

UNIVERSITY COUNCIL

PLANNING AND PRIORITIES COMMITTEE

FOR INFORMATION ONLY

PRESENTED BY: Bob Tyler, Chair
Planning and Priorities Committee

DATE OF MEETING: November 15, 2012

SUBJECT: **Transparent Activity-Based Budget System (TABBS)**

COUNCIL ACTION: For information only

CONTEXT AND BACKGROUND:

The University adopted the goal of developing a new activity-based budget system as one of the commitments of its *Second Integrated Plan*. The project was initially known as the Resource Allocation Project and later renamed the Transparent Activity-Based Budget System (TABBS). Since budgetary decisions often have implications for academic activities, the Planning and Priorities Committee has had several opportunities to provide input into TABBS, beginning with the first discussion of the project principles in April 2011 and then at each stage of model development. In addition, the Chair was a member of the Model Development Oversight Team (MDOT) for TABBS.

DISCUSSION SUMMARY:

The model is now at the point of implementation. Therefore, it is timely to report to Council as the developmental phase of the project ends and implementation begins.

ATTACHMENTS:

1. TABBS Factsheet
2. TABBS Design Features

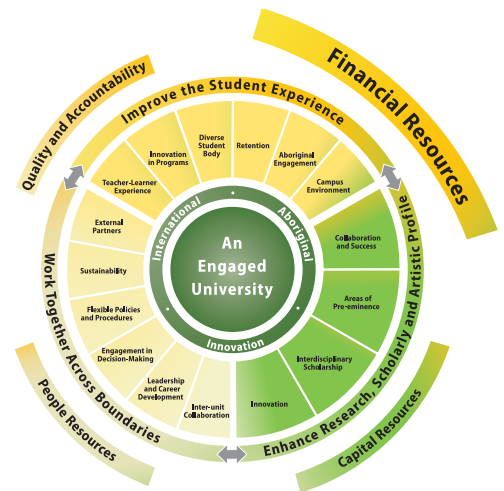
Additional information about TABBS can be found at <http://www.usask.ca/tabbs/about/index.php>.

Transparent, Activity-Based Budget System (TABBS)

What is the Transparent, Activity-Based Budget System and why is it being done?

This project was initiated in order to develop a more responsive and transparent budgeting system for the university. The second integrated plan identified the need for our institution to continue to strengthen its financial position and stewardship through sustainable budgeting, developing existing and new revenue streams, improving our control environment, enhancing transparency, and implementing a process for more informed resource allocation.

Originally established as the Resource Allocation Project within the Financial Resources Commitment, the Transparent, Activity-Based Budget System (TABBS) will result in a new model that will inform decision-making about budget levels and reduce dependency on historical agreements. This new model will help align college and unit budgets with activities in a more transparent, comprehensive, and systematic way; link budgets to cycles of integrated planning; ensure resources are put behind strategic priorities; and place responsibility for budgets at the appropriate college/unit and university levels.



How will the new model change the way we do things?

The new model will initially focus on allocation of operating budget revenue and will become more comprehensive in scope over time. We expect the model will improve budgeting in the following ways:

- the quality of information used to inform decision-making will be improved;
- the university's goal to work across units in a collaborative way will be supported;
- it will result in a better overall system for the university that means greater cost-awareness and increased efficiency;
- areas of strategic importance to the university will be supported through the maintenance of a central fund for strategic innovation (along the lines of the Academic Priorities Fund);
- responsibility for budgets will be placed at the appropriate level (based on the principle of subsidiarity);
- current ad-hoc resource measures will be replaced (such as tuition revenue sharing agreements and certain fee-for-service arrangements); and
- incentives will be provided to colleges and units aligned with the university's strategic plan and planning documents

The new model will:

- NOT create NEW revenue for the university to allocate at the outset;
- NOT change the role of deans, the Board of Governors or the Provost's Committee on Integrated Planning (PCIP) in financial decision-making;
- NOT result in zero-based budgeting (zero-based budgeting is a method of beginning each new budgeting process with a zero-base, or from the ground up, as though the budget was being prepared for the first time);
- NOT change the teaching and research missions of the university;
- NOT change the allocation of funds which are restricted to a college or unit; and
- NOT initially change internal guidelines and practices (such as those related to fee-for-service activity).

Project Principles

The new model will build on a set of guiding principles that include:

1. Transparency
2. Strategically Aligned, Incentive-based
3. Highly Consultative
4. Informative
5. Sustainability
6. Stewardship and Accountability
7. Comprehensive and Pervasive Scope

What is our process?

Our approach to this project has been consultative; sharing information with many individuals and groups across campus including deans, representatives from colleges and administrative units, committees of council, financial staff and others.

There are three main phases of the project:



Phase 1: Model Research and Concept Development (January 2009 – Spring 2011)

Research on best practices and models at other universities – University of Toronto, University of Otago (New Zealand), Indiana University-Purdue University Indianapolis, University of Michigan and Iowa State University. We have learned from other institutions through detailed research that a Responsibility Centred Management (RCM) model approach would be a preferred alternative to our current budget system. The RCM approach involves decentralization of responsibility for revenues and costs to Responsibility Centres such as colleges, schools, research and administrative units. Since the 1970s some colleges and universities in North America and beyond have used some form of RCM, which relies on activity-based budgeting.

In addition to background research, Phase 1 included the development of high-level model concepts, called critical design features, which include:

- a Responsibility Centre structure;
- revenue allocation (of both tuition revenue and provincial operating grant revenue) to those units responsible for generating that revenue;
- expense allocation (of both direct and indirect expenses) to those units that benefit from the expenditure;
- a central fund (strategic initiatives fund); and
- a transition period.

Phase 1 of the project involved discussion and information-sharing, during which normal budget processes apply. Phase 1 concluded with PCIP and Board of Governors approval in principle (May 10, 2011) of the concepts and general approach.

Phase 2: Model Development (Spring 2011 – Spring 2012)

In phase 2 the model will be more fully developed and begin to inform PCIP's decisions. In this phase we will:

- refine critical design features;
- begin to address policies such as research overhead and fee for service; and
- further develop model revenue drivers (e.g., teaching activity, student enrolment) and cost driver information (e.g., square meters).

Phase 2 will also involve a simulation period of the high-level model, which will include consultations with colleges and units. Distribution of planning parameters in Spring 2012 marks the end of phase 2 and the beginning of implementation as defined by PCIP (when the model is used to inform decisions).

Phase 3: Implementation and refinement (Spring 2012 and beyond)

Phase 3 is about application of the model and during this phase there will be a more wholesome alignment with our budget cycle. Time will be needed to gather and review information to develop policies before the model can be fully implemented and integrated into our normal processes, around 2014-15. Periodic reviews will take place in advance of planning cycles.

Glossary of Terms

Central Fund

A strategic initiatives fund under the direction of the provost (and PCIP) to support university priorities.

Direct costs

Costs directly incurred and tracked by units, such as salaries, benefits, supplies, etc.

Indirect costs

Costs that are incurred but cannot be directly tracked to each unit, such as grounds-keeping, legal fees, etc.

Resource allocation

The process of an activity-based allocation of resources among and within colleges and units.

Responsibility Centre (RC)

A campus unit with the budget authority and responsibility to finance its costs (both direct and indirect).

Revenue Centre

A campus unit that generates revenue (primarily from external sources such as tuition or research funding), controls that revenue and finances its costs (both direct and indirect). Examples include the College of Engineering or the School of Public Health.

Support Centre

A campus unit that generates little or no external revenue, but provides critical services to support the activities of the Revenue centres. Similar to a Revenue Centre, a Support Centre controls its budget and finances its costs (both direct and indirect). Examples of support centres are the Financial Services Division (FSD), Information Technology Services (ITS) or Facilities Management Division (FMD).

TABBS

Transparent, Activity-Based Budget System. This is the new name for the project formerly known as the Resource Allocation project.

For more information

Email: tabbs@usask.ca

Phone: (306) 966-2144

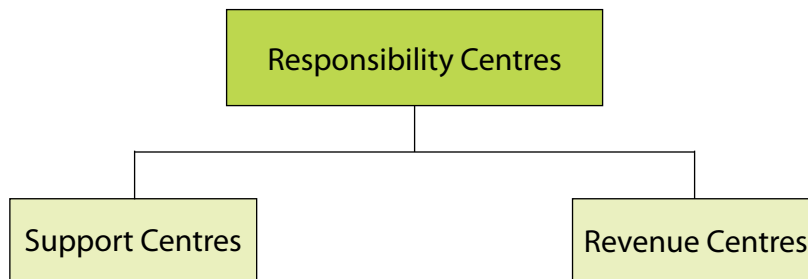
Responsibility Centres

The creation of responsibility centres (RCs) aligns authority with responsibility. Through the Transparent Activity-Based Budgeting System, an RC will have the ability to control its revenues and/or finance their direct and indirect costs in a manner that is transparent and informed by data.

Campus colleges, schools, administrative units, centres and University of Saskatchewan subsidiaries, which largely mirror existing planning entities, will be designated as “Responsibility Centres”.

Each RC is classified according to their ability to generate revenue (referred to as “Revenue Centres”) or provide support to revenue centres (referred to as “Support Centres”):

- A Revenue Centre is an RC in which the majority of its activities result in the generation of revenue from external sources.
- A Support Centre is an RC that generates little or no external revenue but which provides critical services in support of the activities undertaken by the Revenue Centres and other Support Centres.



Critical Design Features

Responsibility Centres

- Tuition Revenue Allocation
- Integration of Research
- Provincial Operating Grant Allocation
- Expenses
- Strategic Envelope
- Governance
- Transition

Outstanding Issues

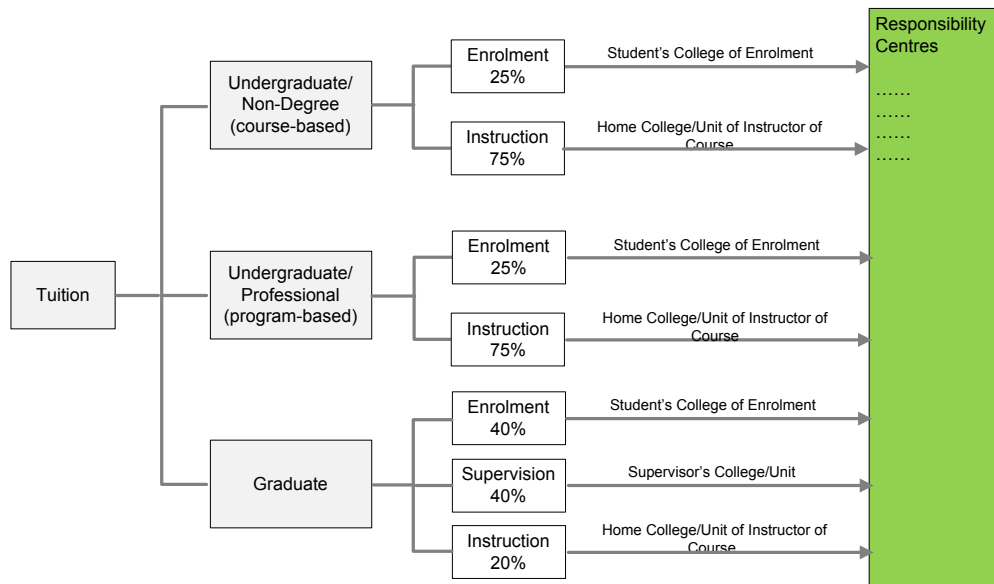
Consideration of how research centres and U of S subsidiaries are treated within TABBS, and further analysis on units with both revenue and support centre major activity

Tuition Revenue Allocation

Basing tuition revenue distribution upon enrolment, instruction, and supervisory activity is strategically-aligned and incentive-based. This is accomplished by recognizing and promoting the recruitment, retention and support of students, the development and delivery of courses and programs, and the support of graduate academic and research endeavours while also ensuring that interdisciplinary activity continues to be encouraged and supported.

The distribution of tuition revenue will be determined by examining program/course enrolment activity for each student in each term of the fiscal year.

- The majority of undergraduate tuition will be allocated within the model based on recognition of enrolment (25% of tuition) and instruction (75% of tuition). The enrolment component will be distributed to the home college of the student and the instruction component distributed to the home college(s)/unit(s) of the instructor(s) (the college/unit that pays the instructor).
- The majority of graduate tuition will be allocated based on recognition of enrolment (40%), instruction (20%), and to acknowledge graduate supervision (40%), with the supervisory component distributed to the home college(s)/unit(s) of the supervisor(s).



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Where the home college/unit of the instructor(s) of the course is unknown or the data is not available, the default rule will credit the jurisdictional owner of the course.

Activities excluded from this allocation system have yet to be finalized, as has the treatment of lab and tutorial activity.

Integration of Research

The model must support both our strategic research priorities and our need to recover the costs of supporting research. Ensuring all research revenue (received for supporting the direct and indirect costs of research) flows to revenue centres, as well as ensuring all costs are assessed and allocated appropriately, will facilitate improved management and utilization of resources.

Before considering how research will be treated within the model, it is important to clarify that certain things will remain unchanged:

- External research funding, as restricted funding, will remain intact. Such research funding will continue to be directed to the revenue centre for the purpose it was intended, as per the terms and conditions for which such funding was provided.
- The Federal Indirect Costs Program (FICP), and how it is administered, will not change as there are external accountability and reporting requirements.
- The institution's focus on achieving Tri-Agency funding performance at or above the national average for medical doctoral universities continues to be a priority.
- The recognition of cost awareness and the importance of recovery of overhead from external sponsors of research must be emphasized.

All research activity (revenue and expenses) will be included within the scope of the model, with the exception of infrastructure (e.g. CFI funding for facilities).

All research activity considered within the TABBS model as a driver of revenue and expense allocations will be based on organizational code used in the transaction where the research activity occurs (this may be multiple funds for research grants with more than one investigator), with operating revenue and expenses allocated to the corresponding revenue centre.

All research overhead that is recovered through externally funded research will be retained by the revenue centres which generated the overhead.

As the funds obtained through the Federal Indirect Costs Program are restricted in nature, these revenues will be administered outside of TABBS, as will the associated expenses for which the grant is intended to cover.

Outstanding Issues

This design feature has a dozen outstanding issues to be resolved:

- Types of research activity accounted for as non-tri-agency;
- Treatment of sub-grants and sub-contracts;
- Research activity in the Saskatoon Health Region;
- Activities managed by the Industry Liaison Office (ILO);
- Canada Research Chair and other Chair programs;
- Removal of overhead recovered through the Saskatoon Centre for Patient-Oriented Research (SCPOR);
- Underlying expenses that research overhead revenue covered centrally;
- International Research Office;
- UniFi system limitations to tracking research overhead recoveries;
- FICP funds subsidizing a recovery to cost allocation;
- Overhead support of Tri-Agency research if FICP is not be allocated to colleges;
- Determination of the best metric for distribution of research-related revenue/expenses; and
- Treatment of revenue/costs for Type B research centres.

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Provincial Operating Grant Revenue

TABBS will allocate revenue obtained from the Province of Saskatchewan for the operations of the university, as well as special initiatives of the university, based on instruction and research activity. This approach is strategically aligned with the university's priorities and is informed by the mechanism by which the province allocates the funding (the Saskatchewan Universities Funding Mechanism, or SUFM). It recognizes the value of increasing student activity and research intensity comparable to other revenue centres.

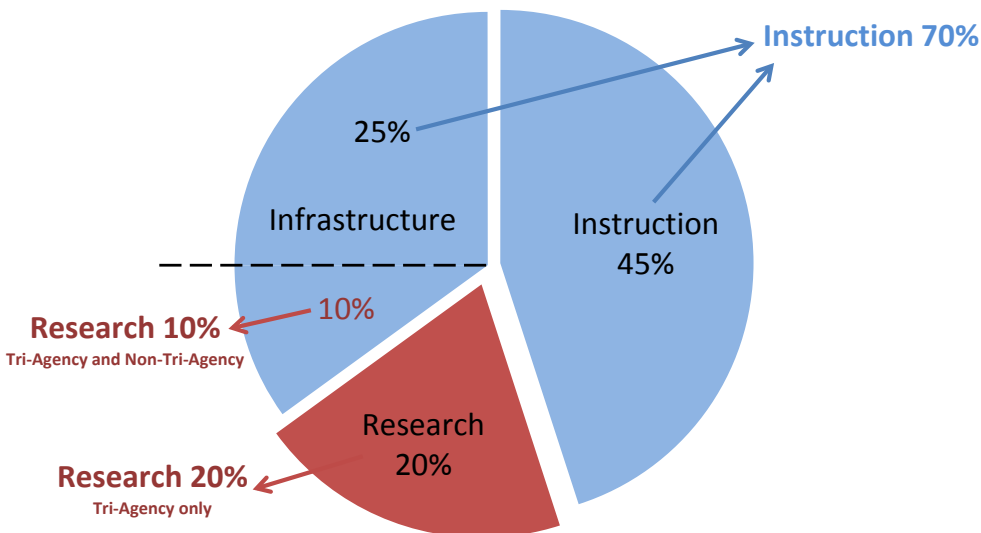
The core Provincial Operating Grant, less a portion for strategic initiatives, will be allocated within the model to revenue centres based 70% on their teaching activity and 30% on research activity as compared to other revenue centres and informed by SUFM.

Directed funding, less an allocation for the strategic fund, will be allocated to revenue centres as indicated in the Provincial Operating Grant, while targeted funding will be allocated directly to the associated units as instructed in the Provincial Operating Grant.

The teaching activity/instruction will be measured by student full-load equivalency (FLE).

The research activity will be measured by using the research revenue attributed to each revenue centre. Within TABBS, both Tri-Agency and non-Tri-Agency research activity will be measured. As per the SUFM mechanism, 20% of the Provincial Operating Grant will be allocated to revenue centres based on their tri-agency research activity. A portion of the infrastructure component of the Provincial Operating Grant will be used to recognize both Tri-Agency and non-Tri-Agency research activity.

The Provincial Operating Grant supports funding for instruction (45%), infrastructure (35%) and research (20%). Within TABBS, this infrastructure amount will be further split according to the same proportion that instruction and research are credited through SUFM, which results in an overall allocation based on instruction 70% and research 30%, see below:



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The determination of what types of research revenue will be used to measure research activity.

Expenses

A cost bin and driver approach to allocating indirect expenses recognizes inter-support centre consumption of resources and provides us with an appropriate balance between transparent and informative data while maintaining an understandable and sustainable budget model. Providing responsibility centres with a full understanding of the cost of their activities will allow for informed decision-making.

Direct costs (e.g. salaries and benefits of college/school employees) of revenue centres will continue to be incurred and directly funded by the revenue centre responsible for incurring those cost.

Indirect costs (i.e. expenses incurred by support centres and within central expense funds) will be assigned to five primary cost bins: research support, student support, faculty/staff support, occupancy, and general.

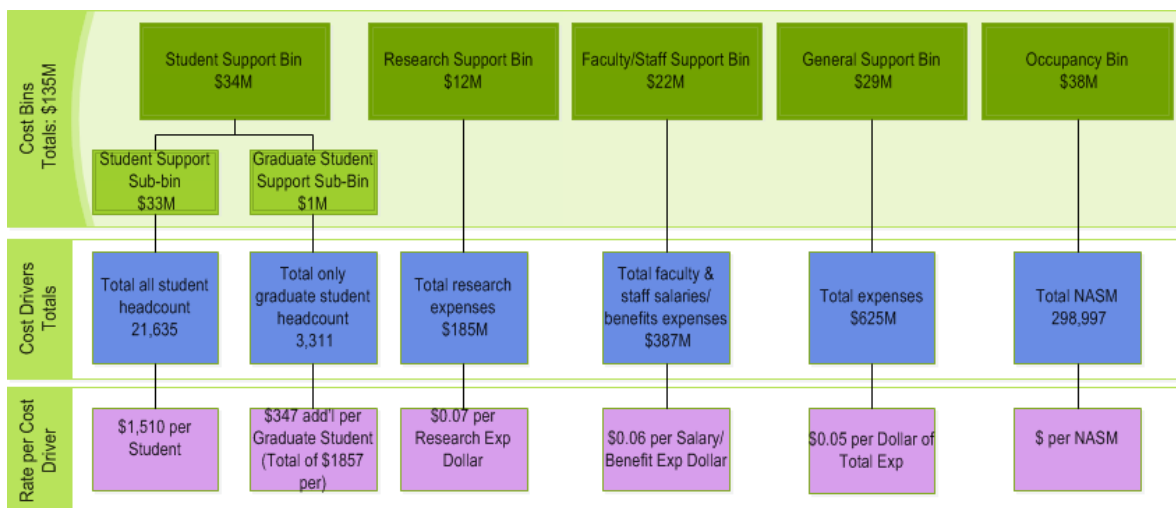
The initial cost drivers associated with these five primary cost bins are: 1) annual research expenditures (for research support); 2) student headcount (for student support); 3) annual faculty/staff salary and benefit expense - until defined faculty/staff headcount is determined - (for faculty/staff support); 4) net assignable square meters (NSAM) (for occupancy); and, 5) annual total expenditures excluding capital (for general support).

- The student support bin will have a sub-bin for graduate student support in order to recognize the significance and incremental costs associated with this element.
- The occupancy cost bin will be categorized further into the following sub-bins: utilities, caretaking, leases and general occupancy costs. All will use the cost driver of NASM per responsibility centre. Classroom costs will be assigned to the classrooms holding sub-bin before being re-assigned to the student support bin and allocated out based on its cost driver of student headcount.

The full-stop-step method of inter-support centre cost allocation will be used in the indirect cost allocation model to recognize that support centres also consume support services.

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Note: based on 2008/2009 Operating Budget

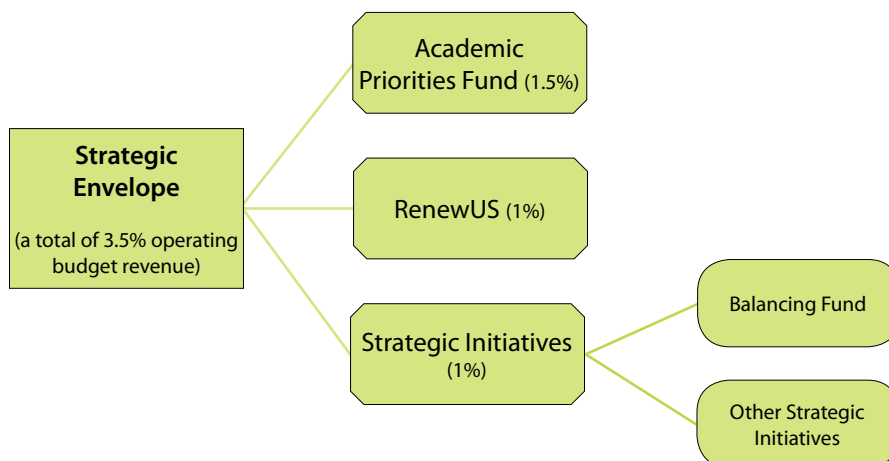
Outstanding Issues

The treatment of fee-for-service activity, consideration of alternate and/or additional cost drivers, and the conversion of indirect costs into direct costs. TABBS will ultimately use faculty/staff headcount as the driver for the faculty/staff support bin.

Strategic Envelope

A strategic envelope of 3.5 percent of the operating budget revenues will be set aside to be administered by central leadership, allowing for investment in, and promotion of, strategic institutional opportunities. The maintenance of such a “central” strategic initiatives fund is recommended as it best supports the principles of being a strategically aligned incentive based model, creating an efficient and effective environment of desired and valued change (stewardship), as well as sustainability of the new resource allocation model.

- Funding will be allocated from investment income and miscellaneous revenue, plus an amount off the top of the provincial operating grant (prior to any allocation) equal to the remaining funding requirement to bring the total envelope to 3.5 percent of the operating budget revenue.
- Will be maintained annually at approximately 3.5% of operating budget revenue, with the Provost and PCIP approving the allocation of the annual increase (assuming growth in operating budget revenues) to the Strategic Envelope components. Consultation on the level of funding assigned to the strategic envelope and the associated allocation to various strategic funds will be undertaken with Planning and Priorities Committee of Council and Deans’ Council.
- The distribution of the Strategic Envelope will include the Academic Priorities Fund (APF), Strategic Research Fund (SRF), RenewUS operating budget support, a strategic initiatives fund and the balancing fund.
- The Balancing Fund will be established for the transition of units to the TABBS model reference level. This fund should equal zero.



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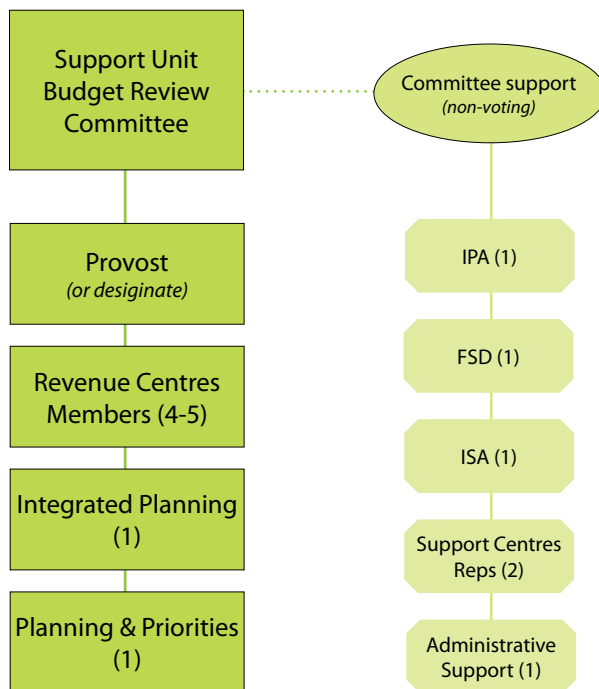
Outstanding Issues

Determine process for setting budgets, annually and for planning periods; determine process for maintaining a historical log of permanent or term funding of strategic funds; further review of miscellaneous revenue.

Governance

The overall decision-making process and governance structure of the university will not change. Intent of the model is to inform decision-making of the Board of Governors and PCIP as it relates to the allocation of resources. This will allow for the TABBS model to fit into the integrated planning framework with a minimal amount of disruption of the current budgetary system and/or the integrated planning process.

- Revenue and support centre budgets will continue to be reviewed by PCIP on an annual basis, with recommendation for approval made to the Board of Governors.
- An additional detailed review of support centre service levels (including budgets) will be performed by a committee in conjunction with each planning period.
- The governance of the TABBS model will be the responsibility of PCIP, with support from a working group with representation from Institutional Planning and Assessment (IPA), Information Strategy and Analytics (ISA), and Financial Services Division (FSD).



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Outstanding Issues

Determine process for setting budgets annually and for planning periods need; determine membership and terms of reference of support unit budget committee; further development of responsibilities of IPA, ISA and FSD; develop service level standards; review/develop policies.