Shock Doctrine at Queen's University: Budget cuts and austerity in context

As university administration has made clear, Queen's University is facing budgetary pressures based on funding decisions made at the Provincial level among other factors. However, the scale, speed, and unnuanced manner in which these pressures are being handled by university administration needs further justification as it is placing the costs of austerity onto students, staff, and faculty. As announced in the *Queen's Gazette*, the university has enacted a hiring freeze and is currently tasking units with significant budget reductions in 2024-25 and 2025-26.

Unfilled positions and budgetary pressures have already placed so much stress on staff that Queen's Provost sent out an e-mail outlining mental health supports for overworked employees. These effects will next be felt by the student community as they may be presented with less staff support, fewer courses, and larger class sizes due to budget cuts.

As outlined below, the university's decision to enact rapid budget cuts comes within a context when a longer time horizon to make budget cuts and alternative paths to help achieve fiscal sustainability may be available. This document highlights key contextual points for the budget crisis Queen's, including:

(1) The resources that may be available for Queen's University to take a more balanced approach to addressing its budgetary pressures.

(2) How the operating deficit from 2022-23 was enlarged by a transfer into the capital budget rather than only ongoing costs.

(3) Placing the projected $62.8 million operating budget deficit used to justify cuts within the context of a consistent pattern of overestimating deficits (by an average of $44 million over the past six years).

(4) Describing Queen's approach to budgeting for, and utilizing, investment income from its $2 billion in investment funds and alternative approaches which would lessen pressure on the operating budget.

Queen's is undertaking drastic cuts rapidly in a manner that an independent bond rating agency has stated is unnecessary due to the university's high reserves and low debt ratio.

- Independent bond rating agency DBRS Morningstar in a May 2023 report stated that Queen's University has "one of the strongest liquidity positions" (p.2) of any university it rates. According to their analysis this "provides financial flexibility to endure a difficult operating environment without the need to make drastic cuts that could affect its core academic mission" (p. 2). DBRS Morningstar reports that Queen's University has $786.6 million in expendable resources to manage budgetary pressures. This figure can be roughly verified by looking at the university's Primary Reserve Ratio, which again indicates strong financial health (p. 14).
- Queen's accumulated over $600 million in surpluses between 2013-2021 and by tracking the growth of various internal funds, as well as the figures reported by DBRS Morningstar, it is appears that Queen's has a strong fiscal position in the face of its projected financial pressures. These figures indicate that the university has built up resources it can draw upon to enact cuts in a more nuanced manner over a longer time horizon. While much of the capital accumulated during this time is now in specifically earmarked reserves, these funds were built during a strong financial period and could be made available during this time of stress.

- Further, Queen's currently has a low Interest Burden Ratio and is, thus, not overburdened by existing debts and could consider increasing debt if needed to preserve the academic mission of the university (p. 15).

Last year's operating budget deficit was enlarged by transfers out of operating budget into the capital budget. Queen's University as a whole had a $15.6 million surplus.

- As described in Queen's 2022-2023 Annual Financial Report, higher than projected expenses in the operating budget last year were "due to capital transfers to fund internally financed capital projects" and this was "offset by the units experiencing lower than budgeted salaries expenditures due to higher than anticipated vacancies and delays in hiring" (p. 16). Based on this reporting, it appears that the reduction of the deficit made by staffing restrictions was offset by a transfer to the capital budget and this, in effect, increased the operating budget deficit (a figure which has subsequently been used to justify austerity).
- This $55.8 million in interfund transfers out of the operating budget in 2022-23 was greater than the year before ($39.3 million) and projections for the coming year ($24.9 million). These transfers helped create the $50.5 million operating deficit mentioned above. Based on such transfers the capital budget had a $48.6 million surplus, helping drive the university's overall surplus of $15.6 million.
- This transfer was used to pay for the remaining portion of the Queen's Centre construction costs and it is unclear why the university felt this internal loan needed to be repaid at this moment. Further, this transfer is not mentioned in public discussions when austerity measures are justified based on the use of reserves to address last year's operating budget deficit.

Queen's University has a consistent pattern of overestimating budget deficits.

- As shown in the table below, the university has consistently overestimated budget deficits by an average of $44 million per year over the past six years. The one exception was last year's budget (see above discussion). This is a prudent accounting practice. However, this becomes a problem when opening projections are used to justify austerity without the needed context that such projections are not realized figures and may be overestimated.

	Projected	Actual	Difference
2017-18	-$11	$41.6	-$52.6
2018-19	$8.3	$61.8	-$53.5
2019-20	-$17.8	$15.4	-$33.2
2020-21	-$24	$90.1	-$114.1
2021-22	-$40.1	-$22.2	-$17.9
2022-23	-$43.5	-$50.5	$7

All figures in millions (CAD)

- Queen's latest financial projections to the Board of Trustees verifies this pattern, stating that "Consistent with prior years, the projected deficit is lower than budgeted" (p. 1) when discussing last year's figures before year end. This pattern of overestimating deficits is something that Queen's financial team has reported upon in conversations with university leadership, but one that is not made clear when next year's projected deficit is discussed as an uncontroversial figure and a justification for drastic cuts. This is not to say that there is no pressure on the budget, but rather that there may be room to take a more measured approach to adjusting to this pressure.

The university is placing pressure on the operating budget by preserving its investments over providing the resources needed by students, staff, and faculty.

- Queen's University has a conservative approach to how investment income funds the university's academic mission. This means the preserving the capital of its investment funds is prioritized over funding the resources students and staff need, even during times of financial pressure.
- This prioritization of preserving investments can mostly clearly be seen in how income generated from the university's Pooled Investment Fund (PIF) of $561 million (as of September 2023) is budgeted for. The university has made the decision to limit the budgeted use of the fund's investment income to $5.2 million in order to "preserve the nominal capital of the fund" and has not scaled up this amount since 2016-17 despite the PIF growing from $210 million to $561 million over this time. This lack of increase counters the precedent of scaling up budgeted income from the PIF as the fund grows. Notably, in 2016-17 the budgeted income from the PIF was increased from $4.2 million to $5.2 million in recognition of the fact that the fund's value had risen from $155 million (2012-13) to $210 million (2016-17) and that it was therefore producing more investment income.
- For context, the current budgeted PIF income of $5.2 million is 0.9% of the fund's total capital and Queen's receives an average annual return of 8% per year on comparable investments on its endowment. This pattern is noted in the 2023-24 Annual Budget Report, which highlights that the budgeted income from the PIF "is typically lower than the average annual actual expected annual income" (p. 22). If the university were to increase the budgeted income from the PIF in the operating budget to 2016-2017 levels (as a ratio), the budgeted amount would rise from $5.2 million to $13.89 million. This would reduce the opening pressure on the operating budget and constitute a still conservative 2.5% of the total value of the fund, far less than average investment returns. Based on past investment returns and current budgetary pressures, there may be an argument for increasing this ratio even further to preserve the university's academic mission.
- The 2023-24 Annual Budget Report also states that investment income from sources like the PIF is held in the University Fund which then allocates spending. Current allocations from the University Fund includes transfers to faculties/schools to support research (p. 6-7) and this suggests there is a mechanism for an increase in budgeted PIF income to be utilized in ways that can reduce the need for cuts.
- This prioritization of maintaining investments can also be seen in the Pooled Endowment Fund which has a target disbursement rate of 4%. For context, the Federal Government recently enacted a policy change requiring that charitable foundations must disburse a *minimum* of 5% of their endowment. Queen's is under no obligation to reach this amount, but this disparity highlights comparable standards. Further, while Queen's is restricted in the use of much of the endowment, according to DBRS Morningstar and Queen's own financial statements, $258 million of this fund is only internally restricted and can be used if the university chooses. As described in internal presentations, "the Board of Trustees may decide to unendow amounts [of internally restricted funds] should the need arise" (p. 10). There may be flexibility to increase the disbursement rate to meet the standard set by the Federal Government while still maintaining a disbursement rate below annualized returns. Drawing on internally restricted endowment funds to increase the disbursement rate from 4% to 5% would allow Queen's to add over $10 million to the yearly funds available to the university in a flexible manner.