Version Two, November 2023

UNIVERSITY OF ALBERTA

Budget Model 2.0 Information Paper
For FY 2025

Contents

Executive summary

In recent years, the University of Alberta (the university) has delivered one of the most substantial organizational transformations in university history. Among many other transformative projects, the university has designed and implemented a new operating model and developed a new strategic plan, the success of which is hinged on an effective method for funding operational and strategic priorities. The university therefore designed 'Budget Model 2.0', a fit-for-purpose budget model that aligns revenue allocation within the university with the current operating model and the vision of 'One University'.

The university has explored several different iterations of budget models including an incremental budget, an activity-based model known as 'Budget Model 1.0', and interim incremental models to navigate the recent period of significant change to the university's operating model. None of these models appropriately supported the university's new operating model or aligned directly with strategy, highlighting the need for a new budget model.

The Budget Model 2.0 project commenced in November 2022 with extensive research in budget model options and sector best practice. A set of principles was developed and approved by the Board of Governors, which guided the design team's decision to develop a simplified activity-based budget model to best suit the university's operating model and strategy. The Provost and VP USF then led the stand-up and engagement of 5 expert groups to co-create Budget Model 2.0 by presenting recommendations for each element of the model.

Once finalized and accepted by the Provost and VP USF, the recommendations were used to create a 'baseline' model scenario using FY 2024 data. Through iterative scenario modeling and in consultation with the Provost and VP USF, Resource Planning refined the model to ensure it remained aligned to the principles approved by the Board of Governors and the objectives of Budget Model 2.0. The refined model was confirmed as the model for FY 2025 by the Provost and VP USF and presented to College and Faculty leadership in June 2023.

The transition to implementing Budget Model 2.0 is planned to take place over a 5-year period to allow ample time for faculties and units to adapt. For FY 2026, feedback will be collected by Resource Planning on the budget model, and two working groups of academic leaders will be established to offer recommendations for changes to Budget Model 2.0 to be implemented in FY 2026.

This document brings together the historical context, project process, outputs and next steps for the Budget Model 2.0 project, and provides detailed appendices on the expert group recommendations and Budget Model 2.0, as it will be implemented in FY 2025.

1. The University of Alberta required a budget model that could purposefully steer the university towards goals for revenue growth.

This section defines university budgets and budget models and describes the purpose and objectives for Budget Model 2.0.

The University of Alberta (the university) embarked on the 'Budget Model 2.0' project as part of the University of Alberta for Tomorrow (UAT) initiatives.This project built on the activity-based 'Budget Model 1.0' to create a simpler, fit-for-purpose budget model that aligned with the new university operating model and the UAT vision of 'One University'.

1.1 Strong university budget models translate strategy into reality.

Universities are highly diverse institutions that generate revenue from many sources and must distribute it carefully amongst units and functions, who then deliver a variety of activities that achieve the academic mission of the university. If not done carefully, allocating funds in universities can become overwhelmingly complex and have negative impacts on individual units or the university as a whole.

A university **budget** is the mechanism to help align action to the university's mission and strategic priorities by ensuring those priorities are appropriately funded. A university **budget model** is a tool that allocates the budget. A budget model does, on its own, not generate revenue. It is a set of rules that distribute funds to all units in a university, including both academic (e.g., colleges, faculties) and administrative (i.e., university-wide service units), to advance the university's mission.

A budget model that is not aligned with the university strategy will deliver a budget allocation that does not appropriately fund the strategic priorities of the university. This can create unfavourable cost structures, inadequate funding for strategic priorities, and incentivize activities that do not deliver on the university's strategy.

1.2 Prior budget models did not meet the University of Alberta's strategic ambitions.

The university has explored several different iterations of budget models including an incremental budget, an activity-based model known as 'Budget Model 1.0', and interim incremental models to navigate the recent period of significant change to the university's operating model. The varying levels of success of these budget models called for a thoughtful approach to designing Budget Model 2.0.

The incremental budget model at the university was over complicated and impacted the ability of faculties to integrate with institution-wide changes.

Historically, the university employed an incremental budget model that proved to have several weaknesses. In incremental budgeting, adjustments are made to the previous year's budget based on available resources. This approach did not effectively allocate resources based on current academic activities and priorities. After using an incremental model for many years, including times of significant changes in strategic direction and priorities, the allocation of university budget became detached from actual activities, services and programming.

The disconnect between historical and current activities led to the creation of complex sharing and allocation arrangements to distribute a dedicated proportion of funding to specific purposes. These special arrangements and their application varied across faculties and units, creating entrenched inequalities and further complicating the allocation process.

The incremental budget model lacked transparency in decision-making and accountability for outcomes. This hindered the university's ability to align institutional strategic priorities with multi-year budget planning and reporting. To support the university's collective movement toward a 'One University', it was necessary to create a transparent and simplified budget model that all units could understand and respond to.

The 'Budget Model 1.0' intended to better align the budget model with the university strategy but was interrupted by funding cuts.

To address the limitations of incremental budgeting, the university implemented a new activity-based budget model in 2020-21, known as 'Budget Model 1.0'. This model aimed to enhance transparency and clarity in the allocation of funding to faculties, based on well-defined levers of teaching and research.

An activity-based budget model allocates budget based on the areas where work is performed in a university. This means that the levers of resource allocations are proportionate to the workload. This type of model is particularly suited for institutions seeking to shift spending from the status quo to areas that align with the strategic objectives of the university.

Budget Model 1.0 introduced several university funds to enhance implementation and strategic planning:

- *Subvention Fund:* The fund assisted faculties that require additional support to cover the costs of priority programs under the budget model. Subvention funds were to be allocated from the top of the unrestricted portion of the provincial grant.
- *Strategic Initiatives Fund (SIF):* Resources from investment income and Land Trust revenue were to be devoted to SIF and are used as one-time funding for institution-wide strategic initiatives.
- *Transition funding:* If a faculty faced negative revenue implications during the transition to Budget Model 1.0, they could have secured transitional revenue for a period of 2-3 years with approval from PEC-S.

While Budget Model 1.0 would have been effective under stable circumstances, several changes occurred both in the internal and external environment:

- Significant reductions of around 34% in government funding, starting in 2020.
- Introduction of at-risk government funding based on performance.
- Announcement of plans for significant enrollment growth.
- Centralization of administrative services through SET.
- Strategic move to operate as 'One University'.

Each of these changes would have significant implications on funding assumptions and calibrations in Budget Model 1.0. The convergence of these changes resulted in unintended consequences for faculties and posed risks to the university's academic mission. Budget Model 1.0 lacked the necessary mechanisms to address the influx of change because the model:

- Lacked adequate mechanisms to align resources with performance against metrics for government funding (as these metrics were introduced after the design on Budget Model 1.0).
- Created inequities between units arising from the centralization of services or differential growth.
- Relied on Campus Alberta Grant (now the Operating and Program Support grant) to charge for administration centralization that created a disproportionate impact on faculty budgets.
- Lacked sufficient levers to steer the overall strategic direction and incentivize unit behaviours that are aligned with strategic priorities.
- Lacked transparency, despite best efforts to simplify the model.

Interim incremental budget, FY 2023

In response to external challenges, internal change, and the adverse impact on allocations in Budget Model 1.0, the university made the decision to revert to an incremental budget model to manage budget allocation during the implementation of the new operating model. This period of significant change further emphasized the limitations of the incremental budget model for the university, underscoring the clear need for a new activity-based budget model.

'Budget Model 2.0' addressed the inefficiencies of previous models and increased transparency of budget allocation.

The university required a new activity-based budget model that would:

- Purposefully steer the university towards goals for revenue growth.
- Appropriately fund faculties and university-wide service units to support the academic mission while ensuring funding is available to endorse institution-wide strategic initiatives.
- Ensure efficient resourcing vertically (within the organizational unit) and horizontally (across functions).
- Be transparent so that units understand and can accurately predict the consequences of their decisions.
- Continue to follow the One University model - must be collaborative.

To achieve these objectives, the university initiated the design of an updated activity-based budget model to be known as Budget Model 2.0.

An activity-based model allows for adaptability to the university's strategic goals and enhances transparency and simplicity of budget allocations. In turn, this encourages faculties to grow enrolment, teaching and research while serving the institution's core mission and strategic plan. Across the higher education sector, activity-based budget models are used to:

- foster targeted growth and renewal,
- smooth the impact of potential government grant fluctuations,
- provide support for non-academic strategic initiatives, and
- increase accountability for operational efficiency in both faculties and portfolios.

2. Budget Model 2.0 was designed to support the strategic future of the University of Alberta.

This section explains the approach to develop Budget Model 2.0 using research, engagement, co-creation, and iterative design.

With such significant changes to the university's operating model delivered through SET and academic restructuring, the university recognized the need to develop a new activity-based budget model that properly aligned with new structures and overall strategic goals.

2.1 Summary of the approach to developing Budget Model 2.0

The Budget Model 2.0 project was underpinned by extensive research and engagement, allowing the model to be designed through co-creation and iterative refinement. The development followed a five-phase approach, taking place from November 2022 to October 2023:

Phase 1 (November – December 2022): Research. Prior to commencing budget modelling, a joint working group of university subject matter experts and university sector experts from management consultancy Nous Group conducted thorough research on the challenges within the previous university models, analyzed sector best practice in revenue allocation models, and evaluated how to align the strategic goals and vision of the university with budgetary expectations.

Phase 2 (January– March 2023): Engage. The Provost and VP USF led the stand-up and engagement of 5 expert groups to provide recommendations across 5 topics. The expert groups were established to provide input to the development of the new model. Upon recommendation by APC, GFC, and BFPC, a set of principles to underpin the budget model was approved by the Board of Governors. The recommendations and principles provided the framework for the modelling. Further information included in section 3.

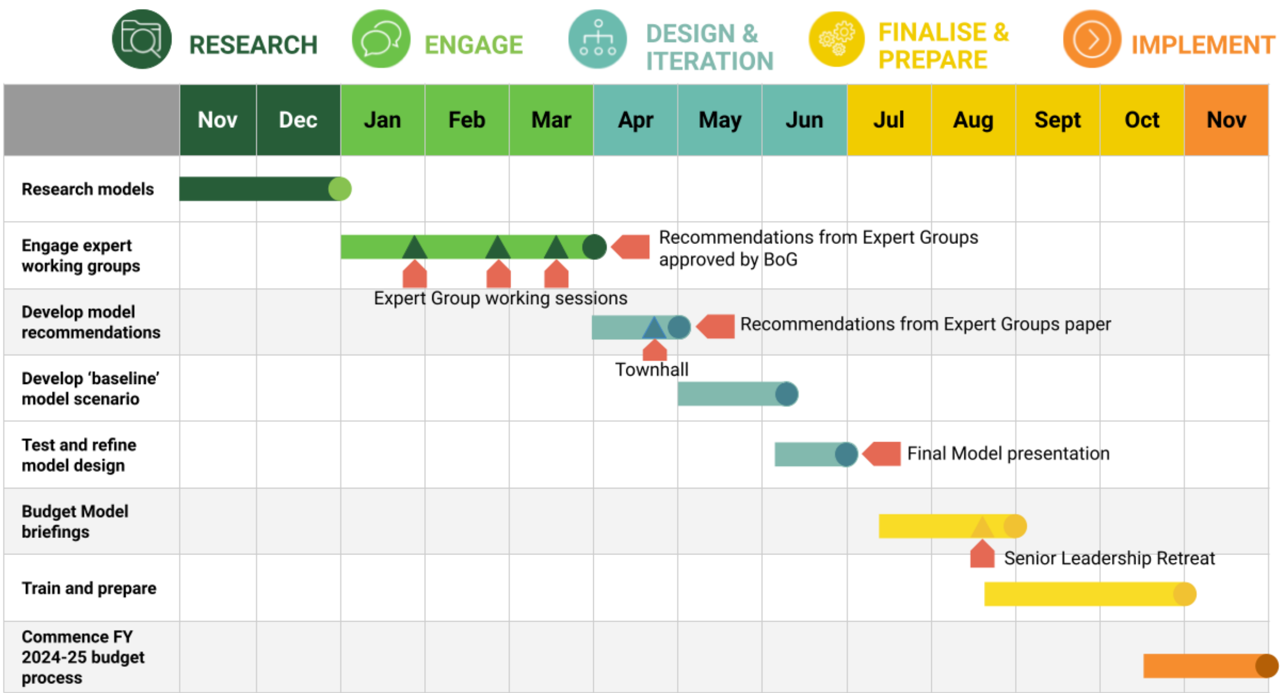
Phase 3 (April – June 2023): Design and iteration. Using the principles as guidance for design, the expert groups developed 16 recommendations to form the framework of the budget model. These recommendations were presented to university leaders in the Expert Group Recommendation Report, and presented to the broader community through a Townhall in April 2023. More information is included in section 3.

The Resource Planning team used the expert group recommendations to develop modelling of a 'baseline' model scenario using FY 2024 data to provide a comparison between allocations in the previous incremental model and the activity-based Budget Model 2.0. Through iterative scenario modeling and in consultation with the Provost and VP USF, Resource Planning refined the model to remove minor adverse impacts created by the budget model recommendations in practice. The refined model was confirmed as the model for FY 2025 by the Provost and VP USF and presented to College and Faculty leadership in June 2023. More information is included in section 3.

Phase 4 (July – October 2023): Finalize and Prepare. This involved updating the budget cycle process to deliver and implement Budget Model 2.0, training finance partners, and regularly engaging with faculty and college leadership to understand the impacts of the model. Additionally, individual scenarios using FY 2024 data were presented to all 16 faculties through a series of 1:1 engagements. They were also presented to the Chair's Council and the General Faculty Council members in a 2-part engagement series.

Phase 5 (October 2023 onwards): Implement. Faculties and standalone faculties/campuses begin to utilize the allocated budget funds for their academic and research needs.

Figure 1 | Budget Model 2.0 Project Timeline - Summary



3. The final version of Budget Model 2.0 has been co-created and iterated to tailor to the University of Alberta's unique position.

This section describes the principles, recommendations and rules that make up Budget Model 2.0. More detailed information on Expert Group recommendations and the budget model rules are attached as appendices.

The university adopted a co-design approach to develop a budget model suitable for a broad range of faculties and university-wide service units. This co-design approach combined principles to underpin all work on the budget model, recommendations from groups of university experts, and iterative design, explained below.

3.1 Nine principles were approved to guide the design of Budget Model 2.0

Upon recommendation by APC, GFC, and BFPC, the following principles,approved by the Board of Governors, have guided the design of the budget model:

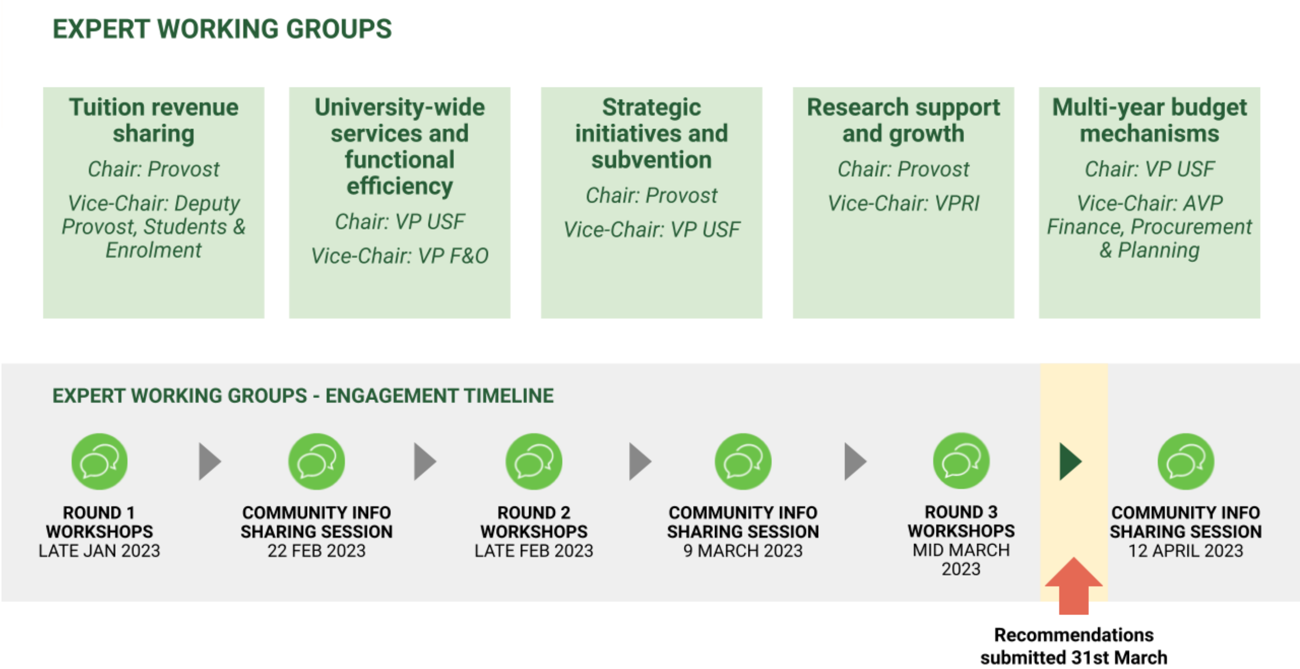
- **Priority of academic needs** – The model prioritizes the university's core mission of teaching and research.
- **Transparency** – The rationale, process, and outcomes of resource allocation decisions are transparent.
- **Predictability** – The resource allocation method is predictable to facilitate long-term budget planning.
- **Simplicity** – The budget model and process are clear and easy to understand so that it informs responsible local decision-making.
- **Consistency** – The resource allocation rules are applied consistently across all faculties and university-wide service units.
- **Accountability** – College, faculty, and university-wide service leaders are responsible and accountable for local resource allocation decisions.
- **Equity** – To realize the One University vision, the budget model accounts for equity in resource allocation, which accounts for variations in circumstances and needs across units.
- **Collaboration** – The model provides incentives for collaboration and behaviours that support the university as a whole.
- **Strategic** – The model aligns resources with institutional strategic priorities.

3.2 Expert groups brought academic and administrative perspectives to shape the future budget model.

The university established five Expert Groups as the key part of a co-design approach, involving stakeholders and subject-matter-experts from across the university in the budget model's development. Each group focused on specific topics: tuition revenue sharing, university-wide services and functional efficiency, strategic initiatives and subvention, research growth, and multi-year mechanisms. The Expert Groups included various academic and administrative roles, such as Faculty Deans, AVPs, Vice Provosts, Faculty General Managers, senior staff from administrative teams, and Chair Representatives, with over 70 individuals involved in the discussions. These groups collectively produced 16 recommendations that significantly influenced the final budget model.

The groups explored five topics across three workshops from January to April 2023. In the first two workshops, groups discussed a set of design decisions relevant to their topic area and identified where additional information was necessary to form a final recommendation. In the third workshop, draft recommendations were reviewed and approved by the Vice-Chair of the Expert Group. Recommendations were then brought to the Vice Chairs by the Budget Model Working Group and project sponsors, the Provost and VP USF.

Figure 2 | Budget Model 2.0 Expert Group Engagements - Summary



3.3 Sixteen Expert Group recommendations shaped the design and implementation of the final budget model 2.0

The final recommendations from expert groups were split into four topics:

Tuition Revenue sharing

Recommendation 1: Share international and domestic for-credit tuition (60% teaching unit, 10% program faculty, 30% university services).
Recommendation 2: Share non-credit tuition revenue (85% unit offering the program, 15% university services).
Recommendation 3: Do not differentiate tuition share for online programs.
Recommendation 4: Review tuition-sharing arrangements in the future.

University-wide services and functional efficiency

Recommendation 5: Introduce functional plans for university-wide services.
Recommendation 6: Adopt matrix budgeting for university-wide services.
Recommendation 7: Implement space allocation approach.
Recommendation 8: Establish a University Fund.
Recommendation 9: Take funding for the University Fund off the top of general operating revenues.
Recommendation 10: Simplify the approach to allocating the provincial grant for teaching.

More information on university-wide services is included at Appendix C.

Research support and growth

Recommendation 11: Maintain allocation approach for RSF.
Recommendation 12: Maintain allocation approach for indirect costs of research (ICR), but review policy outside of the budget model.
Recommendation 13: Simplify the approach to allocating the provincial grant for research.
Recommendation 14: Initially, allocate 0.5% of operating revenues for research growth initiatives.

Multi-year mechanisms

Recommendation 15: Introduce an activity-smoothing mechanism.
Recommendation 16: Introduce a performance funding pool for faculties with collaboratively determined performance metrics.

Detailed recommendations are included at Appendix A.

3.4 Two of the 16 Expert Group Recommendations were set aside for further discussion and refinement.

Once Expert Group recommendations were accepted by the Provost and VP USF, Resource Planning conducted detailed modelling to validate the design. The team created a 'baseline' scenario built on FY 2024 data to allow effective comparisons of the outputs of Budget Model 2.0 with the outcomes of the prior incremental model. At this stage, two of the Expert Group recommendations could not be fully carried through to the scenario modelling:

- **Recommendation 7: Implement space cost allocation approach:** Leaders agreed that existing space costs should be allocated to units that contributed to them rather than a one size fits all approach. However, concerns around the lack of transparency and accuracy of current space data led to the recommendation to delay implementing this recommendation and to further consider approaches to improve the optimization of space. Actual space allocations (as currently recorded) and associated costs will be made available to all faculties/units by FY 2025 to inform future conversations, however no financial burden will be imposed on any faculty/unit. Future work surrounding optimizing the use of space will be undertaken by a Space Optimization Working Group, who will consider how to improve space usage and plan for significant growth in enrolments as set out in SHAPE.
- **Recommendation 15: Introduce an activity smoothing mechanism:** The recommended 5-year smoothing (two years of historical, current year, and two years of projected data) could not be used on Research Support Fund (RSF) and the research allocation from the Operating and Program Support (OPS) Grant due to data constraints. Instead, 3-year smoothing was employed for the RSF and OPS Grant for FY 2025. The most appropriate smoothing timeline will be assessed in the coming fiscal years.

3.5 The model was then tested and tweaked to ensure alignment with the budget principles.

The baseline scenario served as a strong foundation for understanding Budget Model 2.0 and its impact on individual units required thorough testing. The Resource Planning team iteratively improved the model through the creation of seven scenarios to achieve the goals of Budget Model 2.0 and align with the budget model principles approved by the GFC, APC and the Board of Governors. The recommended improvements were:

- **Teaching to research allocation moved to 60/40.** In the baseline submission, the Operating and Program Support (OPS) grant was split between teaching and research levers based on a 70% teaching to 30% research ratio. The ratio was adjusted for 60% to teaching and 40% to research to reflect the value of research and align with faculty mandates.

- **Changes to Faculty Cost Clusters (FCC) for several faculties.** Resource Planning modelled several scenarios with changes to the FCCs to better reflect the cost of delivering programming. The team reviewed the FCC for stand-alone campuses and moved the FCC for CSJ and Augustana from a 1.25 to a 2 to reflect the costs of operating a campus that are not incurred by faculties based on main campus. Having used datasets from Ontario, Australia, the UK, and historical datasets from the university to understand programming costs, it was recognized that the cost of programming in a faculty of medicine is routinely heavily weighted against other faculties. The FoMD FCC was adjusted from the original value of 4 to 7 to reflect the high cost of program delivery. In addition, the FCC for the Faculty of Arts was adjusted from 1.0 to 1.25 to reflect the program costing of Fine Arts and Drama programs. These FCC are being examined by a working group. More details are shared in section 5.1.
- **Changed investment income sum.** The investment income was reviewed to include a more appropriate allocation of funds. The original scenario included a budgeted amount of $30 million that was changed to $45 million.
- **Changed University-wide Services Contribution.** The team determined a fair approach to sharing university-wide services funding that included reductions from 4% to 2% to equitably share the fund among appropriate units ultimately resulting in a 2.5% reduction.
- **Adjustments to University Funds.** The design team lowered the Strategic Initiatives Fund (SIF) from 1% to 0% for FY 2025 and increased the subvention fund from 0.5% to 0.75%. This had an overall net reduction of $6M allocated directly to faculties.
- **Transition planning.** Following extensive modelling of different transition approaches and timelines, Resource Planning recommended a 5-year, straight-line transition plan. The transition will allow faculties and units to adjust to their future budget allocation over a 5-year period wherein each year sees the allocation move 20% toward the future state.

3.6 The final Budget Model 2.0 was endorsed by the Provost and VP USF to be implemented in FY 2025.

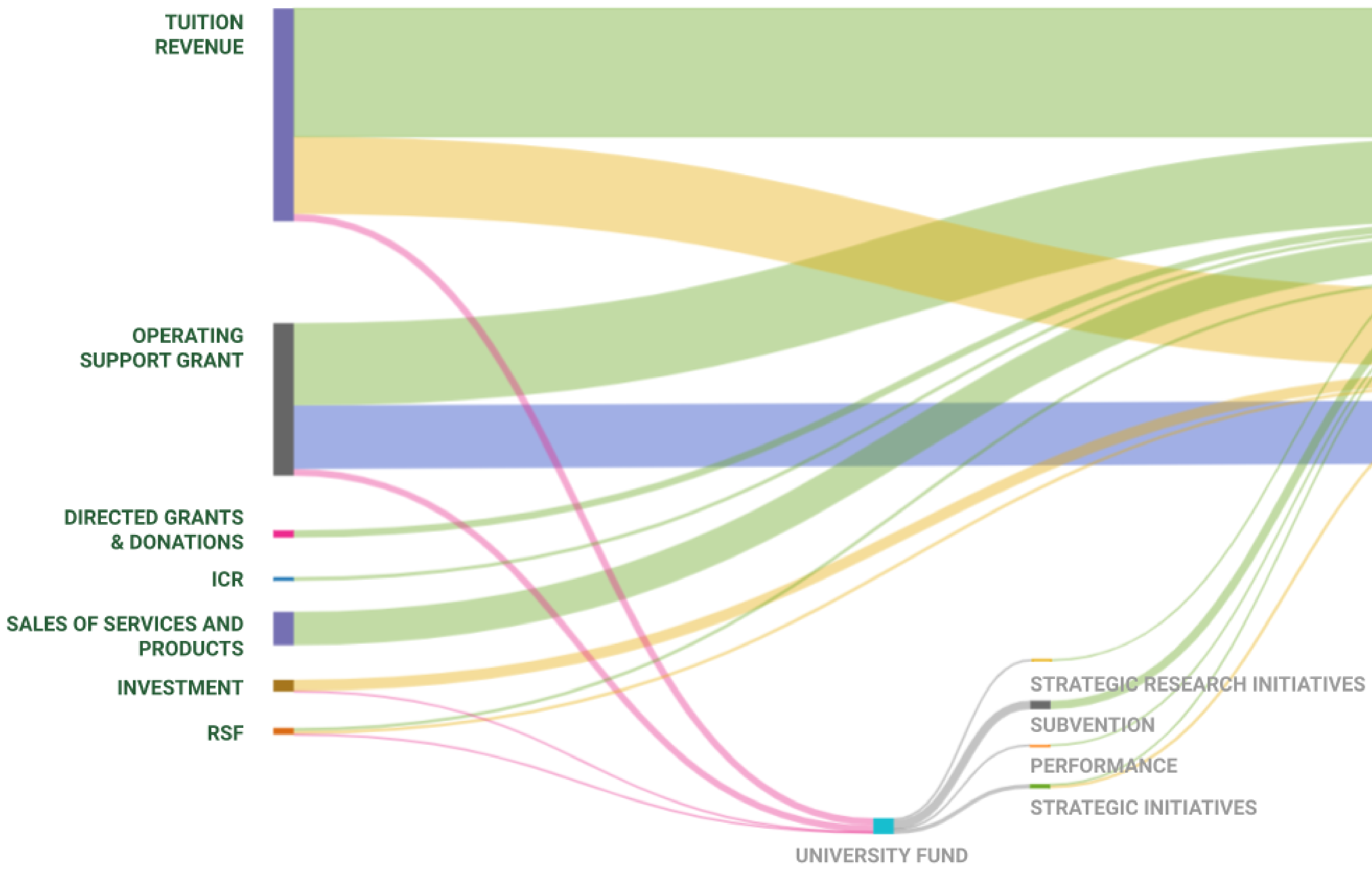
The final Budget Model 2.0 was built on a combination of Expert Group recommendations, Resource Planning's suggestions after scenario testing, and final decisions by the Provost and VP USF. Below is a summary of the budget model, as intended for implementation in FY 2025, greater detail on the model is attached in Appendix B.

The budget model established a clear, fair, and simple methodology to distribute university operating revenue – comprised of operating grants (47%), tuition revenue (43%) and other revenue (10%) such as investments and donations. The final budget model allocates funds through four rules:

1. **Allocation to the University Fund:** 1.25% is taken from all centrally-controlled revenues to create a pool of money that can be strategically allocated to support the implementation of the budget model and strategic initiatives. (Revenues not subject to the 1.25% University Fund deduction include: sales of services and products, ETI (exceptional tuition increase) revenue, or directed grant funding.)
2. **Distribution of tuition revenue:** The majority (60%) of tuition is allocated to the teaching faculty, 10% is allocated to the program faculty, and the remaining (30%) is allocated to university-wide services.
3. **Distribution of Operating and Program Support (OPS) grant.** The grant is first used to meet university-wide services' funding requirements that were not covered by tuition revenue, investment income, and the Strategic Initiative Fund and Strategic Research Initiatives Fund. The remainder is split between teaching (60%) and research (40%), and each pool is distributed to individual faculties based on their teaching and research activities, respectively.
4. **Distribution of strategic initiatives fund, performance reward, research support and subvention.** The majority of the University Fund is allocated to support strategic initiatives and research growth, reward performance, and smooth the implementation of the budget model. Strategic funds are allocated to Faculties by the Provost.

A visual representation of the allocation based on these rules is displayed in Figure 3 below, and further detail on the levers and distribution methodology can be found in Appendix B. The diagram is for illustration purposes only, it does not represent the accurate distribution nor is it based on real figures. The transition plan was confirmed as the proposed 5-year straight-line approach. Resource Planning, the Provost and VP USF will continue to collect feedback from faculties and units throughout implementation in FY 2025 to inform future iterations of the model.

Figure 3 | Budget Model 2.0 Revenue and Grant Allocation



4. The budget process has been updated to support Budget Model 2.0.

This section describes the simplified budget process that supports Budget Model 2.0. The budget process is a set of actions and activities that enables Resource Planning to run the budget model for the upcoming fiscal year.

Separate but a key enabler of Budget Model 2.0 is the updated and simplified budget process. The budget process involves a multitude of decisions made at all levels of the institution. By integrating a robust strategic planning process, five-year functional plans for university-wide service units, budget prioritization and centralized control of strategic funds, the budget process facilitates budget modelling and, once funds are allocated, allows the university to achieve its institutional aspirations.

The bulk of the budget process is run by Resource Planning between August and March for the upcoming fiscal year. Senior Finance Partners and Finance Partners support the functional and budget planning processes with their client units. There is a range of activities that constitute the budget process:

- Resource Planning confirms any changes to the Budget Model based on feedback from the previous cycle.
- University-wide services will prepare Functional plans and present them to a review committee. This committee will make final recommendations on each portfolio.
- The President's office reviews and approves the University-wide services Functional Plans (combining budget plans and strategic initiative requests) and submits to Resource Planning for the year. The approval will come off recommendations made by the review committee.
- Faculties submit enrolment plans to the Registrar's Office.
- Resource Planning collates data from Tableau and the Registrar's Office.
- Resource Planning completes initial allocation modelling of tuition and OPS grant funds.
- Resource Planning shares preliminary budget letters with faculties and units.
- Faculties will complete their multi-year academic planning and present it to a review committee made up of College deans, the Provost and VP USF.
- Strategic Initiative Fund (SIF) Committee decides on allocation of the SIF.
- Provost decides on the allocation of the subvention Fund.
- The Strategic Research Initiatives Fund (SRIF) committee decides on allocation of the SRIF to initiatives commencing early in the fiscal year.
- Resource Planning updates budget allocations and submits allocations to the Provost for approval.

- Resource Planning receives the final details of the OPS Grant.
- Resource Planning shares final budget letters with faculties and units.
- Faculties and Units refine budget plans based on the updated budget letter.

5. The Budget Model 2.0 will be iterated in the future to ensure it is fit for purpose for the University of Alberta.

This section describes the next steps for Budget Model 2.0, including implementation of the model as described in this document in FY 2025 and plans to iterate the model for FY 2026 and beyond.

5.1 The University of Alberta has committed to further refinements to the budget model.

As with any large and impactful change in a university, future refinements will be necessary to maintain the accuracy, fairness, and impact of Budget Model 2.0. Following feedback from faculty and College leadership on the scenario modelling completed by Resource Planning (described in section 3.5), the university committed to targeted refinements to the model over the course of FY 2025.

All future refinements to Budget Model 2.0 will be phased and clearly articulated in advance. At the time of writing, the university has committed to the following activities:

- In FY 2025, Budget Model 2.0 will be implemented as described in this document.
- During FY 2025, Faculty Cost Clusters (FCC) and Space Optimization mechanisms will be refined in consultation through the working groups.
- Starting in FY 2025, relevant policies and procedures will be updated to align with Budget Model 2.0
- Between FY 2025 and FY 2027, all university-wide services will develop functional plans.
- In FY 2026, recommendations to the FCC and space optimization mechanisms will be implemented.
- During FY 2029, Budget Model 2.0 will be reviewed in full and updated for implementation in FY 2030.
- The timeline for smoothing research activity metrics for the Research Support Fund (RSF), and the research allocation from the Operating and Program Support (OPS) is being reviewed for implementation in future budget cycles.
- Research metrics for future years will be reviewed and revised. This includes accounting for Co-PIs (not previously adequately captured at U of A to incorporate in FY 2025) and normalization of successful grant applications.

5.2 Transition to the allocation determined by Budget Model 2.0 will take place over a 5-year period.

In the initial five years, the model will employ a 5-year straight-line transition, allocating one-fifth of the budget change annually. This gradual approach aims to mitigate the impact of budget model implementation and allows ample time for units to adapt.

As the model has been implemented in this budget cycle (FY 2025), the university remains committed to the approved principles and recommendations. The approach taken balances stability with accuracy. For the following fiscal year, the budget model will run with actuals, adhering to all previously outlined principles and recommendations. Sequential changes will be made before a full budget model review, scheduled 3 years from the model's launch in FY 2025.

5.3 Working groups will be established to refine the model during FY 2025.

In response to discussions with Faculty and College leaders related to the scenario modelling completed by Resource Planning (more information in section 3.5), the university has established two working groups to refine the Faculty Cost Clusters (FCC) and space optimization, respectively.

The FCC Working Group has been established to better align FCCs with a mature version of the activity-based model. The purpose of the FCC working group is to:

- Advise Resource Planning on relevant data sources to inform each faculty's FCC.
- Develop a plan to collect effective benchmark figures on cost of programming to inform FCCs in future budget cycles.
- Develop an approach for periodic review of FCCs.
- Advise the Provost and VP USF on changes to the FCCs for the FY 2026 and future years.

A Space Optimization Working Group has been established to agree on the most effective use of space assets to drive positive and impactful behavior change over the long-term that supports the university's strategic goals. The purpose of the Space Optimization Working Group is to:

- Develop and implement short-term and medium-term actions that reduce operating costs and results in freeing up costs to achieve overall growth and impact objectives at the U of A.
- The Group will receive this direction and guidance from the Space Optimization Executive Oversight Committee (EOC).

- Advise the Provost, VP USF and VP F&O on changes to how to best use space assets to support the university's strategic goals.

5.4 Updates to policies and procedures will be delivered over FY 2025 and beyond.

Alongside the implementation and iteration of the budget, Resource Planning will identify and update university policies and processes impacted by the budget model in FY 2025. This includes the development of a separate carry-forward policy for faculties and functional plans for administrative units. Beyond FY 2025, Resource Planning will review created policy and procedure documents as needed when changes are made to the budget model.

5.5 University-wide services will develop 5-year functional plans.

As recommended by the Expert Groups, university-wide service units will each develop a Functional Plan that defines service delivery, priorities, and future budgetary needs over the coming five years. These plans will be used to inform annual budget allocations to university-wide services and drive accountability for quality service delivery. The implementation of functional plans will be carried out incrementally, starting with functions in the VP USF portfolio before FY 2025, and extending to all university-wide services. The rest of the VP portfolios will develop Functional Plan 'Lite' for FY 2025.

Appendix A | Expert group Design Recommendations

Budget owners and subject matter experts across all faculties and university service units were engaged through five expert working groups, to provide recommendations on the new budget model design. Across 30 meetings between January and March 2023, expert working group members expressed support for:

- Budget based on activity (teaching, research, service) rather than historic costs with a limited reward funding pool for targeted priorities;
- Provincial grant allocation that recognizes differences in costs of delivery and research intensity across faculties;
- Tuition sharing between program owners, teaching units, and university services;
- Stable funding for institutional strategic initiatives and supporting research growth;
- A space charging approach and incentives;
- Budget allocations based on multiple years of teaching and research activity to encourage future growth and smooth changes; and
- Multi-year functional plans for university services focussed on service effectiveness and cost of delivery.

A full version of recommendations provided by expert working groups is provided here. These recommendations have been used to develop the budget model described in the following sections of this document.

Tuition Revenue sharing

Recommendation 1: Share international and domestic for-credit tuition (60% teaching unit, 10% program faculty, 30% university services)

Domestic and international for-credit tuition revenues should be shared in the following manner: 60 percent to the course teaching unit, 10 percent to the program faculty and 30 percent to university services.

Recommendation 2: Share non-credit tuition revenue (85% unit offering the program, 15% university services)

Non-credit tuition revenues should be shared between the course teaching unit, program faculty and university services at rates of 85 percent and 15 percent, respectively.

Recommendation 3: Do not differentiate tuition share for online programs

Tuition revenue allocation should follow the rules outlined above, determined based on whether the course is for-credit or non-credit and not differ whether the program is delivered online, blended, or on-campus.

Recommendation 4: Review tuition-sharing arrangements in the future

The tuition revenue allocation formula should be reviewed in three years to understand and correct for any unintended consequences of the chosen tuition revenue allocation approach.
University services and functional efficiency

Recommendation 5: Introduce functional plans for university services

University services should be funded through a combination of a share of tuition (as per Recommendations 1 and 2) and the provincial government grant. Units should prepare a multi-year functional plan which defines service delivery, priorities, and future budgetary needs over the coming five years. These plans should be used to guide annual budget allocations to university services and hold unit leaders accountable for their budget and service delivery.

Recommendation 6: Adopt matrix budgeting for university services

To control costs and incentivize efficiency, the university should implement a matrix budgeting system which provides visibility to service leaders of associated spending across the entire university.

Recommendation 7: Implement a space allocation approach

To control space usage, a space allocation (expressed as net assignable square meters) should be determined for faculties and university services. Faculties and university service units should be charged for space usage that exceeds the allocation. Incentives should also be introduced for those faculties and units that occupy less space than the allocated amount.

Recommendation 8: Establish a University Fund

Create one single consolidated University Fund to support strategic initiatives, research growth initiatives, funding to reward performance, and supplementary funding for selected units. The level of funding for strategic initiatives (one component of the broader fund) should be set at 1 percent of general operating revenues.

Recommendation 9: Take funding for the University Fund off the top of general operating revenues

Funds should be taken off the top of general operating revenues and surplus investment revenues (over and above the threshold for investment reserves), which are combined to meet the target percentage for each of the sub-funds, before allocating the grant to faculties and university services.

Recommendation 10: Simplify the approach to allocating the provincial grant for teaching

Simplify the approach to allocating the provincial grant to support teaching activity by abandoning the 'Basic Revenue Unit' (BRU) and adopting a simplified measure to recognize the differential cost of teaching across faculties. Allocate the grant for teaching activity across teaching unit and program faculty, adopting the same sharing approach as domestic and international for-credit tuition revenues.

Research support and growth

Recommendation 11: Maintain allocation approach for RSF

Federal Research Support Funds (RSF) should be allocated in the following way: 50 percent to the faculties using research metrics and 50 percent to university services. The Design Group should review and revise the weightings applied to research metrics during the model development phase. The faculty's allocation should be itemized on the budget letter to clarify how much has been directed to the faculty.

Recommendation 12: Maintain allocation approach for indirect costs of research (ICR), but review policy outside of the budget model

The distribution of ICR revenues is determined by the existing UAPPOL ICR Policy. This policy specifies that 100 percent of ICR revenues are allocated to the faculty collecting the ICR. The expert group recommends that the UAPPOL ICR policy be reviewed outside of the budget model development process to consider changes to rates, opportunities to apply waivers and controls and potential changes to the allocation approach.

Recommendation 13: Simplify the approach to allocating the provincial grant for research

Simplify the approach to allocating the provincial grant to support research activity by focusing on research revenues (Tri-council and non-Tri-Council) and evaluating the use of weightings. Communicate the allocation in advance as 'cents per dollar of research revenues earned' to improve transparency.

Recommendation 14: Initially, allocate 0.5% of operating revenues for research growth initiatives

Introduce a dedicated funding stream within the University Fund (Recommendation 8) for research growth initiatives originally at the level of 0.5% of general operating revenues, with the opportunity to grow to 1.0% in the future.

Multi-year mechanisms

Recommendation 15: Introduce an activity-smoothing mechanism

To avoid large year-to-year changes in faculty revenues as a result of sharp movements in activity, implement a smoothing mechanism for all activity-based budget allocations. Use a 5-year horizon, with 2 years of historical activity data, the current year activity data, and 2 years of projected activity data.

Recommendation 16: Introduce a performance funding pool for faculties with collaboratively-determined performance metrics.

Introduce a dedicated stream of funding within the broader University Fund to reward faculties for performance on the basis of collaboratively-determined performance metrics. Allocate funding annually through the budgeting process, on the basis of performance in the prior year.

Appendix B | Detail on allocation of revenues in Budget Model 2.0

This section provides greater detail on Budget Model 2.0, **as it will be implemented in FY 2025**. Planned iterations to the model will result in changes in FY 2026 and beyond.

Revenue allocation

The budget model allocates revenues on the basis of activity-based metrics. In many cases, data for the relevant metrics (i.e., course and program enrolments; research grants and expenditures) is not available until after the start of the fiscal year and in some cases not until completion of the fiscal year. This section explains in detail how revenue will be allocated based on this data in FY 2025.

1. Tuition Allocation

When determining a faculty's tuition allocation for the upcoming fiscal year a combination of historical actuals, and future projections will be used. This will require a combination of enrolment projections, tuition fee projections and adjustments to reflect an understanding of the difference between enrolment projections and actuals to reduce the risk.

Weightings may be applied to each of the years' data, for example, by weighting future projections by less than historical actuals.

Allocation of tuition revenue will be allocated as such:

1.1. Standard domestic for-credit tuition will be shared:
- 60% to the unit offering the course (the 'teaching unit');
- 10% to the faculty that owns the program that the student is enrolled in (the 'program faculty'); and
- 30% to cover university-wide services costs.

1.2. For domestic for-credit tuition, approximately 3% (2.76% in 2022-23) of tuition is dedicated to student scholarships. The remaining domestic for-credit tuition will be allocated in the same manner as outlined in section 1.1.

1.3. For international for-credit tuition, 7.55% of tuition is dedicated to student scholarships. The remaining international for-credit tuition will be allocated in the same manner as for-credit domestic tuition (outlined in 1.1).

1.4. Tuition for non-credit courses and programs (whether paid by a domestic or international student) will be shared:
- 85% to the unit offering the course (the 'teaching unit'); and
- 15% to cover university-wide services costs.

2. Provincial Grant Allocation

When determining a faculty's share of the provincial grant based on activity metrics (e.g., enrolments and research activity), a combination of historical actuals, and future projections will be used. Enrolment data will be smoothed across 5 years, using a blend of 2 years historic actuals, current year projections, and 2 years future projections.

This means that the proportion of the grant received by each faculty in the current fiscal year will depend on faculty activities, generally, two years prior to the current fiscal year, in the current fiscal year, and projections over the coming two years. This means that faculties anticipating growth in their activities, such as growing enrolments, will be provided funding in advance of these enrolments.

Revenue from the Provincial Government Grant will be allocated as such:

2.1. Base provincial grant revenues (less the amount required to cover the remaining university-wide services costs after tuition is shared) will be allocated to faculties for teaching and research.

2.2. 60% of the net provincial grant will be allocated to fund the teaching activities of faculties.

- The allocation will be based on weighted domestic enrolments in undergraduate and course-based graduate programs.
- The weighting applied will reflect the differential costs of teaching across faculties. For FY 2025, the weightings will reflect cost of programming differentials calculated using information provided as part of the iterative Budget Model 2.0 design process. In future years, these weightings will be adjusted based on recommendations from the FCC working group.
- Enrolments will be measured based on headcount.
- Enrolment data will be smoothed across 5 years, using a blend of 2 years historic actuals, current year projections, and 2 years future projections. Recent prior year actuals will be weighted more heavily than future year projections to reflect certainty of estimates as such:
    - 20% for the actual figure from 2 years prior to the current year
    - 60% the actual figure from 1 year prior to the current year
    - 10% for figure from the current year
    - 5% for future projection for the upcoming year
    - 5% for future projections for 2 years from the current year.

2.3. 40% of the net provincial grant will be allocated on the basis of research metrics to fund the research-support activities of faculties.
- The allocation will be based on four weighted research-based metrics:
  - Restricted Tri-Council research dollars received (5/30 percentage points)
  - Restricted non-Tri-Council research dollars received (5/30 percentage points)
  - Number of successful external grant applications, both Tri-Council and non-Tri-Council (10/30 percentage points)
  - Total dollars spent on graduate students or post-doctoral fellows (PDF). These include scholarships that flow through the university payroll system, such as Tri-Council scholarships (10/30 percentage points)

2.4. Envelope and directed provincial funding will continue to be allocated to the designated faculty/unit as at present (e.g., TEE grant funding, HWAP funding).

3. Research Support Fund and ICR allocation

When determining a faculty’s share of RSF funds and ICR funds, the allocation will be based on 5 years of research activity data - two years prior to the current fiscal year, in the current fiscal year, and projections over the coming two years.

3.1. Half of federal Research Support Funds (RSF) will be allocated to faculties using the research metrics and weightings used to allocate the provincial grant for research (outlined in 2.3), and half will be allocated to university-wide services to cover indirect costs of research incurred in these units.

3.2. Each faculty's share of the RSF funds will be clearly itemized in budget allocations.

3.3. All other indirect costs of research (ICR) go to the faculty/unit generating the ICR.

Allocation to strategic funds, spaces, university-wide services and Colleges

1. ***University-wide services costs***
   1.1. Remaining university-wide services budget requirements (after shares of tuition, RSF, and investment income are deducted) will be subtracted from the provincial grant before the remaining grant revenues are distributed to faculties.
   1.2. To ensure transparency, and control costs of university-wide services, units must prepare a multi-year functional plan which defines service delivery, priorities, and future budgetary needs over the coming five years. These plans guide annual budget allocations to university-wide services and are used to hold unit leaders accountable both for their budget and service delivery. Functional Plans are reviewed by a committee of service leaders and service clients, including academic leaders.
2. ***Colleges***
   2.1. Colleges will be treated as a university services unit, funded out of the Provost's budget.
3. ***Space allocation***
   3.1. In FY 2025, we will be sharing information related to space cost for each faculty and unit. There is no financial burden to the faculties and units based on these figures.
   3.2. Future work will be undertaken by a working group to agree on the most effective use of space assets to drive positive and impactful behavior change over the long-term that supports the university's strategic goals.
4. ***University Fund***
   4.1. A University Fund will be established to be allocated for strategic purposes consistent with the university's mission.
   4.2. The first call on funds will be 0.75% for subvention, to support faculties whose resource allocations under the new budget model cannot fully support the costs of providing programs that are core priorities of the institution.
      - The level of funding dedicated to this purpose will be determined annually, based on need as assessed by the Provost in consultation with faculties and colleges before the start of the fiscal year.
   4.3. The University Fund will have three sub-funds:
      - A Strategic Initiatives Fund (SIF) to the value of 1% of general operating revenues which provides support to university services, colleges, or

faculties for strategic initiatives, which will normally be identified in the university's strategic plan. Note that the SIF allocation will be 0% in FY 2025.

- A Strategic Research Initiatives Fund (SRIF) to the value of 0.5% of general operating revenues which provides support to university services, colleges or faculties for projects that enhance research performance aligned with the strategic research and innovation plan.
- A Performance Fund to the value of 0.2% of general operating revenues which is awarded to faculties on a formulaic basis based on performance against an agreed set of performance metrics that are measured in the prior fiscal year, therefore the first funding will be distributed in FY 2026 based on metrics from FY 2025.

4.4. Committees for the SIF and SRIF will be formed to make funding allocations.

4.5. The resources devoted to the University Fund will be taken off the top of the provincial grant before the remaining grant revenue is allocated to the faculties. Where investment income and revenue from the Land Trust is available for allocation, it will contribute to the University Fund, lowering the amount required from the provincial grant.

4.6. A complete report on the activities of the University Fund and the faculties, university services and projects supported will be made to the Deans' Council each year.

4.7. Where carry forward is possible, any unused funds will remain in the university fund to remain available for related initiatives.

4.8. The level of funding allocated to 'supplement' faculties, and to each of the sub-funds, will be reviewed at least once every five years.

Appendix C | Scope of funding for University-wide services

In order to support the university's current operating model, Budget Model 2.0 must appropriately fund university-wide services. This section describes the scope and services of university-wide services, and the functional planning process that supports funding decisions in Budget Model 2.0.

What are University-wide Services at the university?

University-wide services is the collective term for the units in the President's and Vice Presidents' portfolios that deliver administrative and academic services to the whole of the university. The university-wide services portfolios at the university are:

Portfolio	Units
Office of the President and Vice Chancellor	• University Governance
General Counsel	• Office of General Counsel • Information & Privacy Office • Institutional Policy Unit • University Records Office
Provost and Vice President Academic	• Faculty Relations • Helping Individuals at Risk • Office of Safe Disclosure and Human Rights • Office of the Student Ombuds • Equity, Diversity and Inclusion (EDI) • Office of the Registrar • Office of the Dean of Students • Faculty of Graduate Studies and Research • University of Alberta International • Library and Museums • Indigenous Programming and Research • Centre for Teaching and Learning • Programs • Learning Initiatives • Online and Continuing Education • Enrolment Systems and Service Innovation
VP, University Services and Finance	• Finance, Planning and Procurement • Human Resources, Health, Safety and Environment • Information Services and Technology • Shared Services • Performance, Analytics and Institutional Research

	• Internal Audit and Enterprise Risk Management • University Initiatives Office
VP, Research and Innovation	• Strategic Research Initiatives and Performance • Research Integrity Support • Innovation, Knowledge Mobilization & Partnerships • Research Development and Services • Research Partners Network
VP, External Relations	• Alumni Relations • Development • Enterprise • Government and Community Relations • Marketing • Strategic Communications
VP, Facilities and Operations	• Asset Management and Operations • Campus Services • Integrated Planning, Development, and Partnerships • Support and Recreation Services • Utilities

What are functional plans?

The University-wide Services & Functional Efficiency Budget Model 2.0 Expert Group produced the following recommendation related to university-wide services and functional plans:

Recommendation 5: Introduce functional plans for university services

University services should be funded through a combination of a share of tuition (as per Recommendations 1 and 2) and the provincial government grant. Units should prepare a multi-year functional plan which defines service delivery, priorities, and future budgetary needs over the coming five years. These plans should be used to guide annual budget allocations to university services and hold unit leaders accountable for their budget and service delivery.

The recommendation calls on university-wide service leaders to articulate plans and budgetary needs for the next 5 years. Functional Plans enable service leaders to articulate and be accountable for the value of funding that flows to university-wide services through Budget Model 2.0.

The Functional Planning process includes a self review of the current state completed by the AVP or equivalent service leader, drafting and iteration of the functional plan, review by the relevant VP, and approval by a committee including client representatives from the academy. This in-depth process is delivered every 5 years, with annual reviews of the plan by the AVP and VP that align with the budget cycle. This is to ensure the university community can trust that a fair and effective amount of funds will flow to university-wide services.