

2020/21 BUDGET

JULY 2020

*Submission to the University of British Columbia
Board of Governors*



THE UNIVERSITY OF BRITISH COLUMBIA

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Letter from the President

This budget year is unprecedented and challenging in many ways, including the impact on the university's finances and its ability to plan and develop an accurate budget. The university began its annual budget process in late 2019 and presented a first draft to the Board of Governors in February 2020. On Tuesday, March 17, 2020, B.C.'s provincial health officer, declared a public health emergency in response to the COVID-19 pandemic. In response to the potential risks to the original budget and with approval from the Board of Governors, the university postponed final approval of the Budget until July 2020.

Although this budget is being presented to the Board of Governors with a recommendation for approval much later in the year than is usual, there is still significant uncertainty with respect to the full effect of the pandemic on:

- Enrolment,
- Residency in student housing,
- Loss of conference and other revenues,
- Unexpected expenditures related to supporting students through emergency bursaries, and
- Costs of supporting the transition to online learning

In the meantime, we are shifting resources to ensure continuing support for learning, teaching and research, and transitioning non-urgent expenditures to later years, as well as curtailing discretionary spending. We will continue to assess our financial situation as more definitive data is available and will take a long-term view to fiscal management. Leadership has identified additional options with respect to mitigating any further impact and will introduce these mitigations, if required, when there is more certainty.

The degree of uncertainty all universities are facing due to the impact of COVID-19 cannot be emphasized enough. The 2020/21 UBC budget presented here includes the projection of a material deficit. This projection was the result of work with colleagues from across the university. Despite the best efforts of knowledgeable teams, the projections are subject to considerable variances that will become clearer in the coming weeks.

We are fortunate: UBC is a resilient and financially robust institution with amazing faculty, staff and students. By working together and continuing to focus on the health and wellbeing of our diverse and inclusive community, and on our core academic mission, we will emerge stronger than ever before.

Sincerely,



Santa J. Ono
President and Vice-Chancellor

1. Executive Summary

Overview

The UBC Budget represents the financial plan for the university, and is typically presented to the Board of Governors each April to provide a roadmap for allocating the university's revenues against anticipated expenses for the coming fiscal year.

Earlier this year, while UBC's budget process was nearing completion, it became clear that the global outbreak of a novel coronavirus (SARS-CoV-2, the virus that causes COVID-19) would have a significant financial impact on the university. The pre-COVID-19 plan was put on hold while UBC's finance teams embarked on a significant process to consider, analyze, and plan for the impact of COVID-19 on university operations.

The goal of this report is to describe the anticipated impact of the COVID-19 pandemic on the university's financial status for fiscal 2020/21, and to establish a financial approach for the university moving forward. This document was produced in collaboration by UBC's Comptroller team and Budget Office, the VPs Academic and Provosts' teams, and faculty and administrative unit Finance Officers.

Please note that this consolidated budget presents a university-wide picture of UBC's projected financial position for the 2020/21 fiscal year, as opposed to separate operating budget presentations for the Vancouver and Okanagan campuses. It reflects the operations of the university, as well as capital spending and income earned from land development proceeds, research, and endowments.

The degree of uncertainty all universities are facing due to the impact of COVID-19 cannot be emphasized enough. While the full impact of the COVID-19 pandemic on the university's finances is not yet known, it may be substantial. UBC's budget will continue to be directed by the university's strategic priorities in all possible ways.

The change from a consolidated forecasted \$60m surplus to a \$225m deficit is mainly driven by a potential reduction in revenues of \$346m, and offset by a reduction of expenditures of \$61m, as shown in the 2020/21 projected consolidated budget table (see right).

The total estimated impact of COVID-19 has been added to the UBC pre-COVID-19 plan to create a consolidated budget for the university. As a result, estimates suggest that there will be a consolidated budget deficit of \$225m. It is important to note that a significant portion of the predicted net financial impact due to COVID-19 is not directly related to the potential loss of tuition revenue, but rather the university's reliance on

2020/2021 Projected Consolidated Budget

Fiscal year 2020/21 (in \$millions)	Pre COVID-19 Plan	COVID-19 Potential Impact	Fiscal 20/21 Budget
Operating Revenue			
Provincial government grants	929	(0)	929
Tuition	943	(138)	805
Others	1,158	(208)	950
Total Operating Revenue	3,030	(346)	2,684
Operating Expenses			
Salaries & benefits	1,830	(36)	1,794
Non Salaries	1,140	(25)	1,115
Total Operating Expenses	2,970	(61)	2,908
Surplus/ (Deficit)	60	(285)	(225)

ancillary units as important revenue sources, such as conferences, student housing, food services, and parking. This means that even if enrolment targets are achieved, UBC should expect to have a deficit for fiscal 2020/21.

While the financial impacts of COVID-19 are largely driven by factors outside of the university's control, the effects are being felt by the UBC community. A planned methodical approach, as outlined in this document, is needed to ensure that multi-year impacts are effectively managed and remedies are implemented that will enable UBC to continue to achieve excellence in teaching and research, and to continue to have global impact: to be a place where people shape a better world.

UBC's Budget Process

From November 2019 to March 2020, UBC conducted a comprehensive budget production process as normal. As the global health crisis associated with COVID-19 evolved through March and April 2020 it was quickly recognized that the planned budget would need to be put on hold, and that a new approach was needed for fiscal 2020/21.

Accordingly, before for the planned submission of the budget in April, UBC's Board of Governors approved the continuation of the 2019/2020 base budget allocations for the university. The Board also approved incremental expenditures of \$36.1m (UBC Vancouver) and \$9.2m (UBC Okanagan) for necessary and urgent expenditures (to meet risk reduction, regulatory, or compliance requirements), as well as:

- \$7.9m for student initiatives, funded from incremental domestic student tuition;
- Up to \$8m to support strategic priority initiatives, including the implementation of UBC's Indigenous Strategic Plan (\$2m), the university's work on Sustainability and Climate Action (\$1m), and funding for the President's Academic Excellence Initiative (\$5m); and
- \$15m (UBCV) and \$5m (UBCO) for contingency funding to address unexpected costs arising from COVID-19.

Other strategic investments, prior commitments, and incremental spending initiatives were deferred to offset the potential financial impact of COVID-19, until greater certainty was at hand, as the university recognized that the full picture of the impact was unknown. When more information about actual enrolment and student housing occupancy is known in late September 2020, it may be necessary to make further adjustments to expenditures.

UBC's central and distributed finance teams, along with the senior leadership, mobilized quickly to initiate both the analysis and the substantive effort of producing a budget for the university. This work was geared at considering the actual and estimated impact of COVID-19 while still managing a high degree of uncertainty. Leadership engaged with stakeholders at all levels, including government, to ensure that the university would be financially prudent in its response.

A governance structure was formed to oversee the work, and guiding principles for the budget were established as follows:

- Support the long-term health and wellbeing of students, faculty, and staff above all other considerations
- Shift resources to continue to advance the academic mission
- Prioritize outcomes that limit disruptions to operations, while being fiscally responsible

- Continue to leverage UBC's Strategic Plan “*Shaping UBC's Next Century*” to guide the deployment of resources
- Preserve core capabilities and make decisions that will promote excellence and ensure UBC's long-term sustainability
- Continue to follow the guidance and direction of the Provincial Health Officer with respect to protecting health and public safety, and allocate funding to support UBC's ability to respond to new and emerging COVID-19 related needs
- Seek innovative opportunities for revenue generation
- Provide as much certainty as possible to all Faculties and administrative portfolios by making and communicating decisions as early as possible

The university's finance teams performed an initial analysis of operations that would or could experience financial impacts due to the effects of the COVID-19 pandemic, and created a process to examine potential impacts based on three categories: actual and potential lost revenues, incremental costs directly related to UBC's COVID-19 response, and avoided costs and mitigating strategies.

From April to June, a comprehensive scenario planning exercise was completed for both campuses to estimate the potential financial impact of COVID-19, and to identify potential solutions that could be deployed based on the severity and magnitude of the impact.

In consultation with government and other stakeholders, a steering committee and working groups were established to create and review substantive models with scenario analyses based on what academic delivery might entail in Winter Session Terms 1 and 2 (the fall and winter). Assumptions and inputs into the financial impact analysis were determined through consultation with subject matter experts, discussions with the provincial government and other universities, and through extensive research.

Three scenarios (with various modalities of academic delivery and with different ranges of impact) were evaluated to assess their likelihood and relevance, based on guidance from the Ministry and adherence to the current public health orders and recommendations, and safety guidelines. Based on the projected financial impact, each faculty and administrative unit identified possible mitigation actions that could be implemented in the short term, as well as a list of approaches that can be implemented as more certainty is gained about the actual impact.

As certainty regarding academic delivery for 2020/21 became apparent, and following an announcement from the university president identifying the path forward, one scenario was refined — that of larger classes being primarily offered online, with selected smaller classes conducted in person for Winter Session Term 1.

Based on this scenario, factors that could impact student enrolment were further identified and analyzed. The finance teams were able to model more detailed actual and potential impacts on UBC's ancillary services.

Based on a broad analysis of the full academic year using the refined scenario, an estimate of the net financial impact of COVID-19 on university operations for fiscal 2020/21 was produced. The impact of COVID-19 on non-operating areas of the university (research, capital, endowment, and related organizations) was then examined.

The full estimated COVID-19 impact was added to the originally developed UBC pre-COVID-19 plan, to create a consolidated budget for the Board's consideration.

UBC's development process for the 2020/21 budget



This 2020/21 Budget is being recommended for approval by the UBC Board of Governors in July 2020, although the university's finance teams recognize that as time passes and certainty increases the forecast may need to be adjusted and recalibrated. As student behaviour becomes more apparent, provincial health and safety guidelines evolve, and travel restrictions change, the administration will take appropriate actions at the appropriate times to manage the budget moving forward. There are still many unknowns for the remainder of the fiscal year and UBC is taking a pragmatic approach. To that end, a series of strategies have been mapped that will support the university at various decision points as levels of certainty relating to different factors improve.

Key decision points for fiscal 2020/2021



UBC has socialized both its approach to, and the provisional outcomes of, estimating the financial impact of COVID-19 with the provincial government, as well as other academic institutions (both provincially and nationally). There is strong alignment in terms of assumptions, methodology, and possible outcomes.

COVID-19 will undoubtedly have a multi-year impact on UBC's finances, through dynamics such as student enrolment, the extent to which there is a physical community presence on our campuses, and limitations on externally-supported research grants. We will have a better level of certainty that will shape the development of our mitigating strategies as time advances.

A multi-year financial analysis will begin in fall 2020 when there is greater certainty about 2020/21 enrolment and student housing occupancy. We recognize that — as students move from academic year to academic year, and as COVID-19 is ongoing — continual development of our mitigation strategies will be required. Multi-year modelling will consider these factors.

COVID-19 Impact Assessment

The net estimated financial impact of COVID-19 can be captured as the sum of three key categories:

Potential lost revenue: revenue sources that have observed a reduction as a direct impact of COVID-19, such as lost revenue in ancillaries (e.g. student housing, food services, parking); potential tuition losses; cancellation of summer conferences, programs, and events; decreases in investment income; and loss of some external research grants.

Incremental expenses: expenditures that are a direct result of COVID-19, which under normal circumstances would not have been incurred, such as additional cleaning expenses and supplies; emergency student financial aid; travel costs for repatriation of students, faculty, and staff; and tools and resources to facilitate remote and online teaching and learning.

Avoided costs and mitigating strategies: expenditures that have not occurred as a direct result of COVID-19, such as travel to conferences, reductions in utility uses, and decreases in food purchased, or savings that have been established due to proactive management given the financial situation, such as suspending non-essential functions, reducing discretionary spending, withholding incremental funding, introducing a “hiring chill,” and a reassessment of capital priorities.

Tracking of each key category against the budget is ongoing, and analysis of key categories will be conducted on a monthly basis to understand the contributors to any variances. The use of trending analysis to compare against the initial forecast will help to determine if any adjustments are required. September 2020 is a key milestone when the university will have better certainty relating to the forecasting of tuition and student housing revenues. Mitigation strategies will be refined as appropriate.

Risk Assessment

The 2020/21 Budget has been established with inputs that have high degrees of uncertainty, many of which are outside of UBC's control. These include enrolment projections, international travel restrictions, public health guidelines and directives, government and post-secondary sector-specific mandates, and the threat of subsequent waves or surges of COVID-19 cases. Specific risks include:

- The university has a strong reliance on ancillary units as a revenue source — a significant portion of the potential net financial impact is not directly related to enrolment, meaning that even if base budget enrolment targets are achieved the COVID-19 related financial impact on UBC may still be in a consolidated budget deficit position.
- Travel restrictions, adverse economic outlook, and continued public health risks (in the absence of an effective treatment or vaccine) introduce varying degrees of uncertainty with respect to revenue streams.

2. Fiscal 2020/21 Operating Budget

The 2020/21 Budget uses the budget plan initially created for fiscal 2020/21 as a base. It accounts for several elements, including tuition revenue, student housing revenue, food services, additional online learning expenditures, and summer programs and conferences — each with varying degrees of uncertainty. For example, a reduction in revenues relating to summer programming and conferences is now known, as cancellations have been determined. Conversely, revenue outlooks related to tuition and student housing have the least amount of certainty because they are directly linked to student enrolment, which will fluctuate well into the beginning of Winter Session Term 1. Many elements continue to change based on timing and uncontrollable external factors.

OPERATING BUDGET Fiscal 2020/21 <i>(in \$thousands)</i>	Fiscal 20/21 Plan	COVID-19 Potential Impact	Fiscal 20/21 Budget
Operating Revenue			
Government grants and contracts			
Government of Canada	33,224	(66)	33,158
Province of British Columbia	732,143	(35)	732,108
Other governments	858	(207)	651
Student fees - Domestic	392,651	(61,772)	330,879
Student fees - International	550,212	(76,692)	473,521
Non-government grants, contracts, donations	9,775	(809)	8,966
Investment Income	80,117	(1,043)	79,074
Sales and services	577,780	(225,846)	351,935
Total Revenue	2,376,759	(366,468)	2,010,291
Operating Expenses	2,376,759	(366,468)	2,010,291
Salaries - Academic			
Salaries - Student services	539,751	(2,881)	536,870
Salaries - Staff	63,406	(1,099)	62,307
Total Salaries	625,293	(23,920)	601,373
Employee benefits			
Total Salaries and benefits	1,228,450	(27,900)	1,200,550
215,629	(4,351)	211,278	
Supplies and sundries	1,444,079	(32,251)	1,411,828
Cost of goods sold	294,732	(34,119)	260,613
Scholarships, fellowships and bursaries	50,183	(31,318)	18,865
Travel and field trips	119,943	19,721	139,664
Professional and consulting fees	29,557	(17,478)	12,079
Grants and reimbursements to other agencies	61,936	(8,573)	53,363
Utilities	1,182	(105)	1,077
Total Expenses	52,827	(2,940)	49,887
Excess (deficiency) of revenues over expenses	2,054,439	(107,063)	1,947,376
Transfers to (from) non-operating funds	322,320	(259,406)	62,915
Change in invested in capital assets	99,531	13,821	113,352
Net change in unrestricted fund balance	245,282	(29,840)	215,442
Accumulated reserves - opening	(22,493)	(243,387)	(265,880)
Accumulated reserves - closing	262,196	0	262,196
	239,703	(243,387)	(3,684)

Plan to Manage Net Financial Impact

A multi-year approach is required to ensure a “soft landing” for faculties and administrative units as they navigate the long-term financial impacts of the COVID-19 pandemic. Each faculty and administrative unit will apply a set of clearly defined guidelines and tailored approaches, which will be balanced against the long-term goals and objectives of the university.

In the current fiscal year, the plan to manage mitigations to achieve the forecasted deficit includes: immediately actioning non-disruptive mitigations, including curbing of discretionary spending, to minimize financial impact and potential disruption; implementing already-identified mitigating actions as forecasting certainty increases; and proactively tracking and monitoring to enable fiscally prudent decision-making.

The multi-year plan to manage the forecasted deficit focuses on following the guiding principles and proposed approaches to managing the deficit specific to each group, and developing the the multi-year model to enhance understanding of how best to manage the forecasted deficit (including the impacts on future years).

3. Fiscal 2020/21 Consolidated Budget

The Consolidated Statement of Operations (by function) and the Consolidated Statement of Net Debt require formal Board approval -- these components are required for inclusion in the university's audited annual financial statements under Public Sector Accounting Board guidelines. They are provided in the following section (Section 4: Documents Requiring Board Approval).

The Consolidated Statement of Operations (by object) and Consolidated Statement of Financial Position are provided below for information only. The Consolidated Statement of Operations (by object) reflects a fiscal 2020/21 deficit of \$225m.

CONSOLIDATED STATEMENT OF OPERATIONS (By Object) (in \$millions)	Pre COVID-19 Plan	COVID-19 Potential Impact	Fiscal 20/21 Budget
Revenues			
Government grants and contracts			
Government of Canada	322	(27)	295
Province of British Columbia	929	(0)	929
Other governments	24	(0)	24
Other contributions	182	(14)	167
Student fees	943	(138)	805
Investment income	105	(4)	101
Income from Government Business Enterprises	6	(2)	4
Sales and services	426	(161)	265
Amortization of deferred capital contributions	93	-	93
	3,030	(346)	2,683
Expenses			
Salaries & benefits	1,830	(36)	1,794
Operating costs - other	528	(13)	515
Capital asset amortization	236	(2)	234
Cost of goods sold	47	(30)	16
Scholarships, fellowships and bursaries	173	22	195
Grants to third parties	135	(2)	133
Debt service costs	21	(0)	21
	2,970	(61)	2,909
Annual surplus from operations	60	(285)	(225)

The Consolidated Income Statement illustrates the progression from an initial consolidated forecasted \$60m surplus to a \$225m deficit, mainly driven by a forecasted net financial impact to the Operating Fund of \$(243m).

INCOME STATEMENT ANALYSIS (in \$millions)	Pre COVID-19 Plan	COVID-19 Potential Impact	Fiscal 20/21 Budget
UBC Vancouver faculties	17	(67)	(50)
UBC Vancouver administrative units	(28)	(167)	(195)
UBC Okanagan	(11)	(9)	(20)
Operating Surplus/(Deficit)	(23)	(243)	(265)
Deferred land lease revenue	10	-	10
Endowment surplus	5	(6)	(1)
Research and other funds	21	(8)	13
Related organizations	(2)	-	(2)
Net investment in capital	49	(28)	21
Consolidated Surplus/(Deficit)	60	(285)	(225)

The potential impact of non-operating funds (\$40M surplus) has been added to the operating budget forecast and results in a consolidated forecasted deficit of \$225M, primarily through a potential decrease in Net Investment in Capital due to deferrals in capital investments

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (unaudited)

Presented in Classified Statement of Financial Position Format

(in \$millions)

	Pre COVID-19 Plan	COVID-19 Potential Impact	Fiscal 20/21 Budget
ASSETS			
Current Assets			
Cash and cash equivalents	86	6	92
Accounts receivable	231	-	231
Operating investments	723	(234)	489
Investments in Government Business Enterprises	106	-	106
Other current assets	34	-	34
	<hr/>	<hr/>	<hr/>
	1,180	(228)	952
Non-Current Assets			
Endowment investments	2,007	-	2,007
Capital assets	3,886	(57)	3,829
	<hr/>	<hr/>	<hr/>
	5,893	(57)	5,836
TOTAL ASSETS			
	<hr/>	<hr/>	<hr/>
	7,073	(285)	6,788
LIABILITIES AND NET ASSETS			
Current Liabilities			
Accounts payable and accrued liabilities	326	-	326
Current portion of debt	6	-	6
	<hr/>	<hr/>	<hr/>
	332	-	332
Non-Current Liabilities			
Employee future benefits	10	-	10
Deferred other restricted contributions	553	-	553
Non-current portion of debt	353	-	353
	<hr/>	<hr/>	<hr/>
	916	-	916
Total Liabilities			
	<hr/>	<hr/>	<hr/>
	1,248	-	1,248
Net Assets			
Accumulated surplus	2,413	(285)	2,128
Deferred capital contributions	1,615	-	1,615
Deferred land lease revenue	1,080	-	1,080
Deferred endowment contributions	717	-	717
Accumulated remeasurement gains	<hr/>	<hr/>	<hr/>
	5,825	(285)	5,540
TOTAL LIABILITIES AND NET ASSETS			
	<hr/>	<hr/>	<hr/>
	7,073	(285)	6,788

4. Documents Requiring Board Approval

Under public sector accounting board guidelines, certain approved budget information is required for inclusion in the year end financial statements. These two documents are the Consolidated Statement of Operations and Accumulated Surplus, and the Consolidated Statement of Changes in Net Debt.

The Consolidated Statement of Operations and Accumulated Surplus below reflects the same consolidated income statement included in Section 3, although the expenses are reflected by function, rather than by object.

CONSOLIDATED STATEMENT OF OPERATIONS (By Function) (in \$millions)		Pre COVID-19 Plan	COVID-19 Potential Impact	Fiscal 20/21 Budget
Revenues				
Government grants and contracts				
Government of Canada	322	(27)	295	
Province of British Columbia	929	(0)	929	
Other governments	24	(0)	24	
Other contributions	182	(14)	167	
Student fees	943	(138)	805	
Investment income	105	(4)	101	
Income from Government Business Enterprises	6	(2)	4	
Sales and services	426	(161)	265	
Amortization of deferred capital contributions	93	-	93	
	3,030	(346)	2,684	
Expenses				
Learning	1,437	(5)	1,432	
Research	524	(18)	506	
Facilities	427	(5)	422	
Students	401	(36)	365	
Community Engagement	77	2	79	
Administration	104	1	105	
	2,970	(61)	2,909	
Annual surplus from operations	60	(285)	(225)	
External endowment donations	25	-	25	
Annual surplus	85	(285)	(200)	
Accumulated surplus, beginning of period	2,331		2,331	
Accumulated surplus, end of period	2,416	(285)	2,131	

CONSOLIDATED STATEMENT OF CHANGES IN NET DEBT
YEAR END MARCH 31

(in \$millions)

	Pre COVID-19 Plan	COVID-19 Potential Impact	Fiscal 20/21 Budget
Annual surplus	\$ 86	(289)	(203)
Exclude items not affecting net debt:			
Endowment donations and transfers	(25)	-	(25)
	61	(289)	(228)
Acquisition of tangible capital assets	(460)	59	(401)
Amortization of tangible capital assets	236	(2)	234
	(224)	57	(167)
Acquisition of inventories held for use ¹	-	-	-
Acquisition of prepaid expense ¹	-	-	-
Consumption of inventories held for use ¹	-	-	-
Use of prepaid expense ¹	-	-	-
	-	-	-
	(163)	(232)	(395)
Net remeasurement gains ²	9	-	9
Self-supported subsidiary other comprehensive income ²	-		
Increase in net debt	(154)	(232)	(386)
Net debt, beginning of year	(2,364)		(2,364)
Net debt, end of year	\$ (2,518)	(232)	(2,750)

Notes

1. UBC does not manage inventory and prepaids at a consolidated level or budget activity for these items.
2. The budget for investment income is prepared using high level assumptions around management of investment balances; this does not extend to detailed forecasts around individual investment holdings.