Implementing a New Budget Model

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Reflections on Implementing A New Budget Model

• Should your institution adopt a new model?
• How to determine which model to adopt?
• Best practices in model development
• Guiding principles to consider
• Stages of implementation
• Challenges
Should Your Institution Adopt a New Model?

- Is the institution meeting strategic goals?
- Are revenue streams being maximized?
- Are costs being managed in best way?
- Are control processes adding value?
- Are deans and senior administration satisfied?
- Is there alignment between resource management and decision-making?
What Model to Adopt?

• Understand the culture and environment
• Identify the desired locus of decision-making
• Consider where responsibility and accountability should lie
• Determine desired degree of transparency and participation
• Evaluate available expertise
Resource Allocation Models

- Centralized
  - Zero-based
  - Formula-based
  - Incremental
  - Performance or activity-based
- Decentralized
  - Responsibility-centered budgeting
Budget Model Popularity

- Incremental—60.2%
- Zero-based—30%
- Formula—26.1%
- Performance-based—19.6%
- Responsibility-center—14.2%

Source: Inside Higher Ed’s 2011 Survey of College and University Business Officers
Best Practices in Development

- Have strong leadership support and established institutional trust
- Develop clear principles that reflect desired outcomes
- Have a communication plan/specialist
- Make decisions participatory and transparent
- Identify a trusted source of data
- Consider unintended consequences
Stages of Budget Model Development

• Establish project and decision path
• Assess preparedness of units
• Develop model, policies, future governance
• Communicate and build consensus
• Build and test model
• Develop tools and reporting
• Implement and fine-tune
Guiding Principles to Consider

• Align responsibility and authority
• Relate degree of decentralization to complexity
• Identify decision-makers closest to activity
• Balance precision and simplicity
• Outline clear and understandable rules
• Make decisions that reflect institution’s core values
Challenges

• Easier to implement in period of growing resources
• Must have institutional trust
• Create clear decision path from beginning
• Avoid duplication of services – academic, student, and administrative
• Discourage internal competition and creation of silos; encourage collaboration
• Appropriately subsidize areas of high strategic priority without creating entitlements
Lessons Learned From Those Who Have Been There

- UVa – In Process
- RPI – 3 Models in 10 Years
Why is UVa Changing?

The current model:

- Is historically based, with minimal re-alignment
- Does not standardize incentives for innovation, creativity, and revenue generation
- Does not consider all available funds
- Does not link resources and uses
- Is not transparent
- Does not align budgets with strategic priorities
Current Model

Tuition and State General Funds

Central Admin.

School A

Service Center A

School B

Service Center B
UVa’s Requirements for New Model

- Align resources and expenses with activity
- Incentivize revenue innovation
- Encourage efficient and competitive services
- Promote prudent stewardship of University resources
- Assess performance of revenue and cost centers
- Create funding for inter-disciplinary activities and strategic priorities
- Improve financial reporting
- Ensure transparent decision-making
Proposed New Model

Tuition and State General Funds

School A

School B

Service Center A

Service Center B

Central Admin.

Direct payment

tax
Work To Date

• Research peer practices
• Describe regarding current state
• Consider readiness of each school and each cost center
• Evaluate system tools
• Outline revenue sharing and cost allocation recommendations
Revenue Sharing Considerations

- Tuition
  - In-state vs. Out-of-state differential
  - Tuition discounting policy
  - School of instruction vs. school of enrollment
  - Differential tuition

- General Fund Appropriation

- F&A Cost Recoveries

- Unrestricted Gifts and Endowment
Cost Allocation Considerations

• Determine structure
  – Direct bill
  – Cost allocation
  – Off the top

• Develop cost pools and potential allocation bases

• Test and consider intended and unintended consequences
Next Steps

• Summarize proposal for president
• Determine FY14 vs. FY15 implementation
• Structure strategic and interdisciplinary funding mechanisms
• Define hold harmless (short-term), subvention, and future governance terms
• Communicate and educate
Lessons Learned Thus Far

- Make sure the right people are involved in the best way
- Need a clear decision making path and a project manager to keep moving forward
- Established guiding principles are critical from the beginning to establish parameters and framework
- Institutional trust is critical
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RPI Lessons Learned

- Three budget models – ten years
- Shared leadership, financial limitations, and then new leadership and continued financial limitations drove the changes
- What did I learn? – A budget model cannot be a substitute for leadership and decision-making
  - Decisions should be influenced by data, but all decisions should not be determined only by data and formulas
  - Budget models do influence behaviors
RPI Lessons Learned
First Model

Incremental

– Easy to administer...however
  • Maintained status quo
  • Failed to leverage opportunities
  • Not linked to planning or priorities
RPI Lessons Learned

Second Model

Responsibility Center, in decentralized, shared leadership setting

- **Strengths:**
  - Comprehensive financial framework to facilitate/justify resource allocation decisions
  - Heightened concern of financial ramifications of activity

- **Weaknesses:**
  - Investments became driven by model and not executive decision
    - Need source/mechanism to encourage new/interdisciplinary activity
    - Delay incentives
    - Review and strengthen policies
  - Need a source/mechanism to invest in cost centers/overhead AND be efficient in cost centers/overhead
RPI Lessons Learned
Third Model

Performance Planning Based, in a centralized leadership environment

• Strengths:
  – Culmination of a comprehensive, integrated planning approach
  – Cost and outcome of each action necessary to facilitate resource allocation decisions
  – All financial activity included

• Weaknesses:
  – Limited budget resources hinder effectiveness of process
Resources – Peer Websites

• University of New Hampshire – Responsibility Center Management,
  http://www.unh.edu/rcm/rcmmanual/manualtoc.htm

• University of Pennsylvania – Responsibility Center Management,
  http://www.budget.upenn.edu/rcm/index.shtml

• Ohio State, Resource – Centered Budgeting,
  http://www.rpia.ohio-state.edu/br/archive.html

• Syracuse University – Responsibility Center Management,
  http://budplan.syr.edu/BudPlan/display.cfm?content_ID=%2328%28%2D%2C%0A
Resources – Peer Websites

- University of Iowa – Task Force on Strategic Budgeting, http://provost.uiowa.edu/work/strategic-initiatives/tf-budget.htm
Resources - Books


- **Responsibility Center Management – Lessons from 25 years of Decentralized Management**, by Jon C. Strauss and John R. Curry

- **A Guide to College and University Budgeting – Foundations for Institutional Effectiveness** by Larry Goldstein

Any Questions?