Transitioning to a New Budget Model

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Agenda

• Process considerations related to resource allocation
• Considerations related to model change / development
• UVa’s experience
• Questions, comments, and reactions
Caveats

- Institutional character dictates approach
  - Culture, climate, and history
  - Desired degree of transparency and participation
  - Institutional values
  - Availability of trusted data sources / effective reporting system
  - Public versus private
Effective Resource Allocation

• Implements plans
• Responds to assessment data
• Combines top-down guidance informed by bottom-up knowledge / realities
• Uses measures consistently
  – For example, budgets should align with GAAP financial statements
Strategic Planning

Infrastructural Planning

Operational Planning

Assessment

Resource Allocation
Ideal Approach

• Driven by strategic, infrastructural, and operational plans
• Relies on a broadly participative process
• Integrates resource allocation with operational planning and assessment
• Emphasizes accountability versus control
Key Considerations

• Contingencies
  – 3 percent of expense budget

• Contraction
  – No across-the-board cuts
  – Rely on established plans and priorities
  – Lower priorities take larger cuts to protect higher priorities
  – Avoid cost shifting
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?
What Model to Adopt?

• Understand the culture and environment
• Identify the desired locus of decision-making
• Determine desired degree of transparency and participation
• Consider alignment of responsibility and accountability
Resource Allocation Models

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

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

– Total exceeds 100 percent because some institutions combine budget models

Source: Inside Higher Ed’s 2011 Survey of College and University Business Officers
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
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
Guiding Principles to Consider

• Align responsibility and authority
• Relate degree of decentralization to institution’s complexity
  – For publics, be consistent with state flexibility
• Identify decision-makers closest to activity
• Balance precision and simplicity
• Outline clear and understandable rules
• Make decisions that reflect institution’s core values
• Re-allocate, but careful not to cause harm
Core Requirements for New Model

- Incentivize revenue innovation and diversification
- Encourage efficient and competitive services
- Assess performance of revenue centers and cost centers regularly
- Identify how inter-disciplinary activities and strategic priorities will be emphasized
- Provide for hold harmless period and subvention process
Challenges

• Easier to implement in period of growing resources

• Duplication of services – both academic, student, and administrative

• Internal relationships
  o Encourage collaboration, not competition

• Manage subventions
  o Appropriately subsidize areas of high strategic priority
  o Do not establish entitlements
  o Balance significant re-allocations
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
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
Resources

Websites of Peer Institutions

- University of Florida – Responsibility Center Management, [http://www.hr.ufl.edu/training/rcm/index.html](http://www.hr.ufl.edu/training/rcm/index.html)
- Indiana University – Responsibility Center Management, [http://weathertop.bry.indiana.edu/mas/rcm/](http://weathertop.bry.indiana.edu/mas/rcm/)
- University of Iowa – Task Force on Strategic Budgeting, [http://provost.uiowa.edu/work/strategic-initiatives/tf-budget.htm](http://provost.uiowa.edu/work/strategic-initiatives/tf-budget.htm)
Resources

• Iowa State University – Resource Management Model, at http://www.president.iastate.edu/budget/rmm/


Resources

• 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=%23%28%2C%0A
Resources

Books

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


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

Articles

• NACUBO Business Officer, April 2009: The Case for Decentralized Financial Management by Scott Scarborough, at
http://www.nacubo.org/Business_Officer_Magazine/Magazine_Archives/April_2009/The_Case_for_Decentralized_Financial_Management.html
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Questions, Comments, and Reactions

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