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Strategic Budgeting Initiative

Senate Presentation

November 5, 2013

Initiative Background

- In 2011, provost and deans identified key limitations of Auburn’s current budget model:
  - Inequities among colleges, including unequal access to revenues from student fees
  - Few resources allocated to Provost for strategic academic initiatives
  - Challenges in funding the Core and other high enrollment areas
  - Salary equity and market competitiveness for faculty

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Financial Challenges

- Sharply reduced state support
- Increased risk from tuition dependency
  - At Auburn, dependency rose from 44% to 63% between 2008 and 2013
  - Represents a 43% increase in 5 years
- Increased student price sensitivity
- Increased competition for students and faculty
- Changing demographics

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Financial Consequences

- Increased salary compression
- Limited funding for strategic initiatives
- Limited support for increased facilities footprint
- Pressures for improved affordability

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Activities to Date

- Provost and CFO convened Steering Committee to oversee a 16-week assessment effort
    - Provost
    - CFO
    - Deans (AG, BU, ED, RBD)
    - Faculty representative
    - Institutional research
    - Business and finance
- Initially met with over 45 individuals
- Developed a set of guiding principles
- Analyzed alignment of four budget components
- Built an initial funds flow model

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Need For Initiative

- Resource allocation should match strategy, not history
- Approach must enhance decision-making
  - Assist with prioritization of activities
  - Provide methodical basis for funding levels
- Need for increased stakeholder authority, responsibility, and accountability
- Focus on long-term planning rather than short-term allocations

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Shift in Budgeting Focus

Traditional Perceptions

- **Inventory** of anticipated expenditures
- Mechanism to **control** expenditures
- **Independent activity** performed by department managers
- **Backroom operation** performed by accountants
- **Spreadsheet** indicating resource availability
- Performance measures that **reset annually**

Strategic Resource Allocation

- **Plan** for developing resources
- **Prioritization** of allocations for strategic initiatives
- **Explanation** of internal economy
- Mechanism to create institutional **incentives**
- Tool to **empower** departments to engage in **entrepreneurial** activities
- **Predictor** of annual financial statements
- Baseline measure of **accountability**

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Common Budget Alternatives

Incremental	Formula	Performance	Incentive-Based
▪ Centrally driven ▪ Current budget acts as "base" ▪ Each year's budget increments (decrements) adjust the base ▪ Focus is typically placed on expenses	▪ Unit-based model focused on providing equitable funding ▪ Unit rates are input-based and commonly agreed upon ▪ Annual fluctuations are driven primarily by the quantity of production and not from changes to rates	▪ Unit-based model focused on rewarding mission delivery ▪ Unit rates are output based and commonly agree upon ▪ Annual fluctuations are driven primarily by changing production and not from changes to rates	▪ Focus on academic units ▪ Incorporates a devolution of revenue ownership to local units, as generated ▪ Allocates costs to revenue generating units ▪ Uses a centrally managed "subvention pool" to address strategic priorities

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Guiding Principles

- Prioritize funding of strategic initiatives aligned with Auburn's mission
- Deliver consistent, accurate, and realistic financial projections, while allowing flexibility to respond to future opportunities and unknowns
- Promote authority, responsibility, and accountability, both locally and university-wide
- Provide incentives for effective management of both revenues and expenses and reward creativity and innovation
- Be simple, transparent, and logical

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Model Design Considerations

- A new model would be designed to:
  - Align resource allocation with principles
  - Expand the University leadership team
  - Facilitate data-informed decision making
- A new model would <u>not</u> be designed to
  - Reorient accountability away from academic outcomes to financial outcomes
  - Create autonomous actors
  - Facilitate a new cost reduction initiative

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Preliminary Model Structure

1. Provide all-funds transparency*
   - Includes restricted and unrestricted
   - Includes all divisions
2. Develop incentives through allocation of selected revenues
   - Instruction, research, etc.

*Although "all-funds" may be included for transparency purposes, <u>not</u> all funds will be considered in the creation of a central pool of resources.

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Preliminary Model Structure (Continued)

3. Balance local and university-wide authority and responsibility
   - Central retention of selected funds
4. Allocate indirect costs of university-wide operations
   - Enhance ownership for revenue-generating units

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Next Steps (6-9 months)

Improve Understanding of Schools and Colleges

- Conduct dean and business officer meetings and collect feedback on model structure

Support Steering Committee

- Assist in model analysis and building consensus for resource allocation algorithms

Develop Support Tools and Governance Structure

- Prepare stakeholders for successful management of the developed model

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Questions?

Upcoming Key Dates (subject to change)

- November 19th, Provost Open Forum at 3:30PM
- January 15th, Provost Open Forum at 3:30PM

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Slide Alternative

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Slide Alternative

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