

# UNIVERSITY BUDGETING - 101

UNIVERSITY  
of GUELPH

IMPROVE LIFE.

## OUTLINE

- What is a Budget and why are they important
- Common Budget Models
- Our Current Budget Model
- CEPS Budget Challenges and Opportunities

UNIVERSITY  
of GUELPH

## WHAT IS A BUDGET

- A budget is one of the most widely used tools for planning and controlling organizations.
- It is a summary of expected revenues and expenses for a given period based on future plans and objectives.
- Budgeting is a forward looking perspective that enables management to be in a better position to exploit opportunities and anticipate/mitigate problems.

## WHY ARE BUDGETS IMPORTANT

### WHY

- Budgets help communicate the goals or objectives of an organization
- Budgets coordinate resources so that an organization can meet its objectives.
- Budgets provide feedback on the likely effects of strategic plans.

## COMMON UNIVERSITY BUDGET MODELS

- **What is a budget model?**
  - The method or practice used by an organization to create the budget
  - Regardless of the model, an effective budget communicates, coordinates, and provides feedback
- **There are five major models with countless iterations**
  - Incremental Budgeting
  - Zero-Based Budgeting
  - Performance Based Budgeting
  - Activity Based Budgeting
  - Responsibility Centre Management (RCM)

### Spectrum of Budget Models for Higher Education Institutions

Centralized

#### Incremental Budget Models

Based on the previous year's budget, only allocates new revenue

- ✓ Stabilizes funding for academic programs
- ✓ Allows high-level strategic input into priority setting
- ✗ Reduces accountability for yearly expenditures, does not reflect changing institutional priorities

#### Zero-Based Budget Models

Rebuilds budgets each year

- ✓ Solicits input from units, eliminates unnecessary costs
- ✗ Requires significant labor and time from units and administrators

#### Performance-Based Budget Models

Awards funding based on performance, defined by outcomes standards (e.g., graduation rates)

- ✓ Increases transparency, incentivizes specific behaviors
- ✗ Requires time consuming performance reviews and allocation

#### Activity-Based Budget Models

Allocates funding based on specific activities and metrics (e.g., revenue generated)

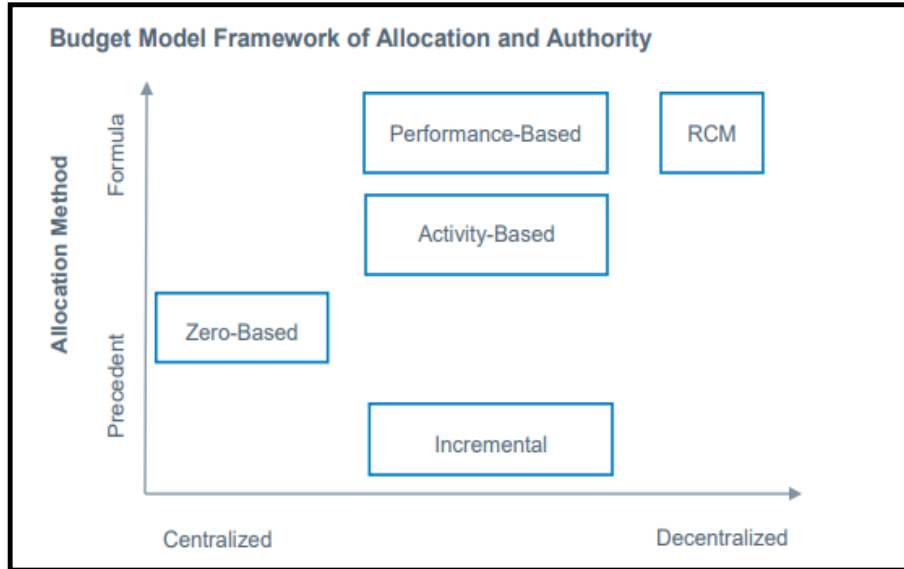
- ✓ Incentivizes desired behaviors
- ✗ Requires tracking and data reporting

#### Responsibility Center Management (RCM) Budget Models

Requires units to manage their own budgets

- ✓ Increases accountability, motivates revenue generation and expense reduction
- ✓ Assigns decision-making authority to academic units
- ✗ Causes competition among departments, difficult to implement

Decentralized



## TRENDS IN UNIVERSITY BUDGET MODELS

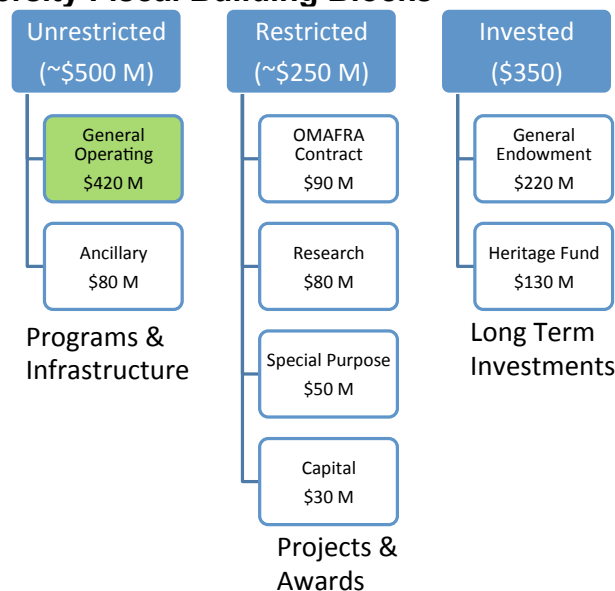
- What's been happening and why?
  - Most universities have been experiencing financial pressures with revenues not rising fast enough to cover expenses.
  - This has led most institutions to react first by implementing across the board budget cuts.
  - But....it has been challenging to cut costs strategically, in part because academic decision makers (Dean's) often lack information or the incentives to do so.
  - Leading many universities to create budget models that put more of the responsibility for strategic decisions on Dean's.

## TRENDS IN UNIVERSITY BUDGET MODELS

- **Common Objectives of New Models**
  - Increase Transparency/improve communication to campus community
  - Incentivize new revenue generation
  - Reduce non-essential costs
  - Build strategic funds
- **Key Observations on Implementing New Models**
  - There is no single best model as each institution is unique.
  - Budget models do not make decisions, people do.
  - Benefits can be difficult to quantify but not the costs which are typically high
  - In the end most adopt some form of a hybrid model

## BUDGETING AT THE UNIVERSITY OF GUELPH

### University Fiscal Building Blocks



## BUDGETING AT THE UNIVERSITY OF GUELPH

- **Incremental Approach with some tweaks**
  - Based on the previous year's budget, inflates for negotiated salary increases
  - Only allocates new revenues
  - Some activity based budgeting available in addition to the base budget
    - Enrollment (Graduate, Distance Education)
    - Returned research overhead
  - Historically has utilized differential budget cuts to reallocate resources

## BUDGETING AT THE UNIVERSITY OF GUELPH

- **Advantages**
  - It is simple to understand, manage and set high level strategic priorities by the central authority
  - Overall it is predictable and stable at the unit level
  - Historically it has shared resources equitably across campus...although this is likely not the case today!
- **Disadvantages**
  - Difficult to maintain when revenues are no longer growing like in a corridor funding model
  - It lacks transparency and leads to both real and perceived inequity of resources across campus
  - Creates disincentives to grow revenue or control costs
  - No linkage between potential for growth and investments

## **BUDGET CHALLENGES - CEPS**

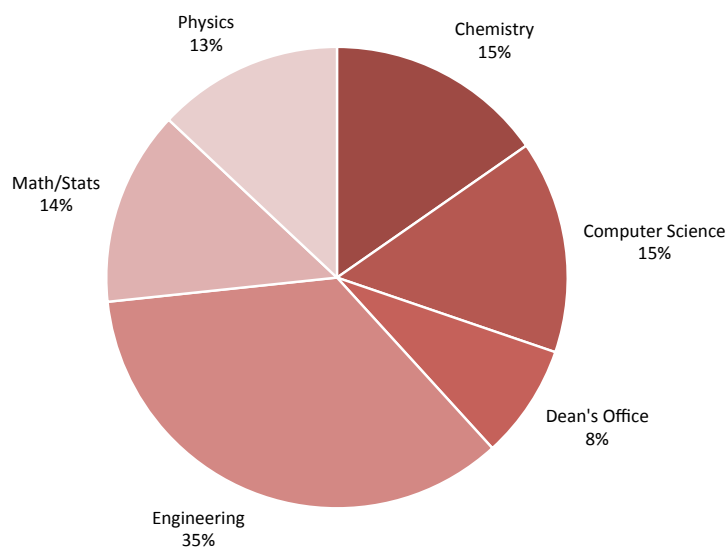
- Limited flexibility in the operating budget since the vast majority is tied to personnel costs
- Previous budget cuts were significant
- Rapid growth in undergraduate enrollment has constrained existing resources
- Limited incremental funding available from central
- No budget inflation for operating and other expenses
- Limited opportunities to generate new sources of funding
- No incentive to grow revenue, control costs, or innovate at the College or unit level

## **BUDGET OPPORTUNITIES - CEPS**

- CEPS has generated a one-time budget carry-forward that can be used for strategic investments (one-time budget)
- Faculty/Staff renewal; budget savings from future faculty retirements can be reinvested in areas of need
- New revenue generating programs/courses ex. professional masters
- Realignment of service delivery within CEPS may yield savings
- Donations and sponsorship ex. Naming of Departments/ Schools/College
- Research Partnerships ex. Research/Endowed Chairs, industrial research contracts

College Of Engineering & Physical Sciences Forecasted Operating Results - 2017/2018 (in thousands of dollars)			
	Forecast Budget Variance		
<b>Revenue</b>	738	447	(291)
<b>Expenses</b>			
Personnel	35,211	34,944	(267)
Travel	332	152	(180)
Operating	2,811	2,623	(188)
Equipment >\$5K	1,227	30	(1,197)
Internal Charges	624	515	(109)
Internal Recoveries	(1,017)	(472)	545
Research Indirect Charge	0	520	520
Transfers	655	(105)	(760)
<b>Total - Expenses</b>	<b>39,843</b>	<b>38,207</b>	<b>(1,636)</b>
<b>Expenses Less Revenue</b>	<b>39,105</b>	<b>37,760</b>	<b>(1,345)</b>
One Time - Budget Carryforwards		8,386	8,386
<b>Total- Expenses Less Revenue</b>	<b>39,105</b>	<b>46,146</b>	<b>7,041</b>
<b>Note: A negative variance reflects actual results in excess of budget and a positive variance reflects actuals results are less than budgeted</b>			

## 2017-2018 TOTAL BUDGETED EXPENSES





## DEAN'S OFFICE BUDGET

Gross Budget = \$7.0M

Accumulated  
Budget Carry-  
forward = \$3.5M

Base Budget = \$2.6M

One-  
time  
Budget  
= \$0.9M

General  
Reserve =  
\$1.2M

Commitments  
to various  
initiatives =  
\$2.3M

Salary,  
benefits and  
other  
personnel  
costs = \$1.8M

Engineering  
growth and  
other  
commitments  
= \$0.4M

General  
operating  
funds and  
discretionary  
spending =  
\$0.4M

Mainly  
graduate  
growth and  
research  
overhead  
returned