



Transition to a New Budget Model at the University of Toronto

CAUBO
June 17, 2008

Sally Garner
Senior Manager Long Range Budget Planning

CAUBO 17June08



Overview

- U of T Facts and Figures
- Transition Timeline and Resources
- The Previous Budget Model
- The New Budget Model
- Transition Process
- Observations

CAUBO 17June08

2



U of T Facts (2007-08)

\$1.3 B operating budget

72,000 Students

3 campuses

19 faculties

3200 faculty FTE

4400 staff FTE



Operating Revenue (2007-08 budget, \$M)

Government Grants	565
Tuition fees	461
Endowment	40
Departmental revenue	166
Other	102
Total	1334



Operating Expense (2007-08 budget, \$M)

Academic	911
Library, Student Services	93
Student Aid	110
Maintenance, Services & Utilities	118
Other	102
Total	1334



Timeline

- April 2004 Task force created
- January 2006 Final task force report
- August 2006 Interim implementation report
- 2006-07 Transition year
- 2007-08 First full year of new model
- 2008-09 First year of new review process



Transition resources

- Task Force: Vice Provosts, Vice Presidents, Deans, CFO
- Budget Model Steering Committee: 2 Planning & Budget staff, senior financial officers of 4 large faculties
- Divisional Financial Officers: Senior financial officer from each academic and administrative division
- Provost's Executive Committee: Provost and cross-section of deans
- No outside consultants were used



Previous Budget Model



Financial Management at UofT

The university manages its finances in 4 funds

1. Operating Fund
2. Ancillary Operations
3. Capital Fund
4. Restricted Funds

Discussions today address the operating fund only

UofT uses 5-year rolling window for long range planning purposes



The previous model

- Same model used for decades → historical
 - Prior year's budget
 - + Salary increase funding
 - + Revenue sharing
 - + Allocation from central funds
 - Across-the-board reduction



Previous Model – Complex Revenue Sharing

- Last decade, as new provincial funding envelopes were introduced, revenue sharing agreements established with faculties
- Introduced concept of budgets tied to enrolments
- Multiple parameters became extremely complex to manage, by both the center and faculties
- Perception of unfairness was growing



New Budget Model (NBM)



“The budget is a primary tool in the management of the University and in enabling it to fulfill its mission and achieve its academic goals.”

Final Report of the Task Force to Review Approach to Budgeting



New Budget Model: Objectives

- Academic Priorities: Allocate budgets to faculties in a manner that best supports academic priorities
- Transparency: Clear delineation of revenue and expense by faculty
- Incentives: Allocations linked to revenues and costs
- Engagement: Review process for both shared-services and academic budgets



New Budget Model

- There are two basic approaches:
 - Revenue-based (RCM)
 - Expense-based (bottom up)

The new model captures the beneficial aspects of both expense-based and revenue-based models.



Application of NBM - Faculties

- Revenue and cost attribution methodologies applies to faculties
- Rationale → generally only faculties have capacity to generate revenue (students)



Application of NBM – Shared Services

- Multi-year plans leading to annual reviews
- Middle tables set up to review service levels→ faculties represented on committees
- Funding allocations based on recommendations of committee chaired by President



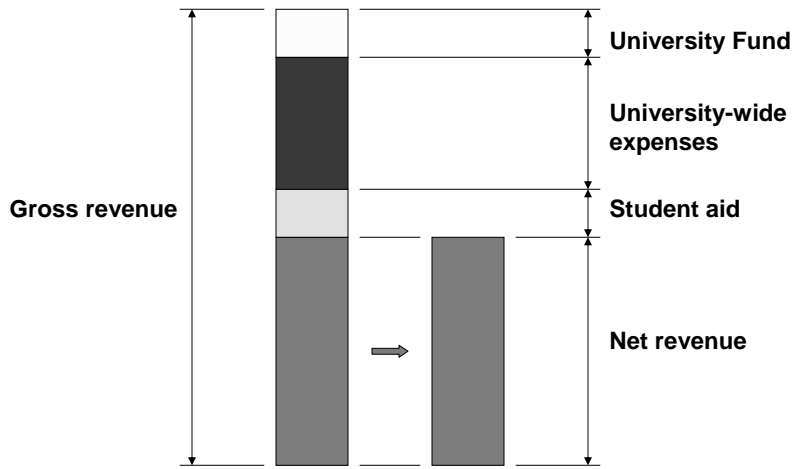
Basic Approach

Academic budget allocations consist of two parts:

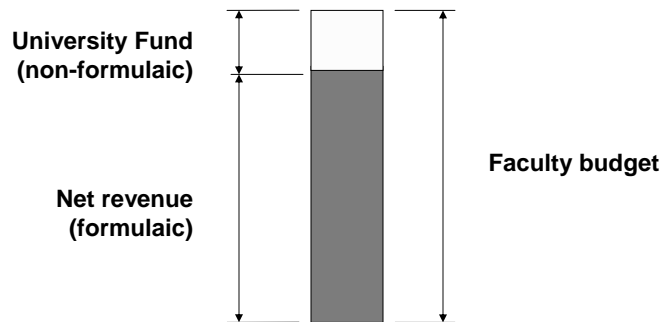
1. A formulaic, revenue-based component, reflecting revenues earned by the division less their share of university-wide costs
2. A non-formulaic component based on academic plans (the University Fund)



New Budget Model



Faculty Budget





Example

	Year 1	Year 2
Revenue	\$ 6,000,000	6,300,000
UF Contrib.	(600,000)	(630,000)
U-W costs	(2,000,000)	(2,100,000)
St. Aid	<u>(100,000)</u>	<u>(110,000)</u>
Net revenue	3,300,000	3,460,000
UF allocation	<u>1,200,000</u>	<u>1,300,000</u>
Faculty Budget	4,500,000	4,760,000



Revenue

- Most revenues are earned on behalf of faculties, e.g. operating grants
- Some revenues are not easily identified with a faculty, e.g. investment income
- Revenues are attributed to faculties based on “revenue drivers”

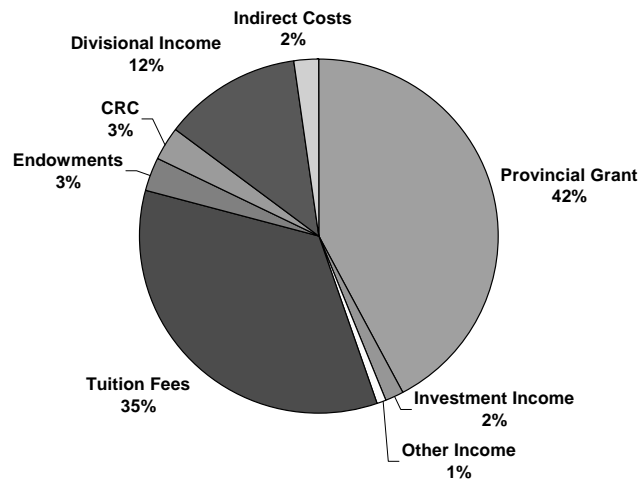
Rev. driver \longleftrightarrow Simple measure of earning



Revenue Attribution

Revenue Source	Revenue Driver
Provincial Grants	Number of Basic Income Units (BIUs)
Tuition	Student FTE
Research Overhead	Share of research funds
Investment Income	Share of revenue

2007-08 Sources of Operating Revenue





The University Fund

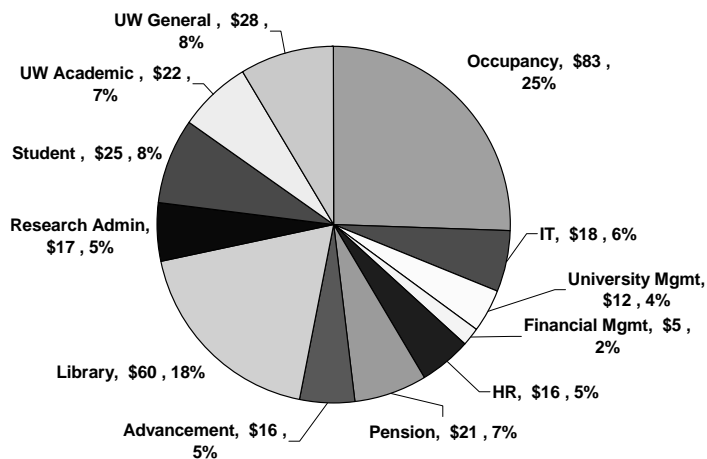
- Intended to strengthen quality and provide stability, consistent with academic priorities
- Created by a 10% deduction from gross revenues
- Allocations based on academic plans



Expense attribution

- University-wide costs have been organized into
COST BINS
- There are 12 cost bins covering all university-wide services and administrative costs

2007-08 Cost Bins (total \$354M)



Cost Drivers

Cost	Cost Driver
Caretaking, Utilities	Square meters
HR	Faculty and Staff FTE
Student Services	Student FTE
Library	Research \$, Fac, St. FTE
Advancement	Funds raised, # alumni
IT	Faculty, Staff, Student FTE



Student Aid

- Most undergraduate student aid is managed centrally
- Under the NBM it will continue to be deducted from revenue and held centrally
- This expense is attributed to faculties in the ratio of tuition revenue
- Graduate student support has been managed within the faculties and continues this way



Academic Review Process

Comprehensive reviews of faculty operations

- Enrolment
- Complement
- Budget
- Space/capital

Provostial committee recommends University Fund and/or other central fund allocations, approves enrolment and complement plan



Shared-Services Review Process

- Reviews will ensure alignment between services, academic needs and budgets
- Consultation with faculties on service levels and priorities
- Multi-year strategic and budget plans
- President's Budget Planning and Priorities Committee recommends additional funds or cost containment



Transition Process



Guiding Principles

- Materiality must be considered
- Record keeping must not become so onerous that accounting becomes an end in itself.
- Data that are already available must be used as much as possible
- The nature of the university's operation and funding environment is such that revenue and expense cannot and should not always be balanced at the level of program or faculty.



Transition to the New Model

- Objective: Transition should maintain historical integrity
- Existing 2006-07 budget was recast using the language of the new model
 - Shadow Budget



Shadow Budget

- The Shadow Budget gives each faculty exactly the same funding it received in the actual 2006-07 budget
 - “reference level” allocation from University Fund → full UF used as a balancing factor in shadow budget
- The Shadow Budget is the starting point for the new model



Example: Faculty A

<u>Previous Budget Model</u>		<u>New Budget Model</u>	
2005-06 budget	100	Revenue	350
Salary increase	20	UF Contrib.	(35)
Other transfers	40	U-W costs	(170)
Cost containment	<u>(10)</u>	St. Aid	<u>(20)</u>
		Net revenue	125
2006-07 budget	150	UF allocation	<u>25</u>
		2006-07 budget	150



Roll-out and training

- Development
- Communication
- Training



Observations



Observations

- Engagement level much higher – review process
- Increased transparency
- Better understanding of revenues and costs (academic and service)
- Increased awareness of enrolment issues
- Academic and administrative review process is providing a much clearer view of the state of University finances



Inter-divisional teaching

- Inter-divisional teaching committee established to review of impact of NBM on inter-divisional teaching agreements
- Ensure that academic qualities and goals remain primary consideration
- Financial arrangements should recognize actual revenues and costs
- Provide incentives for inter-divisional teaching



Next steps

- Review of NBM
- Methodologies will be reviewed over the next 1-2 years to ensure model is working effectively from a technical perspective
- Will take many years to assess impact on attitudes, long term results



New Budget Model Reports

New Budget Model reports can be found on the following website:

<http://www.provost.utoronto.ca/public/Reports/budgetmodel.htm>



Transition to a New Budget Model at the University of Toronto: A Faculty Perspective

CAUBO

June 17, 2008

Joe Weinberg

Chief Administrative Officer
Ontario Institute for Studies in Education
University of Toronto



Students

1,350 B.Ed. students
1,800 graduate students
6,500 continuing education students

Faculty

136 tenured/tenure stream
13 lecturers
150 sessional instructors
450 continuing education instructors

Staff

159 non-academic administrative staff

FINANCIALS

Total Revenue = \$85M
NBM Attributed Revenue = \$65M
University Wide Costs = \$18M
Operating Budget = \$58M
Research Funding = \$9M



Budget – setting in the past

- Historical “base funding” + adjustments
- Across-the-board cuts
- Everybody gives – everybody gets
- “Oh the pain”
- “Cut a deal”



Revenue Planning

- × Grant Value
- × Tuition Rate – Regulated Programs
- ✓ Tuition Rate – Non-regulated Programs
- ✓ Volume – Enrolment
- ✓ Program Mix
 - ✓ Undergraduate / Graduate
 - ✓ Doctoral Stream / Professional stream
- ✓ Delivery Mode
 - ✓ Full-time / Part-time
 - ✓ In-class / Distance / mixed-mode
- ✓ Sources of Funds
- ✓ Additional Revenue Opportunities



Expense Planning

- × Salary / Benefit Rates
- × Salary / Benefit Escalation
- × Central / Shared Services - rate
- ✓ Central / Shared Services – volume / service level
- ✓ Faculty / Student ratio
- ✓ Faculty Mix – continuing / sessional / TA
- ✓ Faculty workload
- × Financial Assistance – policy
- ✓ Financial Assistance – volume / mix
- ✓ Capital requirements
- ✓ Non-salary expenses
- ✓ Contingency



NBM and Financial Analyses

- ✓ Student Lifecycle Cost (contribution margin)
- ✓ Cost of Existing Programs
- ✓ Cost of New Programs / Cohorts
- ✓ Changes to Class size



Budget Advisory Committee

Advisory to the Dean

R
E
P
E
A
T

- Step 1 – Appoint committee members -
Associate Deans, CAO, Chairs, Faculty, Students
- Step 2 – Orientation (NBM, enrolment plans, data and
key financial / planning metrics)
- Step 3 – Articulation of key issues
- Step 4 – Formulation of Strategies
- Step 5 – Assessment of Strategies
- Step 6 – Finalization of Long Range Financial Plan and Budget
- Step 7 – Review with Provost / central budget office
- Step 8 – Divisional Communications / directives
- Step 9 – Debrief
- Step 10 – Prepare for next cycle



Changes in behaviour

- Rationalize space
- Rationalize services
- Carefully monitor enrolment
- Overhead collection – contracts & self-funded
units



Ingredients of Success

- Strong leadership team
- Strong financial knowledge and analytical capability
- Close working relationship between Finance, Academic / Enrolment planning, Student Funding administration
- Collaborative problem-solving → University and Faculty-wide perspective
- Communication – Communication – Communication