



**Budget Allocation Subcommittee:
Report and Recommendations**

I. Preamble

The Committee was asked to determine how KPU should move forward in a budget environment that needs to be strategic, accountable and transparent; i.e., the basis for making budget allocation decisions is clear and aligns with the strategic vision and goals of the University. The Budget process for the University must be clearly defined and manageable.

KPU's current budget allocations are largely based on decisions that were appropriate for the college Kwantlen was at the time they were first developed. Now that student and programming needs have changed, and continue to change, KPU has a bi-cameral governance structure (board and senate share decision-making), and the composition of the University has changed, the budgeting model must also change.

Like many public universities, KPU faces increasing pressures on revenues due to reductions in government grants while facing ever-increasing costs: wages, benefits, goods, and services. Across-the-board budget cuts often prove counter-productive, and revenue generation has been challenging under incremental budget models. In response, many universities are moving to different models of budget allocation that better support current university budgeting needs. In general, these meet the following objectives:

- **Increase budget transparency** – it will illuminate financial realities and facilitate increased accountability
- **Encourage new revenue generation** – by sharing incremental revenue with units that generate it, launching new revenue-generating programs and expanding existing ones are encouraged
- **Build strategic funds** – provide a pool of funds that can be used to support and direct strategic initiatives, subsidize non-revenue generating activities critical to mission, and encourage collaborations across units
- **Identify and reduce non-essential costs** – create incentives for units to reduce costs or increase efficiencies; every dollar saved / cost avoided can be re-invested in unit and university priorities
- **Ensure units are accountable** – for the funds that are allocated to them
- **Allow for nimble responses** – to external pressures and changes
- **Flexibility** – to accommodate breadth and diversity of the university's activities.

Key observations in the literature

- **There is no single best budget model that works for all institutions.** Institutional culture, budget history, and campus circumstances influence the right budget model for an institution at any given time. Each model has its own strengths and weaknesses; any model will need to be tweaked so it provides what an institution needs. Most have a range of allocation approaches for different kinds of revenues and costs. Hybrid models are the norm.

- **Budget models do not make decisions; people do.** Each model encourages or discourages specific kinds of behaviours, but all resource allocation decisions are made by individuals. The impact of the budget model, therefore, depends more on the quality of decision-making than on the inherent strength of the model. Budget models are not a silver bullet, but they allow for shifts the institution may deem important. Measuring their direct impact on finance is challenging.
- **While the benefits of changing budget models are difficult to quantify, the costs are easier to calculate and can be high.** Budget model change is difficult, both technically and culturally. A new budget model requires deans, directors, chairs and managers to change the way they make decisions, which requires re-training, technical support and change management approaches. This is a gradual process and not easy to measure. Usually more detailed data on costs and revenues are needed for units to better manage. Accountability measures are often introduced, requiring that attention be paid to outcomes of activities in ways not previously demanded.

II. The Committee's Approach to its Task

The Committee met between March 21 and June 4, 2014 and reviewed information on different budget models and how other institutions had implemented and evaluated them. The Committee reviewed the following budget allocation models:

- Incremental
- Zero-based
- RCM
- Performance-based
- Community-based
- Activity-based

The Committee discussed the elements of budget allocation relevant to KPU's operation and meaningful to the KPU community.

The Committee reviewed models in place or being planned at the following institutions:

- York University
- University of Minnesota
- University of the Fraser Valley
- Vancouver Island University
- Queen's University
- University of Toronto
- University of Washington
- University of Saskatchewan

Desired Elements of the New Model identified by the committee

The following elements need to be considered as KPU develops a new budget allocation framework:

- Educates the university community in financial realities, increasing the awareness of the costs of decisions
- Identifies all costs, direct and indirect, to inform decision making
- Provides opportunities for new courses/ programs/ services with a requirement for a fully developed business case (e.g., BCIT model)
- Predictable, coherent, and manageable process
- Allows for different budget models to fit different areas
- Leads to increased awareness of risk and improved risk management
- Net benefit of the new model will be increased effectiveness (flexibility and adaptability) for the whole University to meet changing demands

- Encourages profit-making activity and sharing
- Employs metrics, performance targets, key performance indicators (KPIs)
- Recognizes the breadth of university priorities in making decisions
- Encourages greater ownership and accountability by all stakeholders

Rationale for Change:

The Committee determined that current budget model (incremental):

- does not align with the academic, resources, and strategic plans,
- does not allow for reallocation of budget to address new priorities,
- lacks provisions for financial accountability for units and Faculties ,
- does not support external demands for accountability which have increased exponentially (i.e., government, industry and the public),
- was developed for a much different level and model of government funding (now providing only 50% of total University funding, primarily in a block) ,
- does not accommodate the social and demographic evolution of our region and student body: no longer just 18 – 25 year olds; a higher number of students attend part-time while working; and, changing workplace demands, and
- does not accommodate the institution’s change from a 2-year college to a 4-year university model.

III. Committee’s Recommendations

Recommendation #1: Over the next 3 - 5 years KPU develops and implements a hybrid budget model that fits KPU’s different units and achieves the objectives listed in the preamble. This model will comprise performance-based, activity-based, responsibility centre management, and centralized budgeting models where each is applied to the particular KPU operation it best suits.

The Models:

- **Performance-based budgeting** awards funds based on performance which is determined by a number of defined outcomes standards. The most effective performance budgets will show how dollars fund day-to-day tasks and activities, how these activities are expected to generate certain outputs, and what outcomes should then be the result. Linking the funding to the results they deliver lends an increased level of transparency to expenditures.
- **Activity-based budgeting** awards financial resources to institutional activities that produce revenues for the institution while covering the costs incurred in doing so. The revenues should be linked to broader strategic objectives.
- **Responsibility Centre Management** delegates operational authority to an operational unit which must generate sufficient revenue to pay its operating costs and a share of University overhead, and return a portion of its net revenue to the University’s central budget
- **Centralized budgeting** requires all decision-making powers to be in the hands of upper level administration. This model allows the University to navigate difficult financial circumstances that require decisions to be made for the university as a whole. In a system combining centralized budgeting with another process, the rationale for choosing which units are centrally budgeted may vary. For example, when combined with performance-based funding, institutions might centrally budget those divisions for which no performance metrics can be reliably identified. Another reason to implement centralized budgeting is that some expenses are necessary to the basic functioning of the institution and are, therefore, not optional.

Recommendation #2: Develop a consultative process with KPU’s internal community and stakeholders to refine elements of the transition to the new budget model which will support achievement of the goals of VISION 2018.

This consultation will include:

- Deans, directors, business managers, the Senate Standing Committee on University Budget, representatives of Faculty Councils, Financial Services Budget and Planning Office, and others currently involved in budget preparation and management

This consultation will do the following:

- Address the knowledge gap: how much are we currently spending on different activities
- Discuss different funds and their role: e.g., capital, university priorities, contingency, furniture, fixtures and equipment (FF&E) funds
- Discuss ancillary operations and revenue generating activities
- Increase general awareness of the following:
 - KPU cannot rely too much on International Education and Continuing & Professional Studies revenues; both are volatile, not completely controllable, and finite.
 - Government can no longer be regarded as the major source of revenue. Government funding is currently declining. Provincial budget constraints include tuition controls and changes in the areas targeted for existing funding
 - Total cost concept: items such as lab kits, nursing kits, etc., must be priced to cover all costs.
 - University resources and central services: e.g., space, utilities, printing, marketing, security, etc., all have a cost which must be part of decision making.

IV. Implementation Steps

A Budget Model Steering Committee (BMSC), which may appoint members to working groups as required, will oversee the development and implementation of the new budget model. Implementation of the new budget model will be phased in over three years and will be reviewed after three full years of implementation.

Year 1 (FY14/15)	Year 2(FY15/16)	Year 3 (FY16/17)	Years 4 – 6 (FY17/18/19/20)	Year 7 (FY 20/21)
President appoints BMSC. Terms of Reference will be developed.				
Draft definitions, formulae and metrics; (consult with organizational units for suggestions);	Test definitions, formulae and metrics with the FY15/16 budget developed using current allocation model; revise where necessary	Develop a shadow budget; units are given both (total \$\$ amount will be the same)	Use only the new model	Conduct a review of the new model’s effectiveness on multiple criteria
Clarify principles underpinning the new model				

Year 1 (FY14/15)	Year 2(FY15/16)	Year 3 (FY16/17)	Years 4 – 6 (FY17/18/19/20)	Year 7 (FY 20/21)
BMSC manages University-wide consultations and information process	University-wide consultations / information process continue	Education, consultation, evaluation Publish FAQs	Monitor process; tweak if needed	University consultations
Regular updates to SSCUB and other University stakeholders	Regular updates to SSCUB and other University stakeholders	Regular updates to SSCUB and other University stakeholders	Regular updates to SSCUB and other University stakeholders	Regular updates to SSCUB and other University stakeholders
Consult with IA&P re: collecting and maintaining data needed for performance metrics and drivers	Refining etc. data needed/ collection methodology	IAP shares the metrics with the Steering Committee and units	IAP shares the metrics with the Steering Committee and units	IAP shares the metrics with the Steering Committee and units

V. University Operations and Budget Drivers

The new budget model will base funding allocation on defined metrics. The Committee identified six distinct types of University operations, each of which requires different budget treatment:

- Education Delivery,
- Educational Support,
- Administrative Services,
- Capital Budgets,
- University Strategic Priority Funds, and
- Ancillary and Revenue Generating Services and Activities.

University Operation	Budget Model	Possible Budget Drivers	Notes
1. Academic units (Faculties) Base-funded programs/ domestic students	Performance-based	education delivered (FTE or credit or SCH) domestic and international by course, program, and Faculty programs should get some recognition for courses delivered to international students do we look at course fill rates, retention?	Need to recognize <ul style="list-style-type: none"> • variable cost per course/ per FTE • lab/ shop/ studio instructional costs • lab/ shop/ studio equipment and supplies costs (Overhead) • program-specific cost structures (e.g., different class sizes) • collective agreement effects costs (class size and contact hours) • specific operating/ funding circumstances for some areas (e.g., trades, nursing) • Key performance

			<p>indicators</p> <p>NOTE: each Faculty will stay at the proportion of FTEs it currently has??</p> <p>Q. When do overhead charges kick in?</p>
1.b Academic units – full cost-recovery courses	Activity-based budget model and/or Responsibility Centre Management		<p>What are the metrics? Should be giving greater opportunities to the Faculties and to the service units</p> <p>Q. What about 2nd tier tuition for courses if allowed?</p>
2. Educational Support (e.g., Library, Counselling, Advising, Student life, Office of the Registrar, IET, ORS, T & L, Marketing, Recruitment, Office of International Students and Scholars)	Performance-based	<ul style="list-style-type: none"> • Base operating cost (average previous 3 years to start) • Student/Faculty headcount numbers drive changes in subsequent budgets • New programs influence costs of educational support • Appraisal of services, key performance indicators, usage figures, external benchmarks, external research funding (metrics) 	
3. Administrative Services (e.g., Facilities, Finance, HR, President's office, IAP, Security)	Performance-based	<ul style="list-style-type: none"> • Base Operating Costs (average previous 3 years to start) • Appraisal of services, efficiencies • Reduction of duplication of services – economies of scale • Employee Headcount, Student Headcount, external benchmarks (metrics) • External reporting requirements • External controls: e.g., tuition, taxes, collective agreements 	

University Operation	Budget Model	Possible Budget Drivers	Notes
<p>4. Capital Budgets:</p> <ul style="list-style-type: none"> • Major capital (new buildings and major renovations) • Information Technology infrastructure renewal • Buildings and Grounds infrastructure renewal • Furniture, Fixtures and Equipment • Renovations 	Centralized and performance-based	<ul style="list-style-type: none"> • Student and/ or employee numbers • Lifespan of building and equipment • Space usage • Facility Condition Index 	These budgets are funded through transfers from KPU funds and are centrally managed. They are needed to replace, renew and acquire non-consumable items:
5. University Strategic Priority Funds	Centralized and performance-based	Align with the strategic, academic and resources plan Response to changing environments Response to opportunities Fund strategic community service activities which require subsidy	These funds support new initiatives, innovations, and institution-wide strategic priorities. They are funded through transfers from operating budget, based on a percentage of revenue generated, and/or a per/FTE levy and are centrally managed. Annual reporting with rationale
<p>6. Ancillary & Revenue Generating Services _Activities:</p> <ul style="list-style-type: none"> • International students and projects • Continuing and Professional Studies • Externally funded research • Bookstore and like operations • Food Services – Contract • Parking - Contract • Sales and services • Residences 	Responsibility centre management		These services and activities are expected to cover operating costs and generate funding for the University, and formulas will need to be developed for sharing revenue generated

VI. Budget Model Development Process

The Committee identified some issues to be addressed around the current budget development process:

- How can KPU develop practices for cooperative budget submissions?
- How can different units become aware of cross-institutional impacts of specific budget proposals?
- Can IT submissions be integrated with other University submissions?
- Can KPU develop a process for joint budget submissions?

As a first step, the VP Administration and Finance has drafted a new process for budget development (April 2014). See Appendix A.

In its discussions about implementation of the new budget model, the Committee raised a number of points that need to be addressed by the Budget Model Steering Committee. Some of these are listed in Appendix B

Conclusion

The Budget Model Committee requests the acceptance of its report by the Resources Planning Task Force.

Appendix A: PROPOSED 2015-2016 Budget Development Process – Key Dates

DATE	ACTIVITY	NOTES
June 2014	<p>SSCUB provides advice on budget development principles and criteria for submission to Senate (based on Strategic Plan, Academic Plan and Resources Plan)</p> <p>VP F&A presents preliminary 2015-2016 financial forecast to SSCUB. This includes revenue and expense projections including ongoing commitments previously approved by the Board of Governors and Senate.</p> <p>Notice sent to Faculties and Service Units requesting budget proposals for FY 15/16 and their vision budget proposals for FY16/17 and FY17/18 to the University Budget Office by October 3, 2014</p>	<p>SSCUB meets on Friday June 13, 2014 Senate meets on Monday June 23, 2014</p> <p>At SSCUB Meeting To deans and directors</p> <p>On June 24, 2014</p>
September 2014	VP F&A presents preliminary 2015-2016 financial forecast at 4 campus forums, to Faculty Councils, to the Administrative Managers Group (Group of 50), KSA, BCGEU and KFA.	<p>Campus Forums – Week of September 21-26, 2014</p> <p>Presentations at regularly scheduled Faculty Council Meetings and Administrative Managers meetings</p>
October 3 2014	Deadline for submission of budget proposals	Faculties and Service Areas
TBD by Individual Faculties	Faculty Councils submit their Faculty's Academic Priorities to SSCUB and to the Vice President Academic	Faculty Councils
October 10, 17 & 24, 2014	Budget Presentations	Faculties and Service areas present their budget proposals to the President, Vice Presidents, Executive Director Financial Services & SSCUB (presentations are open to the KPU community)

October 31 2014	Budget Proposals posted on SharePoint	Financial Services
November 14 2014	Based on the budget presentations, SSCUB provides advice to the President on Senate's priorities for budget development	SSCUB
November 2014	Draft budget developed based on Strategic Plan, Academic Plan, Resources Plan and Senate's approved principles and criteria for 2015-2016 budget development	VP Finance & Administration, Provost, Executive Director Financial Services
December 2014	Meet with Deans and Directors to discuss 2015-2016 draft budget	VP F&A, Provost, ED Financial Services
	Meet with SSCUB to present the 2015-2016 draft budget	VP F&A, Provost, ED Financial Services
January 2015	Draft Budget Consultations at 4 campus forums, to Faculty Councils, to the Administrative Managers Group (Group of 50), KSA, BCGEU and KFA. SSCUB reviews the Draft University Budget	Campus Forums – Week of January 19, 2015 Presentations at regularly scheduled Faculty Council Meetings and Administrative Managers meetings January/February meetings Consultations with APP
February 2015	SSCUB develops advice and recommendations on the Draft University Budget for consideration by Senate Senate reviews Draft University Budget and drafts advice to the Board of Governors	SSCUB Senate
March 2015	Board Finance Committee reviews proposed 2015-2016 Budget and makes recommendation to the Board of Governors	Board Finance Committee
March 2015	Board of Governors reviews proposed 2015-2106 Budget	Board of Governors
May 2015	VP F&A presents capital budget to SSCUB	At SSCUB Meeting

APPENDIX B: ISSUES REFERRED TO THE BUDGET MODEL STEERING COMMITTEE

Miscellaneous Questions and Comments:

- Where do community service courses and other similar programming belong? For example, TALK could be performance based (enrolments) or activity based with a subsidy. Who benefits from such programming? Should they be a protected area within the Faculties that deliver them, or charged to the special priority fund? How should KPU balance financial goals, vision 2018 goals and social objectives?
- What is the real, complete cost of each program? What is the break-even point in terms of student enrolment?
- Clearly distinguish between operating and capital costs.
- Full cost programs will need higher level of services. How will this be accounted for?
- How are the Faculties encouraged to generate revenue?
- How will external needs be addressed in the budget process? How does the budget process promote flexible and responsible actions?
- What precautions will discourage competition arising as a result of the new level of transparency?

APPENDIX C: SELECTED REFERENCES

CAUBO, Revenue and expenditure by fund 2011/12 for selected universities

Exploring Alternative Budget Models, a custom research brief, Education Advisory Board, Washington, D.C. 2013

Implementing a Value-Based Financial Model at the University of Kentucky, September 2013 (conference paper)

Moving to a Responsibility-Centred Budget Model, Academic Impressions, Denver, CO, webinar, February 2014

Performance Based Budget Models Implemented at Individual Institutions and State Systems, a custom research brief, Education Advisory Board, Washington, D.C. 2012

PRASE, Report of the Working Group on Budget Modeling Stage 1, York University, May 2012:

http://prase.news.yorku.ca/files/2012/05/PRASE-WGBM_Paper2012_May-9.pdf

Six Alternative Budget Models, Hanover Research, 2012. <http://www.hanoverresearch.com/insights/6-alternative-budget-models-for-colleges-and-universities/?i=higher-education>

Transition to a New Budget Model at the University of Toronto, CAUBO June 2008

<http://www.planningandbudget.utoronto.ca/Assets/Academic+Operations+Digital+Assets/Planning+26+Budget/CAUBO+Presentation+2012.pdf>

APPENDIX D: RESOURCE PLANNING TASK FORCE: BUDGET ALLOCATION SUBCOMMITTEE MEMBERS

Kathy Lylyk, Executive Director, Financial Services, Co-chair

Gordon Lee, Vice President, Finance and Administration, Co-chair

Angela Tao, Director, Financial Planning, Reporting and Assurance

Faith Auton-Cuff, Faculty, Educational Studies

Amanda Welton, Operations Manager, Bookstore

Wayne Tebb, Dean Faculty of Business

Karen Hearn, Executive Director, Facilities Services

Jim Pelton, Executive Director, Continuing and Professional Studies

Amy Ditchburn, Divisional Business Manager, Faculty of Trades and Technology

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Support to the subcommittee: Kathleen Bigsby, Special Assistant to the Vice-President, Finance and Administration