Budget Process Redesign
FP&A Proposed Changes
DRAFT 9/4/18

The current campus budget process was built to support UCR's decentralized budget model, with key aspects of the process directly linked to elements of the budget model. Conversations regarding the budget process are, therefore, linked to a certain extent to broader discussions regarding the model.

Transparency was a key pillar/goal throughout the design of the decentralized model. The Governance Committee was established in connection with this call for transparency. Changes/refinements to the budget process should maintain transparency as a key focus.

The current budget process has been in existence for three cycles. While FP&A has solicited and incorporated feedback following each cycle and streamlined to the extent possible, each year the amount of information requested from campus units has increased, mostly due to the structure of the budget templates and information needed to effectively analyze/interpret the templates. FP&A recognizes the substantial administrative overhead associated with the process and that, in many cases, budget templates are not used or referred to outside of the budget process. As the current templates provide little value to a unit's normal financial operations, FP&A proposes replacing the current templates with new documentation that would mirror how campus units currently manage their resources. Adjustments and/or refinements to the budget process should reduce overhead among key stakeholders, including individual campus units, CFAOs, leadership, committees and FP&A.

Ultimately, the budget process should be designed so as to support the strategic plan of the university. It should allow for overall budget approval, incremental funding as well as a general education for the broader campus in understanding campus priorities, connecting goals, objectives, budgets and requests to the campus strategic plan.

I.   **Overhead of Budget Process Stakeholders**
     Administrative overhead of process stakeholders:

Budget Process Item	Stakeholder Overhead		
	FP&A	**Leadership/ Governance Committee (GC)/ Budget Committees (BC)**	**Campus Units/CFAOs**
Budget Templates	• Creation • Population • Unit coordination • Analysis (individual analyst)	• Advanced review	• Population • Internal reviews
Questions and Insights Document	• Development (individual analyst) • Review (team meetings) • Refinement (individual analyst)	• Advanced review • Questions development	• Prepared responses to questions
Meetings	• GC Kick-off • GC/BC budget meetings • GC deliberations	• GC Kick-off • GC/BC budget meetings • GC deliberations	• GC/BC Meetings
Trainings	• New GC member training	• New GC member training	
SLA Deep Dives	• SLA deep dive	• SLA deep dive	• SLA deep dive
Approval Letters	• Approval Letters		

II.   Budget Process Redesign

a.   Role of Budget and Governance Committees

The current budget process includes two oversight committees: the Budget and Governance Committees. The committees are composed as follows:

Governance Committee		Budget Committee	
Composition	**Intended Purpose**	**Composition**	**Intended Purpose**
• Provost (co-chair) • VCPB (co-chair) • 2 Deans • 2 CFAOs • 1 Self-Supporting/ Auxiliary Director • 1 Service Provider • Chair of Academic Senate P&B Committee	Review budgets and Service Level Agreements of **Service Provider** units	• Provost (co-chair) • VCPB (co-chair) • Associate Provost • Chair of Academic Senate P&B Committee	Review budgets of **Revenue Generator** units (Academic, Auxiliary/Self-Supporting, Recharge)

FP&A recognizes the value and transparency attached to the Governance Committee and **recommends that the Governance Committee remain in effect in an advisory role to the co-chairs**. FP&A also recommends that the **Budget Committee be dissolved** and that the **Governance Committee participate in budget hearings for all campus units.** It would also be useful to **revisit the Governance Committee charter** and update as necessary to ensure that the Committee is fulfilling its proper role on campus and in the budget process. FP&A would then also tailor budget process documents from existing systems to provide the Committee with the information/data needed to fulfill its charter. These changes may also require **additional Service Provider representation** on the Governance Committee.

A separate Rate Review Committee would also be established. This technical group will perform a detailed review of campus rates and unit business plans, then providing recommendations to the Governance Committee regarding rates through the annual budget process.

b.   Number of Budget Submissions

FP&A recommends **reducing the number of budget submissions** from the current 49 supporting the budget model to 24 submissions at the Organization level. The existing number of submissions is driven in part by the indirect cost calculation in the budget model, which will also need to be reevaluated and adjusted.   Depending on stakeholder feedback and continued conversations, the focus of these submissions could be on core funds only.

For example, BAS currently provides 15 separate budget submissions (6 Auxiliary, 5 Service Providers, 4 Recharge units). Depending on the changes to the indirect cost calculation, there is an opportunity to consolidate some or all of these BAS submissions. Submissions would then include financial reports which provide important perspective on BAS operations overall, both past and projected, and which identify major issues at the individual program level as well. FP&A is currently designing these financial reports and will consult CFAOs in the development process. A list of proposed budget process documents may be found below.

c.   SLAs

With refinements to the budget process, there is the opportunity to **discuss the overall value of SLAs** and whether Service Provider units should remain required to produce these documents in their current form. It should be noted that SLAs were never designed to balance overall campus needs with the existing level of funding available. In many cases, current SLAs are, in fact, more aspirational than a reflection of current funding realities.

Key questions include:

- What was the discussion surrounding SLAs and service upgrades? Were specific upgrades discussed?
- Some SLA service activities may not be funded at reasonable levels – what data is being used to measure expectations for SLA funding for what resources are provided?
- SLAs do not seem to be precisely balanced against where the providing unit started with their base budgets and any reasonable ability to deliver (e.g. capacity to perform). Some SLAs may be aspirational in terms of what we would like to be provided as a baseline.
- The SLAs do not have any real teeth. It seems the SLAs are mostly an administrative exercise without any demonstrable effects.
- It is very important to define service unit responsibilities even in the absence of SLAs.
- Feedback also indicates that it would be helpful for Schools/Colleges to have more predictability regarding potential increases to Service Provider budgets.

Given the administrative overhead associated with SLAs and the remaining questions as to their utility, one proposal is to eliminate SLAs in their current form and replace them with a simplified document defining the authority and responsibility for specific goods and services.

d. Elimination of Subvention Calculation

Subvention reflects the different cost structures of the various Schools and Colleges and was designed to maintain each unit's core/state funding level through the transition to the new budget model. **While necessary for the initial transition to the new budget model, subvention is more of a concept than a real number and has not provided any real value to leadership, FP&A or campus units.** Many units have had difficulty understanding the concept of subvention and how it applies to their operations.

Subvention is not needed to move forward in the model and could easily be replaced with a General Funds Report (described below).

e. Adjustment to the Indirect Cost Calculation

Annual increases to units are not sustainable. Indirect cost calculation will need to be reevaluated. **One alternative is to move back to assessing based on a percentage of total revenue or spend.**

The Student Recreation Center is an example of the unintended consequences of the indirect cost calculations:

Student Recreation Center Indirect Costs		
Year	Assessment	Percent Increase
Prior Budget Model	$318K	
Year 1 Budget Model	$815K	156%
Year 2 Budget Model	$945K	16%
Year 3 Budget Model	$1.07M	13%

f. Budget Process Documentation

i. Elimination of Current Budget Templates

The existing budget templates used in the budget process pose a substantial administrative burden to FP&A, campus units and the Governance Committee. **FP&A sees little return/impact for the overhead and proposes the elimination of budget templates, including the Revenue and Expense (R&E).** Campus units have also confirmed that the R&E structure does not mirror how they budget their resources, creating additional overhead to translate their actual operations into this format. Units have also indicated that they do not refer to the R&E throughout the year.

Originally designed to support the budget model, to increase transparency and to provide a uniform document across organizations, the R&E and supporting documents often times do not catalyze the most relevant/impactful discussions for individual units. Budget hearings are then often distracted by R&E minutiae rather than a unit's most pressing issues or areas of concern.

ii. Proposed List of Documentation

With the elimination of budget templates, FP&A proposes the new budget process documents which utilize current financial system data. These documents would be created using readily available data that campus units are currently using in their daily operations and would capture a multi-year window. This standard level of financial reporting will still provide necessary insight into a unit's financial strengths and weaknesses. These documents would include:

Proposed Documentation	Notes
Specific goals and objectives tied to the UCR strategic plan	How do unit goals and objectives support the campus strategic plan? • Organizational Charts • KPIs and Metrics (including industry standards and public/private comparables) - How do KPIs and metrics support the Organization goals and objectives?
Faculty and staff hiring plan	FP&A to provide history, units to provide 3-year plan.
3-year Carryforward Report by department and fund group	FP&A to provide units a 3-year Carryforward Report (unexpended/unencumbered funds; does not mean that these funds are unallocated or do not have commitments against). FP&A will identify specific areas that should be addressed in the budget hearings.
General Funds Report	A new General Funds Report will be developed by FP&A to show Schools and Colleges the split between tuition and state funds for 3 years.
Space Report	Report provided by FP&A to show a unit's changes in space and associated charges/credits.
Funding Requests	FP&A will provide a template for General Funds requests that tie to a unit's goals and objectives and are in support of the campus strategic plan.
Business Plans (Auxiliary/Self-Supporting/Recharge Units)	A rate review committee and process to be developed and supported by FPA to review business plans and provide recommendations to the Governance Committee during the budget process.

g. Process Overview

i. Strategic Plan

The budget process should begin with clearly identified campus priorities for the coming fiscal year as determined by the Chancellor, Provost and VCPB. The budget call letter would include these priorities and campus units should be aware that goals, objectives and funding requests should be explicitly tied to these priorities as outlined by senior leadership.

ii. Document Review

In the current process, FP&A spends a substantial amount of time reviewing budget templates and creating the 'Questions and Insights' document for the Budget/Governance Committees. The document was originally designed to distill the large volume of information presented in the budget templates. However, in many cases the document has been used to explain details on the R&E instead of catalyzing fruitful discussions on the overall health of an organization. The review process and document development requires multiple internal meetings and reviews.

With the proposed documentation, analysts will still review incoming submissions, but would instead produce an 'issues-based' document for the Governance Committee based on the submitted reports and budgets. This document will highlight key areas of concern, important insights and/or trends that should be addressed in the budget hearings.

iii. Deliberation

Final Governance Committee deliberations should focus on connecting funding requests to the strategic plan. Requests would be evaluated based on the campus priorities set forth at the beginning of the budget process. Governance Committee will then make final funding recommendations to the Provost and VCPB.

iv. End-of-Cycle Summary Report

A summary report of all actions and funding approved through the budget process should be shared with the campus at the conclusion of the process. Past feedback indicates that this type of report is appreciated by the campus community and adds a level of transparency and understanding to the budget process and leadership decisions.

III. Campus Reporting

It is important to note that automated reporting remains a campus-wide issue, with impacts beyond this budget process. VCPB and FP&A will continue to work with ITS in order to provide an effective reporting solution for the budget process as well as for broader campus operations.