



Inspiring Innovation and Discovery

Committee on Alternative Budget Models

- ❑ Open House Presentation by R. McNutt, Chair
- ❑ November 5 2008

Committee Terms of Reference

- ❑ Examine all aspects of McMaster's budget policy and budget process
- ❑ Establish the vision and guidelines for the budget process
- ❑ Examine the way revenues and expenses are allocated to the units
- ❑ Address issues of accountability, performance and transparency
- ❑ Recommend changes that may be needed

Committee Membership

- K. Beldaire, VP Administration
- K. Bennett, Faculty Health Science
- I. Busch-Vishniac, Provost
- B. Campbell, Office of the Provost
- L. Mitton, Budgeting Services
- S. Crosta, Dean of Humanities
- M. Elbestawi, VP Research
- K. Hassanein, Faculty of Business
- J. Kelton, VP Health Sciences
- B. McCarry, Faculty Science, Chair UPC Budget Committee
- B. McKenna, Office of VP Research
- R. McNutt, Committee Chair
- K. Menard, Assoc VP Planning and Analysis
- G. Robinson, Student Services
- L. Scime, Assistant VP Administration
- M. Veall, Faculty Social Science, Chair Task Force TEAM
- C. Ward, Office of the Dean of Science
- J. Weaver, Faculty of Humanities
- D. Wilkinson, Dean Faculty of Engineering
- P. Wood, Assoc. VP and Dean, Student Services

- ❑ The operating budget is a tool that allows McMaster University to achieve its academic mission
- ❑ A new budget system does not create additional resources

Principles

The Committee agrees that the budget must be guided by the following governance-related principles:

- ❑ To promote transparency, trust and engagement
- ❑ To assure financial responsibility, accountability and fairness
- ❑ To advance the efficient use of physical and human resources
- ❑ To have predictability and stability
- ❑ To enable innovation, creativity and change
- ❑ To assign fiscal and academic responsibility to the appropriate levels
- ❑ To enable rapid response to opportunities

Current Operating Budget System Structure

- ❑ Budget envelope is the core component
- ❑ Envelope contains one or more operating units (e.g., a faculty, physical plant)
- ❑ Allocation of resources to an envelope is the responsibility of the Budget Committee
- ❑ Envelope budget includes all direct costs and all inflationary costs
- ❑ Net expenditures must equal the envelope allocation; surpluses/deficits are carried forward

Current Operating Budget System Framework

- ❑ Envelope funding = previous year allocation + or - **incremental** operating revenue + allocations from project funds
- ❑ Incremental enrollment revenue = 50% to Faculties, 15% to academic priorities, 35% to the centre which includes scholarships, library, registrar, physical plant, administration, etc.
- ❑ Non-enrollment revenue = recommendation from Budget Committee

Current Operating Budget System Framework (cont'd)

- ❑ Indirect cost of research = allocated to VPR, faculty, department
- ❑ Interest on working capital and internally restricted endowments = general revenue for recommendation from Budget Committee. 1% of total endowment avg. market value allocated to VPUA
- ❑ Recoveries, etc = to envelope generating the activity; in some cases, 5% to centre

Alternative Budget model

- ❑ Activity Based Budget (ABB) Models
- ❑ Also known as Resource Centered Management (RCM) or Resource Centered Budget (RCB)
- ❑ First adopted by US private universities - in use for many years
- ❑ Adopted by some US public universities about 15- 20 years ago
- ❑ A unit's activities lead to automatic flow of **revenue and costs** to these units
- ❑ At McMaster, these units are the six Faculties (and possibly some research institutes)

Alternative Budget model (cont'd)

- ❑ Faculties (and research institutes) are on activity based budgets
- ❑ Service units remain on incremental budgets
- ❑ A highly decentralized model

Flow of Revenue to Faculties

- ❑ Tuition
- ❑ Government Grants (BIU-based and others)
- ❑ Overhead on research grants
- ❑ Interest on unit's share of the endowment
- ❑ interest on the working capital
- ❑ Income generated directly by the unit

Flow of Costs to Faculties

- ❑ Salaries, benefits and any increase to both
- ❑ Operating expenses
- ❑ Space: cost of utilities, custodial, maintenance
- ❑ Scholarships and bursaries
- ❑ Capital costs for upgrades and new facilities

Attributed Costs

An essential component of ABB

A portion of the revenue **attributed** to faculties must be used to pay for the costs of the service units, both academic and non-academic. At McMaster this includes such units as the Library, Student Services, Physical Plant, HR, Senior Administration offices (President, Provost, VP Research, VP Administration, VP Development, etc)

Reviewing Models at other Universities

- ❑ Committee members reviewed several universities that have adopted ABB, and investigated three in detail:
- ❑ **Indiana University at Bloomington (IUB)** – have used a fairly pure form of ABB since 1991. One of the first state universities to adopt this model
- ❑ **University of Michigan at Ann Arbor (UM)** - have used a modified version of ABB since 1997 following the rejection of a pure form of ABB
- ❑ **University of Toronto (U of T)** – as of the 2007/08 fiscal year, have adopted a modified version of ABB

What Did We Learn?

- ❑ All three universities like the ABB model and would not return to their previous incremental budget systems

- ❑ Transparency
Awareness
Trust
Long range Planning
Innovation

- ❑ Both IUB and UM describe themselves as a “deans’ campus.”

What Did We Learn? (cont'd)

- ❑ Deans must be budget savvy
- ❑ Requires highly trained senior administrative staff in the faculties
- ❑ Requires a university to provide high quality and easily accessible data
- ❑ Attribution costs can be controversial so clarity and simplicity are essential

What Did We Learn? (cont'd)

- ❑ May produce “silos”
- ❑ May lead to course duplications and lowering of standards
- ❑ May discourage interdisciplinary programs
- ❑ The Provost and the academic approval process must prevent such actions

Assigning the Attribution Costs

- ❑ Every University that adopts ABB finds this a difficult issue

- ❑ IUB
 - began with 26 variables and it was described by some as “draconian”. Have now moved to 3 variables – student FTES, faculty and staff FTES and occupied space.
 - charges are based on expenses not on revenue

Assigning the Attribution Costs (cont'd)

- ❑ University of Michigan
 - Initially started out with 24 complex attribution models that they found no-one could understand
 - Adopted a flat tax of 24% on their general fund, plus 11% on research funds and 2% for the “name”
 - Tax is based on expenses not on revenue
 - There is the cost of space in addition to the above

- ❑ University of Toronto
 - University-wide expenditures are allocated to academic divisions through 12 cost bins (several sub-bins involved)
 - Revenue is used as cost driver where no other reasonable cost driver could be defined
 - No inter-divisional teaching adjustments to revenue / expenses in the model. They will develop a guide for deans to use in negotiations

McMaster Committee's Proposed Allocation Mechanism (cost drivers)

- Still in discussion, subject to change

- ❑ Revenue
- ❑ Total Expenditures (Operating+ Research+ Trusts)
- ❑ Total tuition income
- ❑ Undergraduate student FTE
- ❑ Graduate student FTE
- ❑ Total student FTE
- ❑ Faculty FTE
- ❑ Employee FTE
- ❑ Research funding
- ❑ Net assignable square meters (NASM)

Example of Revenue

- ❑ The University Fund (UF) is a percentage taken “off the top” of total revenue to be administered by the President/Provost
- ❑ Used to supply incentive funds for support of high-priority initiatives, and to fund units deemed essential that cannot “pay” their own way
- ❑ Used in the initial phase of new budget implementation to “hold harmless” all the budget units during the transition year
- ❑ **Having the UF is an important modification from pure ABB**

Examples of Units Funded by Total Expenditures

(= units that have university-wide mandates)

- ❑ Offices of the President and Vice Presidents
- ❑ University Secretariat
- ❑ Classrooms under Registrar's control
- ❑ UTS
- ❑ Technology Fund
- ❑ McMaster Museum
- ❑ CLL
- ❑ Advancement, Alumni Affairs, Public Relations
- ❑ Access and Ability

Examples of Units funded by other Cost Drivers

- ❑ Research Services – 3-yr average of research funding
- ❑ Research Institutes - faculty FTE
- ❑ School of Graduate Studies – graduate student FTE
- ❑ Registrar – undergraduate & graduate student FTE
- ❑ Library – faculty FTE + total student FTE+ research funding
- ❑ Student Services – total student FTE
- ❑ Human Resources – employee FTE
- ❑ Scholarships – total tuition income

Cost of Space

Net Assignable Square meters (NASMS)

- ❑ Under ABB space is not a free good
- ❑ ABB will make the units aware of the cost of their assigned space and should lead to greater efficiency of university space utilization

- ❑ Utilities
- ❑ Maintenance (but not deferred costs)
- ❑ Custodial

- ❑ Note: all costs of new construction borne by the faculties

Teaching and the Cost of Instruction

- ❑ IUB and UM do not distinguish between program and service teaching
- ❑ At IUB, 100% of the undergraduate tuition revenue goes to the faculty that instructs the student
- ❑ At UM it is split 50:50 between the faculty of instruction and the faculty of enrollment
- ❑ Graduate tuition revenue 100% to the faculty of enrollment
- ❑ What works best for McMaster? Still in discussion.

What We Do

- ❑ Budget Committee of UPC determines budget allocation for each envelope
- ❑ Each program or activity's budget is increased/decreased incrementally
- ❑ Net expenditures must equal the envelope allocation; surpluses/deficits are carried forward

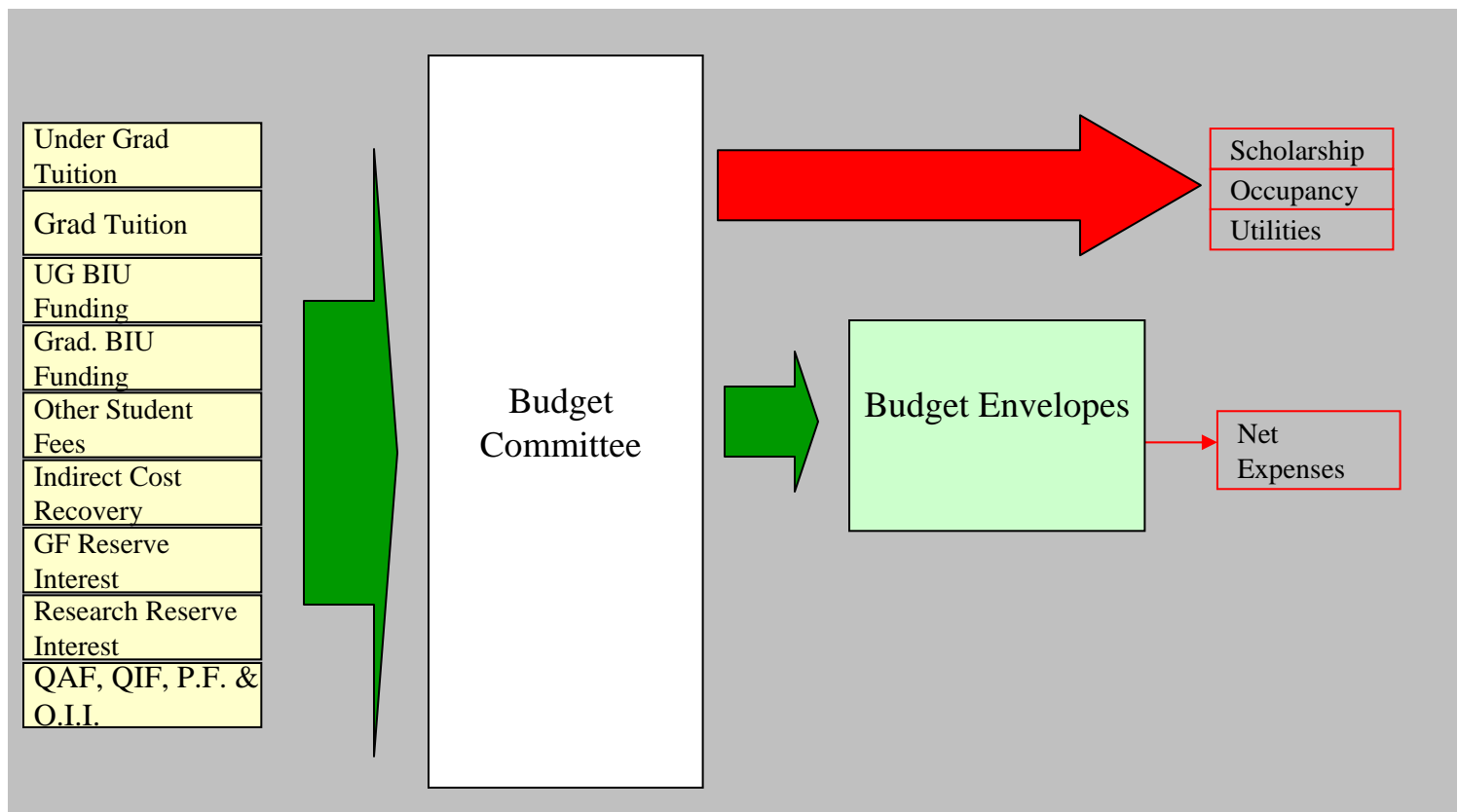
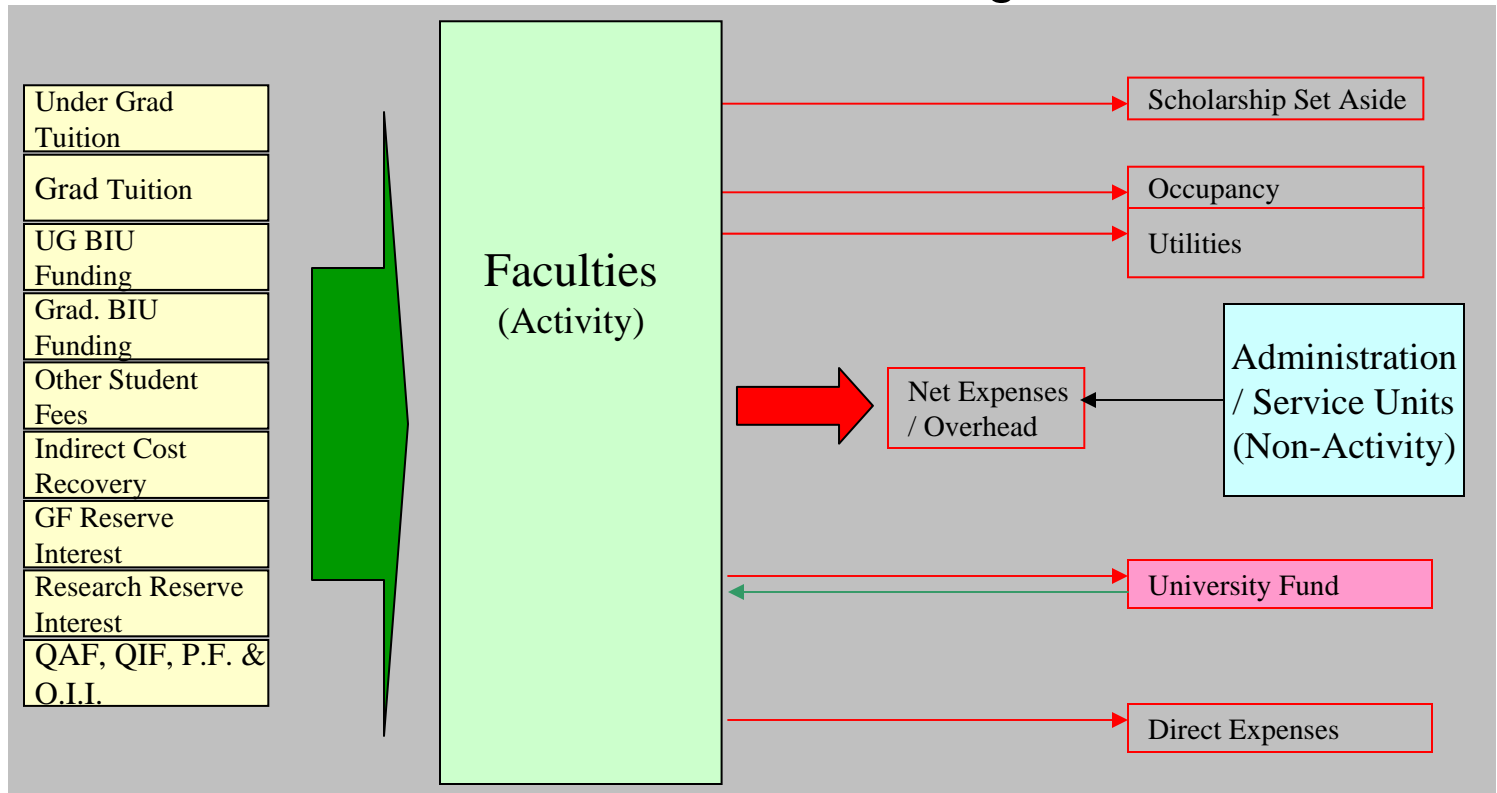


ABB Model

- ❑ Faculties (and research institutes) are on activity based budgets
 - All income attributed directly to the revenue-earning units (= activity units = faculties)
 - Activity units are responsible for direct expenses and overhead expenses.
- ❑ Service units are on incremental budgets



Principles

- ❑ To promote transparency, trust and engagement
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Information and Feedback

- ❑ Meeting with UPC October 22
- ❑ Open House , November 5
- ❑ Meeting with Deans
- ❑ Other
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- ❑ Final stage for committee – report to the President
- ❑ If committee recommendations are accepted, then need to follow up by establishing one or more implementation committees.

Possible Time-Lines for Implementation

- ❑ 2008-2009 – University approval
- ❑ 2009-2010 – shadow year; continue to use the existing budget system but compare it to the new budget model, tweak latter as necessary
- ❑ 2010-2011 – first year of transition to new budget system



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Thank you. Questions?