Outline

- Introduction
- General Considerations
- Principles, Concepts & Desired Model Features
- Budget Models
- Measuring Success
- Summary
- Resources

Introduction

This paper is intended to inform the reader of general budgeting concepts and issues, EWU’s concerns in budget development, and the various common methods for budget allocation along with historical advantages and disadvantages of each.

There are numerous budget models being used in higher education institutions today. This paper contains outlines and brief descriptions of several common budget models, including: Incremental, Formula, Zero-Based, Responsibility Center, Initiative-Based, Performance-Based, and Hybrid.
CONTEXT AND REASONS FOR A NEW BUDGET MODEL

- EWU faces a changing external environment. Although the current budget process has merit, it needs improvement in order to help the University overcome the challenges that lie ahead.

- Demographic trends indicate declines in the number of students graduating from high school resulting in greater competition among universities nationwide. The budget system should be enrollment sensitive.

- The university’s ability to generate new revenue from tuition is increasingly constrained by the competitive environment and by public policy considerations outside the university's control.

- The portion of the university’s general fund comprised of state appropriations has dropped in recent years, although recent infusions of general fund appropriations has helped to gain back some lost ground.

- Entitlement programs are consuming an increasing portion of the federal budget, leaving federal financial aid and research sponsorship at risk, therefore creating an additional financial burden on student population and research benefits.

- The inevitability of these macro trends and the risk of a “business as usual” approach form the context in which a new approach to budgeting is being considered.

- Inflationary pressures.
General Considerations

Eastern’s Current Budget Model

EWU’s current primary method of budgeting is a hybrid of “incremental” and “formula based” budgeting with some modifications for specific funds or purposes. For each new fiscal year, a budget unit’s starting point is its previous year’s base budget (unless modified).

Caveats

One size does not fit all: Each institution is unique. Certainly, the size and mission of an institution will have a bearing on planning and budgeting. However, the culture, climate and history of an organization can have an even greater impact on organizational change – including budget model development.

No perfect system / process: There are many budget models and countless combinations of those models in use today. Each model has inherent advantages and disadvantages. There is no panacea in budget modeling. Rather, the best model for any institution is the model that accomplishes its goal of allocating budget in support of unit and organizational strategic plans and does so with as little conflict as possible and at a reasonable expense of time and money.

Ideal Approach

Focus: The key for developing and implementing an ideal budget model is to do so with a clear focus on and direct correlation to the strategic plans of the university. Budgeting should be integrated with planning and measurement and, when published, an approved budget should be a monetary reflection of the university’s strategic plans.

A living process: Once developed, a budget model does not stagnate. It grows and evolves in response to organizational plans, needs, and culture. Budget model development is a continuous process of responding to new information and changing environments.

Intent: Regardless of the budget model being considered, it is important to emphasize accountability for funds rather than control of them.

Involvement: Any pursuit of a modified budget model should be conducted as a broadly participative process. Failure to include all interested parties in the process is a harbinger of almost certain failure, or at the very least, will inflame mistrust and dissonance within the university.
**Principles, Concepts & Desired Model Features**

**GUIDING PRINCIPLES**

- Allocation of resources should be mission driven
- Budget model directly supports Strategic Plan goals
  - Foster rigorous and engaged student learning experience
  - Create an academic community culture that supports and engages faculty and staff throughout their careers
  - Support an institution-wide commitment to community engagement that benefits the university, the region and the world
  - Grow resources and capacity to enhance Eastern’s academic quality
  - Allocate resources, capacity and people in support of EWU’s mission and academic goals
    - Manage resources, capacity and people effectively and efficiently
- Budget, financial, and management hierarchies should be congruent
- What gets measured, gets managed
  - Measure what’s important
- Strive for accountability versus control
- Level of decentralization should correspond to organization’s size and complexity
- Information is a crucial component
  - Information is most valuable when shared—especially financial information
  - Maintain all performance data in one repository
- A carefully thought out transition is essential to the ultimate success of any change in the budget system
- Distribute revenues and costs in a manner that is transparent, easy to understand, and informed by data – the budget model must distribute revenues and costs in a way that links them with unit responsibilities and which will reflect systematic changes in the university
- The budget model should reinforce an environment favorable for interdisciplinary collaborations
- The budget model should work effectively during years of revenue growth and revenue decline both for the university and for major academic and administrative units
CONTINGENCIES

- Recognize that projections are estimates
- Establish a contingency to address unanticipated revenue shortfalls, expense overruns, other budgetary impacts

BUDGET REDUCTIONS

- Across-the-board reductions are common practice – however, this method may not allow the University to follow the strategic plan.
- Focus on strategic plan and academic priorities
- Less critical programs take relatively larger cuts to protect priority programs
- Avoid cost-shifting within the institution

MULTI-YEAR BUDGET CYCLE

- Budget period should be tied to planning cycle, recommend 5 year period
- Develop summary budgets matching planning horizon
- Revenue estimates based on strategic enrollment plan targets and fine tuned as time progresses based on historical, current and prospective information

THE INSTITUTIONAL EXCELLENCE FUND (IEF)

- Establishment of an IEF (central pool) to allow executive leadership to fund projects of high priority and common good which are included in the strategic plan
- The IEF can provide funding for special purposes and proposals which generally benefit all organizational units in accordance with the strategic plan

DESIRED FEATURES OF EASTERN’S IDEAL BUDGET MODEL

- Increase incentives for planning cost effectiveness and revenue generation
- Increase local responsibility, authority and accountability
- Increase flexibility to match revenue streams with changing program demands
- Increase attentiveness to all categories of money (e.g., external sources of revenues should be managed in conjunction with general funds)
- Increase accountability at all levels of management
- Decrease rigid resource allocation process (i.e., allocations should be predictable and vary with activity levels)
- Must be in-line with strategic planning goals
- Must support long term planning
**Budget Models**

**INCREMENTAL**
- All budgets are adjusted by a specified percentage—either up or down
- Easy to administer, most efficient model
- Assumes existing allocations are appropriate
- Not linked to plans or priorities
- Fails to leverage opportunities

**FORMULA**
- Resource allocations are driven by quantitative factors such as enrollment, employment, space, etc.
- Tends to be more common among public institutions
- Overtime – may readjust the base
- Relatively efficient
- Formulas must be adjusted for strategic priorities
- Formulas can frequently become outdated
- May not work equally well for periods of growth or decline

**ZERO-BASED**
- Assumes no history and builds the budget from a zero baseline
- Identifies activities and related costs for each activity while assuming certain outcomes
- Decisions are made based on the packages of activities and what they’ll accomplish
- Rarely applied completely
- Occasionally used on a cyclical basis
- Fairly labor and paper intensive
- Difficult to implement in a timely manner (usually 3+ years to implement and feel impact).
- If areas are underfunded – difficult to fully fund; if overfunded – difficult to decrement timely
RESPONSIBILITY CENTER

- Responsibility centers “own” the net revenues they generate and must fund their expenses—both direct and indirect
- Risk that some units will act in ways that are not beneficial to larger institution
- Data-intensive – requires a high level of reliable information
- Requires a time-consuming conversion
- Does not allow for easy or smooth distribution of indirect costs or “budgeted” reductions of net revenue (e.g. financial aid, waivers, reserves).

INITIATIVE-BASED

- Special purpose budget model
- Used in conjunction with another model for base operating funds
- Funds taken “off the top” or generated through reallocation process; usually one-time funds
- Competitive process used to distribute resources
  - Priorities identified; criteria established; proposals received
  - Awards made, with appropriate follow-up
- Difficult to apply to entire institution at unit level

PERFORMANCE-BASED

- Special purpose budget model
- Most common within public settings with performance criteria set by state or system
- Portion of available resources reserved for distribution to those that achieve certain levels of performance
- Usually only a small amount—1 or 2 percent
- Intended to drive specific accomplishments

HYBRID

- There are very few “pure” budget models in use
- Most universities use variations or combinations of the models described
- Some work well in combination
  - Incremental with incentive-based
  - Formula with zero-based on a rotating basis
- Other models are simply a mixture of models that varies over time
Measuring Success

Keys to Success

- Executive management support
- Adequate time to explore all options, address challenges, and prepare units
- Financial managers and adequate, timely and accurate information are keys for units to be successful
- Continuous and open communication – positive relationships between all interested parties is required

Obstacles to Success

- Changes in the budget system may require significant improvements in the quality, timeliness and availability of information throughout the university
- Gaining consensus on financial issues may generate conflict between the administration and the faculty
- Cultural change is a critical issue – New behavior and beliefs required by new budget models may be at cross-purposes with organizational culture
- Although the technical aspects of some budget models can be quite linear and understandable, some models are far more complex and confusing
- Implementing a new budget model can require that individuals transcend their own interests and work collectively for a larger good

Measures of Success

- The fundamental criteria for measuring the success of any budget system should be the degree to which it assists the university in accomplishing its strategic and academic goals
- The budget process must not become so heavily driven by revenues or enrollments that core academic values such as excellence and community are sacrificed
- Executive leadership has adequate resources to affect strategic change and reward quality
- Support and services are provided in an increasingly efficient and cost effective manner
Summary

The university is at a critical juncture. There is widespread support for Eastern’s strategic plan, academic excellence, and quality of the student experience. There is also a shared sense that the current budget model may not be well-suited to support this. Finally, there is broad recognition that the external environment is likely to become more competitive and more uncertain.

Therefore, the key issue, is not whether Eastern should modify its budget system, but whether to make this change in a deliberate, proactive and integrative manner, or in an ad hoc, piecemeal and crisis driven way.

A new budget process will be important to success. It must reward good fiscal and strategic plans, and it must convince the units that they can benefit from sound resource allocation.

Regardless of the form or name a new budget model may take, a move toward greater fiscal accountability is becoming more commonplace on university campuses because financial pressures demand it.

Resources

Budget Model Development Committee – Iowa State University. Multiple reports October 2005 - July 2006.  www.iastate.edu/~budgetmodel/reports/reports.shtml


Lang, Daniel W. “Responsibility Center Budgeting at the University of Toronto.”


