SECURING our FUTURE

A NEW BUDGET ***METHODOLOGY***

Discussion Paper: Road Map for a New Budget Methodology at TRU

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EXECUTIVE SUMMARY

TRU's current budget methodology has been in place since the 2007/08 fiscal year. The model, while in theory, promotes entrepreneurship and innovation, also has a number of deficiencies that have become further exacerbated as overall enrolments have plateaued. One of the critical shortcomings of the current methodology is its inability to fund the strategic priorities of the institution because of the methodology's pre-determined allocation of tuition revenues. For TRU to move forward and achieve its strategic priorities, it needs a financial mechanism to do so.

Since October 2013, the institution has been engaged in a discussion about changing the budget methodology to one that is more reflective of the needs of TRU. After reviewing the most common methodologies employed elsewhere, the Budget Model Review and Strategic Alignment Committee - BMRSA (a sub-committee of the Budget Committee of Senate - BCOS), determined that a zero-based methodology is the preferred methodology for TRU. A zero-based budget methodology essentially resets all operating budgets to zero and requires budget managers to provide justifications for all costs on an annual basis. Budget managers are rewarded resources according to the expenditure plan approved by the institution. This methodology was appealing to BMRSA primarily because of the model's emphasis on monitoring and controlling expenditures.

However, BMRSA acknowledged the primary short-coming of the methodology, most notably, the difficulty in zero-basing budgets that have a high component of continuing on-going employment expenses. Through the Committee's deliberations and consultations with campus stakeholders, the methodology proposed within this discussion paper has evolved to what could best be described as a highly modified zero-based methodology – one that optimizes human resources, scrutinizes operating expenses in a detailed way but also retains and includes elements of performance-based budgeting that fosters entrepreneurship and innovation.

The proposed methodology also links resource allocation to institutional strategy and risk mitigation. Tentatively called the **2015/16 TRU Budget Methodology**, it adheres to the guiding principles established by BCOS for TRU budget methodologies and has the potential to improve TRU's allocation of resources: it supports planned, precise and properly deployed investment in programs and services deemed to be of strategic importance.

INTRODUCTION

In July 2013, President Shaver asked the Vice-President, Administration and Finance, Matt Milovick, to review the current budget methodology employed by Thompson Rivers University (TRU) in order to ensure that resources across the institution were being deployed strategically. During consultations with the Budget Committee of Senate (BCOS), it was determined that a sub-committee of BCOS be established to examine the current methodology and look at ways to potentially improve upon it. With that decision, the Budget Model Review and Strategic Alignment (BMRSA) sub-committee was formed. BMRSA's objectives were defined by BCOS as the following:

- **To develop, maintain and promote a budget model that provides the TRU community with greater transparency, accountability and understanding of the TRU budget model;**
- **To ensure a budgetary methodology that advances TRU's strategic goals and mitigates risks to the institution by aligning resource allocations to specific priorities;**
- **To make specific recommendations to ensure that the budget model promotes TRU's entrepreneurial spirit and reflects transparent and appropriate incentives to stimulate revenue growth;**
- **To promote decision making and governance consistent with legislation and best collegial practice.**

BMRSA has met monthly since October, 2013. Its work to date has included the following:

- **Established Terms of Reference and membership (see Appendix I);**
- **Established Guiding Principles for a TRU budget methodology which has been adopted; by BCOS for institutional use (see Appendix II);**
- **Reviewed the current budget methodology (including budget anomalies);**
- **Reviewed the pros and cons alternate budget methodologies and selected a preferred methodology (Modified Zero-Based Budgeting);**
- **Reviewed TRU revenue sources;**
- **Examined major cost drivers with a focus on academic and administrative employment costs;**
- **Reviewed the current carry-forward process/impacts; and**
- **Discussed how a Modified Zero-Based Budgeting (MZB) could be implemented at TRU.**

Based on BRMSA's work to date and subsequent formal and informal consultations with stakeholders, this report has been prepared to provide a rationale for evolving from the current methodology to one that fully aligns with the guiding principles for a TRU budget methodology.

THE CURRENT BUDGET METHODOLOGY

Historical Context:

TRU's current budget methodology was first implemented to prepare the budget for the 2007/2008 fiscal year. This methodology employed can best be described as a hybrid model incorporating different features of a performance-based budget methodology; an incremental methodology; with some characteristics of a responsibility center management methodology.

As a performance-based model, TRU's tuition revenues are distributed upon achieving a single specific outcome – enrolment. There are no other performance metrics used to distribute revenues and there is no accountability as to how resources link strategically. In this model, Faculties are essentially entitled to revenues generated from enrolments without debate and are expected to manage their resources according to the ebbs and flows of enrolments. On the administrative and service side, the methodology can be described as incremental (plus or minus) with units receiving inflationary increases for known costs and/or taking a share of institutionally applied budget cuts (e.g. target reduction strategy).

In the current methodology, Faculties and units each received revenues from either an internal "block grant" and/or tuition revenues (less tuition increases) from student enrolment. It should be noted that the internal "block grant" received by Faculties and units is not the same "block grant" received by TRU from the government. While the internal block grant consists of revenues from the provincial block grant, it also included revenues from other sources such as investment and other income.

In 2007/08, internal block grants were established with the intent of making each faculty or unit solvent with respect to their operating expenses from the previous fiscal year. Non-academic units received the funding they had from the previous period with some minor adjustments and the faculty block grant was established after tuition revenues were calculated on a three-year rolling average in order to bring the faculty to a balanced position. For example, if a faculty had a deficit in 2006/07 and low enrolments, the block grant it received in 2007/08 was set at a higher level since the anticipated enrolments were low. If those enrolments grew over time, the internal block grant was not adjusted and the faculty found itself with more tuition revenues and an artificially high block grant. In some cases this created significant carry-forwards (i.e. unspent funds from the previous year that could notionally be used in the next year) because the faculty had more money than it could use.

With the carry-forward rules that are in place, the faculty could keep up to 5% of its total operating budget, up to 10% went to the relevant VP, and the remainder went back to the institution. In effect, the University was leaving cash on the table in each fiscal year because those Faculties with high block grants and growing enrolment could not spend the resources in year and ultimately those dollars rolled into TRU's surplus. Because internal block grants had been established, and Faculties ultimately kept the revenues from enrolment (minus tuition increases), the distribution of revenues was predetermined by the methodology and there was no formal mechanism for redistribution of those funds.

Advantages of the Current Methodology:

The current methodology has been positive in a number of ways. Key advantages to the current methodology are as follows:

- *Contribution to TRU's surplus:*
  The methodology has partially contributed to the growth of TRU's surplus through the implementation of the carry-forward provisions.
- *Rewarded growing Faculties:*
  Faculties that experienced increased enrolments have received more revenues.
- *Budget was pre-determined:*
  The current methodology is relatively straightforward because revenues flowed to where tuitions were earned.
- *Allowed for freedom of management decisions:*
  Managers have been relatively free to make resourcing decisions within their own funding envelopes without having to justify costs or expenditures.
- *Encouraged entrepreneurial activities:*
  Faculties have developed Masters-level programs that allowed them to keep all the tuition revenues associated with those programs. In some Faculties, continuing education programs have been developed or enhanced because profits have been held by the Faculties for their purposes. Open Learning and TRU World have contributed significantly to the overall bottom line of TRU while also funding specific initiatives in units and Faculties across campus.

Disadvantages of the Current Methodology:

While the current methodology has several advantages, its disadvantages have been detrimental to the strategic direction of TRU. Key disadvantages to the current methodology are:

- *No ability to fund strategic priorities:*
  The current methodology left insufficient resources set aside to invest in TRU priorities as defined by the strategic plan. Since annual budget allocations are pre-determined, the only way to fund strategic initiatives have been to either strategically reduce block grants or through an annual across the board cut to all budgets.
- *Carry-forward allowances:*
  The carry-forward rules have created several problems. The first is the amount of cash left on the table in the operating budget at the end of a given year. Projected for April 1, 2014 is an opening carry-forward balance of approximately $6.86MM which represents funds that have accumulated over the years because of underspending in-year. Since the existing methodology prescribes where resources are allocated, no adjustments have been made to budgets to ensure that TRU's operating dollars are being spent where they are strategically required. The second problem this creates is that while carry-forwards allow a notional cushion to manage future Faculty/unit deficits, in times where the institution as a whole is facing a deficit, spending against these carry-forwards exacerbates those deficits. Because carry-forwards are Faculty/unit specific, there is a perceived "right" to use funds to offset in-year problems regardless of how the institution as a whole is faring.
- *No ability to fund known institutional costs:*
  Over the years, as the institution has faced new costs, there has not been the budget to support additional institutional expenditures. For example, the Access Copyright fee increased dramatically in 2012 going from $3.38/FTE to $26/FTE and the institution was forced to pay the difference yet there was no budget available to do so. As such, TRU has been cash-flowing these expenditures. Given this is a known cost to the institution; TRU must plan for and have a budget to pay for this on an ongoing basis. Other examples where institutional budgets are insufficient to cover the actual costs include sick leaves, maternity leaves, and credit card commissions.
- *Block grants to budgets have remained largely unchanged since they were first allocated in 2007/08:*
  This is a significant issue for departments that have no ability to influence their revenues through entrepreneurial activity or enrolment growth. In seven years under the same methodology, it is unfathomable that the needs in all of these areas have not changed in response to shifting demographics, enhancements in technology, or other trends in higher education. The fact that the blocks have not been reviewed in that period of time is worrisome.

- *Management practices inconsistent with current methodology:*
  The current methodology inherently requires spending to align with enrolment trends. In the Faculties, costs have continued to rise even as enrolments have plateaued and in some cases, plummeted *(see Appendix IV – Actual/Budget Spending in Faculties and Schools Relative to Enrolment)***. There is a tendency for growing Faculties to add costs, not only for teaching but also for base-funded administrative positions as revenues from enrolments increase. However, without careful planning, this type of spending can create systemic budgetary problems if enrolments begin to trend downward because fixed costs (i.e. on-going, continuing employees) can be difficult (and expensive) to shed. These practices are not only inconsistent with the principle of an enrollment-driven budget model, they are also unsustainable over the mid to long term.**
- *Creates disincentives for collaboration:*
  When Faculty revenue is driven by students enrolled in their courses, there is little incentive for Faculties to collaborate on program offerings even if the expertise for certain subject areas may exist in a separate Faculty.

Observations:

Although the current methodology has its attributes, it is no longer sustainable as it lacks flexibility to be responsive to the changing needs of the University and to the dynamic external environment in which TRU competes. As a result, while some Faculties have gained significantly from the current performance-based budget allocation methodology, impacts of the model's shortcomings have had profound impacts on most other areas of the institution.

BMRSA's discussions consultations indicated a new methodology was needed and different types of budget models were examined for their potential application to TRU's financial environment. Appendix III includes a chart of the most commonly employed methodologies employed in the North American post-secondary environment including definitions and the pros and cons of each.

While any of the methodologies could be employed at TRU, none was an ideal fit. Some were administratively burdensome (e.g. Responsibility Centered Management and Zero-based), some were seen to lack strategic direction (e.g. Incremental), and some were seen to be difficult to benchmark consistently (e.g. Performance). This is not uncommon. In fact, many institutions adopt or modify the methodology to work for their circumstances, level of financial competency and/or sophistication of the organization rarely opting to implement the methodology in its purest form.

PROPOSAL FOR AN UPDATED METHODOLOGY:

The model identified by BMRSA to have the fewest drawbacks and greatest potential to adhere to TRU's budget methodology guiding principles was the zero-based budget methodology. The methodology's emphasis on the redistribution of revenues based on where they are needed and the careful monitoring and controlling of costs are seen as essential assets especially at a time when the University's enrolments are plateauing. While time consuming in its initial rollout, the mechanics of the methodology are viewed as being consistent with TRU's financial competency at the faculty/departmental level supported by the existing complement of Finance's client support team.

However, the methodology's pure form - where all budgets are returned to zero at the start of the fiscal cycle and every dollar spent must be justified - creates an untenable situation for TRU (and most universities) because of a high percentage spend on on-going, continuing employee costs. As such, most cases where zero-based budgeting has been applied in a post-secondary context, have involved modifications where continuing ongoing employee costs are retained at current levels and all other costs are closely scrutinized. A further modification to the model that was deemed to be essential during the budget methodology discussions and one that may be unique to TRU was the need to accommodate entrepreneurial incentives. While in some ways inconsistent with a pure zero-based methodology, TRU has evolved as a result of its entrepreneurial spirit and this aspect of TRU's culture, while needing to be managed, needs to also be retained.

The Proposed Methodology:

The proposed methodology is a modified zero-based approach:

- **retains yet optimizes the current continuing on-going employment expenses;**
- **allows for strategic (re)investment through the development of a Strategic Investments Fund (SIF); and,**
- **includes incentives that encourage entrepreneurship at the Faculty/Department level.**

This modified zero-based methodology is a hybrid methodology incorporating elements of zero-based budgeting and performance based budgeting. The proposed methodology will also integrate enrolment forecasting, program planning, risk management and performance outcomes. For purposes of this discussion paper, the new methodology will be referred to as the 2015/16 TRU Budget Methodology.

The 2015/16 TRU Budget Methodology Process:

It is anticipated that the 2015/16 TRU Budget Methodology will work as follows:

- *Step 1: Zeroing-Out Operating Budgets:*
  All operating budgets (revenues and expenses) will be reset to zero at the start of the budget planning cycle.
- *Step 2: Forecasting Revenue:*
  All revenue for the fiscal year will be forecasted before the budget cycle begins to create a central revenue pool. Forecasted revenues will include undergraduate and graduate domestic and international tuition, continuing studies tuition, enrolment related fees, government block funding, ancillary profits, institutional share of the comprehensive university enhancement fund (CUEF), short-term investment income, etc. All budgets will be funded from this central revenue pool with no more tuition dependency in the Faculties. Grants for specific purposes (e.g. Research Grants, Routine Capital Grant, ITA Training Grants, etc.) will be excluded from the central revenue pool and flowed to faculties/departments separately.
- *Step 3: Creating the TRU Strategic Investment Fund (SIF):*
  From the central revenue pool, a percentage of total forecasted revenues will be "top-sliced" for projects directly related to the strategic priorities of the institution as defined by the strategic plan and its subsequent operational plans. Operating budgets will then be created from (and will not exceed) funds remaining in the central revenue pool. Faculties/units will submit proposals for SIFs.
- *Step 4: Developing Service Plans:*
  This is a vital aspect of the proposed methodology. Each faculty/department will develop service plans that detail their activities using FY2014/15 as the baseline for expenditures. The premise behind the service plan is it allows Faculties/units to benchmark activities against a fixed point in time (FY2014/15) in order to justify increases or decreases to spending based on changing levels of services to be provided. This also allows the University to track how Faculties/units change their service offerings over time. As part of the budget planning cycle, the service plans will be submitted on a common template developed by Finance and the Office of the Provost.
- *Step 5: Updating Faculty/Unit Risk Registries:*
  Faculties/Units will update their risk registries on an annual basis as part of the budget planning process. Updated registries are expected to be collected and collated by the Office of Risk Management Services and identified risks will be verified and prioritized by the Enterprise Risk Management (ERM) Committee. Those risks that are prioritized for mitigation will be approved by the ERM Committee for funding consideration against the SIF fund.
- *Step 6: Base-Fund Known Institutional Costs:*
  From the central revenue pool, all known recurring operating costs will be allocated to base budgets. Items such as institutional memberships will be reviewed on an annual basis to ensure they continue to be required costs.
- *Step 7: Base-Fund Permanent, Ongoing Employment Expenses:*
  From the central revenue pool, all continuing on-going employment costs will be returned to operating budgets. Revenues that fund positions expected to become vacant during the fiscal year (e.g. retirements, certain leaves, attrition) will not be automatically flowed to the Faculty/unit but will be pro-rated (where applicable) and the unused portion returned to the central revenue pool for redistribution. Faculties/units will be expected to make a business case related to their service and workload plans in order to have those revenues returned.

- *Step 8: Optimizing Employment Expenditures:*
  Deans will optimize full-time teaching workloads within their Faculties which may include strategies such as reviewing and potentially modifying course releases, making program maps more effective/efficient, and potentially examining numbers of course sections and section sizes. Once full-time teaching workloads are optimized by the Dean, they will be submitted to the Provost's Office for approval and to ensure compliance with the Collective Agreement. Upon approval of the full-time workload plans, Deans may request resources for sessional instructors (if required) to support academic programs. Administrators will complete the same exercise for administrative staff with approvals for temporary or auxiliary positions only being approved once full-time employment costs are deemed to be optimized.
- *Step 9: Optimizing Operating Expenditures:*
  All budget holders will be required to justify their operating costs on a line-by-line basis using service plans as a reference point.
- *Step 10: Budget Submissions/Review/Approval Process:*
  A fully detailed budget package will be submitted by budget holders to their Vice-President/Provost for review and discussion. Budget holders will be asked to detail business cases for the use of strategic initiatives funds as part of their budget submissions which will include risk mitigation investments as identified as priorities by the Enterprise Risk Management Committee (where applicable). The Vice-President/Provost will modify budget submissions with budget holders and will agree upon which SIF requests are the most appropriate to move forward at that time. Fulfillment of SIF investments will become incorporated into performance review plans of the administrator responsible for their delivery. Once all budget submissions have been submitted and reviewed by the senior executive, a representative budget review committee will be convened to review submissions, approve strategic investment fund requests and approve a draft budget for presentation to the Budget Committee of Senate. It is expected that the budget approval process will remain unchanged with BCOS recommending a budget for approval at the Board of Governors meeting in March of each year.

Other relevant features of the model should be noted:

- *Carry-forwards:*
  Consistent with a zero-based methodology with Faculties/units being funded for what they need, carry-forwards should cease to exist. As such, at the end of the year, any carry-forwards will roll to the University surplus for reinvestment in strategic capital priorities on an as needed basis. Historic carry-forwards (i.e. carry-forwards earned prior to FY2015/16) will continue to be credited to the source but drawdown criteria will be specific and expenditures from carry-forwards will require planning and executive approval until such time as historic carry-forwards have been eliminated.
- *Zero-base reviews:*
  After year 1, operating budgets will be subject to a zero-base audit on a pre-determined 3-5 year review cycle (or at the request of the Executive). While employment costs will always require optimization on an annual basis, other operating expenses will roll over after year-1 until the Faculty/unit is scheduled for a zero-based audit. Audit schedules will be released at the start of year 1. The rationale here is that operating expenses (exclusive of employment costs) should not change radically from year to year and to justify the same level of operating expenses year over year may be administratively burdensome depending on the Faculty/unit. Requests for additional non-employment resources may require an unscheduled zero-based audit of Faculty/unit.
- *Balancing to the Bottom Line:*
  All Faculties/units will continue to be expected to operate within their budgets both on a consolidated basis (employment expenses and operating expenses) and within the compensation and operating expense categories. For example, a Faculty/unit budget will include budget for on-going, continuing employment costs and a budget for operating expenses. The Faculty/unit will not be allowed to use on-going, continuing employment costs to offset operating expenses (or vice versa). The spending in each of these expense categories should be consistent with a Faculty/unit's service plan.

- *Annual Budget Process:*
  The budget process is expected to begin in September 2014 and conclude with a draft budget presented to the Board of Governors in March 2015. An approximate timeline would be as follows (with regular progress updates reported at BCOS):

  - ***September:*** Revenue forecasts and expense assumptions are completed and the central revenue pool is established; SIF percentage is determined; Finance releases budget submission packages and methodology handbook; Training sessions are provided with budget managers in September/October; Administration meets with TRUSU to review perceived service gaps so augmentation to services can be considered when Faculties/units develop service plans.
  - ***November:*** Faculties/Units submit completed workload plans for Vice-Presidential approval and Faculty/unit risk registries are submitted to the ERM Committee for review and prioritization; budget managers discuss SIF proposals with their Vice-President for approval; SIF proposals that are approved will then be included in Faculty/unit budget submissions.
  - ***December:*** Faculties/Units submit completed budget packages inclusive of service plans; SIF requests; and operating expense justifications. ERM committee submits their priorities for risk mitigation funding.
  - ***January:*** Budget submissions are reviewed by the President's budget committee.
  - ***February:*** Draft budget is presented to BCOS for recommendation to the Board of Governors.
  - ***March:*** Budget is approved by the Board and budget letters are released to all Faculties/units.
  - ***May:*** Budget post-mortem occurs with budget holders to review pros and cons of the methodology and process for the purposes of continuous improvement. Recommendations to be received and reviewed by BRMSA. Zero-based review schedule will be determined at this time.

Incenting Entrepreneurship:

In the various consultations that have occurred, a number of Faculties/units have raised the concern that the enrolment-driven methodology currently in place creates entrepreneurial incentives that are important to their operations/morale. It is important to note that in a zero-based methodology, entrepreneurial activities will not be discouraged. However, the inconsistency with a zero-based methodology occurs when Faculties/units who earn revenues, retain those surpluses for use in future periods without a strategy or plan for their expenditure. Revenues from entrepreneurial activities will still be forecasted and included within the central revenue pool and Faculties/units will receive a block grant that supports those activities based on their service plan. The profits from entrepreneurial activities will also be included in the central revenue pool and represent the overhead component of those entrepreneurial activities. With that in mind, however, there are a number of mechanisms that promote innovation that can be included in the methodology that are consistent with a modified zero-based methodology. These include the following:

- *Project Funds:*
  Money will be provided, based on solid business cases, for projects that enhance the strategic priorities of the institution or have a defined and reasonable payback period (on a short or long term basis) and may involve funding units/projects in other areas on a limited-term basis;
- *Continuing Education/Graduate Programs:*
  Revenues earned from continuing education and graduate programs can flow to the source directly less a defined overhead component (criteria for overhead to be determined);
- *Specific deliverables:*
  Over achieving against pre-defined key performance indicators (e.g. retention, enrolment targets, etc.) could yield specific rewards. Specific deliverables may change on an annual basis depending on need or strategic direction. The criteria would be known and specified in advance of the budget planning cycle. Rewards may flow in year from a centrally held reserve or may be flowed on a slip-year basis as determined by the prior year's results.
- *Surpluses from Ancillary Operations:*
  Surpluses on the non-operating side already contribute to funding block grants in the current methodology and will continue to be included in the central revenue pool. However, a percentage of expected surpluses will be reinvested to improve facilities/services on campus (this is currently TRU's practice).

Linking the 2015/16 TRU Methodology to the Guiding Principles:

The establishment of a new budget methodology at TRU is required to adhere to the guiding principles established by BCOS in February, 2014. The 2015/16 TRU Methodology proposed within this discussion paper meets the criteria in the following ways:

- *Strategically Driven:*
  Through the establishment of a Strategic Investment Fund, TRU can invest in projects either through base allocations (e.g. for ongoing funding of new academic programs) or one/fixed-time allocations that lead to the fulfillment of its strategic priorities as defined by the institution's strategic plan. In the FY2014/15 draft budget plan, there is only $362,000 currently allocated to strategic priorities which represents approximately 0.25% of the overall operating budget (or 0.2% of the all-funds budget for the University). This figure is appallingly low and puts the institution at risk of not meeting its strategic priorities. The new methodology will allow strategic planning to be integrated with institutional financial planning and the SIF will be adjusted on an annual basis to account for specific institutional priorities. It is anticipated that SIF funding will be 1.5% to 2.0% per annum, depending on the priorities. On an operating basis, using forecasted operating revenues for FY2014/15 as the baseline, this will allow for strategic investments of $2.1 million to $2.8 million annually.
- *Transparent, Deliberate and Consultative:*
  The new methodology will have a consultative process at multiple levels throughout the organization as described above. In addition, by benchmarking service offerings in the Faculties/Units through the creation of service plans, and measuring how those offerings change over time, will allow the institution to track the impact of its investments and identify gaps and surpluses.
- *Sustainable:*
  In this methodology, the allocations of resources are not fixed according to enrolment trends, historic block grants or any type of static formulae. Budget planning will be a dynamic process that is totally integrated with enrolment forecasting, program planning, active workforce planning, risk management (see below) and strategic planning to ensure that TRU can maximize its operating dollars for the benefit of its students, faculty, staff and external stakeholders.
- *Mitigate Risks:*
  Management and the TRU Board of Governor have a fiduciary duty to minimize the institution's exposure to risk. Often, critical and high risks to the institution require a financial investment to mitigate potential harm to the institution. The current methodology has no mechanism to recognize or fund risk mitigation strategies at the institutional level while local risks (i.e. departmental or faculty risks), can be mitigated where resources permit (but without any real accountability back to the institution). TRU is currently working on a formal enterprise risk management system that builds on the risk registry work done previously which will be integrated into the annual budget planning cycle. Risk management investments will be made from the Strategic Investment Fund.
- *Encourage Innovation, Entrepreneurship and Efficiency:*
  As explained previously, the model can incorporate dynamic incentives that allow TRU to achieve its strategic priorities both in the short term and the long term without creating perverse incentives that inhibits interdisciplinary cooperation;
- *Supportive of a Common TRU:*
  By developing a common revenue pool based on precise revenue forecasts and providing dynamic block grants to faculties/units encourages the notion that any dollar generated from a TRU activity, regardless of which unit or faculty led the activity, is a TRU dollar first. This notion will apply to all Faculties/units including those operations deemed to have a "revenue generating" function.
- *Simplicity:*
  While the TRU methodology will be time consuming for budget managers and Finance's client services especially in its first few years of implementation, management will be providing a methodology handbook (and training sessions) that will clearly define budget terminology; planning timelines; the various processes and "rules" associated with budget preparation; and submission templates to ensure that the new methodology is easily understood and easy to complete for individuals without extensive budgeting experience.

CONCLUSION:

The BMRSA Sub-Committee of BCOS has been engaged in discussions about budgeting at TRU since October 2013. BMRSA has reviewed the strengths and weaknesses of the current budget methodology used today at TRU, it has examined alternate budget models employed at other post-secondary institutions in North America; it has reviewed TRU's revenue sources and cost drivers and through all of its activities and discussions, is recommending a shift away from the current methodology to a new methodology, one that is rooted in the principles of a zero-based methodology with modifications that are suitable to TRU. Those discussions, outcomes and recommendation of BMRSA are reflected in this discussion paper and hopefully will stimulate additional input and comment into the process from TRU's stakeholders to ensure that any new methodology is not only true to the established guiding principles for budget methodologies at TRU, but is also one that is strategically beneficial for our University.

APPENDIX I:
BMRSA MEMBERSHIP AND TERMS OF REFERENCE

BCOS Sub-Committee for Budget Model Review and Strategic Alignment (BMRSA) Terms of Reference

Purpose:

The purpose of this BCOS sub-committee is to review and recommend a budget methodology that ensures resources and funding allocations are aligned with strategic goals, encourages and provides incentive for planning and innovation, and provides transparency for decision making.

Objectives:

- **To develop, maintain and promote a budget model that provides the TRU community with greater transparency, accountability and understanding of the TRU budget model;**
- **To ensure a budgetary methodology that advances TRU's strategic goals and mitigates risks to the institution by aligning resource allocations to specific priorities;**
- **To make specific recommendations to ensure that the budget model promotes TRU's entrepreneurial spirit and reflects transparent and appropriate incentives to stimulate revenue growth;**
- **To promote decision making and governance consistent with legislation and best collegial practice.**

Membership: The following membership list reflects the core Sub-Committee team. Other resources will be engaged as needed and fulsome consultations with community stakeholders will occur on a regular basis.

- **Matt Milovick, Vice-President, Administration and Finance; Chair**
- **Paul Manhas, Assistant Vice-President, Finance**
- **Aniljit Singh Uppal, Office of the Provost**
- **Dina Duquette, Director, Budget Development and Internal Audit**
- **Ray Sanders, Director, Williams Lake and Community U**
- **Dorys Crespin-Mueller, Institutional Planning and Analysis**
- **Lauren Jensen, Open Learning**
- **Larry Peatt, TRU World**
- **Carey Miggins, School of Trades and Technology**
- **Victoria Handford, Faculty of Human, Social and Educational Development**
- **Peggy McKimmon, School of Business and Economics**
- **Normand Fortier, Faculty of Science**
- **Liz Whiting, Student Representative**

APPENDIX II:

GUIDING PRINCIPLES FOR THE TRU BUDGET METHODOLOGY (adopted by BCOS February 2014)

Managers of financial resources at TRU are expected to make budgetary decisions that are in the best interest of TRU as an institution. The following guiding principles will underlie all decision making with respect to TRU's budget model and the allocation of institutional financial resources.

Strategically Driven:
Budget allocations will support the strategic direction of the University as defined by the active Strategic Plan;

Transparent, Deliberate and Consultative:
The process by which financial resources are allocated will be transparent, deliberate and consultative and will be subject to regular formal review (e.g. minimum every 5 years);

Sustainable:
Budgetary decisions will contribute to the ongoing sustainability of TRU;

Mitigate Risks:
The budget model recognizes the need to factor risk mitigation into its resource allocation decision making and to protect its intellectual, monetary and capital investments.

Encourage innovation, entrepreneurship and efficiency:
Support and rewards units to encourage appropriate risk taking and efforts to enhance revenue, reduce expenses and discourage unnecessary internal competition or duplication of effort.

Supportive of a common TRU:
Revenues earned as a result of any and all TRU activities are deemed to be institutional revenues.

Simplicity:
The process by which resources are allocated will be administratively efficient, will be simple to understand, explain and maintain.

APPENDIX III:

ALTERNATE BUDGET METHODOLOGIES

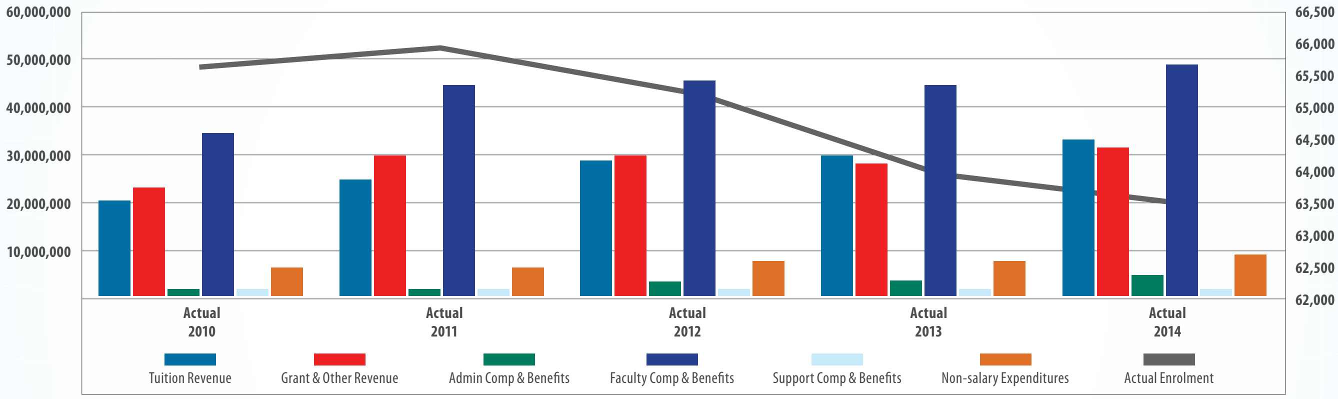
METHODOLOGY	PROS	CONS
Performance based: resources distributed upon achieving specific outcomes	• Links funding to the expected results • Should lead to an increased level of transparency of expenditures • Budget holders target efforts at meeting performance expectations	• Time consuming. Budget process must allow time for review of the performance metrics and time for discussion of performance against expectations • Agreement on specific metrics can be difficult to achieve
Incremental: Traditional methodology whereby budgets are based on the previous year and are supplemented or cut according to circumstances	• Easy to implement • Good for planning purposes because the model is relatively stable and highly predictable	• Provides no incentives for budget managers to be efficient or entrepreneurial • Can create systemic cost issues • Over time, loses institutional flexibility especially in slow/no/declining growth markets
Zero-based: Budgets are zeroed-out at the beginning of each fiscal cycle and units must justify all spending across all lines	• Considers all revenues to be University revenues • Effective way of controlling unnecessary costs since all costs must be justified in each budget cycle • Reduces the "entitlement" mentality	• Time consuming to prepare and review
Responsibility Center Management: Each faculty receives its own revenue and they are responsible for their own expenses as well as a portion of institutional expenses	• Makes the Dean wholly responsible for the success and failure of the Faculty (in theory) • Requires units to manage their own budgets including driving revenues and reducing expenses • Encourages entrepreneurship	• Can create perverse incentives and lead to rogue operations/spending • Not all administrators are effective budget managers • Can create extraordinary internal work related to interdepartmental billing for expenses

APPENDIX IV:

ACTUAL/BUDGET TREND FOR FACULTIES & SCHOOLS RELATIVE TO REGISTRATIONS
(EXCLUSIVE OF OPEN LEARNING)

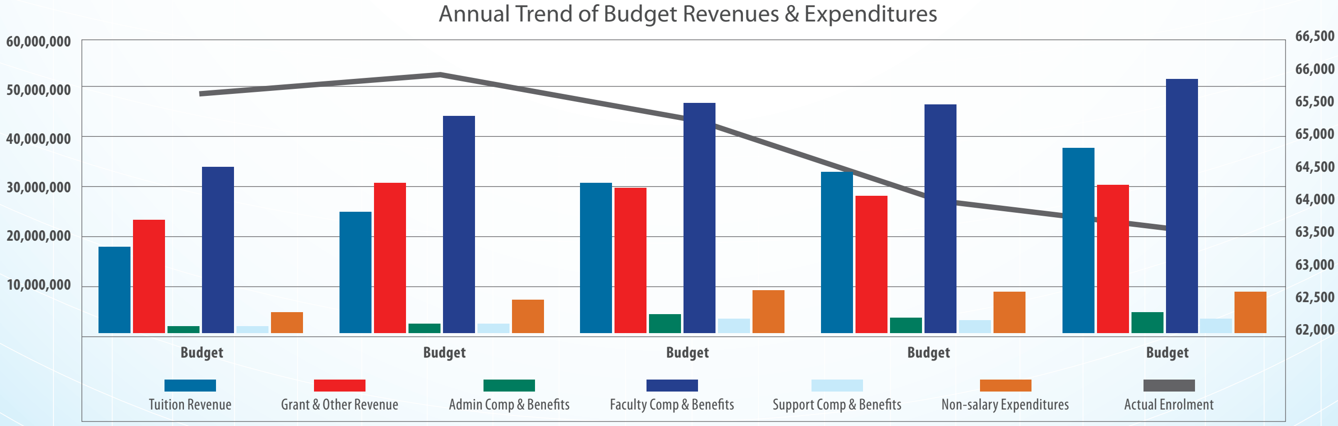
TRU Faculties & Schools

Annual Trend of Actual Revenues & Expenditures



TRU Faculties & Schools

Annual Trend of Budget Revenues & Expenditures



APPENDIX V:

BUDGET METHODOLOGY RESOURCES:

1. **Exploring Effective Budget Models:**
   Reviews how four institutions reduced costs by implementing budget models that included incremental-based budgets, zero-based budgets, and responsibility center management.

2. **Comparing Responsibility Center Management Budget Models:**
   Compares revenue sharing and expense allocation practices at five universities that use a responsibility center management budget model.

3. **Performance-Based Funding Models at Comprehensive State Institutions:**
   Examines policies that incorporate institutional priorities into performance funding models in five states.

4. **Encouraging Accountability Through Hybrid Budget Models:**
   Provides an overview of alternative budget models employed at ten universities, including variants of responsibility center budgeting, performance-based budgeting, and productivity funding.

5. **Budget Models and Funding Strategies of Graduate Schools of Arts & Sciences:**
   Profiles the budget models of graduate schools at six highly selective, private universities with a particular focus on responsibility center management budget models.

6. **Budget Model Redesign: Optimizing Resource Allocation:**
   Reviews a range of budget models critical for ensuring budgetary predictability and the flexibility to respond to changing marketing conditions.

7. **Budgets by Design:**
   A customized approach that tailors a framework to specific needs aligns budgetary decision making with institutional strategy.