


Resource Management Forum

Sheridan College
May 24-25, 2018

Larry Goldstein, President
Campus Strategies, LLC


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Session Agenda


- Welcome
- Survey
- Activity-based Budgeting for Sheridan College
 - Short Break
- Input to ABB Model Design Process
- Wrap-up / Next Steps

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Activity-based Budgeting for Sheridan College

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Office [31]

KEY PRINCIPLES FOR RESOURCE ALLOCATION


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What Really Matters?

- Resources
 - Dollars
 - Positions
 - Space
 - Technology
 - Equipment

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Effective Resource Allocation

- Implements plans
- Responds to assessment data
- Combines top-down guidance informed by bottom-up knowledge / realities
- Uses measures consistently
- Emphasizes accountability versus control

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Slide 4

Office [3]1 Great concept. Might again stress the importance of linking it to facilities, financial etc...

Microsoft Office User, 2/17/2017

Budgeting

- Most familiar aspect of resource allocation
- There are many others such as the assignment of space or positions
- All-funds budgeting
 - Unrestricted
 - Restricted

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Multiyear Budgets

- Planning horizons vary
- Budget period should be tied to strategic planning cycle—generally a five-year period
- Summary budgets matching strategic plan
- Detailed operating budgets for at least two years
- Capital budget covering lifecycle for all approved projects

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Contingencies

- Recognize that projections will not be 100 percent accurate
- Establish a contingency to address revenue shortfalls, expense overruns, opportunities, other budgetary impacts
 - If contingencies don't materialize, consider special year-end allocations linked to plans or additions to reserves

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Budget Contraction

- No across-the-board reductions!
- Focus on plan(s) and priorities
- Selectively use reserves
- Resist temptation to increase deferred maintenance
- Less important programs take relatively larger cuts to protect priority programs
 - Maintain / publicize two lists
- Avoid cost-shifting within the institution

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QUESTIONS?

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Activity-based Budgeting: What Does It Mean for Sheridan?

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The Basics of ABB

- Variations on a theme
 - Activity based budgeting
 - Cost center budgeting
 - Responsibility center management
 - Responsibility center budgeting
 - Revenue responsibility budgeting
 - Incentive budgeting...

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Basics (contd.)

- All revenues are “owned” by the revenue centers generating the revenue, but still subject to tax
 - General revenues (e.g., unrestricted appropriations, investment income) are owned by central administration
- Revenue centers are responsible for financing their expenses—both direct and indirect
- Cost centers are financed via charges / assessments on revenues or expenses...

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Basics (contd.)

- No institution utilizes ABB principles for all revenues and expenses
 - Every institution utilizing ABB operates a hybrid budget model relying on other models such as incremental, formula, performance-based, etc.
- Presentation assumes that all resource allocations are governed by ABB principles •

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Principles Influencing ABB

- Best decisions occur when decision maker is close to and has access to relevant information
- Level of decentralization must be aligned with organizational size / complexity
- Responsibility and authority should be congruent
- Central administration must retain sufficient control to ensure achievement of institutional goals...

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Principles (contd.)

- Accountability systems operate more effectively than control systems
- Mechanisms for increasing resources are preferable to those which simply redistribute a fixed amount of resources
- All units throughout the institution must rely on common information systems providing timely / accurate data...

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Principles (contd.)

- Outcome measures are preferable to input controls
- Outcome-based academic performance criteria are essential to the achievement of academic excellence
- Stable financial environments facilitate good planning
 - Good planning contributes to stable financial environments •

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Why Pursue ABB?

- Focuses proper attention on revenue
 - In particular, ABB establishes appropriate incentives for engaging in activities that lead to increased revenue
 - Only available model that promotes sustainable revenues
- Facilitates responsible management of entrepreneurial activities
- Facilitates cost-benefit analyses and tradeoff studies...

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Why Pursue ABB? (contd.)

- ABB encourages delivery of effective, competitive administrative services
- ABB focuses appropriate attention on cost control, price restraint, and educational outcomes
- Finally, ABB emphasizes revenue optimization as opposed to counterproductive internal competition •

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Basic Approach to ABB

1. Charge all units to prepare and submit operational plans in support of the institution's strategic plan, infrastructural plans, and unit priorities
2. Based on approved operational plans, project the full budget for future year(s)
3. Estimate preliminary budgets for cost centers based on anticipated resources and required quality / volume of services...

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Basic Approach (contd.)

4. Project allocation of indirect costs to revenue centers based on preliminary budgets and historical usage data
5. Project tuition revenues and financial aid
6. Set tax rate in support of plan
 - Taxes applied to expenses or revenues (influenced by degree of restriction on appropriations and other sources)...

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Basic Approach (contd.)

7. Project utilization of central resources, including ABB taxes
 - Amount needed to fund cost centers
 - Amount available for subvention
 - Amount intended to support achievement of institutional priorities
8. Charge revenue centers and cost centers to develop balanced budgets
 - But spending from unit reserves may be approved...

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Basic Approach (contd.)

9. Conduct a structured review / feedback process of preliminary results, including addressing deviations from guidelines
10. Rebalance the whole by vetting / refining revenue and cost centers' proposed budgets •

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Guidelines for Using ABB

- Keep it simple; recognize that there is no perfect formula or model
- Allow for broad-based involvement early on to encourage acceptance of the underlying principles
- Test proposed allocation rules against principles
- Maintain as much discretion as possible over central resources...

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Guidelines (contd.)

- Derive all data / reports from official information systems
- Emphasize decision making based on data from official systems, but highlight that they reflect academic priorities and judgments
- Display / budget all financial activities—sources and uses—to highlight their role in advancing academic objectives...

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Guidelines (contd.)

- Avoid temptation to focus solely on direct revenues / expenses
 - Indirect cost information is essential even when it is imprecise
- Never compromise principle that units are responsible for financial and academic performance
- Embed annual operational planning and budgeting process in multiyear strategic planning process...

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Guidelines (contd.)

- Share all data (?except individual salaries?) for all units to enhance transparency and trust
- Constantly emphasize and demonstrate that ABB is a means to academic ends
- President, chief academic officer, and chief financial officer must believe in and adhere to the process—always! •

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Cautions About ABB

- ABB requires a strong internal champion or co-champions
- Continually refining formulas and rules does not lead to perfection
- Some deans may not operate as effectively in ABB environments
 - Strong decentralized financial managers are essential (but cannot substitute for effective leadership by deans)...

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Cautions (contd.)

- Central administrative service providers require incentives to be efficient
- Administrative service costs—both central and in revenue centers—must be measured and managed
- President and provost need sufficient central resources to allocate and must work to increase such resources (for example, through fundraising)...

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Cautions *(contd.)*

- Allocation of central resources must be tied to and support institutional priorities
- Strong central leadership—in particular the president, provost, and chief financial officer—is essential to ABB success •

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Implementation Considerations

- Provost and chief financial officer oversee implementation, serving as highly visible co-champions
- Transparent, inclusive development process
- Gain early agreement on key principles
- Rapid implementation with extensive training
 - Pilot or phase in the model for one year
 - Consider “hold harmless” to protect existing budgets for a period of time •

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Resource & Acknowledgement

- *Responsibility Center Management: A Guide to Balancing Academic Entrepreneurship with Fiscal Responsibility*
 - John R. Curry, Andrew L. Laws, and Jon C. Strauss
 - Available from NACUBO
- Presentation influenced significantly by the previous edition published in 2002

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Questions, Comments, and Reactions

Larry.Goldstein@Campus-Strategies.com
(540) 942-9146

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