McMaster University | Office of the Provost

I'm pleased to make public the University Budget Model Review Report, as McMaster University's success requires the budget model being aligned to support the evolving needs of our academic community, especially given our research intensity.

I am grateful for the time, expertise and thoughtful feedback from the external and internal reviewers, all of whom are deeply familiar with the university budgeting process.

Their report is the result of extensive consultations conducted in June 2023, with deans, university leaders (including senior budget leaders from across campus), faculty, staff, and students. A public presentation and a question and answer session attended by more than 100 people was also held on campus to allow broad input from the McMaster community.

The reviewers' built on the foundational work of the 2017 Budget Model Review and concluded that McMaster's budget model structure works well in many regards and is appreciated for its transparency and for the incentives it presents to the university's Faculties. They made five recommendations they say are needed to address new challenges in higher education related to budgetary tightening in Ontario and to the lingering impacts of the COVID-19 pandemic.

As Chief Budget Officer, I have reviewed the recommendations and I will work with PVP, Provost Council and other university leaders on how to ensure our budget model allows our students, staff, faculty and researchers to accomplish their goals and ensure we are supporting academic excellence across our university.

Thank you to everyone at McMaster who asked questions and shared insights about their university area with the reviewers.

Susan Tighe
Provost and Vice-President (Academic)

University Budget Model Review

Site Visit: June 5-6, 2023

August 8, 2023

Review Committee Membership

Scott Mabury	Vice-President, Operations and Real Estate Partnerships & Vice-Provost, Academic Operations | Professor of Environmental Chemistry |Faculty of Arts & Science | University of Toronto
Stephen Jones	Chair, Budget Committee (2022-23) Professor of Economics | Faculty of Social Sciences | McMaster University
Nicole Wagner	Incoming Chair, Budget Committee (2023-24) Assistant Professor of Information Systems and Director, MSc eHealth Program DeGroote School of Business | McMaster University
Arlene Fajutrao Dosen	Staff Representative and Budget Committee Member (2018 to Present) Executive Director & Assistant Dean, Student Success | Student Affairs McMaster University
Steven Hanna	Former Chair, Budget Committee Vice-Dean, Faculty of Health Sciences and Associate Dean of Graduate Studies (Health Sciences) & Professor of Health Research Methods, Evidence, and Impact, Michael G. DeGroote School of Medicine | Faculty of Health Sciences McMaster University
John Preston	Former Chair, Budget Committee Associate Dean, Research, Innovation & External Relations & Professor of Engineering Physics | Faculty of Engineering McMaster University

Consultants to Review Committee

Nancy McKenzie	Senior Manager, Academic Projects and Reviews, Office of the Provost & Vice-President (Academic) | McMaster University
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PREAMBLE

We sincerely thank Provost Susan Tighe, President David Farrar, Nancy McKenzie, Susan Mitchell, and others for facilitating an insightful site visit. We would like to extend our sincere appreciation to all participants who provided feedback during our conversations about the strengths and challenges of the McMaster University Budget Model.

PURPOSE OF THE REVIEW

The 2023 Budget Model Review builds on the foundational work of the 2017 Budget Model Review. Given the significant changes in higher education since the pandemic and the current economic climate, McMaster University garnered advice and feedback on the degree to which our current University budget model structure supports its strategic priorities. This process included extensive consultations with deans, other senior stakeholders, university leaders (including senior budget envelope leaders from Activity Units and Support Units), faculty, staff, and students to gain feedback.

The Budget Model Review Committee was mandated in the Terms of Reference "to review McMaster's budget model to critically assess the strengths and weaknesses of both the model itself and its associated processes, paying particular attention to the degree to which the model and its processes are in appropriate alignment with each other and with the originally agreed upon set of principles."

REVIEWERS' REPORT

The Budget Model Review site visit took place June 5-6, 2023, through in-person and virtual group consultations with key stakeholders of the McMaster University community. The site visit followed consideration of advance, written feedback submitted by university vice presidents, associate vice presidents, vice provosts, deans, finance and administration directors, the university librarian and director of the Health Sciences Library, and the McMaster University Faculty Associate (MUFA) executive. A McMaster University community consultation session on the Budget Model Review process was held during the site visit on June 6, with over 100 individuals participating.

Throughout the budget model review consultation process, there was strong endorsement of the hybrid attribution-based budget model. It was viewed as largely working well, with transparency cited as a key strength of this model. Nonetheless, we received a number of concerns and suggestions for improvement.

The key areas of focus for refinement of the budget model centre on the governance of support unit costs, the valuation of space, and the implications of the model for McMaster's research priorities, in a period when post-secondary institutions in Ontario face increased fiscal challenges. The Report provides brief motivation for each recommendation based on the consultative process and the committee's extensive deliberations.

1. **Motivation 1:** At many levels in the budget process, and particularly at the decanal level, the view was expressed that activity units were unclear about exactly what central services they were funding, leading to some doubts about the process determining support unit budgets. This lack of clarity could also lead to unnecessary duplication and misalignment if supports are also implemented within activity units, particularly if there is a lack of cross-silo communication. In addition, the level of consultation and oversight prior to the support unit budget conferences in the Fall was queried, noting that in the current arrangement, such prior scrutiny falls heavily on the Provost's Office. While many welcomed the recent inclusion of the Deans' consensus assessment of budget submissions as a key element in the Fall budget conferences, there was a perceived need for a more thorough and ongoing process of consultation and information-sharing between support units and activity units as support budgets were being planned and developed.

   Recommendation 1: The President should be responsible to review both support unit and activity unit budgets to ensure alignment with institutional priorities and integration across portfolios, before and during the Budget Committee process. This is consistent with the reporting of the Vice-Presidents, who receive and advocate for their unit's budgets, to the President and underlines the accountability of the President on budget decisions. During the President's review, special attention should

be directed to illuminating the consultative process, including interactions with Deans and designates, that led to budgetary decisions within each VP's portfolio.

2. **Motivation 2:** Activity units had repeated concerns about levels of service provision and containment of the associated costs, recognizing that approved increments in support unit budgets translate through cost drivers into automatic deductions from activity unit revenues. More explicit detail on centrally provided services could address these issues, potentially improve service delivery alignment, and avoid duplication. Also, several senior-level support unit budget envelope leaders expressed interest in attending both the activity unit and support unit budget conference sessions to better understand the priorities and challenges within the Faculties and other support units.

   Recommendation 2: Service level agreements (SLAs) should be developed to support more focused discussions on the complementarity of the activity unit and support unit services, set expectations, and define metrics for service units. In this manner, activity units can better understand the support costs, gain clarity about the institutional valuation of these services and better inform their decisions about the supplemental provision of related services within each Faculty. A key issue to consider is the extent (if any) of differentiation in SLAs across the various activity units, given the variation in the proportion of funding contributed by each Faculty to the respective support unit budgets and the structure of related services and programs offered by each Faculty. Also, it is recommended that senior-level support unit budget envelope leaders be invited to attend both the activity unit and support unit budget conferences to seed greater communication and enable greater alignment with the strategic priorities of Faculties and other support units.

3. **Motivation 3:** In our meetings, several activity units noted their in-house development of and reliance on supports (e.g., in University Advancement, Human Resources Services, Research Support Services) without complete clarity on how these dovetailed with related supports provided centrally. Relatedly, several support units were unable to explain why Faculties were turning to local provision when the service was also being supplied centrally. This suggested that better communication and consultation might have the potential to improve efficiency and alignment, to avoid duplication, and to enable a holistic understanding of spending on each support category across the institution.

   Recommendation 3: Enable the bi-directional flow of consultation and data to ensure continuous review of efficiency and alignment of service between central service units and the units within the Faculties. Special attention should be paid to mechanisms to promote transparency and sharing of best practices among Faculties regarding efficiency and duplication of service.

4. **Motivation 4:** Debate about the influence of the model on the institution's research goals has since intensified since the 2017 Report, and this was a frequent focus of discussion during our consultations with stakeholders. There is, of course, general acknowledgement that research is a cost in the Canadian system, and that the distribution of overheads is not sufficient to cover this cost. An assumption of McMaster's brand of "Responsibility Centred Management" (RCM) budget approach is that the model's primary function is to allocate revenue as it is earned (i.e., mostly through education), and that the Faculties are meant to prioritize the research mission within their means and discretion, with support from central services for which they pay. The Faculties pay for central research supports, including primarily in the Office of the Vice-President of Research and ROADS, through a tax determined by a simple driver based on their share of peer-reviewed research funding. These costs are intended to be somewhat mitigated by disbursements from the Research Excellence Fund, the Research Infrastructure Fund, a discount on research space, and targeted investments from the University Fund. Regardless, net of these supports, success in research funding inevitably means losses in operating budget. A particular challenge for the model at McMaster is that the Faculty of Health Sciences holds 60 to 65% of all peer-reviewed research funding at the institution, and therefore covers most of the cost of research, in addition to costs not supported centrally, partly owing to the interface with the health care system. Five Faculties report that they are able to support their research and scholarship missions within the model's framework, whereas Health Sciences does not. The group of five Faculties includes the Faculty of Engineering, which makes an instructive case, as the other research-intensive Faculty on campus. Engineering uses international student recruitment and high-return professional programming to generate the income required to support the research mission. The School of Business relies on a similar income mix, but with low research output. (The feasibility of these income enhancement strategies in the Faculty of Health Sciences is unclear but should be explored.) Moreover, recruitment across all Faculties is importantly driven by McMaster's international reputation for research. In this sense, McMaster's research output is inextricable from all benefits of our reputation, including as a significant contributor to McMaster's education revenue.

   An important question arising from this is whether the simple driver for research costs adequately captures the real impact of research on operating income. In addition, while Engineering's experience shows that it is possible to do research within the model, it is probably a different question as to whether the model incentivizes the research that drives McMaster's reputation, in general. Does it incentivize the institution that we hope to be? We discussed two approaches to handling this problem, in part based the approaches used in other RCM institutions at Queen's University and the University of Toronto. In both cases, the drivers used to determine research overheads and costs are more granular than ours. Toronto, for example, allocates the costs of research across a number of sub-bins and uses a combination of research funding, active research funds, research funding application numbers, invention disclosures, human ethics and animal protocols and staff FTEs as (weighted) drivers for these sub-bins. In the case of Queen's University, the driver recognizes the implicit impact of research on all revenue by considering the distribution of research dollars in relation to operating dollars. Finally, an important departure at the University of Toronto, relative to McMaster, is that the equivalent of our (central) University Fund (UF) is deployed with ongoing investments to support high-impact research, rather than only one-time investments.

Recommendation 4: Lingering questions about the model's incentives for research activity and how it supports research and reputational goals of the institution should be addressed urgently. Consideration should be given to how the University Fund could be used in a principled and ongoing way to support research and mitigate unintended impacts arising from the distribution of research costs among the Faculties. In addition, consideration should be given to whether the drivers for research support costs can be significantly broadened to best reflect the costs of impactful research and the broad influence of research on the institution's reputation and goals. A working group should be struck to investigate and make recommendations.

5. **Motivation 5:** Concern was expressed that the model was not providing adequate incentives for efficient use and reallocation of space. Since the return-to-work post-pandemic, we were told that no space has been returned to the centre for reallocation (we note that this does not measure reallocations within Faculties). Furthermore, misgivings were expressed about uniform pricing of all NASMs. While it was noted that uniform pricing operates as an implicit subsidy for some types of activity, notably wet lab and other specialized research space, the uniform pricing masks differences in underlying costs that may be of the order of 500%. This lack of differentiation naturally induces a misallocation even within a given research budget envelope, with too much provision of subsidized NASMs crowding out other potentially beneficial use of research funds. If corrected, the existing scale of the implicit subsidy to some research activities should be assessed so that consideration is given to the consequences of a move to differentiated space costing. Our budget model is designed to align incentives with budgetary objectives, and space costs are the most significant costs to university-wide service delivery. By incentivizing efficient use of space, McMaster will save significant budget expenditures on the overall management of existing space and obviate the need for some expensive new space.

   Recommendation 5: Consider the implementation of differential pricing of space (e.g. utility, caretaking costs...) to better reflect true costs and thereby induce better allocation of resources.

Concluding Remarks

While the hybrid activity-based budget model is working well in many respects and is appreciated for its transparency and the incentives it presents to the Faculties, budgetary tightening in Ontario over the past decade warrants a number of recommendations to tackle the resulting new challenges. Most of our recommendations are fairly straightforward, including changing the consultation process and alignment of units during the annual budgetary cycle (#1), moving to implement service level agreements for support units (#2), improving the interface between Faculty and central provision of support activities (#3), and charging prices for space that better reflect true costs (#5). The thorniest issue remains that of research support costs and the structure of appropriate drivers and/or use of the University Fund to apportion these costs to best incentivize the balance of objectives pursued by the University as a whole. Here, our recommendation (#4) is that the issue requires more detailed study and that a working group be struck to this effect.