2024-25 Operating Budget Report

April 2024

Carleton University

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Carleton University is pleased to present the operating budget for the 2024-25 academic year. This report describes the University's current strategic context and fiscal environment, highlighting the key assumptions that underlie its long-term financial plan. This budget is shaped by the three directions of our Strategic Integrated Plan and five operating priorities set by the Strategic Integrated Planning Committee (SIPC). These priorities have focused on increased efforts in undergraduate recruitment to ensure a broad and diverse population of students in the learning ecosystem; investments in initiatives aimed at student success and retention; development of new programs and program renewal that will help students become graduates who will make significant impacts on their communities and the world; exploration of new online markets to provide greater reach and flexibility in the delivery of our teaching mission; and service rationalization and process modernization initiatives designed to further our operational excellence efforts. These priorities provide institutional context for divisional academic planning, which, in turn, leads to investment in specific initiatives and activities throughout the University.

The post-secondary education sector in Ontario faces numerous challenges as we collectively strive to achieve our goals while maintaining balanced operating budgets. The Council of Ontario Universities has stated: "At least 10 of the province's 23 publicly assisted universities are now projecting budget deficits [in 2023-24] totaling $175 million, with that number expected to rise to $273 million in 2024-25."[1] This estimate was provided before the repeal of Bill 124, which will have the effect of materially increasing the projected sector-wide budget deficit. These deficits are driven by acute regulatory and policy changes on the part of government which are beyond the control of universities.

Unfortunately, the provincial government has decided again to extend the freeze of domestic tuition for Ontario residents. The Ministry recently clarified that this freeze will extend into the next three fiscal years, or through to 2026-27. The impact of the 10% tuition fee cut in 2019-20 and subsequent freeze, up to and including 2023-24, totals an estimated $190 million in cumulative lost tuition revenue for Carleton. This also translates to a reduction in annual lost tuition revenue of approximately $55 million in 2024-25 and onward when compared to the framework in place before 2019-20.

Additionally, the sector remains in a corridor model with respect to its operating grant from the Ministry of Colleges and Universities, meaning little opportunity exists for Ministry-provided operating grants to grow with enrolment. In March 2024, however, Carleton received a one-time grant of $7.2 million from the provincial government for unfunded growth in the STEM disciplines, along with an increase of 3%/2%/2% in the operating grant for 2024-25, 2025-26, and 2026-27, respectively. It is not clear whether these increases will become permanent or will be limited only to a three-year term.

Prior to the pandemic, enrolment had been steadily and consistently increasing year over year for more than a decade, driven by growth in intake at both the undergraduate and graduate levels. In the fall of 2020, Carleton experienced a decline in new domestic first-year students, followed by a few consecutive years of decline in new first-year international students starting in 2021. The Fall 2023 term intake of new students saw the new domestic first-year student cohort at 87% of the peak intake year (2017), and the new international first-year student cohort stood at 61% of the comparable peak year for that cohort (2018). Successive years of declines have, and will continue, to flow through enrolment levels, affecting tuition revenue. Fortunately, the provincial grant has not been at risk during this period as we have been at or above the funded midpoint in the corridor model.

For intake assumptions in 2024-25, we are pleased to see increases in domestic student interest but are also mindful of the financial situation of Ontario universities in general which will precipitate greater competition for domestic students. We have projected modest increases in domestic intake, therefore,

[1] https://ontariosuniversities.ca/news/cou-statement-ontarios-response-falls-short-of-brp-recommendations

both at the undergraduate and graduate levels. Given current geopolitical events coupled with new government regulations and process changes, we anticipate challenges with new international student cohort sizes. We have seen declines in application numbers at both the undergraduate and graduate levels. Caps on international student numbers exempt graduate students and given that demand is growing in some programs geared to international graduate students, we anticipate that the impact won't be as significant at the graduate level as at the undergraduate level, although we are seeing declines in international graduate student applications at both levels. At the undergraduate level, while all efforts are being made to mitigate losses, the concern for 2024-25 is particularly acute as confusion and delays in processing visas may have significant implications.

The University's single largest operating expenditure is salary and benefits, representing approximately 76% of operating budget spend. As a result, the repeal of Bill 124 is projected to have a material financial impact on the University. Many peer institutions have finalized their approach to addressing the wage issues for faculty and staff post-Bill 124 and a process is now underway at Carleton to settle this issue.

Other financial pressures include the University's deferred maintenance obligation which continues to grow; as well, our Enterprise Resource Planning system is nearing a point at which we will need to evaluate options for replacement.

For 2023-24, based on our financial outlook at that time, the University mandated a 2% across-the-board cut for all resource planning committees (RPCs). In response to the increasing financial pressure facing the University, driven by mainly exogenous factors, a mandated 3% across-the-board cut was communicated as part of the 2024-25 operating budget process. This decision will level a differential impact on each RPC, depending on program mix and RPC revenue sources. Adjustments to RPC plans will differ based on local priorities but will include some combination of changes to faculty and staff hiring plans, deferral of capital projects, and fewer investments in service improvements and new initiatives.

The result is a budgeted operating deficit of $26 million for 2024-25. The long-range financial outlook projects that 6% in annual RPC base budget cuts may be required between now and 2028-29 to balance the University's operating budget should no new opportunities for revenue growth present themselves.

Structural financial stability may come, however, not only through prudent spending and base budget cuts, but also through focused efforts to increase our revenues. Opportunities exist in the mid-term to see: (a) our new programs reach steady state; (b) a full bounce back in international enrolment; (c) the MEng Practice program bringing additional targeted international enrolment; (d) increases in domestic enrolments; and (e) MCU operating grant increases potentially set as permanent, or base, increases. Should these programmatic and regulatory changes be realized by 2028-29, they would have the effect of substantially reducing the projected $80 million base budget deficit.

L. Pauline Rankin

L. Pauline Rankin
Provost and Vice-President (Academic)

1.0 The Budget Process

Carleton's planning and budget framework is based on a five-year planning horizon, with the Strategic Integrated Plan and operating priorities providing the direction needed for the development of individual unit plans and priorities. University-wide, long-term planning is informed by the Strategic Integrated Planning Committee. These plans, converted to a series of goals and initiatives, are then assessed by the Provost's Budget Working Group.

In March, Resource Planning Committee Chairs meet to present their proposed budgets, promoting transparency and fostering discussion and collaboration across units. This approach ensures that proposed initiatives are aligned with the needs of the academic enterprise and service units, spending priorities are established, and that alignment and efficiency of service delivery are considered. As a result, budget allocations are informed not only by the overall financial situation of the University, but by the values and priorities of individual units.

Annual allocations also are affected by the University's Enrolment Linked Budget Allocation (ELBA) mechanism, which provides Faculties with a share of additional revenue associated with growth in enrolment. The ELBA funds are built into Faculty base budgets over time and are intended to cover increased teaching costs, lab infrastructure and equipment, as well as student initiatives associated with growth in enrolment. All RPCs have been permitted to carry forward unspent budgets as a contingency against unexpected change in future revenues and expenses, for short-term planning and development needs and for longer-term strategic initiatives.

The planning and budgeting review process continues throughout the fiscal year. A mid-year contingency reserve is available to respond to off-cycle requirements presented by the RPCs.

In concert with the University's annual Financial Report, which includes consolidated financial statements and a management discussion, the President's annual report completes the planning and budgeting cycle and highlights progress on our plans and priorities.

Basis of Budgeting

The basis of accounting for the University's financial statements is done in accordance with Canadian accounting standards for not-for-profit organizations. For budget purposes, revenues are recognized when received and expenses when paid out once eligibility requirements have been met; debt service payments and capital outlays are recognized as expenses; and depreciation and amortization expenses are not recognized as expenses in the budget document.

A complete reconciliation between the financial statements and the budget is provided in the annual Financial Report to the Board of Governors.

Fund Descriptions

The **Operating Fund** represents the resources available for teaching, student services, and academic and administrative support. It is funded by government operating grants, tuition fees and other general revenues.

The **Ancillary Fund** represents units that are supportive of Carleton's academic and research mission but are not directly related to its primary functions. Each ancillary is required, at minimum, to be self-supporting. Programming offered by ancillary services includes housing for students, dining options across campus, recreation and athletic programs, medical and counselling services, retail outlets, events management, parking on campus, printing services and overseeing student cards and transit passes.

The **Capital Fund** covers new construction, renovations to existing space and deferred maintenance projects. Large capital assets may be funded by government grants, internal resources, debt, or other funding received or designated for such purposes.

Restricted Funds, which include research funds, encompass funds earmarked for a specific or limited purpose, with limitations placed on them by external agencies, donors or internally by the University. They are typically set up to support students through scholarships and bursaries and provide financial support relating to research, contracts and other specific activities. These funds comprise both special purpose funds and endowment funds. Funds also can be internally restricted by the Board for specific purposes.

2.0 Challenges in Maintaining a Balanced Operating Budget

Carleton's operating revenues have increased continuously over the preceding 10-year period due to increases in international tuition fees along with growth in enrolment and research. Enrolment and research growth bring with them increases in costs as the University is met with the need to hire new faculty and professional staff, expand on-campus services and student supports, and invest in its infrastructure. These expenditures are more fixed than variable in nature. Throughout this time, the University maintained a balanced budget until 2024-25. The coming fiscal year will be the first reported operating budget deficit for the University in many years with the factors listed below as the primary drivers in the growing difficulty in maintaining a balanced operating budget:

Tuition and Other Fees
Tuition represents a significant portion of the University's revenue and the fee setting process is critical in ensuring financial sustainability for the institution. Fees provide Carleton with the ability to offer innovative, cutting-edge programs, provide a broad range of student support (including scholarships), and attract world-class faculty, graduate and undergraduate students in pursuit of its academic mission. Charging fees that are beyond market rate could have an adverse effect on enrolment and overall university revenues. Failure to increase tuition fees when provided the flexibility to do so could also have an adverse effect on overall university revenues, given its compounding effect and the uncertainty over permissible future increases. This risk is mitigated by approving increases when permitted by the Provincial Tuition Fee Framework.

Tuition fees for grant-eligible students are regulated by the provincial government through the Tuition Fee Framework, whereas tuition fees for non grant-eligible students are set to be broadly consistent with the fees charged by other Ontario universities for similar degrees. In 2019, the Ontario government announced a 10% tuition fee reduction on all grant-eligible tuition fees for the 2019-20 academic year, followed by a freeze through to 2026-27. The provincial government permitted tuition fees for domestic out-of-province students to increase by 3% in 2021-22 and 5% in 2022-23 through to 2024-25. Additionally, the Province of Ontario permitted universities to increase domestic tuition fees for up to three programs with below-market fees. For Carleton, these approved programs were the Bachelor of Commerce, the Bachelor of International Business, and the Master of Business Administration. Over several years, tuition for these programs will be allowed to increase to bring them up to the average for comparable programs. A six-year period of tuition fee and grant reduction, in real terms, however, has placed significant financial pressure on all Ontario post-secondary institutions, something the sector continues to navigate.

International Student Visa Caps and Delays
In January 2024, Immigration, Refugees and Citizenship Canada announced that the federal government will impose a cap on international student permit applications to stabilize new growth for a period of two years (2024-25 and 2025-26). On March 27, 2024, the provincial government announced 22 of 23 Ontario universities will maintain international undergraduate applications at the 2023 level, with only Algoma University set to see a decline. We anticipate that the impact of the federal government cap will be somewhat less significant at the international graduate student level compared to the undergraduate level since graduate students are exempt from the international student cap, and there is growing demand for some programs geared to international graduate students. Nevertheless, while efforts are being made to mitigate tuition losses at the both levels, confusion and delays in international student visa processing times will have serious implications.

Changes in Domestic Enrolment Patterns
Meeting enrolment targets continues to be one of Carleton's top financial risks. Healthy first-year undergraduate student enrolment, in addition to strong retention rates, are among the main drivers of the University's financial sustainability. The growing financial pressures faced by Ontario universities will likely lead to greater competition for domestic students, making growth in this demographic more challenging than experienced prior to 2019.

Strategic Mandate Agreement
During the first and second rounds of Strategic Mandate Agreements (SMA), the Ministry of Colleges and Universities (MCU) committed to engaging the post-secondary education sectors on changes to their respective funding models in order to better support funding predictability and stability, as well as to support differentiation and student-focused outcomes. This resulted in the implementation of the corridor model (universities entered enrolment corridors in 2017-18), along with the establishment of the differentiation envelope and the performance/outcomes-based funding grant. The provincial government announced that performance or outcomes-based funding would be expanded through the third round of Strategic Mandate Agreements (SMA3). It was intended that a system average of 25% of the MCU operating grant funding would be provided based on performance outcomes, ramping up to 60% by 2024-25. Due to the COVID-19 pandemic, funding adjustments were not implemented for the first three years of SMA3. MCU activated performance-based funding at a system-wide proportion of 10% for Year 4 (2023-24) and has announced that they will be setting Year 5 (2024-25) at 25%. MCU also implemented a 'stop-loss' mechanism beginning in Year 4, which caps funding losses to a maximum of 5% of each metric's allocation amount.

In March 2023, the Ontario government created the Blue Ribbon Panel to provide advice and recommendations related to the long-term financial stability of the Ontario post-secondary education sector. On the advice of the Blue Ribbon Panel, the Ontario Government recently announced that Carleton would receive a one-time grant of $7.2 million to offset past unfunded growth in science, technology, engineering and mathematics (STEM) programs, along with an additional increase of 3%, 2%, and 2% in the operating grant for 2024-25, 2025-26 and 2026-27, respectively. It is not clear whether these increases will become permanent or will be limited only to a three-year term.

Deferred Building and Infrastructure Maintenance
Carleton has an aging physical infrastructure. The majority of campus buildings, systems and underground infrastructure are now more than 30 years old. As campus infrastructure ages, maintenance and repairs become increasingly ineffective, prompting the need to fully replace major systems such as plumbing, HVAC, electrical and building envelope to improve buildings' performance, Facility Condition Index rating, energy efficiency and sustainability. Carleton has started an extensive multi-year program to perform an in-depth assessment of our aging infrastructure, including water mains, sewers and sanitary lines, roofs, and the high voltage electrical loop. The assessment will allow the University to prioritize the infrastructure that is in critical need of repair and/or replacement.

Deferred maintenance projects are funded by a 10-year $140 million asset renewal program, running until the end of fiscal 2024-25, along with additional annual contributions from the provincial government's Facilities Renewal Program (approximately $4M annually). Given the province's current fiscal outlook, there is risk associated with future funding of capital renewal.

Carleton has adapted its systems to provide online course delivery and increased remote access capabilities. While the University has been largely successful in enabling this transition and managing its systems in this new environment, there are potential risks. The University may not be able to respond adequately to demands for increased capacity or new services, fully meet the needs of the campus through existing service models, or continue the maintenance of highly customized, legacy IT systems (i.e., technological debt) as this will impede the introduction of new services and innovation. Carleton will continue its IT Infrastructure Renewal program and the implementation of its Digital Strategy, which will build on a shared vision of how digital technology will support the Strategic Integrated Plan. At the same time, building resilient, secure IT systems is critical in an era of escalating cybersecurity threats.

Rising Capital Project Costs
Construction demand in Ottawa is high and recent capital project planning has seen pre-2020 cost estimates increase as the availability of labour diminishes and material costs soar due to supply chain disruptions and escalating demand. Increases in government-led infrastructure spending initiatives have had the effect of elevating cost and delivery pressure on future capital projects at Carleton.

The University works to mitigate this risk by estimating market-driven cost increases, but these estimates are subject to a significant amount of estimation risk as total project costs are largely dependent on final design and market conditions at the time of implementation. Should costs continue to increase, the University will need to assess operating and capital priorities to make judicious use of available resources. Similarly, the costs of IT infrastructure and cybersecurity protections are escalating more rapidly than inflation.

Repeal of Bill 124
Last fall, the Ontario Superior Court of Justice declared that the *Protecting a Sustainable Public Sector for Future Generations Act* (formerly Bill 124) violated the Canadian Charter of Rights and Freedoms on the grounds that the legislation interfered with collective bargaining rights. Ontario’s Court of Appeal upheld the Superior Court of Justice decision. On February 23, 2024 the Ontario Government repealed Bill 124 in its entirety though an Order-in-Council, as was permitted through the legislation.

Many peer institutions have acted to address the wage issues for faculty and staff since the Ontario’s Court of Appeal decision was announced in February 2024 and a process is currently underway at Carleton to address this issue.

3.0 Financial and Budget Policies

Major financial policies are approved by the appropriate authority, including the Board of Governors, Carleton senior management and the Carleton University Retirement Plan Pension Committee. Along with external regulations (GAAP, Broader Public Sector Directive), these policies are part of the University's internal financial control framework and support budgeting and financial reporting by the University. This section describes the key financial policies and guidelines that support Carleton's planning and budgeting activities.

Risk Management
Carleton is committed to risk management on a campus-wide basis as detailed in the Enterprise Risk Management Program's *Risk Management Manual*. The Board of Governors requires an annual audit of the University's financial statements by an independent certified public accounting firm, hired through a public bidding process. In addition, Carleton employs a third-party internal auditor to conduct, on an ongoing basis, internal management and operational audits based on a risk model approved by the Board of Governors.

Capital Planning and Approvals
All proposals over $5 million are brought forward to the Building Program and Finance Committees for review and approval by the Board of Governors. The current Capital Planning Policy was approved by the Board in 2019.

Debt Policy
Externally held capital debt may only be incurred with approval from the Board of Governors. Carleton is committed to undertaking debt only when doing so is the most advantageous financing alternative available in achieving its strategic goals.

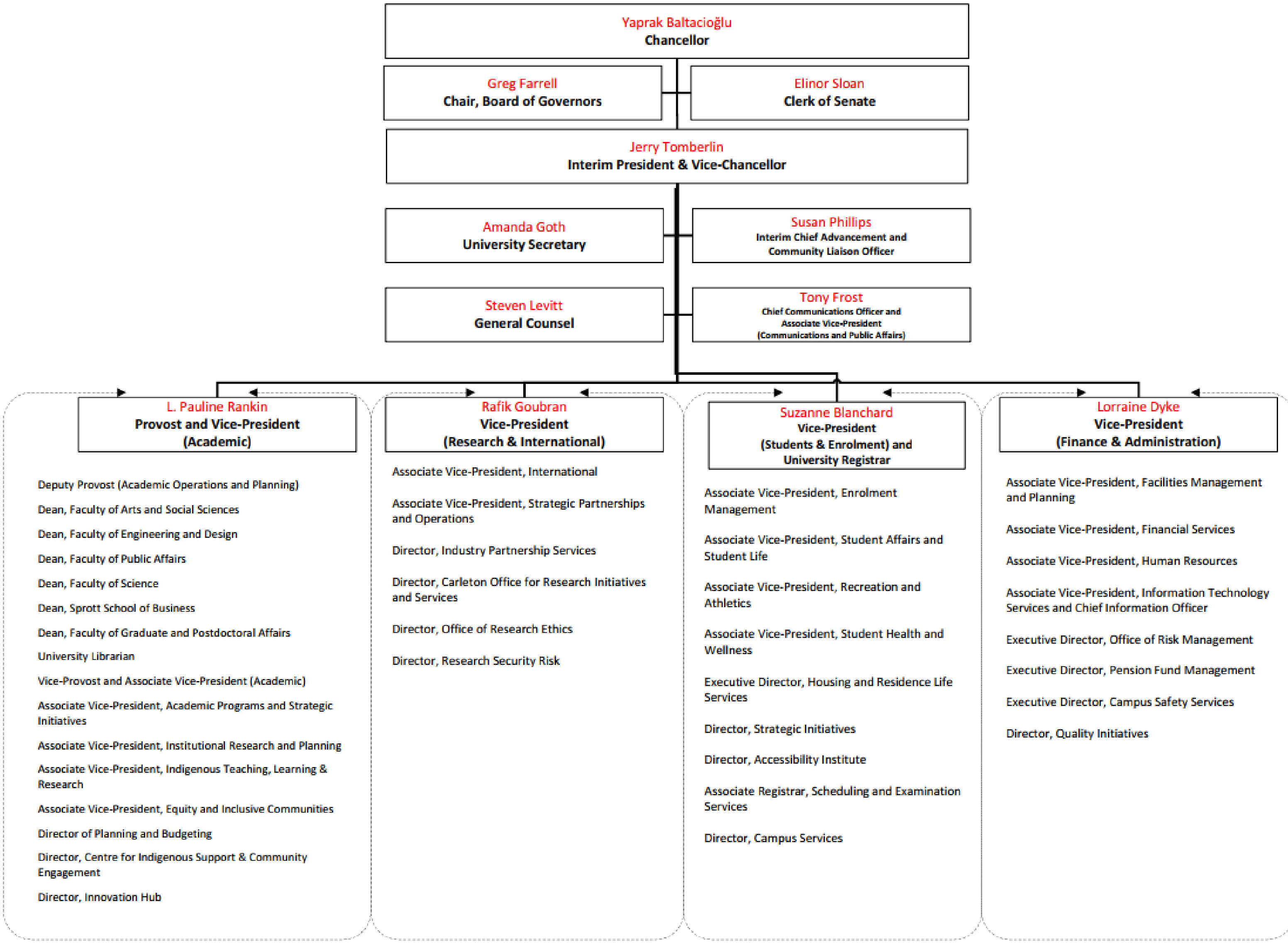
Investment Policies
The Carleton University Retirement Plan's Statement of Investment Policies and Procedures (SIPP) addresses the manner in which the Retirement Plan assists in providing plan beneficiaries with a financially secure retirement income at a reasonable cost. A similar SIPP is in place for the University's endowment funds and other investable assets. The SIPP must be reviewed and approved annually by the Board of Governors.

Operating and Capital Reserves
Carleton recognizes that reserves are the cornerstone of financial flexibility to manage risks inherent in long-term financial planning. Reserves are held centrally and within RPCs to support specific strategic initiatives as well as to address economic uncertainties. Appropriated reserves are governed by the University's *Operating and Capital Reserves Policy* and are approved by the Board of Governors.

Broader Public Sector Expenses Directive
As a designated Broader Public Sector organization, Carleton must comply with this provincial legislation, which determines specific rules for expenses paid for with public funds.

All financial and budget policy details are available on the University Secretariat's website: carleton.ca/secretariat/policies.

4.0 Organizational Chart



List of Resource Planning Committees

- Office of the President and Vice-Chancellor
- Office of the Provost and Vice-President (Academic)
- Office of the Vice-President (Finance and Administration)
- Office of the Vice-President (Students and Enrolment)
- Office of the Vice-President (Research and International)
- Faculty of Arts and Social Sciences
- Faculty of Engineering and Design
- Faculty of Public Affairs
- Faculty of Science
- Sprott School of Business
- MacOdrum Library

5.0 The Operating Budget

As part of the annual planning and budget cycle, the Provost in collaboration with the Strategic Integrated Planning Committee sets the direction and priorities of the University. The following priorities were established for the coming year:

- Undergraduate recruitment and retention
- Program refresh
- New online markets
- Service rationalization
- Process modernization

These priorities set the direction for the 2024-25 operating budget in which Carleton projects a $26 million deficit before the use of reserves to fund the excess expenditures. Operating revenues are budgeted at $534 million and expenditures at $560 million, compared to a balanced operating budget at $525 million in 2023-24. This section provides detailed information on the components of revenues and expenditures. Section 7.0 presents the full operating budget.

In summary:

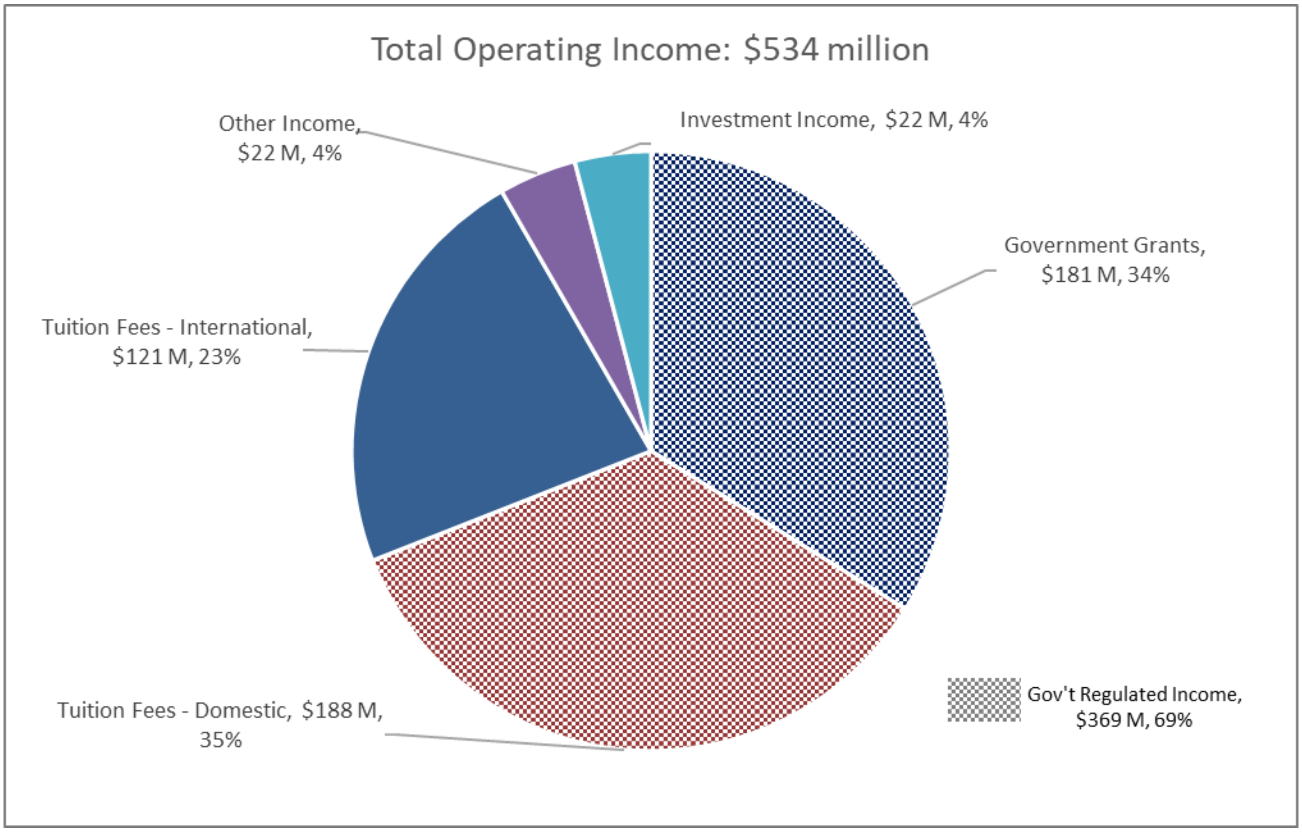
	2023-24 ***Budget***	**2023-24** ***Projected Actuals***	**2024-25** ***Proposed Budget***
	($000's)	*($000's)*	*($000's)*
Income	525,162	534,476	533,590
Expenditures and Transfers	(525,162)	534,476	(559,745)
Subtotal	-	-	(26,155)
Planned Use of Reserves			26,155
Net Result	-	-	-

The following sub-sections compare the 2024-25 proposed budget with the 2023-24 approved budget.

5.1 Operating Income

The operating fund is supported by four key revenue sources:

- **Tuition fees** – from domestic and international students.
- **Government operating grants** – operating envelope, differentiation envelope, special purpose envelope and funding for federal research overheads.
- **Investment income** – income generated on cash investments and internally financed loans.
- **Other income** – application fees, deferred payment and late registration, overhead recoveries and departmental income.



5.2 Tuition Fees

The majority of tuition fee revenue is driven by undergraduate enrolment. In 2024-25, Carleton projects $251 million in undergraduate tuition with the remaining $58 million projected from graduate tuition. Domestic student enrolment makes up $188 million of this total with international student enrolment accounting for the remaining $121 million. The University had been planning for a partial bounce back in international enrolment in 2024-25 but the federal government's recent cap on international student visas, however, will make this unachievable. The $5 million increase in tuition revenue from budget 2023-24 is attributable to modest growth in our domestic enrolments and international tuition fee increases. This is offset by lower projected international enrolment.

The following charts compares tuition revenue by category from the approved 2023-24 budget to the 2024-25 proposed budget:

	2023-24 Budget	***2023-24 Projection***	***2024-25 Proposed Budget***	***Budget Change***
	($000's)	($000's)	($000's)	($000's)
Undergraduate Fees	250,707	250,710	251,400	693
Graduate Fees	53,700	52,656	57,800	4,100
Total	**304,407**	**303,366**	**309,200**	**4,793**
Domestic Fees	175,707	185,099	188,200	12,493
International Fees	128,700	118,267	121,000	(7,700)
Total	**304,407**	**303,366**	**309,200**	**4,793**

5.3 Government Operating Grants

Government grants for 2024-25 are projected to be $6,173,000 higher than budget 2023-24.

	2023-24 Budget	*2023-24 Projection*	*2024-25 Proposed Budget*	*Budget Change*
	($000's)	($000's)	($000's)	($000's)
Operating & Performance Grants	165,761	172,961	172,577	6,816
Research Overheads	5,579	5,047	5,047	-
Other Grants	3,688	3,274	3,290	(643)
Grants Offset by Additional Expense	-	3,618	-	-
Total	**174,741**	**184,900**	**180,914**	**6,173**

With the activation of the third round of Strategic Mandate Agreements, 35% of Carleton's MCU operating grant funding in 2021-22 was to be provided on the basis of performance outcomes, moving to 45%, 55% and finally 60% by 2024-25. MCU delayed any financial activation for the first three years (2020-21 through to 2022-23) of the agreement but did activate performance based-funding at a system-wide proportion of 10 percent in Year 4 (2023-24) and have recently announced it will be at 25% in Year 5 (2024-25), or $43 million of Carleton's grant. Along with the financial activation, a new stop-loss mechanism was introduced which caps the amount at risk to 5% of each metric allocation. Based on the most recent data available, the University is not assuming any material change in the Performance Grant funding based on metric achievements.

The growth in grant income for 2024-25 is attributed to the Ministry's February 26, 2024 announcement regarding stabilizing measures for the province's colleges and universities. The University anticipates a minimum 3% increase in operating grants, or $6.8 million.

Other grants include the Accessibility Fund for Students with Disabilities, Municipal Tax and Credit Transfer funding. Grants Offset by Additional Expense relate to special purpose grants received during 2023-24 for targeted initiatives, such as student success and financial support. The proposed opening budget for 2024-25 does not include amounts for these restricted grants, which will be adjusted during the year as amounts are confirmed and received.

5.4 Other Income

	2023-24 Budget	*2023-24 Projection*	*2024-25 Proposed Budget*	*Budget Change*
	($000's)	($000's)	($000's)	($000's)
Miscellaneous Fees	7,600	7,800	7,837	237
Miscellaneous Income	6,850	6,850	6,110	(740)
Department Income	7,481	7,481	7,529	48
Total	**21,931**	**22,131**	**21,476**	**(455)**

Other income for 2024-25 is projected to be $0.5 million lower than budget in 2023-24. This is due to a larger than normal HST tax rebate that was budgeted for and received in 2023-24.

5.5 Short-Term Investment Income

Short-term investment income is forecasted to total $22 million for the 2024-25 fiscal year.
The breakdown is as follows:

	2023-24 Budget	***2023-24 Projection***	***2024-25 Proposed Budget***	***Budget Change***
	($000's)	($000's)	($000's)	($000's)
Investment Income on Cash Flows	22,858	29,158	20,684	(2,174)
Endowment income*	325	318	325	-
Interest on internal loans	900	903	991	91
Total	**24,083**	**30,379**	**22,000**	**(2,083)**

** The endowment income included in the operating budget relates to those endowments for which a specific purpose has not been designated by the donor.*

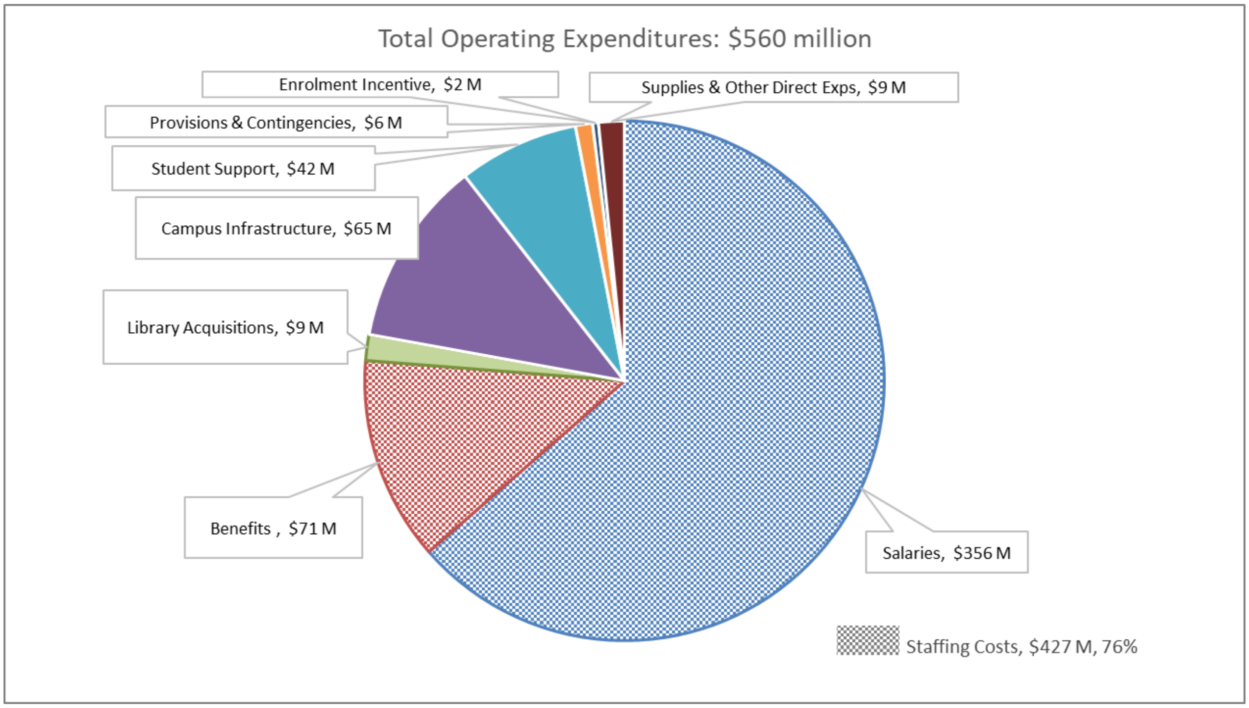
In 2015, the Investment Committee recommended to invest $100 million of available operating cash in equity funds. Over the long term, this decision has yielded higher returns, yet it is recognized that equity funds are more susceptible to market risks. To mitigate this risk and shield the operating budget from large variations in actual results, any variation in actual investment income earned against budget will be appropriated to, or drawn from, an investment income equalization fund. The current value of the fund is $39 million, equal to the fund's capped value.

In November 2022, the University invested the available proceeds from its $220 million debenture offering in a laddered series of Guaranteed Investment Certificates (GICs). These GICs will provide an additional $12 million of investment income in 2023-24 and $8 million in 2024-25. As well, the general increase in interest rates is expected to provide an additional $2 million in investment earnings on the University's general cash balances.

5.6 Operating Expenditures

The planned operating expenditures are budgeted in the following expense categories:

- Salaries and benefits
- Campus infrastructure (e.g., maintenance, renovations, facilities, utilities and equipment)
- Student support and enrolment incentives (e.g., scholarships, bursaries and awards provided by the University over and above the Ontario Student Assistance Program (OSAP))
- Other expenditures (e.g., library acquisitions, research support, travel, and supplies)



The following table illustrates the shift in resources away from more discretionary expenditures towards human capital.

	2023-24 Budget	***2024-25 Proposed Budget***	***Budget Change***
	($000's)	($000's)	($000's)
Salaries and benefits	393,393	427,222	33,829
Student supports	41,436	41,607	171
Campus infrastructure	60,193	65,261	5,068
Other operating expenditures	30,140	25,655	(4,485)
Total Expenditures	**525,162**	**559,745**	**34,583**

The increase in salary and benefits is driven by anticipated salary adjustments with financial resources earmarked for this expense using the University's provisions and contingency budget. Costs related to campus infrastructure continue to climb due to information technology infrastructure needs and significant supplier-driven utility increases. As a response to the projected 2024-25 operating deficit, operating expenditure budgets are being reduced by RPCs to respond to the mandated 3% across-the-board budget cut.

5.7 New Resource Allocations

For the fiscal year 2024-25, we recommend a base budget allocation of $37.6 million and fiscal allocation of $42.1 million, to be distributed as follows:

	Base Budget Allocation	*Fiscal Budget Allocation*
	($000)	($000)
President	(320)	(320)
Provost and Vice-President (Academic)	123	800
Vice-President (Finance and Administration)	(930)	(363)
Vice-President (Students and Enrolment)	(640)	60
Vice-President (Research and International)	90	290
Faculty of Arts and Social Sciences	(1,700)	(1,700)
Faculty of Engineering and Design	(1,179)	(1,179)
Faculty of Public Affairs	(257)	(257)
Faculty of Science	(919)	(760)
Sprott School of Business	(1,387)	(1,387)
MacOdrum Library	(353)	(353)
Subtotal	**(7,472)**	**(5,169)**
University Budget	5,622	7,630
Provisions and Contingencies	39,410	39,630
Total	**37,560**	**42,091**

As noted above, each RPC was required to reduce their expenditure budget by 3%, resulting in an initial $8.8 million base budget cut. Strategic allocations to support undergraduate recruitment, research, and new program development in the amount of $3.6 million result in an overall fiscal budget reduction of $5.2 million.

Proposed allocations to University Budget totals $5.6 million in base and $7.6 million fiscally. These allocations are in support of IT infrastructure modernization, student scholarships and aid, and to respond to contractual and inflationary increases.

The Provisions and Contingencies budget includes funding set aside to support salary increases, debt servicing, international agency commission fees and the Enrolment-Linked Budget Allocation mechanism.

5.8 Provisions and Contingencies

The 2024-25 Proposed Budget contains the following central provisions and contingencies:

	Existing Base Budget	***New Allocations***	***2024-25 Proposed Budget***
	($000's)	($000's)	($000's)
a) General contingencies	6,239	32,720	38,959
b) Enrolment-Linked Budget Allocation	1,139	6,910	8,049
c) Debt servicing	5,729	-	5,729
Total provisions and contingencies	**13,107**	**39,630**	**52,737**

a) The general contingencies total $39 million and relate mostly to foreseen requirements that cannot be immediately quantified.

b) In 2009-10, the University introduced a plan whereby Faculties would receive additional budget to support enrolment growth. The plan calls for the resources to be built into the Faculty base over time. For 2024-25, over $6 million is earmarked for anticipated Online MBA costs linked to revenue growth, while the balance of the $8 million incentive is available for distribution to the Faculties for general enrolment growth.

c) In June 2021, the University completed its inaugural bond offering of $220 million, providing proceeds for significant future capital plans. The 40-year bullet bond is repayable in 2061 and carries an interest rate of 3.264%. The $5.7 million debt servicing contingency represents the operating fund's annual interest payment and contribution to the required sinking fund. The housing operation will be assuming $80 million of the debt with annual debt servicing costs of $3.3 million.

6.0 Five-year Financial Outlook

The University uses a five-year planning horizon to inform the availability of resources for the upcoming budget year as well as to assess the mid-term financial landscape of the institution.

For intake assumptions in 2024-25, we are pleased to see increases in domestic student interest but are also mindful of the financial situation of Ontario universities in general which will precipitate greater competition for domestic students. We have projected assuming modest increases in domestic intake, therefore, both at the undergraduate and graduate levels. Given current geopolitical events coupled with new government regulations and process changes, we anticipate challenges with new international student cohort sizes. We have seen declines in application numbers at both the international undergraduate and graduate levels. Caps on international student numbers exempt graduate students and given that demand is growing in some programs geared to international graduate students, we anticipate that the impact won't be as significant at the graduate level as at the undergraduate level, although we are seeing application declines in both. At the undergraduate level, while all efforts are being made to mitigate losses, the concern for 2024-25 is particularly acute as confusion and delays in processing visas will have significant implications. Consequently, the scenario used for the 2024-25 budget includes a 25% decrease in new first-year international undergraduate students and a 10% decrease in new international graduate students. The outer year projections in the University's long-range financial outlook include a conservative assumption that growth in international student numbers will be modest following a year of steady intake in 2025-26 at the previous year's level.

Unfortunately, the provincial government has decided again to extend the freeze of domestic tuition for Ontario residents. The Ministry recently clarified that this freeze will extend for the next three fiscal years, or through to 2026-27. The impact of the 10% tuition fee cut in 2019-20 and subsequent freeze, up to and including 2023-24, totals an estimated $190 million in cumulative lost tuition revenue for Carleton. This also translates to a reduction in annual tuition revenue of approximately $55 million in 2024-25 and onward when compared to the framework in place before 2019-20. International tuition fees to continue to increase in line with the approved international tuition fee framework.

The majority of operating grant income is regulated by the Ministry of Colleges and Universities. Essentially, this grant is fixed at the level of the funded midpoint of the University's enrolment corridor and is not indexed to inflation. Per student funding has not increased during the era of the Strategic Mandate Agreements which has the effect of reducing the value of operating grant in real terms, with the cumulative impact estimated to be $98 million since 2019-20 through to 2024-25. With the recent Ministry announcement in relation to the recommendations of the Blue Ribbon Panel, the core funding envelope is expected to increase by 3% in 2024-25, and then 2% per year for the next two years. These funding increases are developed with the understanding that the University qualifies only for the broad-based support available to all institutions, rather than the enhanced support targeting institutions facing more financial challenges. The Ministry has not committed to continuing this funding increase beyond 2026-27 and so our long-term forecast is developed on the assumption that the core funding envelope increases will not continue past 2026-27.

Expenditure increases for University Budgets (e.g., utilities and student support) are included in the forecast. Compensation increases are based on collective agreements where applicable, and projections for subsequent years not covered by collective agreements.

Applying the assumptions described above, the University projects it may need to present operating budget deficits between 2024-25 and 2028-29 unless base budget cuts valued at 6% are applied each year for the next four years. Fiscal resources set aside from previously earmarked reserves and/or additional one-time GIC investment income would need to be drawn upon for the University to maintain its momentum toward achieving its strategic and operational goals.

The long-term plan is based on conservative assumptions and will be revisited in the fall of 2024 once actual 2024-25 enrolment is known. Favourable changes to the forecast would be influenced by enrolment growth, higher non-regulated revenues and operating efficiencies. Unfavourable changes would be driven by higher than planned cost increases.

	2024-25 Base Budget	***2025-26 Outlook***	***2026-27 Outlook***	***2027-28 Outlook***	***2028-29 Outlook***
	($M's)	($M's)	($M's)	($M's)	($M's)
Base Revenues					
Tuition	309	313	319	331	345
Grants	181	185	188	175	175
Other revenues	33	33	34	35	35
Total revenue	523	531	541	541	555
Base Expenditures					
Faculties, Student and Professional Services	384	394	410	425	441
Provisions and Contingencies	6	7	7	7	7
University Budgets	173	176	180	183	187
Base Allocated/(Cut)	(8)	-	-	-	-
Total Base Expenditures	555	577	597	615	635
Fiscal amount available	**(32)**	**(46)**	**(56)**	**(74)**	**(80)**

* It should be noted that the University has included an additional-fiscal only $10 million in the proposed revenue budget for 2024-25, related to additional term-limited GIC investment income.

7.0 Approval of the 2024-25 Operating Budget

Carleton University
2024-25 Proposed Operating Budget
(000's)

	Restated Budget 2023-24*	**Proposed Budget 2024-25**	Change fm Prior Year Budget
Income			
Tuition Fees	304,407	**309,200**	4,793
Government Grant	174,741	**180,914**	6,173
Investment Income	24,083	**22,000**	(2,083)
Other Income	21,931	**21,476**	(455)
Total Operating Income	525,162	**533,590**	8,428
		-	
Expenditures and Transfers			
President	11,337	**10,649**	(688)
Provost and Vice-President (Academic)	16,129	**15,342**	(787)
Vice-President (Finance and Administration)	35,775	**35,225**	(550)
Vice-President (Students and Enrolment)	26,939	**26,856**	(83)
Vice-President (Research and International)	6,816	**6,808**	(8)
Faculty of Arts and Social Sciences	65,236	**65,450**	214
Faculty of Engineering and Design	50,540	**50,840**	300
Faculty of Public Affairs	43,944	**43,834**	(110)
Faculty of Science	48,957	**49,820**	863
Sprott School of Business	16,142	**16,149**	7
MacOdrum Library	11,904	**11,575**	(329)
University Budgets and Transfers	167,773	**174,460**	6,687
Provisions and Contingencies	23,670	**52,737**	29,067
Total Expenditure and Transfers	525,162	**559,745**	34,583
Net Operating Budget Surplus/(Deficit)	**-**	**(26,155)**	**(26,155)**
Contribution from Prior Year Reserves	-	**26,155**	26,155
Net Surplus/(Deficit), after use of reserves	-	-	-

* 2023-24 budget figures reflect the opening May 1, 2023 budget, with reallocations made to assist in comparison.

As shown above, the proposed 2024-25 Operating Budget meets the objective set out by the Board of Governors that a budget be developed within the framework presented in November 2023.

The 2024-25 Operating Budget, therefore, is respectfully submitted to the Board of Governors.

L. Pauline Rankin
Provost and Vice-President (Academic)
Chief Budget Officer