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I am pleased to post the review of the McMaster Budget Review which took place in the spring of this year. I appreciate the work of the committee and the dedication shown by both the external and internal members in carefully considering the current McMaster budget model, its evolution and its related processes.

The review committee's report has been considered by the President and Vice President's group (PVP) as well as by Provost Council (PC) and the members of both bodies have endorsed the general thrust of the report. The review committee indicated strong support, both for the Responsibility Centred Management (RCM) approach to budgeting in general and to the way this approach is currently being implemented at McMaster. They do not recommend any substantive changes be made to the model.

The committee is however recommending changes related to governance processes. In particular, the committee calls for greater involvement of the Faculty Deans in budget deliberations. The new conference format for budget presentation which we started last year does bring the deans directly into discussions on the budgets of other Faculties and support units. The review calls for a strengthening of that approach which increases the potential for deans to affect budget decisions. The challenge associated with this approach, which the review committee acknowledges, is that McMaster has a long history of collegial governance of the university budget. The University Budget Committee, as a sub-committee of the University Planning Committee, has long ensured that elected faculty members have a key role in vetting the budgets of both Faculties and support units. This process is an important element of McMaster's hallmark approach to a wide engagement of faculty members in university governance. The question that arises, which is not answered in the report, is how to provide the deans with greater influence in budgeting without diminishing the authority of the university budget committee.

With the release of this report we invite members of the McMaster community to comment on any aspect of the report. The report will also be forwarded to the University Planning Committee for deliberation in open session. Based on discussion at PVP and PC, along with input from the University Planning Committee and the community at large, the Provost and the Vice President (Administration), in collaboration with the President, will consider how best to address the concerns raised in the review while maintaining the integrity of the university budget committee. A proposal for an improved governance model will emerge from that process. The intent would be to have any changes implemented in time for the 2018/19 budget approval cycle.

Before closing this introductory note I would like to comment on one particular aspect of the report. This is the recommendation that the current level of supplements flowing from the University Fund to several Faculties be maintained at their current levels indefinitely. The mandate of this review

committee was to consider the model itself and the associated processes. The committee seems to approve of the notion of using supplements where warranted to support specific Faculties. Recommendations related to the size of such supplements or how long they may be warranted are clearly outside the committee's mandate. In my view this recommendation should not be considered as part of the report. Instead the size and duration of Faculty supplements should be subject to the same considerations as other elements of the University Fund, from which they are drawn.

David S. Wilkinson, Distinguished University Professor
Provost and Vice-President (Academic)
September, 2017
McMaster University

Budget Model Review Committee

Report

June 25, 2017

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I. Executive Summary

Our committee's terms of reference focused on McMaster University's budget model and its associated processes, but our recommendations predominantly address processes. The issues we raise relate primarily to planning and budgeting and to governance: we make 12 recommendations in total, of which six appear under one or other of these headings, including five with reference to planning and budgeting.

The attention our report gives to processes reflects our unanimous view that, after a shaky start and many modifications, the model is now working quite well. Additionally, almost everyone with whom we met acknowledged explicitly that transparency is a major benefit of the budget model. We do, however, make recommendations that we believe will, if adopted, improve still further the functioning of the model.

We did hear from many faculty members about weaknesses of the budget model. We quickly came to realize that these weaknesses mostly related to shortcomings of the model when it was initially introduced, shortcomings that have already been addressed by the modifications to the model to which we referred above. It is not, though, enough to conclude that, in consequence, the negative perceptions may simply be dismissed. We therefore make recommendations that will, we believe, help to reduce, and eventually eliminate, these perceptions.

Major among our recommendations is that, throughout the budget process, advice should be sought more widely, and in a structured way, from a group that includes the Faculty Deans. Implementing such a recommendation, and especially involving the Deans, will furthermore assist in addressing the negative perceptions.

Little changed from its present form, the model positions the university well for the times ahead, especially with regard to the need for universities in Ontario to become less reliant on government funding. The budget model should be largely left alone to do this job while the university attends to process and communication issues that will enhance the model's effectiveness.

II. Introduction

Our committee's terms of reference (see Appendix A of this report) asked us to review McMaster's budget model. More specifically, we were to conduct a critical assessment of the strengths and weakness 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 set of principles".

We took this to mean that our focus should include consideration of the consequences of the budget model, and, by the end of our meetings, and given how much we heard about consequences, especially those arising from the parameters associated with the particular budget model initially implemented, we anyway felt compelled to address these consequences in our report.

In advance of our on-campus meetings, we received and reviewed material pertinent to our review, including the responses to a survey on certain aspects of the university's budget model. We then spent two days (April 10 and 11, 2017) meeting with small groups of individuals. Appendix B reproduces the meeting list we received; in a few cases, those individuals with whom we met were not as indicated on the list.

The terms of reference listed 11 questions to which we were asked to respond. We conducted our meetings to ensure we were well-positioned to address all 11 questions, although in the meetings we restricted ourselves to four major issues, namely:

- Strengths of the model
- Challenges posed by the model
- Research support
- Treatment of cross teaching

This more restricted set of issues served to ensure consistency across our meetings, which were too short (typically 30 or 45 minutes) to allow all aspects of the terms of reference to be discussed. Naturally, the meetings still varied in terms of the different lengths of time that were devoted to any particular question. Additionally, we did not constrain the meetings to these four issues, and in particular we routinely reserved time for those with whom we were meeting to raise other issues.

Notwithstanding the focus on our four major issues, we have attempted in our report to address our broader mandate, although we elected to organize our report according to a number of cross-cutting themes. These themes, themselves strongly connected, emerged over our two days of meetings, and provide the headings for the individual sections of our report.

Aside from a postscript on communications, our report ends with a short section that brings together our recommendations. Lest it not be obvious, we want to stress that these recommendations represent an endorsement of the model as it is currently. After many modifications, the budget model is doing its job; time for major adjustments to the model is over. To set the scene for our recommendations, we begin by providing a little context.

III. Context

Ontario's public universities face a difficult future. The provincial government has effectively frozen the funding it provides to universities, and has labelled part of this frozen funding a "differentiation envelope".

At the same time, the government has instructed each university to prepare a Strategic Mandate Statement (SMA) for the next three academic years. In 2020, at the end of the three years, each university will renegotiate its SMA. A central focus of these negotiations will be the uses to which the funds in the differentiation envelope are used in support of each university's "differentiation mission". The government describes the funds in the differentiation envelope as "competitive". We take this to indicate that failure to explain to the government's satisfaction how the funds will support differentiation could lead to some or all these funds being withdrawn.

McMaster's differentiation envelope exceeds $30M. To put this figure in perspective, it needs to be considered as a percentage of, for example, McMaster's 2016–2017 operating grant from the provincial government ($231.6M in 2016), or grant and tuition together ($483.3M), but whether the figure is viewed as an absolute amount or as a percentage of either the grant alone or grant and tuition, a considerable amount of money is in play. The differentiation envelope is, furthermore, simply a relabeling of money McMaster is already receiving, and moreover spending. The university must therefore position itself well over the next three years if it is to be ready for the negotiations in 2020.

We firmly believe that the approach to budgeting McMaster has adopted will help the university considerably in this regard. Our foremost reason for saying this is the inherent transparency of the budget model. Transparency enables more informed decision-making, which, in turn, releases the power of the incentives that are a fundamental aspect of such a budget model.

The belief that the model is transparent is not ours alone. Everyone with whom we met, when asked about the strengths of the model, immediately cited transparency. This was true even at our town hall meeting, which was attended mostly by faculty members, many of them from the Faculty of Science, who had more to say of a less complimentary nature. We shall return throughout our report to the concerns they aired.

For now, though, it is perhaps incumbent on us to restate our support for the budget model in a different form: nothing we heard in any of our meetings led us to a recommendation that the budget model be jettisoned. We do though have suggestions

for how the budget model, and especially its processes, might be modestly modified. We also offer an assessment of the transition to the new model, which we believe to have been responsible for some, at least, of the concerns we heard.

IV. Planning and Budgeting

Budgeting supports planning, which is to say planning should come first. This notwithstanding, many of the concerns expressed about the budget model seemed to see the model as driving planning, not supporting it. For example, we were told that the model does not support research, and that it represents a slavish (our word) commitment to basic income units (BIUs), the "values" used by government to fund different program areas within a university (e.g., engineering vis-à-vis science).

Any budget model is only an allocation mechanism. Aside from the effect, over the long term, of incentives and disincentives within the model, it does not alter how much money in total is available to be allocated. The initial attribution of revenue to different areas of the university based on where within the university the money was generated is a fundamental starting point of the model adopted by McMaster, but it is not necessarily the final allocation. Once this initial attribution is known, it has to be assessed from the perspective of the university's strategic plans, and suitably modified in light of this assessment, ideally with the support of all those whose budgets are affected, negatively or positively, by the modifications.

This is exactly why, in a budget model of the type adopted by McMaster, the Faculty Deans play a critical role. It is not for nothing that the model is often called Responsibility Centre Management (RCM): the model aligns responsibility with power in each of the Faculties, safe in the knowledge that a Dean can easily forecast the revenue implications of any initiative as well as the costs associated with that initiative.

The Deans are thus the fulcrum, and must, furthermore, be working together. For this to happen, and if they are to support the university's plans effectively, they must be actively involved in providing advice to those charged with responsibility for the final decisions, whether these relate to institutional planning or to elements of the budget model designed to support this planning.

An implication of involving the Deans as we propose is that they must also be held to account. This comment, if pursued further, would take us beyond our mandate, but nonetheless we do want to emphasize that strong performance management of Deans is a critical element of RCM.

It is pertinent at this point to note that a number of Deans spoke positively about the change this year to budget planning, which, for the first time, allowed them to attend the budget presentations at meetings of the Budget Committee. We believe that McMaster should go considerably beyond this initial step.

At the moment, considerable decision-making authority rests with the Provost and the Vice-President (Administration), who receive advice from, among others, the Budget Model Implementation Team (BMIT). We are told that the name of the BMIT is to change—it will henceforth be the Budget Planning and Coordination Committee—but we would argue that consideration needs also to be given to broadening considerably the group of individuals from whom the Provost and the Vice-President (Administration) seek advice as they plan the budget.

We would not presume to know how best this might be done but we do believe it is best undertaken in a structured way, rather than informally. At a minimum, this broader group should include all the Deans; consideration should be given to adding other vice-presidents to the group, and perhaps too those responsible for a few of the larger support units within vice-presidents' portfolios. Meetings of such a group should be attended, and co-chaired, by the Provost and the Vice-President (Administration), and the group should concern itself with all aspects of budget determination, including any proposals for major changes to the budget model.

This is, in our opinion, a set of critical recommendations, so further amplification is warranted. In our view it is essential for an attribution-based budget model that the Deans be, as Lyndon Johnson is reputed to have put it, "inside the tent". Ideally, the Provost and the Vice-President (Administration) would use such a structured process iteratively to help form and inform their decisions on the budget. For example, we were asked at our introductory meeting how to assess the needs of support units. These units support the Faculties in their activities, which means that the Deans are well-placed to offer advice on the units' needs.

If the Deans were, as members of an advisory group, routinely consulted, they would be well-informed to explain, and, if necessary, defend, decisions made after appropriate discussion and consultation. In particular, they would have a much keener appreciation for the context within which any decision has been taken, and thus would be able to respond to the anxiety with respect to the budget model that is still widespread among faculty members in at least some of the Faculties. As it stands, the Deans are on the sidelines, and no doubt say as much when asked by faculty members, which only serves to heighten the anxiety among faculty rather than allay it.

To summarize, we recommend that:

- The Provost and the Vice-President broaden considerably the group of individuals from whom they seek advice as they plan the budget, and that they do so in a structured way, rather than informally.
- This broader advisory group include all the Deans, and consideration be given to also adding other vice-presidents to the group, and perhaps too those responsible for a few of the larger support units within vice-presidents' portfolios.
- The advisory group be directly advisory to, and chaired by, the Provost and the Vice-President (Administration)
- The advisory group concern itself with all aspects of budget determination.
- Should consideration ever be given to major changes to the budget model, the advisory group be given the opportunity to comment on the proposed changes.

V. Governance

This section builds naturally on our recommendations with regard to planning and budgeting. All those with whom we met agree that McMaster's budget model has the eminent virtue of transparency. This needs to be matched by an equivalent amount of transparency in respect of governance.

We have argued already for instituting some form of advisory group that is much more broadly based. The Provost and the Vice-President (Administration), by co-chairing the broader group, will hear the group's discussions first-hand. Those in the group will not only hear, and be able to ask questions about, units' budgets, but also be given the opportunity to make recommendations for changes to these budgets.

We also argued that this group should concern itself with all aspects of budget determination. One particular set of decisions we had in mind relates to disbursements from different funds, notably the University Fund. This issue was highlighted at several of our meetings, but this is not the only reason we mention it. Transparency is another, as is an argument that if advice is being sought on budget determination, there should not be a significant part of the budget on which consultation does not occur.

Accordingly, we recommend that the advisory group be given the opportunity to comment on proposed disbursements from different funds, including the University

Fund. This is not to say that we are in any way arguing for any diminution of the authority of the Provost and the Vice-President (Administration). Nor are we suggesting any change to the formal governance process relating to McMaster's budget. The Provost and the Vice-President (Administration) will still be accountable throughout this process as they are now. We would though suggest that those participating in final approval may find it reassuring to know a more structured advisory component to the budget's preparation is in place.

There is another aspect of the formal governance process relating to McMaster's budget that we need to address, namely that McMaster already has a Budget Committee. The terms of reference for this committee, a subcommittee of the University Planning Committee, require it to, among other things, "review the budget framework…receive and respond to budget submissions from all Faculties, areas, and units…deliver the final budget to the University Planning Committee… and deliver budget recommendations to the President of the University for transmittal" to the Board of Governors.

These functions all clearly intersect to a degree with what we have proposed, and we are certainly not proposing that the role of the Budget Committee be usurped. We would though note that the Budget Committee was originally established when what is usually referred to as incremental budgeting was in effect at McMaster. RCM is fundamentally different from incremental budgeting. In particular, and as we have noted, RCM devolves responsibility, largely to the Faculties. By contrast, under incremental budgeting, many more decisions are made centrally.

The advisory group we are proposing directly addresses this distinction. It could not, and should not, replace the Budget Committee, but it will enable the Provost and the Vice-President (Administration) to consult appropriately in preparation for the deliberations of the Budget Committee. In turn, and again in light of the devolution of responsibility inherent in RCM, a well-functioning advisory group should mean that the Budget Committee has a higher degree of confidence in the quality of the budget framework it reviews, the budget submissions it reviews and to which it responds, and the final budget and associated budget recommendations it delivers, all of which will serve to raise the Board's confidence in what it is asked to approve.

To summarize, we recommend that:

- The advisory group be given the opportunity to comment on proposed disbursements from different funds, including the University Fund.

VI. Research Support

It will probably come as no great surprise to learn that we heard a lot about research. Indeed, this occurred even before we conducted our meetings. The package of material we were sent included the report on McMaster's budget model prepared in 2016 by the McMaster University Faculty Association's Budget Advisory Committee. The report asserts that the model "emphasis upon revenue attribution and thereby enrolment, especially undergraduate enrolment, has come at the expense of the research mission" (page 13), and recommends "an ongoing mechanism to allocate resources from the University Fund to Faculties when necessary for faculty renewal sufficient to maintain McMaster's research intensity" (page 16).

As we have earlier noted, the model is simply an allocative device. At the point of the model's introduction, it allocated the same total budget that any other model would have allocated. We mention this again not because we believe those who wrote the Faculty Association's report did not appreciate this. Rather it helps us to isolate the issues we see as generating the concern about research support.

There are three such issues. First, there is a perception that revenue attribution, that is, allocating grant and tuition to Faculties on the basis of how much of the grant and tuition each Faculty's programs generated, makes it more likely the Faculties will feel the need to demonstrate the connection in the way the money is then spent, which will have negative consequences for research support. If this were necessarily the case, it would apply to any university that has introduced revenue attribution, but two research-intensive universities in Canada (the University of Toronto and Queen's) have introduced similar models without ever having to pay serious heed to this concern.

Second, and as we explained at the beginning of our report, provincial government grant funding is effectively frozen. For the foreseeable future, universities in Ontario will not have the largesse to engage in, for example, widespread faculty renewal unless they look for new sources of revenue, most (if not all) of which will involve educational programs of one form or another. Indeed, both the Canadian research-intensive universities cited above are aggressively seeking the diversification of revenue sources that will protect them, to some degree, from even more attrition in faculty ranks. As we have noted already, the transparency of an attribution-based budget model makes this task considerably easier than it would otherwise be.

The third issue is little more subtle, but no less important. During our meetings, we came to the conclusion that the real concerns arose because of the ***reallocation*** across Faculties that occurred at the time of the introduction of the budget model. Three

Faculties, Health Sciences, Humanities and Science were less well-resourced, and two of the three (Humanities and Science) were already carrying large debts. Perhaps the strongest demonstration of this was the preponderance of faculty members from Science among those who attended our town hall meeting.

Put differently, the perception arose from nothing more than the ***particular parameters*** of the model that McMaster initially introduced. We have more to say on this in Section VII, the topic of which is cross teaching, and in our postscript on communications (Section XII).

Hold-harmless payments were, of course, provided to effect a smoother transition for these Faculties by making them, for a period of time, no worse off. Other things were, however, happening at the same time, not least the tightening of the provincial purse. We have come to the conclusion that the three Faculties facing this situation, and especially, it seems, Science, felt unfairly treated, or, as the British would say, hard done by. Had the initial allocations not labelled them hold-harmless Faculties, they may well have felt differently.

Later in our report, we shall return more than once to hold-harmless payments and their interplay with other issues (e.g., the treatment of cross teaching). All we shall add now is that, despite laudable attempts to redress the balance through modifications to the budget model, this feeling of unfair treatment is still pervasive and finds expression in the claim that the model does not support research.

We turn now to other aspects of the research issue. We were provided with a list of ways in which research is supported by the model, which was prepared, it seems, to counter the suggestion that the model "undervalues" research. These supports for research include a Research Excellence Fund (REF) and a Research Infrastructure Fund (RIF). Before discussing these, it is useful first to note a critical feature of attribution models: because they initially allocate virtually all funding to the Faculties, any explicit support for research (beyond what the Faculties are providing themselves), or, for that matter, for anything else, such as support units, has to be charged back to the Faculties.

The REF is a disbursement of an annual fixed amount ($2.5M) from the University Fund, which, in keeping with the observation in the previous paragraph, is funded through a tax on Faculties' revenues. The REF funds are disbursed using a driver that measures research intensity, so a Faculty with considerable revenue but low research intensity pays in more than it receives back. The RIF is funded through a different tax on Faculties' revenues, one that taxes two Faculties (Business and Engineering) at a higher tax on revenues (3 percent) with the others paying a lower rate (1 percent). The

RIF too is disbursed on the basis of research intensity. Faculties are asked to provide an explanation annually for how the REF was spent. No such explanation is required from Deans in respect of how they use the RIF.

There seems to be a considerable amount of confusion about, and in some cases ignorance of, these research supports, especially the REF, which the Faculty Association's budget report does not even mention. Also, in a meeting with one Faculty, we were told the Provost allocates the REF when in fact it is allocated formulaically. In light of these observations, our recommendation is that McMaster look at ways of combining the RIF and the REF that ensure due acknowledgement and understanding of the supports for research that are in place.

Our final observation on the issue of research support concerns the role of the office of the Vice-President (Research), the costs of which are charged back to the Faculties. Some with whom we met advocated that, in addition to supporting the office itself, additional funds should be allocated to the Vice-President (Research) expressly for the purpose of encouraging the initiation of large collaborative research projects. Interestingly, those who advocated for this did not include the Vice-President (Research), who saw his role as facilitating discussion among Deans that would lead to securing external funding for these types of projects.

Faculties use the revenue attributed to them to pay the salaries of the faculty members, whose responsibilities include research. As the Vice-President (Research) observed, one of his responsibilities is to work with the Deans to support research, but research support is a major responsibility of Deans too. In this context, we have argued already, but it bears repeating, that the Deans must also be held to account. Performance management of Deans is a critical element of RCM. The reason is simple stated: without it, the Deans' power is not constrained by their institutional responsibilities.

To summarize, we recommend that:

- Consideration be given to combining the RIF and the REF in such a way that it ensures due acknowledgement and understanding across the academy of the support provided by the combined fund.

VII. Cross Teaching

Cross teaching is probably one of the thorniest issues in any attribution-based budget model, and possibly in any budget allocation method. If the Faculty teaching the student is rewarded too well, the Faculty in which the student is registered, and which is paying the reward, will consider whether to assume responsibility for the teaching

itself. Reward the teaching Faculty too poorly and it may elect not to undertake the teaching.

Additionally, in most universities with an attribution-based budget, a lot of money changes hands in support of cross teaching: the stakes are high. This is precisely why it is such a thorny issue and why it is crucially important to find the sweet spot. The good news is we believe McMaster has found it. More importantly perhaps, our meetings with Faculties indicated that they think so too.

The bad news is that the sweet spot was found only after a series of adjustments were made that incrementally, and eventually substantially, increased the reward to the teaching faculty. These adjustments are tantamount to an admission that, in the early stages of the model, the cross teaching arrangements were woefully out of kilter, and, furthermore, have been so to a lesser extent until relatively recently.

The consequences of this cannot be overstated. In particular, it is almost certainly the reason Science began life under the new model as a hold-harmless Faculty, given how much of its teaching supports programs in other Faculties. It will also have made the situation for Humanities worse than it otherwise was, although the Faculty would probably not have been lifted out of hold-harmless under different arrangements for cross teaching, given how much it was initially receiving in hold-harmless payments (more than $6M). The Faculty of Social Sciences was not in any event a hold-harmless Faculty, but it was nevertheless another that was undoubtedly disadvantaged by the initial arrangements with respect to cross-teaching.

An additional consequence arises because people, especially those disadvantaged, have long memories. Over our two days of meetings, it became clear to us that the negativity regarding the budget model was in large part a reaction to the initial conditions, despite all the adjustments that have been made to these conditions. Nor, for that matter, was it helped by the inability of many to explain accurately what the current arrangements for cross-teaching actually are.

We have no recommendations in this section for change. The sweet spot has been found; it needs to be preserved. Unfortunately, this occurred with delay, which has created problems for the university, but these will not be addressed by further changes to the arrangements for cross teaching. In the final section of our report, a postscript on communication, we make recommendations that may help to ensure everyone at least knows what the current arrangements for cross teaching are.

For completeness, we should mention a suggestion we heard from some faculty members that the budget model was creating instructional silos. The argument seemed to be that, because of the initial cross teaching arrangements, a Faculty would be unwilling to participate in a collaborative program initiated by another Faculty. On the other hand, some Deans told us that, because of the budget model, it was now much easier to undertake an accurate cost-benefit analysis of joint programs, and that a number were being launched that had not generated support before the budget model was implemented.

It may be, of course, that Deans are better informed than the average faculty member with respect to the current treatment of cross teaching. If this lies behind the apparent difference of opinions, it offers further evidence to support our conclusion that initial conditions, together with inadequate communication, are responsible for the negative perception of the budget model's consequences held by many faculty members.

VIII. Hold-Harmless

We have touched on hold-harmless payments several times, and do not intend to repeat ourselves here, but there is one additional element that we do wish to raise for consideration. We note first that hold-harmless payments are now called supplements. More importantly, these supplements are not, as they were originally, reduced dollar-for-dollar as a Faculty's revenue increases, which is an important, and positive, modification.

As context for what follows in this section, we offer the following. Any university that introduces RCM includes provision for what Curry, Laws and Strauss call a "subvention pool".[1] Such pools are used for a variety of purposes, one of which is to provide supplements to some subset of its Faculties. Universities differ in how they implement this. The University of Toronto, for example, made a commitment in perpetuity to fixed annual supplements to certain units. Queen's is also providing supplements to some units, but these supplements are reducing over time and the current plan is that they will eventually be eliminated entirely.

According to information provided to our committee, McMaster's current intention is to eliminate all but one of the supplements to Faculties in 2019–2020. The exception, Humanities, will receive $3.5M (down from $5.3M in 2018–2019). The effect on the other two Faculties that were originally in hold-harmless will be to reduce the budget for Health Sciences by $5.85M and the budget for Science by $.94M. These two changes

[1] John R. Curry, Andrew L. Laws, Jon C. Strauss, *Responsibility Center Management: A Guide to Balancing Academic Entrepreneurship with Fiscal Responsibility*, National Association of College and University Business Officers, 2013, page 28.

will together add $6.8M to the University Fund for 2019–2020 and subsequent years. With respect to the $3.5M to Humanities, we were given no indication of whether, after 2019–2020, Humanities may expect to receive the same supplement, a reduced amount or nothing at all. There is no doubt though that the current plan is, as noted above, to eliminate the supplements to Health Sciences and Science.

Whatever the reason for the different treatment, we would suggest there is a case for treating the three hold-harmless Faculties equivalently in 2019–2020. More specifically, we mean by this that that all three should receive supplements. We are also of the view that consideration should be given to continuing to provide supplements to the three Faculties in the years following 2019–2020.

We have discussed the plight of the Faculty of Science already, and in particular the effects of the initial conditions, especially those related to the treatment of cross-teaching, so there is little further we feel the need to say to justify why this Faculty should benefit in the way we have proposed, except to observe that such a move, if it were announced soon, would come at an opportune time given that a new Dean has just taken the reins.

Our argument for making the Faculty of Health Sciences' supplement permanent is less about whether our recommendation is justified and more about whether it makes sense to single out (some might say pick a fight with) perhaps the most important Faculty on campus from the point of view of research intensity. We would only add that revenue-attribution models do not favour health sciences, and some form of special treatment almost always needs to be, at the very least, considered, and usually implemented.

To summarize, we recommend that:

- Consideration be given to treating the three hold-harmless Faculties (Health Sciences, Humanities and Science) equivalently in 2019–2020 by providing supplements to all three, and to extending such equivalent treatment to years after 2019–2020.

IX. University Fund

We have mentioned the University Fund several times already. Disbursements from the fund were discussed with respect to governance, and we recommended that more consultation occur by giving a more broadly based advisory group the opportunity to review, and comment on, the proposed disbursements. The University Fund was also mentioned in the context of its use as a source of funds to support research. We were

additionally asked to consider its size. More specifically, we were asked whether the University Fund was "rightsized". This prompts the question: rightsized for what?

According to the website for McMaster's budget model, the University Fund serves two purposes. First, it "preserves the 2013/14 base budget", which it does via hold-harmless payments (now supplements). With one exception, these are scheduled to disappear, and even if our recommendation to make further exceptions is implemented, the total cost of supplements will be much below what was originally committed.

This lesser commitment will, of course, leave more funds available to provide for the second purpose, which is to serve as the "primary mechanism for allocations that support strategic plans". Additionally, the University Fund will grow over time as quickly as the university's total revenue increases, because the Fund's absolute size is determined as a percentage of total revenue.

We do not understand why the University Fund is viewed as the "primary mechanism" for supporting the university's strategic plans. Making this observation prompts several questions. First, should not the Faculties be expected to spend some of their funding to support strategic priorities? Second, and if the answer to the first question is yes, might some allocations from the University Fund be provided only if Faculties match these allocations? Third, is the support for strategic priorities necessarily one-time funding, or should it allow for continuing allocations over a number of years, or even base funding (as happens at the University of Toronto)?

We would answer all three questions in the affirmative, and we therefore recommend that, once the advisory group is established, the agenda of one of its first meetings include the opportunity for a comprehensive discussion of the University Fund, which should include, but need not be restricted to, the questions we have posed. Only after this discussion has taken place will it be possible to determine whether the University Fund is "rightsized".

To summarize, we recommend that:

- The agenda of one of the first meetings of the new advisory group include the opportunity for a comprehensive discussion of the purpose and size of the University Fund.

X. Other Issues

Before we conclude our report by collecting together our recommendations, we turn briefly to issues of data quality and the cost of space. These two issues were raised

several times in our meetings, but we address them not just for this reason, but also because they are important aspects of any budget model that involves the attribution of revenue and costs.

i. Data Quality

An important requirement for the effective operation of attribution-based budget models is that data are comprehensive, reliable, and accessible. We were therefore troubled to hear on a variety of occasions of problems with data.

Two examples will serve to make the point. First, we learned that calculating the operating costs of space so that these costs could be attributed to the Faculties and support units has proved difficult because it was not always clear which Faculty or support unit was actually using a particular space. Second, we were told that a Faculty that was trying to determine how its units were contributing to the Faculty's revenue was provided with two alternative datasets on teaching units that were widely divergent.

We did not explore these matters further, and do not have any specific recommendations, but there is no doubt that problems exist, and no doubt either that, if they are not addressed, they will seriously inhibit the effectiveness of the budget model. For this reason our recommendation is general rather than specific: address these concerns and do so expeditiously.

To summarize, we recommend that:

- The university initiate a comprehensive investigation of the quality and reliability of the data that support the budget model both centrally and locally, and provide a report on findings and recommendations to the new advisory committee.

ii. Space

At different points over our two days of meetings, we learned of the difficulties associated with operating the Math Café, the Phoenix, and the University Club. The problems occurred, we were told, because there is a single price per net assignable square meter (NASM) charged for the operating costs of any space, regardless of the actual operating cost of that space. It bears mentioning that we were also told that this single price is effectively an implicit subsidy to research because research spaces typically have higher than average operating costs.

We would not presume to comment on the individual concerns cited above that led us to hear about the NASM price, but we do have views on the subject more generally. In particular, we recommend that consideration be given to the feasibility of differential prices, specifically ones that more accurately reflect true operating costs. For completeness, we should note that the University of Toronto does use differential prices; Queen's does not.

A primary reason for making this recommendation is that, in the absence of differential prices, the use to which space is put will be distorted, with too much space being used when it is effectively being subsidized, and too little used when it is priced more highly than the true cost.

This said, we do acknowledge that the current cross-subsidization is seen as an implicit support for research-based activities, many of which involve space with a high operating cost. For this reason, we also recommend that if differential pricing is introduced, it be done in such a way as to preserve the research support, and that the support be directed at research that uses space for which the true operating costs are high. Explicit support for research will be recognized by all for what it is; sadly, implicit support is not so easily recognized.

This would of course involve quantifying the dollar value of this support, but that is not in itself a bad thing, and it would also deliver the additional benefit that it is much easier to demonstrate that research is being supported when that support is explicit and quantifiable. Preserving the support would furthermore avoid the disruption that would otherwise occur, not to mention any criticism.

To summarize, we recommend that:

- Consideration be given to the feasibility of differential prices for net assignable square meters (NASMs, i.e., space), specifically ones that more accurately reflect true operating costs.
- Should differential pricing be introduced, it be done in such a way as to preserve the implicit research support provided by the single NASM price, and that this support be explicitly directed towards research that uses space for which the true operating costs are high.

XI. Recommendations

This section simply provides a complete list of all our recommendations.

- We recommend that the Provost and the Vice-President broaden considerably the group of individuals from whom they seek advice as they plan the budget, and that they do so in a structured way, rather than informally.
- We recommend that this broader advisory group include all the Deans, and consideration be given to also adding other vice-presidents to the group, and perhaps too those responsible for a few of the larger support units within vice-presidents' portfolios.
- We recommend that the advisory group be directly advisory to, and chaired by, the Provost and the Vice-President (Administration)
- We recommend that the advisory group concern itself with all aspects of budget determination.
- We recommend that, should consideration ever be given to major changes to the budget model, the advisory group be given the opportunity to comment on the proposed changes.
- We recommend that the advisory group be given the opportunity to comment on proposed disbursements from different funds, including the University Fund.
- We recommend that consideration be given to combining the RIF and the REF in such a way that it ensures due acknowledgement and understanding across the academy of the support provided by the combined fund.
- We recommend that consideration be given to treating the three hold-harmless Faculties (Health Sciences, Humanities and Science) equivalently in 2019–2020 by providing supplements to all three, and to extending such equivalent treatment to years after 2019–2020.
- We recommend that the agenda of one of the first meetings of the new advisory group include the opportunity for a comprehensive discussion of the purpose and size of the University Fund.
- We recommend that the university initiate a comprehensive investigation of the quality and reliability of the data that support the budget model both centrally and locally, and provide a report on findings and recommendations to the new advisory committee.
- We recommend that consideration be given to the feasibility of differential prices for net assignable square meters (NASMs, i.e.,

space), specifically ones that more accurately reflect true operating costs.

- We recommend that, should differential pricing be introduced, it be done in such a way as to preserve the implicit research support provided by the single NASM price, and that this support be explicitly directed towards research that uses space for which the true operating costs are high.

XII. A Postscript on Communication

We are persuaded that individuals at McMaster, even those displaying the negativity discussed in the section on cross teaching, understand the benefits of an attribution-based budget model. Certainly nobody advocated for a return to the incremental model previously in place. Indeed, we would go further. The current model is fundamentally sound. In particular, the arrangements for cross teaching are working well, and should not be further adjusted. Therein lies a communications opportunity.

We are presuming that our report will eventually become a public document. We recommend the development of an internal communications plan built on our report's primary, and positive, message that the model now in place is fundamentally sound and working well.

Some might take the view that with this recommendation we are drifting outside our mandate. Our response would be to suggest that, to a limited extent, the negativity we encountered is a reflection of the absence of a structured communications plan. There are certainly other reasons for the negativity, notably the initial conditions, but as we have already argued, these initial conditions, though they no longer apply, still hold sway with many in the university community.

We would also argue that the many other modifications to the model, and here we are speaking more generally and not just with reference to the arrangements for cross teaching, have contributed to a widespread feeling of uncertainty. Thus, a positive message that the model is here to stay, not just generally but with respect to the details too, will, over time, engender certainty, and with certainty will come a willingness on the part of Faculties to use the budget model to good effect in support of increasing total revenue and diversifying revenue sources.

Meanwhile, behind the scenes, other recommendations could be considered and, if accepted, implemented. We refer here in particular to the need for a more structured advisory process that supports the decision-making authority of the Provost and the

Vice-President (Administration). Among other benefits, the Deans and others will thereby become part of the internal communications plan precisely because they are more centrally involved.

Finally, we turn to a quite separate communication issue, namely what Deans are told about the budget and when they are told it. Several Deans commented on sometimes receiving very little notice of changes that were to be made to the budget model. Deans also suggested that they occasionally received incorrect information about their budgets. Such situations make it difficult for Deans to engage in long term planning (which this model makes possible), or to support the budget model publicly.

Of course, some of these communications had to do with material changes to the model, and we have already strongly urged the university to resist the temptation to make any future modifications, especially if they are sufficiently major to effect material changes to Faculties' budgets. Therefore, this issue may not arise in the future. It is though worth noting that if, as we are now recommending, the Deans and others have a formal advisory role and are routinely part of the discussions about the budget model, the issue may, for the best of reasons, not arise even if material changes are in play.

Appendix A

Budget Model Review Committee
Terms of Reference

The committee is asked to review McMaster's budget model to critically assess the strengths and weakness 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 set of principles.

As preparation for this task the committee will:

- Review any background documentation received in advance of its McMaster meetings including the Budget Model survey responses.
- Engage key stakeholders: Budget Envelope holders, MSU/GSA executive, and MUFA Budget Advisory group to determine their experience with the model.
- Gather input on the strengths and challenges of the budget model as perceived by the McMaster community.

The committee's report will address the following questions:

- Are the principles underpinning the model still appropriate?
- Are the budget model and its associated processes upholding these principles?
- Does it enhance the academic mission of the University?
- From a strategic and technical perspective
    i. What are the strengths of the model and its processes?
    ii. What are the challenges of the model and its processes?
    iii. How might any challenges be best addressed?
- Are the bins and drivers still appropriate for the attribution of revenues and expenses?
- Has there been a notable impact on the research mission of the university?
- Is the cross teaching formula appropriate and creating the correct incentives?
- Is the model incenting innovation and optimal use of resources?
- Are there any unintended consequences or perverse incentives and, if so, how should these be addressed?
- Are the information and the tools needed to effectively function within the model readily available?
- Is the University Fund rightsized?

Appendix B

Meeting List

Monday, April 10, 2017

8:30 am – 9:15 am	Review Team Introductory meeting: David Wilkinson, Provost and VP Academic, and Linda Coslovi, Executive Director, Finance and Planning (Academic)
9:15 am – 10:00 am	Budget Model Implementation Team: Linda Coslovi, Lou Mitten, Dee Henne, Iain Clarkson, Jacy Lee, and John Dube
10:00 am – 10:30 am	Len Waverman and Susan Mitchell, Faculty of Business
10:30 am – 11:00 am	Mary Williams, VP Advancement and team
11:00 am – 11:45 am	Roger Couldrey, VP Administration and team
12:00 am – 1:20 pm	Lunch with past and present members of the Budget Committee: Vishwanath Baba, Juliet Daniel, Karen Bird, and Naby Nikookaran
1:30 pm – 2:30 pm	Sean Van Koughnett, AVP Students and Learning Doug Welch, Acting Dean of Graduate Studies Vivian Lewis, Librarian Jennifer McKinnell, Librarian, Faculty of Health Sciences
2:30 pm – 3:00 pm	Ken Cruikshank and David Kingma, Faculty of Humanities
3:00 pm – 3:30 pm	Paul O'Byrne and Sue Galloway, Faculty of Health Sciences
3:30 pm – 4:00 pm	MSU President and GSA President
4:00 pm – 4:45 pm	McMaster University Faculty Association (MUFA): Laura Parker and Khalid Nainar

Tuesday, April 11, 2017

8:30 am – 9:15 am	Rob Baker, VP Research and team
9:15 am – 10:00 am	Patrick Deane, President
10:00 am – 10:30 am	Bruce Milliken and Kathleen Blackwood, Faculty of Science
10:30 am – 11:00 am	Jerry Hurley and Rose Mason, Faculty of Social Sciences
11:15 am – 11:45 am	Ishwar Puri and Nancy Balfoort, Faculty of Engineering
12:30 pm – 1:30 pm	Town Hall Meeting