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COLLEGE BUSINESS MANAGEMENT INSTITUTE

THE BUDGET PROCESS AND THE BUSINESS OFFICER

UK Auxiliary Services

SACUBO

SOUTHERN ASSOCIATION OF COLLEGE AND UNIVERSITY BUSINESS OFFICERS

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Budget Process and the Business Officer

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What type of institution are you representing

COURSE DESCRIPTION

Budgets are a means of allocating resources to achieve the institution's strategic objectives wile controlling expenditures within the institution's financial parameters.

Discussion will involve the role of the business officer and the budget process in building institutional commitment, encouraging alternative scenarios for resource maximization and reinforcing accountability.

This course is intended for those involved with budgeting or planning and assumes a basic knowledge and understanding of budget systems and approaches.

Prior participation is an institution's budget process at some level (central administration or departmental) will be helpful but not required.

Class discussion and participation will be encouraged.

Is your institution a 2 or 4 year program?

COURSE LEARNING OBJECTIVES

. Discuss the basics of budgeting and Higher Ed
. Identify the Process, Roles, and Responsibility of Budgeting
. Explore the ‘politics’ in Budgeting
. Identify Ways to maximize resources through reallocation
. Discuss the Oversight Structure and Accountability through reporting aspects
. Explore Capital Budgeting

BUDGETS

- Budgets are a means of allocating resources to achieve the institution's strategic objectives while controlling expenditures within the institution's financial parameters.

- The budget is the one true indicator of an institution's privacy. If it is not in the budget, it is not important.

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How would you describe BUDGETs in ONE WORD?

The Business of Higher Education: Operating Conditions

Constrained resources are a way of life now and in the future.

- After consistent years of declines, sharp cuts in state and local appropriations subsided, but remained below prerecession levels – Funding Sources at Risk.
- Current economic trends will affect how, when and where students will attend college – Increased Competition.
- Colleges and universities shifted less additional operating costs directly to the students, but diversified tuition revenue still financed a majority of education related spending – Increasing Expenses.

Budget Process

The budget is a:

- Tool for allocating and managing institutional resources
- Financial plan
- Communication of priorities
- Control structure
- Statement of mission

CHARACTERISTICS

Characteristics of successful budget processes are:

- **Clear definitions of roles and responsibilities**
- **Distributed authority, responsibility, and accountability**
- **Bottom-up establishment of priorities**
- **Collaborative, consultative decision making**
- **Clear, concise performance expectations**
- **Continuous, effective *communications***
- **Decision on choice**

KEY ELEMENTS

Key elements of the budget process are:

- Priority setting (guided by the institution’s strategic plan)
- Establishment of decision rules and guiding principles
- Revenue estimation
- Expense projections
- Informed decisions (a.k.a: balancing revenues and expenses)
- Continuous updates

Roles and Responsibilities Overview

Key participants in the budget process are:

- Governing Boards / Board of Directors (Trustees)
- Presidents
- Business Officers
- Collegiate and Departmental Administration
- University Community
- Community Needs

Roles and Responsibilities Governing Boards / Trustees

- Ultimate responsibility and accountability
- Creating the climate for resource management
- Overseeing institutional financial performance
- Ensuring that a viable long-range financial plan is in place
- Assessing resource maximization and financial stability

Roles and Responsibilities Presidents / Senior Staff

- Communicating to Internal and External Audiences

  - Governing Board/Trustees

  - Legislative and Executive Branches of State Government (Public Institutions)

  - Alumni and other External Constituencies

- Determining Institutional Financial Strategies

  - Strategic Investments

  - Enrollment Plans

  - Tuition Policies

  - Performance Goals

- Determining Final Allocation Decisions

Roles and Responsibilities
Business Officers

- Providing timely, accurate information to deans, department chairs, and office managers
- Facilitating resource decisions through decision models
- Recommending alternative revenue enhancements and expenditure control plans
- Maintaining clear communication links
- Enforcing accountability

Roles and Responsibilities
Collegiate / Departmental Admin

- Connecting institutional financial strategy to departmental activities
- Providing input to the construction of the institution's long-range financial plan
- Translating long-range financial plan to department's annual resource requirement
- Monitoring department's resources throughout the year
- Initiating timely responses to deviations from annual plan
- Communicating up, down, and across the organization

Roles and Responsibilities University Committees

- Providing input to the construction of the institutions long-range financial plan
- Communicating to and from constituencies represented
- Advocating support for critical issues
- Advisory, not decision-making groups

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What areas of responsibilities do you cover?

Politics in Budgeting – Vanishing Costs

- King's Pawn Opening
- Shortfall Game
- Free Lunch Defense
- Lies and Statistics
- The Black Hole
- Telling the Truth

Ask for more than you need in anticipation of getting cut

Ask for less than you need

Use soft money as a way to get a program in the base budget

Playing with numbers to make yourself look better

Department claiming very dire consequences if they are cut

Stressing needs when in reality you can do with less

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What is your favorite Vanishing Cost scenario?

Politics in Budgeting – Working the System

- Let's Make a Deal
- PR Offensive
- End Run Game
- Umbrella Game
- Washington Monument Game

Back-scratching deals and splitting the differences

People trying to get to know decision makers away from the budget process (build friendships)

You say no and someone goes around you

Trying to find out what is politically correct and makes requests accordingly

Put most popular programs up front to cut

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What is your favorite "working the System Story?

Building Institutional Commitment

- Collegial relationships across the campus
- Elimination of “silo”
- Open and honest conversations
- Use it or Lose it Mentality

Maximizing Resources

The maximization of resources begins with an analysis of the distribution of dollars, staff, and other assets to units of the organization.

Typically, maximization will require the reallocation or realignment of resources within the organization.

Politics in Budgeting – Rosy Revenues

Pollyanna Predictions	Fire Sales	Inter-fund Follies	Beautiful Bubbles
Exaggerating your Revenues	Selling off things to balance budget	Use inter-fund transfers	Accelerate revenues collections

Any "Rosy Revenue" stories to add?

Maximizing Resources

Reallocation Issues

- "Ownership" or "entitlement" mentality
- Lack of equilibrium in funding distributions
  - Annual budgets formed through incremental overlays
  - Sequential across-the-board reductions
- Failure to reallocate resources as workload changes
- Quantity, not quality, rewarded in the budget process
- Entrenchment of academic values, i.e., curricula and faculty workload
- Time commitment and risk.

What Makes Reallocation More Acceptable?

- A framework for analyzing current allocations
- Selective and differential targets that reflect the unit's capacity for resource change
- Incentives for reducing or eliminating costs
- Staged (or phased) change
- Can you actually reallocate?

Enforcing Accountability

<u>The Oversight Structure</u>

- Clearly define responsibility, accountability, and authority roles
- Establish effective internal controls
- Delineate the control process

  - Delegate authority for resource management

  - Delegate responsibility for budget control

  - Delegate accountability for budget control

Continued….

- **Adopt incentives for good budget behavior**

  - Allocate in “lump-sum”

  - Reward innovation by sharing savings

  - Provide for carryover of ending balances

  - Relax line-item controls

The Oversight Structure

- Mandate continuous variance analysis
- Require immediate solution of problems identified through variance analysis
- Continually adjust and correct the annual budget
- Provide accurate, timely financial performance reports

  - Reliable Management Information Systems, Data Stores or Warehouses

  - Support for decisions

  - Articulate Reporting Formats

  - Dashboards w/ Key indicators

The Oversight Structure

- Hire and retain trained staff with blended skills

  - Require experience in both finance and information systems management

  - Formal program for training

  - Certification programs

Accountability

Monitoring and Reporting Performance

Assume a Strategic Leadership Role

. Current Budget Report

. Budget Analysis Report

. Monthly Performance Report

. Dashboard Reporting

Current Budget Report

The current budget report is the record of the current resources available to a college or major operating unit.

Planned expenses are organized by major category.

- Faculty salaries
- Staff salaries
- Fringe benefit expenses
- Wage expenses
- Operations expenses
- Expenditure recoveries

Budget Analysis Report

Assembling the Budget Analysis Report:

- The Budget Analysis Report can be produced at the lowest level or highest level of the organization – by department or for the entire university.

- The actual expenditure data from the institution's accounting system are compared with the current adjusted budget.

- Variances from the original or adjusted budget identified by this system can be early warning signs of financial trouble.

  - Over-expenditures should be explained and corrective action taken.

  - Under-expenditures, particularly in state institutions, are as significant as overages, especially if appropriations revert at the end of the year.

Monthly Performance Report

The Monthly Performance Report is a summary of the current budget status prepared each month for executive management.

1. The current revenue and expense forecast and variances from the adjusted budget are reported.
2. Revenue and expense data are highly aggregated – usually by major category of expenses (e.g., faculty salaries, operating, etc.)
3. The focus is on the “bottom line” – the intent of the report is to provide information about the current balance and the balance forecasted at the end of the fiscal year.

Do you / staff use Dashboard reporting for Budget / Management reporting?

Dashboard Reporting

- Summary Financials
- State Reporting Financials (Public)
- Academic Success
- Board Summary
- Operational Data

Accountability: Measurement

Measuring performance through the budget process:

- Structure a formal agreement outlining planned accomplishments for the year
- Connected to the strategic plan
- Use of new funds: Program Expectations

Capital Budgeting

Definitions of capital budgeting:

- A process for examining plans and alternatives for adding or changing the assets of the institution

Characteristics of capital budgeting:

- Projects require several years of advanced planning
- Projects that are expected to have a long life
- Projects that require large expense outlays

Types of projects:

- New buildings
- Major renovations of existing buildings
- Infrastructure changes
- Sustainability program
- New academic programs

in ONE word, How would you describe the budget process for your institution?

Capital Budgeting

Develop a capital section in the strategic plan

- Facilities
  - New buildings
  - Renovations
  - Maintenance
- Equipment
  - New acquisitions
  - Routine repair and replacement schedule for obsolete equipment
- New Programs

Capital Budgeting /1

Essential Ingredients of an Effective Capital Plan

- A charge

  - The institution's ability to conduct education, research and service missions depends on functional, cost-effective, well-maintained, and well-managed space.
- A committee(s) composed of representatives from all campus constituencies

  - To define needs and advocate for projects
- A process

  - To identify, quantify and prioritize capital projects
- A connection to the operating budget

Capital Budgeting/2

Typical Committees

Capital projects committee

- Approves all major projects to be included in the university's capital plan

Capital plan committee

- Review capital plan and make recommendations on prioritization of projects to president (and board, if appropriate)

Space utilization committee

- Advises administration on the use and/or assignment of space

Capital Budgeting/3

Typical Process

- Starts with a master plan
- Can include a quantitative estimation of space needs based on models that match faculty, staff, and students, programs, and other factors with a set of square foot standards.
- Inventories current space and assesses condition
- Identifies through a bottom-up approach future space requirements
- Develops a reliable cost estimate for each project
- Prioritizes projects based on preset criteria

How realistic is your Master Plan?

CAPITAL BUDGETING

Typical Evaluation Criteria

- Needs assessment

- Adequacy of existing space (quality, quantity, location)
- Projections and trends of future demand (enrollments, sponsored programs)
- Evolving teaching and research methodologies
- Changing technologies
- Accreditation standards

- Other alternatives considered

Capital Budgeting

The Capital Plan

- Should reflect the programmatic priorities of the institution
- Should be reviewed annually

  The best laid plans . . .will change . . . so plan for it.
- Should be translated to a financial plan that can be monitored
- Financial modeling for those facilities needing bonding.
- Debt capacity analysis of the institution
- Student ability to make the payment

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Which bird has the longest wingspan?

QUESTIONS & DISCUSION

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