

## **UFV Budget Modeling Discussion Paper**

### **Introduction:**

With the transition of UFV to a university and the development of a new Strategic Plan, the office of the Chief Financial Officer was tasked with development of a new financial model for the institution. Many environmental factors have changed for UFV. There is a need for UFV's financial model to be more transparent, engaged with a new governance structure, and provide incentive and flexibility for administrators and faculty to be entrepreneurial and cost effective in achieving the universities goals and objectives.

To reflect the goals of UFV's new strategic plan, a new financial model must help UFV:

- Ensure decision making is evidence based, transparent, and accountable;
- Align authority and responsibility of financial budgets with appropriate unit leaders;
- Establish educational, research, service, and human resource plans with measurable targets that recognize and respect the financial limitations and serve the goals of the University;
- Provide incentives to meet institutional goals and contractual commitments;
- Promote widespread participation in decision-making and governance consistent with legislation and best collegial practices;
- Pursue revenue-generating opportunities that provide the financial support needed to fulfill the goals of the University while respecting its values and integrity

There are a number of models to consider and a committee has been struck to review the different models and make a recommendation with an implementation plan.

### **Background:**

UFV is a provincially funded institution and receives a block grant from the Ministry of Advanced Education and Labour Market Demand (ALMD) and from the Industry Training Authority (ITA) that is program specific. Over the past 7 years UFV has been given additional growth funding from the province as part of their Strategic Investment Plan (SIP). This has funded an additional 1,662 student FTEs since 2004/2005. UFV receives annually a 3 year projection of our ALMD grant and there is no projected increase in our Grant funding for general student FTE seats. Funding received from Provincial grants are not adjusted for inflation, but have funded negotiated salary increases.

Domestic Tuition revenue generates 23% of UFV's operating revenue and for the past 5 years domestic tuition rate increases have been limited to a 2% increase annually by the Ministry; however, new programs are able to set a differential tuition rate in their first year.

UFV consistently meets and exceeds their student FTE target set by the province. In the Fall of 2010 UFV had to stop accepting registrations as it had reach capacity.

The budget process at UFV has evolved, but certain longstanding characteristics remain prominent today. Overall, the university employs an incremental budgeting process, the most commonly used budgetary approach in higher education.

In general, incremental budgeting builds upon historic spending patterns, allowing gradual changes in resource allocations as circumstances warrant. Additional revenues have been distributed by a SAG Budget committee, based upon ability to meet targets attached to funding and/or on negotiation of institutional priorities. When resources decline, across-the-board reductions or targeted reductions usually are implemented.

Incremental budgeting promotes financial stability for departments and faculties as units generally receive similar resource allocations each year. From a management perspective, incremental budgeting is simpler to implement and oversee than any other budgetary approach. Some of the problems with this budget approach found at various institutions are that resource decisions do not require full consideration of what is being accomplished with the base budget or the impact that resource allocation decisions may have on future revenues. Since the status quo is assumed for much of the overall budget, incremental budgeting may not effectively support or adapt to strategic planning visions or optimize what could be accomplished with an institution's resources. In many cases, incremental budgeting can lead to inadequate consultation and/or an understanding of resource allocation decisions by the university community. This can result in a disconnect between central decisions and the implementation of these decisions by faculties and administrative units.

At UFV, the Budget Office coordinates the compilation of the annual budget. Incremental and contractual costs are calculated along with any anticipated changes in revenues. Budget Guidelines and Principles are drafted, reviewed by SAG, Senate and the Board of Governors. Budget Scenarios are developed and budget templates are compiled from the faculties and administrative units. SAG Budget committee prioritizes resource allocations and/or reductions until a balanced budget is developed. The budget recommendation then goes through SAG, Senate, Budget Advisory committee, and sent to the Board for approval. The budget recommendations are presented at university wide forums.

With the change to University status and the new bicameral governance model that is installed, UFV must find a new budget process to incorporate senate in the budget advising process and reflects the goals of the new strategic plan.

#### **Environmental Scan:**

- **Internal:**
  - Multiple Campuses
  - Space limitations

- Seat Occupancy near 90%
- Under resourced academic administration
  
- Still adapting to University status
- Centralized Budget decision making – Incremental and Planned Growth Budgeting
- Small Class sizes
- Increasing International student enrolments
- Contractual Considerations to adhere to
- Collective Bargaining in process
- Administrative re-organization in progress
- Many acting administrative positions
  
- **External:**
  - No growth funding and no inflationary funding
  - Domestic Tuition fee increases capped at inflation – 2%
  - Economic Recession causing temporary increase in applications & enrolment
  - Age 18-29 population growth projections for Fraser Valley higher than provincial average
  - High School Transition rates in Valley lower than provincial average
  - Competition from other public and private institutions increasing
  - Government targeted growth areas – Health, Skilled Trades, Graduate, Adult Basic Ed, English language, Adult Special Ed and programming for Aboriginals

#### **UFV Budget Model Committee Objectives:**

With an understanding of current fiscal realities and the resulting challenges facing UFV as it pursues its mission, the Budget Model Review Committee will organize its work around these primary questions:

1. *Are there changes to UFV Budget model that would better align financial resource allocation with strategic goals?*
2. *Would these changes aid academic planning and allow UFV to navigate through various financial situations?*
3. *How would a new budget model best be tailored to meet the specific needs of UFV?*
4. *How should a new budget model be implemented at UFV?*

#### **Budget Model Evaluation Criteria:**

- Advance the university's mission through a greater alignment between financial resource allocation decisions and university priorities;

- Place a premium on program quality and long-term accomplishments rather than short-term financial gains;
- Ensure that all decision making is evidence based, transparent and accountable;
- Promote fiscal responsibility;
- Promote innovative and entrepreneurial activities that are financially viable;
- Preserve high-quality programs central to the university mission that may not be financially self-sufficient;
- Achieve greater transparency in departmental, school, faculty, campus, and university fiscal decision making;
- Promote widespread participation in decision-making and governance consistent with legislation and best collegial practices;
- Incentivize meeting University goals & mission;
- Ensure compliance with contractual obligations;
- Provide deans and other academic decision makers with more control and influence over financial resource decisions; and
- Improve the understanding of fiscal matters among faculty, staff and administrators.

#### **Budget Models:**

- **Incremental:**
  - Prepared based on prior year budget adjusted for contractual and other commitments. Additional revenues are generally allocated from a central authority based on priorities. Declining revenues are adjusted across the board or targeted reductions
    - *Advantages:*
      - The budget is stable and change is gradual.
      - Managers can operate their departments on a consistent basis.
      - The system is relatively simple to operate and easy to understand.
      - Conflicts should be avoided if departments can be seen to be treated similarly.
      - Co-ordination between budgets is easier to achieve.
      - The impact of change can be seen quickly.
    - *Disadvantages:*
      - Assumes activities and methods of working will continue in the same way.
      - No incentive for developing new ideas.
      - No incentives to reduce costs.
      - Encourages spending up to the budget so that the budget is maintained next year.
      - The budget may become out of date and no longer relate to the level of activity or type of work being carried out.
      - The priority for resources may have changed since the budgets were set originally.

- There may be budgetary slack built into the budget, which is never reviewed-managers might have overestimated their requirements in the past in order to obtain a budget which is easier to work to, and which will allow them to achieve favourable results.
- **Program Planning Budgeting/Performance Based:**
  - Performance based budgeting is an integrated planning approach that use statements of missions, goals and objectives. It is a way to allocate resources to achieve specific objectives based on program goals and measured results. In this method, the entire planning and budgeting framework is result oriented. For this type of advanced budgeting, which requires the definition of Key Performance Indicators (KPIs) at the outset, linking these performance indicators to resources becomes the vital part of the entire setup.
    - *Advantages:*
      - Results orientated and directly linked to the university's mission, goals and objectives.
      - Comprehensive review of all activities and resources.
      - Incentivizes Deans and administrators to university mission.
      - Resource allocations are rational and objective.
    - *Disadvantages:*
      - Time consuming to implement.
      - Requires financial training.
      - Does not support entrepreneurial activities outside of university priorities.
      - Promotes decision making for short term gains rather than long term planning
      - Volatility of funding for areas year-over-year.
- **Zero-Based:**
  - Start each budget period afresh-not based on historical data. Budgets are zero unless managers make the case for resources-the relevant manager must justify the whole of the budget allocation. It means that each activity is questioned as if it were new before any resources are allocated to it. Each plan of action has to be justified in terms of total cost involved and total benefit to accrue, with no reference to past activities. Zero based budgets are designed to prevent budgets creeping up each year with inflation.
    - *Advantages:*
      - Forces budget setters to examine every item.
      - Allocation of resources linked to results and needs.
      - Develops a questioning attitude.
      - Wastage and budget slack should be eliminated.

- Prevents creeping budgets based on previous year's figures with an added on percentage.
  - Encourages managers to look for alternatives.
- *Disadvantages:*
  - It a complex time consuming process.
  - Short term benefits may be emphasised to the detriment of long term planning.
  - Affected by internal politics - can result in annual conflicts over budget allocation.
- **Responsibility Centre Management (RCM):**
  - Decentralized budgetary responsibility and resource decision making, with the delegated authority usually residing with deans. Faculties are responsible for managing their revenues and expenditures. Surpluses and deficits carry forward to the next fiscal. Cost centres charge back to responsibility centres or are allocated a portion of revenues. Some revenue is also allocated to a central fund for institute wide priorities.
  - *Advantages:*
    - Cost centre perspective focuses unit leaders on financial consequences of their decisions.
    - Centrally managed policies and guidelines align unit spending with major strategic goals.
    - Increased budget transparency leads to heightened accountability.
    - Advanced responsibility for budget decisions may builds deans' appreciation for central decisions.
    - Distribution of financial responsibilities builds knowledge of fiscal principles across university.
    - Revenue flows naturally map student enrolment trends, incentivising unit innovation.
  - *Disadvantages:*
    - Cost unit leaders need intensive education in order for RCM to function properly.
    - Data management and storage can be complicated and costly.
    - Lack of incentive for cross unit investments.
    - Potential overlap of administrative functions across units.
    - Model nuances require consistent monitoring and attention.
    - Faculty, staff, and administration resistance also require monitoring and attention

## **Appendix I**

### **Related Documents:**

- UFV Strategic Plan “Changing Lives, Building Community”
- UFV Education Plan 2009-2011
- Strategic Enrolment Management
- Strategic Enrolment Plan 2010/11 – 2012/13
- 2009-10 to 2011-12 Institutional Accountability Report and Plan
- Campus Space Plans
- University Act
- Collective Agreement
- 2011-12 Budget Development Framework

### **Administrative Structure to Accommodate:**

- Bicameral Governance:
  - Board of Governors
    - Finance & Audit Committee
  - Senate
    - Faculty Councils
    - Budget Committee
    - Academic Planning & Priorities Committee
- Senior Administration Group
  - SAG Budget Committee

## **Appendix II**

### **New Budget Model Review - References:**

#### **Links:**

Iowa State University, Resource Management Model – Policies, Procedures and Processes; Last Updated June 24, 2009

<http://www.public.iastate.edu/~budget/buddev/RMMPPP.pdf>

Kent State University, Responsibility Centre Management (RCM) – White Paper: Review of Budgetary Methods and Roles at Kent State University; Prepared by Budget Review Committee – February 2007

<http://www.kent.edu/about/administration/business/rcm/brc.cfm>

Okanagan University College – Responsibility Center Management; Policy and Procedures Manual, January 2004.

[http://www.okanagan.bc.ca/Assets/Departments+\(Administration\)/Finance+!26+Corporate+Services/RCM/RCM+Manual.pdf?method=1](http://www.okanagan.bc.ca/Assets/Departments+(Administration)/Finance+!26+Corporate+Services/RCM/RCM+Manual.pdf?method=1)

University of Cincinnati, Performance-Based Budgeting; Implementing Performance-Based Budgeting: Lessons Learned from the University of Cincinnati; Cacubo Presentation, Larry Johnson, Karen Sullivan, Lee Mortimer, and Neal Stark, 2009.

[www.cacubo.org/pdf/Oct2009handouts/PerformanceBasedBudgeting.ppt](http://www.cacubo.org/pdf/Oct2009handouts/PerformanceBasedBudgeting.ppt)

University of Toronto – Transition to a New Budget Model at the University of Toronto; Caubo Presentation, Sally Garner, June 17, 2008.

<http://www.planningandbudget.utoronto.ca/Assets/Academic+Operations+Digital+Assets/Planning+!26+Budget/CAUBO+June2008+--+NBM.pdf>

University of Washington, Activity Based Budgeting Project; Office of the Vice Provost for Planning and Budgeting website, May 2010.

<http://www.washington.edu/admin/pb/home/opb-abb.htm>

#### **Presentations:**

Academic Impressions – Webinar: Integrated Strategic Planning and Resource Allocation; Larry Goldstein & Pat Sanaghan, November 17, 2010.

Academic Impressions – Webinar: Strategic Resource Allocation Models; Larry Goldstein, May 20, 2010.

Education Advisory Board – Beyond Responsibility Center Management: Innovative University Budget Models; Custom Research Presentation – April 16, 2010; Research Consultant Mary Meshreky.

Education Advisory Board – Encouraging Accountability through Hybrid Budget Models; Custom Research Brief October 24, 2008; Research Consultant Mary Meshreky, Practice Manager Jena Prideaux McWha.



Education Advisory Board – Encouraging Cross-Unit Investments in a Responsibility Centered Management Environment; Custom Research Brief April 14, 2009; Research Associate Nina Capriotti, Research Director Christine Enyeart.

**Books:**

Achieving Accountability in Higher Education; Balancing Public, Academic, and Market Demands, Joseph C. Burke & Associates, 2005.

Responsibility Centre Budgeting; An Approach to Decentralized Management for Institutions of Higher Education, Edward L. Whalen, 1991.

Planning and Assessment in Higher Education; Demonstrating Institutional Effectiveness, Michael F. Middaugh, 2010.

College & University Budgeting; An Introduction for Faculty and Academic Administrators 3<sup>rd</sup> Ed., Larry Goldstein, 2005.

Integrating Higher Education Planning and Assessment: A Practical Guide, David Hollowell, Michael F. Middaugh, and Elizabeth Sibolski, 2006.