgets, page 11.
[9] 2010-11 Operating and Capital Budget, page 27.
[10] 2013-14 Operating and Capital Budget, page 11.



Provincial funding is the major component of the general operating grants. Note that this category, at 37 per cent of revenue, is less than student fees (43 per cent). In other words, there is a good argument that students are bigger stakeholders than Queen's Park. Other revenue includes items such as sales and services, donations, recoveries and investment returns.



The second chart shows that salaries and benefits account for the majority of operating costs, which is already well known. Faculty members sometimes are led to believe that their salaries make up most of the total. That is far from true. In 2010-11 (the most recent year for which data is available), just 34.5 per cent of the university's operating expenditures went to academic rank salaries, and 4.3 per cent was spent on other instructional and research salaries such as teaching and research assistants. This information comes from an annual report prepared by the Canadian Association of

University Business Officers. The same report notes that non-instructional salaries at Western, which include those of administrators, make up 21.9 per cent of the operating expenditures.[11]

There are several trends from the financial statements that are worth noting and important to understand in relationship to these charts:

- Total investment income of the university according to the supplementary financial statements for the 2012-13 year was $57 million. Only $1.2 million of this has been allocated to the operating fund.
- Over the four-year period beginning in 2009-10, total operating fund revenues have increased by 15.38 per cent, from $559 million to $645 million according to the supplementary financial statements. In addition to these amounts, the university had revenue of an additional $400 million reported in other funds during 2012-13.
- Over the same time period, total operating expenses have increased by only 13.7 per cent, and were $606 million in 2012-13. The operating fund thus had a surplus of $39 million (the difference between $645 million and $606 million) in 2012-13, $36 million of which was transferred to restricted funds.
- Total spending on salaries and wages in the operating fund increased by 12.6 per cent from 2009-10 to 2012-13, but it is impossible to tell how much of this is due to the increased number of positions or the type of positions that are included. It is also important to keep in mind that faculty salaries make up only about half of the total.
- On a consolidated basis (all funds together) there was a surplus in 2012-13 of $71.6 million reported in the audited financial statements. **Over the four years included in this analysis, there was a surplus every year. The total of these surpluses is a whopping $202 million.**

Departmental carry-forwards can be a problem

At the end of every year, there is a transfer to or from the operating fund related to "Departmental Carry Forwards."[12] As of April 30, 2009, the amount in this account totalled $47 million, and over the four years under review it grew to over $152 million – a 223-per-cent increase! This amount represents funds budgeted for faculties but not spent during the year, which could be referred to as budgetary slack. The faculty is then permitted to carry the amount forward for use in following years. Faculty carry-forwards are interesting and in some ways disturbing to members. They encourage faculties to

[11] Taken as a percentage of *total* university expenditures for the 2010-11 fiscal year, academic rank salaries account for 21 per cent of spending at Western, while other instructional and research salaries are 6.8 per cent of total expenditures. Non-instructional salaries are 19.6 per cent of total expenditures. In addition to the salary costs, benefits for all employees are 11.5 per cent of the operating expenditures and 8.3 per cent of total expenditures.

[12] The financial statements refer to these carry-forwards as "Departmental Carry Forwards." However, it is understood that these amounts are actually under the control of the deans and will therefore be referred to as faculty carry-forwards.

spend frugally because they know any amount not spent can be carried forward. This may help to buffer a faculty from budget shocks in future years. However, it also gives deans an extra incentive to cut costs, which can mean more work for faculty members trying to make up for unfilled positions or lost salaries or positions for contract academic staff.

The amount that has been set aside for departmental carry-forwards seems to be very high, and it is unclear from the financial statements to which faculties it relates. Many organizations would not permit this type of budgeting. Instead, they would insist that unspent funds contribute to an organization-wide surplus, so that decisions on how they are spent can be made by the whole institution. We may now be seeing the effect of this in faculties where the carry-forward balances have been fully expended. There are threats of hiring freezes in some social science departments, for example, while arts and humanities and FIMS are being asked to model significant budget cuts in the range of 20 per cent. If these carry-forward balances were returned to the general operating fund each year, or at the end of each four-year cycle, it is unlikely that there would be strong financial constraints placed on some faculties while others were permitted to carry on with business as usual. We previously suggested that the board consider revising the policy of allowing faculties to retain these funds. It is clear that these policies continue to affect faculty and staff at Western.

Too much penny-pinching

This review of the university's financial statements shows its financial position is very strong. It has had large surpluses in recent years and has substantial reserves. In fact, a case could be made that the university has been pinching its pennies too hard, and has put the accumulation of assets ahead of current spending on its core mission. It may be an appropriate time to correct that imbalance by changing board policy.

There is no reason for concern about the university's financial situation. Tuition fees are rising, investment returns have been strong and future changes to the university's expenses are predictable (some may even be decreasing). Unlike many other universities, Western does not need to cover losses in individual pension accounts as members carry the risk of pension losses, an issue UWOFA has been analyzing in preparation for negotiations (in the near future, we will provide members with a report on pension issues). There is certainly no evidence to suggest that a wage freeze is called for, or that there is a need to eliminate contract academic staff. At the board of governors meeting where the annual financial statements for 2012-13 were presented, president Chakma noted that "the financial statements provide a fiscal picture at a particular point in time – at this particular point in time the fiscal situation is very strong and flexible which in turn provides room to adapt if necessary."[13]

We couldn't have said it better ourselves.

[13] Taken from the minutes of the board of governors meeting September 24, 2013, page 2. Available at: http://www.uwo.ca/univsec/pdf/board/minutes/2013/m1309bg.pdf