

Introduction

Historically, the University of Alberta has employed an incremental budget model. In incremental budgeting, budgets from the previous year are used as a starting point and the current year budget is adjusted up or down relative to this starting point according to the change in available resources. There are several weaknesses with this type of model.

First, as budgets are based on history and habit, rather than current academic activities and priorities, resources do not necessarily flow to areas in which current activities are more heavily concentrated. After years of using this model, the allocation of available resources can become quite disconnected from actual activities, services, and programming.

Second, the University of Alberta's incremental budget model has become overly complicated, as unique sharing and allocation arrangements have been created to distribute dedicated pockets of funding to specific purposes. These special arrangements are sometimes applied equally across all faculties and units and sometimes only to specific faculties and units, which can create inequities that become entrenched over time. In addition, the complexity and disconnect from current activities of budget allocations means that the reasons for differences in the allocation of resources across units are opaque.

Finally, the current incremental model leads to limited transparency around decision-making and limited accountability for outcomes. This limits the university's ability to implement institutional strategic priorities and to integrate strategic planning with multi-year budget planning and reporting.

For all of these reasons, the University committed to the following goal and strategies in *For the Public Good* to ensure that it has the operational foundation in place to support its strategic goals. Objective 22 reads:

Secure and steward financial resources to sustain, enhance, promote, and facilitate the university's core mission and strategic goals.

- i. Seek and secure resources needed to achieve and support our strategic goals.*
- ii. Ensure a sustainable budget model to preserve and enhance our core mission and reputation for excellence in teaching, research, and community engagement.*
- iii. Ensure responsible and accountable stewardship of the university's resources and demonstrate to government, donors, alumni, and community members the efficient and careful use of public and donor funds.*

Under the sponsorship of the Provost and Vice-President (Finance and Administration), a Budget Model Working Group (BMWG) was created to develop and implement a new budget model.

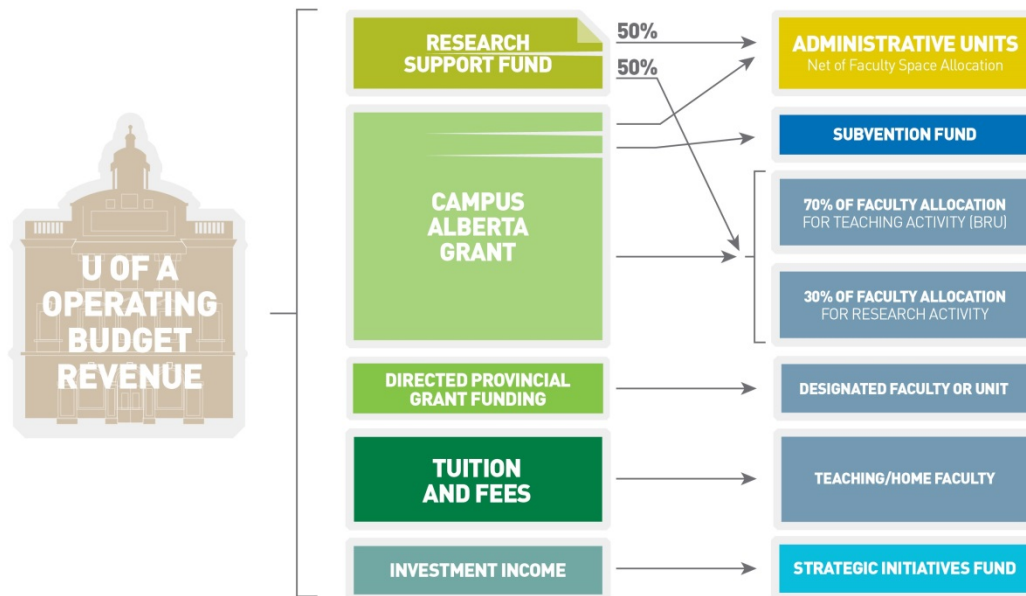
The purpose of the budget model project was to develop a model that provides decision makers in all faculties and units with enhanced transparency, authority and accountability. The university's new budget model outlines the mechanisms and processes for allocating and re-allocating resources to faculties and units in alignment with broad institutional priorities and the university's strategic plan. The model helps to inform decisions for the effective use of resources and support the long-term sustainability of the university's financial position.

The first task of the BMWG was to develop the University of Alberta Budget Model Principles. The following principles were drafted, refined, and approved by Deans' Council in May 2017:

- a. Supremacy of academic priorities – the university's mission and academic priorities as set out in the university's strategic plan are paramount in all decision making. The budget model will facilitate the alignment of resources in support of the university's core mandate of teaching and research.
- b. Transparency – the process for making resource allocation decisions is transparent and sources of institutional resources and comparative data are clearly identified and made available
- c. Accountability – Faculty and unit leadership have the responsibility and authority to make resource allocation decisions and are accountable for achieving performance targets, including financial performance targets.
- d. Simplicity – rules and processes are understandable and actionable
- e. Consistency – rules are applied equitably across all Faculties and units.
- f. Predictability – long-term budget planning is facilitated. Changes to the model will require consultation among stakeholders.

Shaped by these principles, the budget model lays out methods for allocating revenues and costs. The budget model is designed to help us see and understand how revenues are allocated, and how revenues are tied to activities and programs. The proposed model promotes greater transparency and accountability, which, in turn, enables all members of the senior administrative team to make strategic decisions that support the attainment of academic goals and the financial sustainability of the university.

HOW THE NEW BUDGET MODEL WORKS



Overview

The budget model outlines the mechanisms and processes for the assignment of revenues and responsibility for costs across the University's faculties and administrative units.

The budget model is activity-based. Faculty revenues depend on teaching and research activities, the University's two core mandates, rather than on the historical allocation of resources.

Revenue Allocation

The University of Alberta's two largest sources of revenue are the provincial grant and tuition. All provincial grant revenue (less central administration costs) and almost all tuition revenue are allocated by the budget model to the faculties. Almost all revenue that is currently generated directly by and retained by the faculties will remain with the faculties.

Tuition Allocation

- The basic tuition paid by a student for a course will be allocated to the faculty offering the course. Program Differential (PD) fees are allocated to the program faculty of the student, while Market Modifier (MM) fees go to the faculty offering the course. Faculties offering non-credit or cost recovery programs/courses will receive 85 percent of

the tuition charged. The balance of the 15 percent of cost recovery tuition and non-credit tuition is allocated towards central administrative costs.

- The allocation of tuition to the faculties will include tuition for courses offered in the evening, spring and summer.
- International Differential Fees (IDF), less the amount designated for scholarships (7.55 percent), will all be distributed to the faculties, so these funds will no longer be shared with central units.

Provincial Grant Allocation

- Base provincial grant revenues (less central administrative costs) will be allocated to the faculties based 70% on each faculty's share of weighted domestic student program enrollments and 30% on four research metrics.
- Faculties and units that receive provincial grant funds that are explicitly designated in the grant letter will continue to receive these funds. If, in subsequent years, funds that had been explicitly designated in the grant letter are rolled into the base grant and no longer explicitly designated, these funds will be distributed using the same methodology as all base grant funds. (The only exception is the rescinded domestic student market modifier funds which, although rolled into the base grant, will continue to be distributed to the faculties.)

70% Grant Allocation for Teaching Activity

- The budget model allocates 70% of the net basic provincial grant to faculties on the basis of each faculty's share of Basic Revenue Unit (BRU)-weighted domestic student program enrollments. Approximately one-third of total faculty funding is allocated using the BRUs.
- What is a BRU? A BRU is a weight assigned to each faculty that is intended to reflect the per student funding the faculty requires from the provincial grant to offer its programs to domestic students, relative to the other faculties. Each BRU is determined by taking the total cost (including space) of the faculty averaged over the last three years, subtracting the revenues allocated to them in the model, and dividing that figure by domestic program enrolments.
- Domestic undergraduate student enrollments are measured using FLEs, while the number of graduate students is represented by the Full-time Equivalent (FTE), which equals the number of full time graduate students plus one-third of the number of part-time graduate students.
- Funding to support the teaching of international students is provided through basic tuition and International Differential Fees.

30% Grant Allocation for Research

- The 30% of the net provincial grant allocated on the basis of research metrics is intended to fund the research-support activities of faculties.
- The research metrics are:
 - Restricted Tri-Council research dollars expended (representing 5 of the 30 percentage points)

- Restricted research dollars from non-Tri-Council external sources expended (5 of the 30 percentage points)
- Number of successful external grant applications, both Tri-Council and non-Tri-Council (10 of the 30 percentage points)
- Total dollars spent on graduate students or post-doctoral fellows (PDF) from restricted funds. These include scholarships that flow through the University payroll system, such as Tri-Council scholarships (10 of the 30 percentage points).

Research Support Fund Allocation

- Half of federal Research Support Funds (RSF) are allocated to the faculties using the research-based metrics and the other half to the central administration to cover a portion of central administrative research support costs. Each faculty's portion of the RSF funds will be identified. This funding will require specific planning, budgeting and reporting from the faculties to ensure that the University of Alberta can meet the requirements for receiving RSF funding as outlined by the federally funded program. The RSO will be in contact with faculties at the beginning of the budgeting cycle to discuss the reporting requirements.
- All other indirect costs of research (ICR) go to the faculty/unit generating the ICR.

To avoid large year-to-year changes in faculty revenues as a result of movements in program and course enrollments, as well as from lumpiness in some revenues, a revenue smoothing mechanism will be employed. For example, revenues could be allocated to the faculties based on the three-year average of the faculty's share of each major revenue type (provincial grant, tuition, IDF, market modifier fees, etc.).

Cost Allocation

Central Administration Costs

- Central administration costs will be subtracted from the provincial grant before the remaining grant revenues are distributed to the faculties. Although central administrative unit costs are taken off the top of the provincial grant, it is not intended that this process give priority to the budgets of central administrative units over the budget needs of the faculties.
- As the cost of central services represents a significant percentage of the current Campus Alberta grant, it is important to control these costs and maximize the resources allocated to the core purposes of the university: teaching and research. Thus, a process is put in place for the transparent evaluation and adjustment of central administrative unit budgets. This process requires administrative units to present for approval their budgets, scope of services and activity levels to a committee (Administrative Portfolio Review Committee) made up of the Provost and relevant Vice Presidents. A portfolio review process will also be implemented to review portfolios in more depth on a five-year cycle.

- When considering the level of central administrative unit budgets, the Administrative Portfolio Review Committee will take into account the impact of these budget allocations on the budgets and activities of the faculties.

Costs Allocated to the Faculties and Units

- Responsibility for all employee salary and benefit costs will continue to be allocated to faculties and units.

Allocation of Space Costs

- Each faculty will be charged a fee for the spaces that they are assigned.
- How is the cost of space determined? The spaces that faculties use are classified by Facilities and Operations as either office/classroom, laboratory, or other. For each, an average, institution-wide cost per square meter is applied. Approximately 95% of the cost of each type of space consists of the cost of utilities, service, and maintenance. The more complex the space, the higher the cost.
- A faculty's space fee will be equal to the amount of space used multiplied by the average, institution-wide square meter cost. Faculties that lease space from a third party will also pay the full rental charge. Finally, all faculties also use centrally booked classroom space for teaching. The cost of this space will be determined by two factors: the total number of hours booked and the capacity of the classroom. The per square meter cost of centrally booked classroom space is the same for all faculties.
- It is important to note that for every dollar that is charged to the faculties for space, a dollar will be subtracted from the amount of the Campus Alberta grant allocated to Facilities & Operations. In other words, for every dollar charged to the faculties for space, there will be an additional dollar distributed to the faculties as per the faculty Campus Alberta 70/30 grant allocation (explained above). Each faculty's space costs have also been included in the calculation of the BRUs.

Strategic Initiatives Fund

- A Strategic Initiatives Fund (SIF) will be established. The purpose of the SIF is to support strategic initiatives, which will normally be identified in the university's strategic plan.
- The Strategic Initiatives Fund will provide one time funding only, not base funding, although the one-time funding may extend over a period of up to five years.
- Any administrative or academic unit may apply for funding from the SIF. Administrative units will only be allocated resources from the SIF for extraordinary initiatives since the resources required for the normal operation of administrative units should be allocated through the annual administrative review process.
- A complete report on the activities of the SIF and the projects supported will be made to Deans' Council each year. Deans will have the opportunity to pose questions with

respect to the uses of the strategic initiatives fund and the size of the fund but will not vote on or be asked to approve the activities supported by the fund.

- The target size for the SIF is 2 percent of the sum of provincial grant and tuition revenues (currently equal to just under \$20 million).
- It is recommended that there be a five-year transition period during which the 2 percent target is approached gradually.
- The resources devoted to the SIF will be taken from investment income and revenue from the Land Trust, once it is operational and generating revenue.
- The size of the strategic initiatives fund should be reviewed each year by PEC-S.

Benefits of the strategic initiatives fund proposal

- Funds are available for strategic initiatives that benefit the entire institution.
- SIF positions the university to take advantage of initiatives that require matching funds.
- By providing only one-time funding, the SIF will not be a constant drain on other resources.
- Full reporting to Deans' Council facilitates transparency.

Subvention Fund

- The Subvention Fund is used to support those academic units whose resource allocations under the new budget model cannot fully support the costs of providing programs that are core priorities of the institution.
- Funding would continue for as long as faculty resources remain insufficient to support the designated activities or there is a change in the priorities of the institution.
- Administrative units are not eligible for funding from the subvention fund.
- Decisions on which academic units are to be supported by the subvention fund, and the level of support, will be made by PEC-S.
- Funds allocated to subvention will be taken off the top of the unrestricted portion of the provincial grant before the remaining grant revenue is allocated to the faculties.
- A complete report on the activities of the Subvention Fund will be made to Deans' Council each year.
- Units provided with on-going subvention funding should be reviewed on a regular basis (at least once every five years), with the form of the review determined by PEC-S.

Benefits of the subvention fund

- Academic unit activities that are core priorities of the institution are supported even if the model allocates insufficient funds to a faculty to resource these activities.
- Full reporting to Deans' Council means there is transparency in the level of subvention provided to academic units.
- The level of subvention funding is reviewed at least once every five years.

- Funding the subvention fund off the top of the provincial grant makes the tradeoff clear – more resources allocated to subvention means a lower level of resources allocated to the other faculties to support teaching and research.

Transitional Resource Re-Allocation Process

- Following the introduction of the new budget model, faculties that receive fewer resources than their current base budget allocation may require time to adjust their expenditures to the lower level of resources available under the new model.
- The complete transition to the new revenue allocation may take place over a period of five years, so all funding for transition will end within five years of the introduction of the new budget model.
- In the future, if a particular faculty were impacted by a negative revenue shock, the faculty may require transitional resources to assist in its adjustment to its new level of resources. In this type of circumstance, it is proposed that, if PEC-S approves transitional assistance for the faculty, revenues be taken off the top of the provincial grant to fund this assistance. Assistance will be provided for a period of from one to a maximum of three years.
- Annual reporting on the level of provincial grant funds used to assist the transition of faculties will be provided to Deans' Council.

Benefits of the transitional resource re-allocation process

- Provides faculties time to adjust to new levels of revenue.
- The transition process is based on a formula, so is simple and transparent.
- Full reporting to Deans' Council gives transparency to any additional allocation of funds to support transition.
- Transition funding in response to the introduction of the new budget model will last no more than five years.

Summary of the Benefits of the Budget Model

- The model is relatively simple and promotes transparency.
- Revenue allocation is based on current activities rather than historical budget allocations.
- Faculties receive the revenues that flow from their activities and are responsible for resource allocation decisions.
- The revenue allocation mechanism reflects the two core mandates of the University – teaching and research.
- Allowance is made for differences in faculty program costs.
- The resource allocation mechanism gives a prominent role to research and emphasizes the acquisition of external funds.
- Faculties are induced to provide programs/courses that are attractive to students.

- The determinants of the revenues of each faculty are transparent. Each Dean will know the dollar value of faculty revenues that come from the program enrollment-based portion of the grant; the four individual research drivers of the grant allocation; basic tuition; cost recovery tuition; IDF funds; etc.
- Costs that depend on faculty choices are allocated to the faculties.
- Allocation of all compensation costs means that faculties/units bear the full cost of hiring decisions.
- Allocation of space and classroom costs to faculties aligns costs with the unit making the space usage decision and should promote the more efficient use of space.
- A process is established to review the budgets and activities of central administrative units on an annual basis. Full reporting to the deans generates enhanced transparency with regard to administrative unit budgets.
- All central administrative units are subject to the same budget review process and the budgets of none of the units depend on access to special sources of funds, so all central administrative units are subject to the same degree of cost control.
- Funds are available for strategic initiatives that benefit the entire institution.
- Faculty-level activities that are core to the institution can be supported through the subvention fund if the model allocates insufficient funds to a faculty to fund these activities.