



Review of Queen's New Budget Model

Prepared for the Provost's Advisory Committee on Budget

Prepared by the New Budget Model Review Committee

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1) Executive Summary

In 2015, the Provost and Vice-Principal (Academic) appointed a NBM Review Committee (“Committee”) to conduct a third-year review of Queen’s activity-based budgeting model, referred to as Queen’s “new budget model” (“NBM”), and the associated processes. The Committee’s mandate was to review the principles, objectives, and processes of the NBM and provide a report of recommended modifications to be incorporated into the fiscal 2017-2018 budget. More specifically, this review addresses the following questions:

- *What are the strengths and weaknesses of the NBM?*
- *Does the NBM adhere to the agreed principles and objectives?*
- *What incentives and disincentives have emerged?*
- *Is the NBM effective for stakeholder engagement and informed resource allocation?*

The Provost’s Office also contracted the services of Huron Consulting Group (“Huron”) to complete an objective third-party assessment of the strengths and weaknesses of both the NBM itself and the associated processes to assure that they support each other and meet the originally agreed objectives. Huron’s external review was intended to supplement the larger internal NBM review tasked to the Committee.

Given that Queen’s is only in its third year of implementation of the NBM, Huron did not recommend that any wholesale changes be made until the end of the formulaic hold harmless period. However, Huron did identify a few small adjustments that could be incorporated into the NBM and budget process in the short and near term, so Queen’s can address stakeholder concerns and strengthen the NBM.

Overall, the Committee feels that the NBM is working effectively as designed in meeting the established objectives and principles. The Committee agrees with the recommendation by Huron to not make any wholesale changes at this time and to perform a further review of specific components of the NBM (i.e. bins and drivers and cross teaching), after the formulaic hold harmless period ends. Although the Committee has not identified a need for any immediate significant changes to the NBM at this time, the Committee recommends the following adjustments to the NBM and action items to address some noted weaknesses and disincentives:

1. *Adopt a revised set of principles and objectives for Queen’s NBM.*
2. *Include all research overhead, non-MTCU grants, and admission fees revenue in the NBM on a go forward basis.*
3. *Invest in an enterprise-wide budgeting tool, when appropriate, to better facilitate budget modeling, planning, and forecasting.*
4. *Develop a funding mechanism that supports the costs of research.*

5. *Establish a working group to review and standardize service level agreements.*
6. *Perform a review of internal chargebacks over and above the budget allocation for Shared Service units to determine when these chargebacks are appropriate.*
7. *Improve the communication to Shared Service units of funding decisions that are made during the budget cycle.*
8. *Maintain sufficient discretionary funding in the University Fund to provide future case by case support to faculties and ensure university priorities are adequately funded.*
9. *Review all bins and drivers after the end of the hold harmless attenuation period to reduce the complexity of the NBM.*
10. *Perform a review of the cross teaching formula after the end of the hold harmless attenuation period.*
11. *Develop policy levers to control the duplication of courses by multiple faculties due to the cross teaching formula.*
12. *Maintain the current arrangement for interdisciplinary teaching at the graduate level.*
13. *Develop a policy for common space.*
14. *Perform a review of the university's enrolment management process at the graduate level.*

By implementing these recommendations, the university will address some key stakeholder concerns and strengthen the NBM in the short term. In addition, the Committee has made recommendations that can inform a NBM review at the end of the hold harmless attenuation period.

2) Overview of the New Budget Model Review

a. Background

In fiscal 2013-14, Queen's implemented an activity-based budget model, referred to as the "new budget model" ("NBM"), for determining budget allocations to faculties at Queen's. The goal was to create a more transparent budget process and ensure strong alignment with the university's academic and strategic priorities. Previously, Queen's used a historical-based budget model where revenues to the university were collected centrally, and budgets for all units were based primarily on previous allocations. The NBM attributes revenue directly to the faculties and schools, which generate the revenue. The faculties and schools in turn are responsible for paying both their direct costs as well as a share of indirect costs, such as those associated with the delivery of shared services. These indirect costs include a charge for space occupancy, highlighting the cost and value of space as an expensive and scarce resource.

When the NBM was introduced, the Provost and Vice-Principal (Academic) committed to completing a review in its third year (i.e., fiscal 2015-16) to ensure the overall NBM and specific budget process are working well for Queen's. Consistent with this commitment, the Provost asked the Associate Vice-Principal, Planning and Budgeting, to initiate a review of the NBM itself and the associated processes.

Upon approval of the Provost and Principal, the recommended modifications to the NBM or its associated processes resulting from the review will be implemented before the fiscal 2017-18 budget planning cycle, or as practicable.

b. Scope and Objectives

The review includes not only an assessment of the mechanics of the NBM, including but not limited to the appropriateness of the drivers and bins selected, and the cross teaching formula, but also the related planning processes that surround the NBM. Discussions were focused on issues having a material impact on budget allocations or incentives.

This review addressed the following broad questions:

- *What are the strengths and weaknesses of the NBM?*
- *Does the NBM adhere to the agreed principles and objectives?*
- *What incentives and disincentives have emerged?*
- *Is the NBM effective for stakeholder engagement and informed resource allocation?*

The findings and recommendations resulting from the review are included in section 3 of this report.

c. Methodology

A committee referred to as the New Budget Model Review Committee (“Committee”), chaired by the Associate Vice-Principal (Planning and Budgeting), was formed in the Spring of 2015 to conduct a third-year review of Queen’s activity-based budgeting model, referred to as the “new budget model” (“NBM”). The Committee’s mandate was to review the principles, objectives, and processes of the NBM and provide a report of recommended modifications to be incorporated into the fiscal 2017-2018 budget.

The Committee was comprised of representatives from each faculty/school as well as from all of the non-academic Vice-Principal portfolios. Please refer to *Appendix B* for the Terms of Reference for the Committee, including a list of Committee members. The Committee met 14 times over a period of nine months and their work has culminated in this report. Over the course of this internal review, the Committee worked as a cooperative and collaborative group, with all members having equal input into this report. The Chair of the Committee provided regular progress reports to the Provost.

To help guide their review, the Committee was asked to address the following discussion items:

1. *Are the principles and objectives of the NBM still appropriate?*
2. *Are the NBM and its associated processes upholding these principles and objectives?*
3. *From a strategic and technical perspective:*
 - a. *What are the strengths of the NBM and its processes?*
 - b. *What are the challenges of the NBM and its processes?*
 - c. *How might any challenges be best addressed?*
4. *Are the bins and drivers that were selected still appropriate in attributing both revenues and expenses?*
5. *Is the cross teaching formula appropriate and creating the correct incentives?*
6. *Is the current arrangement for interdisciplinary teaching at the graduate level effective?*
7. *Are incentives properly aligned?*
8. *Are there unintended disincentives or disparities?*

All discussion items requiring a vote by the Committee required strong agreement, meaning that at least 9 of the 12 voting Committee members had to reach agreement on the vote.

As part of the review, the Committee engaged Huron Consulting Group (“Huron”), a firm with considerable experience working with universities that have adopted similar budget models, to perform an external review which would then help to inform the internal review. Over a six-week period, Huron facilitated broad consultation with stakeholders across the university. This included

meetings with senior administration of Shared Service units and faculties/schools (i.e. deans, business officers, department heads, VPs, AVPs), faculty members and staff, and Committee members to identify perceived strengths and weaknesses of the NBM and to understand, intended and unintended consequences of the NBM's implementation. As part of their review, Huron met with over 160 stakeholders by facilitating 23 interviews, three focus group sessions, and a campus town hall session. Please refer to *Appendix C* for a profile of the team members from Huron Consulting Group, who performed the external review of Queen's NBM.

The findings and recommendations from Huron's report were reviewed by the Committee to determine the following:

- Whether the Committee agreed with the findings and recommendations in Huron's report;
- What portion of the Committee's overall review objectives had been completed as a result of Huron's work; and,
- What further work was required to meet the objectives outlined in the scope for the Committee?

Results of Huron's external review are highlighted in section 3) *a. Summary of Observations and Recommendations from Huron's External Review*, as well as throughout section 3) *b. Observations and Recommendations from the NBM Review Committee's Internal Review* of this report, where applicable.

3) Detailed Review of the New Budget Model Methodologies and Related Planning Processes

a. Summary of Observations and Recommendations from Huron's External Review

Queen's contracted Huron to provide an objective, third-party assessment of the strengths and weaknesses of both the NBM itself and the associated processes to assure that they support each other and meet the originally agreed objectives. The NBM's principles and objectives served as the basis of the NBM alignment analysis. Huron's concluding thoughts on their review are as follows:

- Huron commended Queen's for its NBM, which was "well designed and implemented".
- While there are a number of "unique" elements of Queen's NBM, in Huron's assessment, these elements work well as a collective whole to better manage university resources.
- Queen's can address the stakeholder concerns and strengthen the NBM with small adjustments and changes to the NBM and process.
- To that end, Huron does not recommend that any substantial changes be made until the end of the formulaic hold harmless period.

To address the third point, Huron recommended improvements to the NBM’s governance and implementation processes, as described in the following table.

Table 1: Recommended Governance and Process & Implementation Improvements

Theme	Sub-Theme	Directional Recommendations
Governance	Budget Process	1. Create and communicate clear distinctions between the budget model and the budget process to provide increased transparency and demonstrate a consistent methodology.
	Hold Harmless	2. Address stakeholder concerns, by communicating that the university will continue to provide assistance on a case by case basis to faculties out of the university fund after the hold harmless period ends.
Process & Implementation	Model Optimization	3. Implement an attribution mechanism that incentivizes research and provides additional support for indirect overhead research costs. 4. Increase the amount and flexibility of the university fund’s discretionary dollars.
	Reporting	5. Expand existing P&L statement to include all operating revenues. 6. Consider investing in a budgeting tool to better facilitate assessment, planning, and forecasting.

Source: *New Budget Model Review by Huron Consulting Group, October 2015*

The Committee agreed with the recommendations provided by Huron. Further discussion of these themes, along with the Committee’s recommendations, is included in section 3) b. of this report.

Huron also facilitated a review of the 12 original principles and objectives of the NBM to promote greater alignment with the goals of the NBM and the university’s mission. The outcome of this review is described below.

b. Observations and Recommendations from the New Budget Model Review Committee’s Internal Review

Overall, the Committee feels that the NBM is working effectively in meeting the original objectives and principles. Although the Committee has not identified any need for significant changes to the NBM, there are some opportunities for improvement. This section summarizes the Committee’s observations and recommendations relating to the discussion questions, noted in section 2 c) *Methodology* of this report.

i) Principles and Objectives of the New Budget Model

The Committee was asked to determine if the original principles and objectives of the NBM are still appropriate and also if the NBM and its associated processes are upholding these principles and objectives.

During the planning period that preceded the NBM’s implementation in 2013, the university agreed on a set of principles and objectives that would guide the development of the NBM. During the external review of the NBM, Huron performed an analysis of the NBM’s guiding principles and objectives. This analysis indicated that the original guiding principles and objectives needed to be synthesized and adjusted to promote greater alignment with the university’s mission.

Huron facilitated a meeting of a sub-committee of the NBM Review Committee who developed a revised set of principles and objectives, which incorporate the original twelve guiding principles and objectives and align with the goals of the NBM and the university’s mission. The proposed set of principles and objectives are shown in table 2.

Table 2: Proposed Set of Principles and Objectives

<p>Queen’s new budget model:</p> <ol style="list-style-type: none"><i>1. Aligns resource allocations with the Queen’s Strategic Framework and vision as the Canadian research-intensive university with a transformative student learning experience.</i><i>2. Is transparent, easy to understand and promotes responsible decision making.</i><i>3. Provides clear incentives for innovation, revenue generation and cost containment.</i><i>4. Supports strong stakeholder engagement.</i><i>5. Ensures support for shared services with no option for faculties to opt out.</i><i>6. Allocates resources through a consistent, predictable and fair methodology.</i>
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Source: *New Budget Model Review by Huron Consulting Group, October 20, 2015*

Recommendation:

- 1. Adopt a revised set of principles and objectives for Queen’s NBM. Please refer to table 2 above.**

ii) Alignment Analysis

As part of the external review of Queen’s NBM, Huron was asked to perform an alignment analysis to: 1) identify consistencies and gaps in the NBM; 2) determine if the NBM was upholding the principles and objectives; and, 3) determine if incentives are properly aligned.

Huron reviewed four components of the NBM: 1) flow of funds, 2) incentives, 3) process and timeline, and 4) support resources. They found that overall, the NBM and associated processes

are well aligned with the objectives and principles of the NBM. The NBM governance process includes broad stakeholder engagement (through the broad-based Provost's Advisory Committee on Budget) and supports the university's vision. There is a comprehensive enrolment management process and the length of time given for budget planning and decisions is substantial. Also, though there are no formal training opportunities, stakeholders noted the Planning and Budgeting Office's willingness to assist throughout the budget process.

Huron also compared the revenue and efficiency incentives of Queen's NBM to the incentives suggested by the NBM's principles as well as industry practices. Based on this review, Huron found:

- a) The incentives are substantive, highly aligned with the guiding principles, and are representative of the NBM's greatest strengths.
- b) The majority of the incentives are revenue driven, while three also drive efficiencies in expenses or in negotiated indirect cost recovery rates.
- c) Overall, the NBM utilizes a strong set of incentives that align resources to academic units.

Huron also identified a few areas where the university could consider increasing alignment. For instance, Huron found that Queen's NBM only contains operating funds, but not all operating revenues are flowing through the NBM. Service level agreements were found to be unclear and subsidies through internal chargebacks by Shared Service units lack transparency. Although this was identified in the alignment analysis it was also part of the "Strengths and Challenges of the New Budget Model" discussed in more detail in section (iii) (c) below. The Committee generally agreed with Huron's alignment assessment outlined above.

In light of Huron's flow of funds analysis, the Committee discussed whether Queen's should include all operating revenue in the NBM. From a reporting perspective, the university's operating budget contains 100% of revenue but not all revenue flows through the NBM. When the NBM was introduced in 2013, it captured revenue that historically flowed through the old model.

The Committee also discussed Huron's recommendation of including all funds in the NBM including research, trust and endowment. All of these funds are non-discretionary restricted funding, so the benefit of flowing these revenues through the NBM is questionable. The Committee unanimously rejected the recommendation by Huron to have all funds, including restricted funds, flow through the NBM. They agreed that the NBM should only reflect the activity that resides in the Operating fund.

The Committee members discussed four types of revenue that are not currently included in the NBM: 1) A portion of research overhead due to the historical allocation formula; 2) Service contract revenue in the faculties; 3) Non-MTCU grants; and 4) Shared Services' admission fees, affinity revenues, and sponsorship revenues.

The Committee perceived value in including substantially all operating revenue in the NBM as this would reduce confusion over what is included and also promote greater transparency. Committee members felt there is a need to balance transparency and simplicity of the NBM and that transparency is achieved through the financial reporting process, in addition to the NBM. The Committee agreed that the revenue should flow through the NBM if it meets the following three criteria: 1) revenue supports core operations; 2) revenue is ongoing; and 3) revenue is predictable. Table 3 summarizes the Committee’s decision regarding which revenues currently flowing outside the NBM that should be included.

Table 3: Committee’s Review of Revenue Not Currently Included in the NBM

Revenue Type	Include in the NBM (Yes/No)
1) Portion of Research Overhead (50%)	Yes
2) Service Contracts	No
3) Non- MTCU Grants	Yes
4) Shared Services	
a. Admission Fees	Yes
b. Affinity Revenues	No
c. Sponsorship Revenues	No

Huron also noted that while there have been improvements in financial reporting, Queen’s needs to move away from its current Excel-based model and reporting and implement a budget planning tool to facilitate more robust modeling, planning and forecasting. The NBM Committee unanimously agreed with the need for an enhanced management reporting tool. However, the Committee acknowledged that enhancements in current enterprise systems are needed before the Planning and Budgeting Office can request financing for a budgeting tool. The Planning and Budgeting Office has already identified a need for a budgeting tool and estimates that budgeting software will cost approximately \$500k.

Recommendations:

- 2. Include all research overhead, non-MTCU grants and admission fees revenue in the NBM on a go forward basis.**
- 3. Invest in an enterprise-wide budgeting tool, when appropriate, to better facilitate budget modeling, planning, and forecasting.**

iii) Strengths and Challenges of the New Budget Model

During their external review of the NBM, Huron engaged stakeholders, including NBM Review Committee members, faculty, and staff, to identify perceived strengths and weaknesses of the NBM and to understand intended and unintended consequences of the NBM’s implementation.

As a result, Huron noted several strengths of the NBM. For instance, stakeholders feel the budget process, hold harmless, shared services, and transparency have been upheld since the implementation of the NBM. Stakeholders also stated that they believe the NBM largely promotes innovation and entrepreneurship, while making stronger financial links to academic activities. There is also an increased cost containment focus to improve financial margins of faculties and Shared Services.

Stakeholders also identified the following challenges of the NBM:

- There is a varied understanding of the budget model versus the budget process. There is also a desire to clarify governance processes regarding University Fund use and stakeholder inclusion levels in the decision making.
- There is not sufficient funding available in the University Fund to support university priorities.
- Interviewees expressed concern regarding the hold harmless attenuation process and its impact on the University Fund. Stakeholders expressed uncertainty about the availability of resources to the faculties after the hold harmless period ends.
- Stakeholders requested additional clarity around the process to secure future investments for Shared Service units, in addition to noting the strong emphasis on cost containment and the need for more accessible and transparent service level agreements.
- Stakeholders consistently agreed that the NBM increased budgetary transparency. However, there is also a desire for increased transparency in strategic decision making and communication across unit levels.
- Stakeholders believe that the current treatment of tuition differentials in the cross teaching formula may promote unwanted behaviors that can affect academic collaboration.
- Many stakeholders noted that the NBM does not currently contain an identifiable mechanism to support the cost of research.

Huron identified some opportunities to improve the NBM and budget process. The Committee reviewed the concerns raised and discussed the opportunities identified by Huron. As a result, the Committee developed some recommendations to address the concerns that were identified during the review.

a) Communication of Continued Support for Faculties

Huron’s recommendation was that the university be clear about the possible use of the University Fund to support faculties after the end of the hold-harmless period. The Committee agreed that this was important for two reasons. First, it will signal to faculties receiving hold-harmless support that some form of support could continue. This information will inform these faculties as they develop their three-year budget plans. The Provost’s Office has already begun conversations with Deans of faculties in this situation. Second, it will signal more widely the willingness of the University to consider cross-subsidization of faculties, something that is characteristic of virtually every implementation of an activity-based (or responsibility-centre management) budget model. In either case, support from the University Fund would be on a case by case basis and its continuation determined with reference to agreed performance targets associated with revenue growth, revenue diversification, and cost containment.

b) Additional Research Support

The Huron report along with comments from a number of stakeholders during the review highlighted the need for greater support for research. Currently, the NBM does not distribute any additional resources to support research outside of the indirect cost recovery revenue. As such, there are stakeholder concerns about whether the NBM provides strong incentives for research. One faculty believes that the NBM discourages research intensity which then places our goal as a research intensive university at risk.

Huron noted three research incentive approaches:

1. Discretionary (Local Level): resources are allocated to local units where allocation decisions are made.
2. Formulaic: reallocate resources based on research productivity, which can require changes to the tax rate or hold harmless.
3. Discretionary (Central Level): retain discretionary funds to support research initiatives. These would have to come from the University Fund.

The Committee agreed with Huron’s suggestion to provide greater support for research by implementing a funding mechanism to begin to cover the indirect overhead costs associated with research. A decision on which approach or combination of approaches to use will have to be made by senior leadership.

Recommendation:

- 4. Develop a funding mechanism that supports the costs of research.**

c) Greater Transparency of Shared Service Unit Costs and Communication of Shared Service Budget Decisions

As noted in Huron’s alignment analysis described above, stakeholders feel there is a lack of clarity around service levels provided by Shared Service units and the cost of these services. The level of detail in the service level agreements prepared by Shared Service units varies. Committee members agreed there is a need for better defined service level standards. This would include a differentiation between performance measures (i.e. complete the audit within 2 months) set for Shared Service units and service standards, like service turnaround timeframes and service quality, as well as transparency relating to what services are subject to additional internal charges and why.

In an effort to help mitigate the concerns raised, the Planning and Budgeting Office asked Shared Service units to submit updated service level agreements, as part of their fiscal 2016-17 budget submissions. The Planning and Budgeting Office provided all updated service level agreements to the Business Officers.

Stakeholders also stated that there was insufficient communication back to the Shared Services on funding decisions that were made during the budget cycle. Following the review of budget submissions by PACB, the Budget and Planning Office currently sends a memo to all Shared Service units and faculties outlining PACB’s budget decisions. However, some shareholders feel there is a lack of clarity around what specific funding requests submitted by Shared Service units and faculties were part of the funding decisions made by PACB. The Committee agreed that there is a need for improved communication of all funding decisions.

Recommendations:

- 5. Establish a working group to review and standardize service level agreements.**
 - Service level agreements for all shared services should be up to date and readily accessible to all Business Officers.**
- 6. Perform a review of internal chargebacks over and above the budget allocation for Shared Service units to determine when these chargebacks are appropriate.**
- 7. Improve the communication to Shared Service units of funding decisions that are made during the budget cycle.**

d) University Fund Decision Making and Support of University Priorities

Concerns were raised about the transparency of the decision making regarding the University Fund. This Fund currently supports the hold harmless adjustments along with the transfers to capital from operating to support past capital project payments. The remaining funds are used to support strategic priorities. The University fund is created through the taxation of the faculty revenues and the direction of non-attributable revenues to the fund. These non-attributable revenues include investment income and overheads from ancillary operations.

Decisions on what initiatives are supported from the fund rests with the Principal and Vice-Principal's committee and ultimately with the Provost and Principal. These decisions were not properly communicated in the past but will be on a go forward basis.

Stakeholders also expressed concern that there is not enough funding available in the University Fund to properly support university priorities. There are two ways to increase the discretionary funding in the University Fund to support strategic priorities. The first one is to move current allocations for expenditures such as administrative system support and deferred maintenance out of the University Fund and allocate the costs to the Faculties in a cost bin. The second way is to increase the University Fund tax rate.

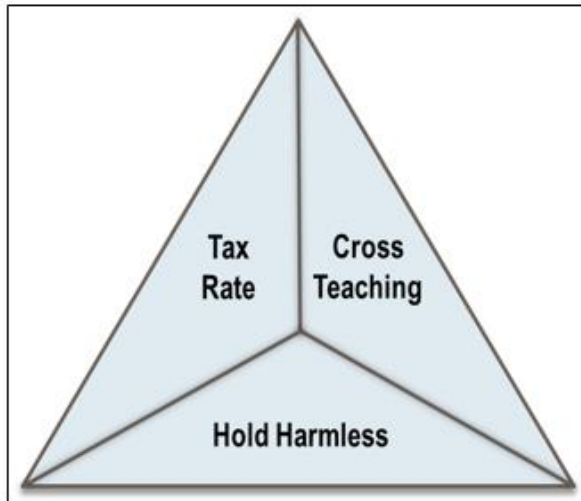
Steps have already been taken to address this concern. For the fiscal 2016-17 budget year, the cost associated with administrative systems has been removed from the University Fund. This cost is now being attributed directly to the faculties. This change has been reflected in the targets set for the faculties. The decision to directly attribute the administrative systems cost was not only as a result of the findings from Huron's external review; this has been a topic of discussion for the past three years. Additional items that are currently funded through the University Fund could be removed in future budget cycles.

As part of their report, Huron compared Queen's tax rate to other universities in the US and Ontario universities that have implemented an activity based budget model. Based on their review, Queen's effective tax rate (using the University Fund as a % of operating revenues) is lower than other research-intensive universities, albeit only marginally lower than the Canadian comparisons of the University of Toronto and McMaster University.

Huron did acknowledge that the tax rate cannot be looked at in isolation of other factors in the NBM, such as the cross teaching formula and the hold harmless provision. For example, the cross teaching formula includes differential tuition which is also a method of cross-subsidization outside of the University Fund.

The Committee does not feel that Queen's tax rate is too low, as it works well with the other components within the NBM. Within Queen's NBM, the tax rate, cross teaching, and hold harmless formulas are inextricably linked as methods of cross-subsidization. The following diagram illustrates this interdependency which was identified and developed by Huron, and shows that if one side of the triangle were changed it would upset the interdependency and require additional changes to the other sides. Huron did indicate that they feel all of the mechanisms are working well together. The level of the tax rate is reviewed annually during the budget planning cycle.

Figure 1: Relationship Dependency



Source: *New Budget Model Review by Huron Consulting Group, October 20, 2015*

Recommendation:

- 8. Maintain sufficient discretionary funding in the University Fund to provide future case by case support to faculties and ensure university priorities are adequately funded.**

iv) Bins and Drivers

Prior to the external review, the Committee commenced a review of the 35 bins and drivers which contribute to funding of the Shared Service units within the NBM. Based on input and ranking from both the Shared Service units and faculty/school representatives, the scope of this review was narrowed to 18 bins and drivers. A bin and driver was considered in scope for the review if at least one faculty or Shared Service unit identified it for consideration. The following table provides an overview of the bins and drivers selected for further consideration by the Committee.

Table 4: Overview of Bins and Drivers Reviewed by the Committee

Expenses	Total Funding (\$)	Driver	Shared Service Recommends Review	Faculty Requests Review	In Scope?
PPS - Custodial, Maint, Utilities - Common Space	5,239,819	Fac & Sch Headcount	Yes	No	Yes
Advancement - Alumni Relations	2,149,388	Degrees Awd (5 yr Avg)	No	Yes	Yes
Advancement - Adv Serv (30%) Alumni Relations	935,420	Degrees Awd (5 yr Avg)	No	Yes	Yes
University Relations - Communications	1,789,138	Degrees Awd (5 yr Avg)	Yes	Yes	Yes
Library - Information Resources & Services	22,196,216	Grad/UG/QSB/Fac FTE	No	Yes	Yes
Library - Space	4,219,658	Grad/UG/QSB/Fac FTE	No	Yes	Yes
ITS - Enterprise Services & Functions	13,269,481	Grad/UG/QSB/Fac Heads	Yes	Yes	Yes
ITS - Teaching and Learning Services & Functions	2,341,673	Grad/UG/QSB Heads	Yes	Yes	Yes
SGS - Service Operations	1,865,094	Grad Head Count	Yes	No	Yes
VPFA - Fin Serv, Invest, Proc, Audit, VPFA	7,065,366	Total Revenue	No	Yes	Yes
Human Resources	5,707,211	Employee Head Count	Yes	Yes	Yes
Principal's Office	1,362,249	Total Revenue	No	Yes	Yes
Secretariat's Office	1,316,926	Total Revenue	No	Yes	Yes
Provost Office & Planning & Budget	3,812,787	Total Revenue	No	Yes	Yes
University Wide Admin - Total Rev	1,609,559	Total Revenue	No	Yes	Yes
Office of VP Research & University Veterinarian	4,558,249	Total Revenue	Yes	Yes	Yes
VPR - eQuip, ORS, Industrial Partners, Innov Park	1,441,162	Res Rev / Grant Con Apps	Yes	Yes	Yes
Central Benefits & Pension Special Payments	8,215,995	Continue Emp Salary base	No	Yes	Yes

Shared Service representatives (i.e. Directors and Business Officers) were asked to respond to the following two questions:

- 1) Do they feel that the structure of the bin or bins for their Shared Service unit is still appropriate? and,
- 2) If the current driver(s) that is used to attribute the costs of their shared service are still appropriate and are the best measure of what drives the activity in their unit?

The Planning and Budgeting Office had an initial discussion with each Shared Service representative regarding the drivers and invited Shared Service representatives to the NBM Review Committee to justify the drivers, if required. As a result of the feedback, the following two overarching issues were identified and discussed by the Committee:

1) *What Should be Included in the Total Revenue Driver?*

The *Total Revenue* driver is a common driver used by Senior Administration Offices as a measure of total activity. Each budget cycle, the Planning and Budgeting Office identifies actual total revenue from all funds at the end of the previous fiscal year in the university general ledger.

Although the Committee agreed that *Total Revenue* is an appropriate driver, there was not unanimity on which revenues should be included in this driver. One member of the Committee felt that research revenues should not be included in the driver. However, the

other members of the Committee felt the University's mission includes both teaching and research, which supports the inclusion of research revenue in the NBM. Each Shared Service that uses total revenue as a driver to attribute their costs was asked to speak to the issue of whether research revenues and research activity drives their costs. All areas indicated that research revenues and activity do drive their costs and that they feel research revenues should be included in the revenue driver to attribute their costs. With the exception of one member, the Committee felt that research activity is a cost driver to the university and the revenue driver should continue to reflect this.

One Committee member expressed concern over the inclusion of revenue relating to the Southeastern Ontario Academic Medical Association ("SEAMO") in the *Total Revenue* driver. This revenue is currently discounted to 20% in the *Total Revenue* driver and this practice is based on a recommendation received from the former Associate Dean, Finance and Administration, for the Faculty of Health Sciences. SEAMO represents funding for clinician salaries which flows through Queen's. It was suggested that a different weighting could be applied for SEAMO revenue; however, there is a need to understand to what extent Shared Services support SEAMO to determine the most appropriate weighting. The Committee agreed that there is a need for a review of SEAMO revenue to assess whether the weighting of SEAMO revenue in the *Total Revenue* driver is appropriate.

2) Differentiation Between "On Campus" Versus "Off Campus" Students and Faculty, Including Clinical Faculty in Drivers

Committee members raised concerns about the definition and treatment of "off campus" and part-time students and faculty in the drivers. Off campus students and faculty include those who by virtue of their study or employment are never on campus. Part-time students and faculty may be weighted down in some drivers because they use less services than full-time; however they are still considered to be on-campus. Hospital adjuncts are considered on campus but have reduced weighting as well.

The major concern raised by one member of the Committee was that it is not appropriate to include clinical faculty in the drivers, or if they are included they should be included at much lower weights. As a result of this concern, some preliminary analysis was conducted around clinicians' use of university services such as IT infrastructure, and library resources. However, this analysis was put on hold pending the outcome of the Huron external review.

Huron found that the bins and drivers were too complicated and suggested having fewer bins and drivers. In their experience, it is common for universities to reduce the number of bins at the first five-year review. Because Queen's is only in its third year of the NBM, Huron recommended no changes to the bins and drivers at this time and that any review should be completed after the hold harmless period ends. Instead, Huron suggested that Queen's focus its efforts on the more substantive issues of addressing support for the cost of research and clearly communicating

continued support to faculties after the hold harmless period. Both of these were addressed earlier in this report.

Although the Committee feels there is a need to review the appropriateness of bins and drivers with a view to simplifying them and addressing the concerns discussed above, the Committee unanimously agreed to follow the recommendation by Huron and does not suggest any substantive changes until the NBM hold harmless period ends. Some of the work completed by the Committee during the bins and drivers review will be used to inform the review after the end of the hold harmless period.

Recommendation:

- 9. Review all bins and drivers after the end of the hold harmless attenuation period to reduce the complexity of the NBM. This should include a review of SEAMO revenue to assess whether the weighting of SEAMO revenue in the Total Revenue driver is appropriate.**

v) Cross Teaching Formula

The Committee discussed how the cross teaching formula has resulted in some adverse incentives. For instance, the Faculty of Engineering and Applied Science expressed concern over how the current cross teaching formula is creating an incentive for repatriation of courses. Currently, the NBM's cross teaching formula allocates 60% of the registered faculty's tuition and grant revenue to support the faculty or school delivering instruction. This equates to approximately \$13M from the Faculty of Engineering and Applied Science to the Faculty of Arts and Science. In an effort to reduce some of this transfer of funds, the Faculty of Engineering and Applied Science has recently begun offering their own in-house courses which were previously taught by the Faculty of Arts and Science.

Huron found that Queen's was aligned with other universities in regards to cross teaching and at a high level cross teaching is working well. Huron observed that the higher tuition/grant for professional programs is embedded in the formula which incorporates a form of cross-subsidization. However, some stakeholders perceive this as unfair and Huron believes the current treatment of tuition differentials may promote unwanted behaviors such as reducing academic collaboration and promoting "in house" general education courses, if university policies to prevent this are not put in place.

Huron recommended against making any changes to cross teaching until further maturity of the NBM. As previously stated, Queen's tax rate, cross teaching, and hold harmless formulas are inextricably linked as methods of cross-subsidization. Given this interdependent relationship, changes to the NBM's current approach to cross teaching would very likely result in the need to change another mechanism (i.e., a higher tax rate or higher hold harmless payments) to redistribute resources.

The Committee agreed with Huron's recommendation to not make any changes to cross teaching until further maturity of the NBM. However, the Committee feels that policy levers should be implemented to prevent and address unwanted behaviors that could adversely affect academic collaboration.

Recommendations:

- 10. Perform a review of the cross teaching formula after the end of the hold harmless attenuation period.**
- 11. Develop policy levers to control the duplication of courses by multiple faculties due to the cross teaching formula.**

vi) Interdisciplinary Teaching at the Graduate Level

As part of the review, the Committee was asked to look at the current arrangement for cross teaching at the graduate level. Currently, there is no formulaic adjustment in the NBM for interfaculty teaching at the graduate level. All of the Deans were asked whether they felt the current practice was appropriate or whether they would advocate for a formulaic approach. The Deans unanimously stated that they do not want to see any changes to the arrangement for interdisciplinary teaching at the graduate level.

Recommendation:

- 12. Maintain the current arrangement for interdisciplinary teaching at the graduate level. There should not be any formulaic adjustment in the model for graduate interdisciplinary teaching, as there is for cross faculty teaching at the undergraduate level.**

vii) Other Discussion Items

During the process of the review, two additional topics for discussion emerged. With the implementation of the NBM and the attribution of the cost of space there were a lot of questions raised about whether internal users should be charged to book rooms that are part of common space. The other issue that was raised was the complexity of the model that is used to attribute the graduate grant funding. Both of these issues were reviewed and discussed in detail by the Committee. Each is addressed in turn below.

1) Common Space Attribution and Internal Charges

The Committee reviewed the practice of charging both external and internal users for common space at the university. Common space refers to all space that is not assigned to a faculty, department, or ancillary unit on campus. Event Services manages the space bookings for the majority of common space after the Registrar's Office has selected the rooms required for academic purposes. This process is completed twice each year; in February for the summer

term and in July for the academic year. Spaces that are assigned to a faculty, department or an ancillary are not managed by Event Services.

Event Services earns approximately \$100k in net revenue from common space bookings each year. Approximately 40% of this revenue relates to internal sales and 60% external sales. Event Services applies a charge for internal use of the common space only if the intended use is for non-academic purposes.

Committee members discussed the following questions:

- a) Should the university continue to charge external users for the use of common space?
- b) Should the university charge internal users for the use of common space?
- c) What are the pros and cons of charging versus not charging for space?
- d) Should all room bookings be centrally managed by Event Services or the Registrar's Office (with the exception of ancillary owned space or student-run space)?
- e) If there is no charge for common space, what needs to be in place to disincentive block bookings?

The Committee agreed that the university should continue to charge external users for the use of common space and all external bookings should be managed by Event Services, with the exception of ancillary owned space or student-run space. Central management of common space will help ensure that external users have proper insurance and security in place.

There appears to be a lack of consistency in charging internal users for common space as some users are charged and some are not. Some Committee members expressed concern over who would be responsible for paying for extra costs for custodial services, related to the space rental, if there was no charge applied to internal users

After much discussion, the Committee agreed that the university should not charge internal users for the use of common space; however, any chargebacks, i.e. set up and tear down, should be paid by the user. Committee members also agreed that a space policy should be developed.

In an effort to avoid creating an incentive for block internal bookings which would limit the space available for external bookings, the Committee discussed implementing a "no show" fee or performing random spot checks.

Recommendation:

13. Develop a policy for common space. As part of developing this policy, the university should consider the following:

- **Define roles and responsibilities of users of common space and provide a clear list of common space and criteria for defining common space.**
- **Continue to charge external users for the use of common space at the university. All external bookings of common space should be managed by Event Services, with the exception of ancillary owned space or student-run space.**
- **The university should not charge internal users for the use of common space; however, any chargebacks for services including tear down and set up must be paid for by the user. This would not apply to space assigned to ancillaries or student-run space.**

2) *Graduate Grant Distribution*

The model that is used to distribute the graduate grant is extremely complex and it inhibits faculties' ability to plan and develop new programming. The Committee indicated that they would like to review the graduate grant model as part of the NBM review. All faculty Business Officers expressed an interest in sitting on a sub-committee to identify options to simplify the model relating to graduate grant distribution. The sub-committee reviewed the distribution in depth to grasp how it is currently working and to look at identifying areas of improvement.

The sub-committee reported to the NBM Review Committee that the graduate grant distribution model is working as designed and that the model should not be changed at this time. However, the sub-committee felt that the enrolment management process at the graduate level should be reviewed to ensure that the university is maximizing the graduate grant and achieving enrolment targets. The sub-committee identified a need to ensure good business decisions are made on new programs when their viability is dependent on receiving grant revenue. There was a concern expressed that new programs, once underway, could lose viability if the grant revenue attributed to them is reduced due to Queen's University's overall enrolment exceeding the cap set by the Ministry of Training Colleges and Universities. In addition under the same circumstances, the current methodology could cause pre-existing or older programs to lose viability as a result of redistributing grant to the new programs. NBM Review Committee agreed with the sub-committee's findings; however it was agreed that this work was outside the purview of the NBM review. The committee felt that there is a need for a broader discussion around enrollment management at the graduate level but that this issue should be discussed with the Deans and Provost.

Recommendation:

14. Perform a review of the university's enrolment management process at the graduate level.

4) Conclusion

Overall, the Committee feels that the NBM is working effectively in meeting its objectives and principles. Huron has commended Queen's as they concluded the NBM was well-designed and implemented. While there are a number of "unique" elements of Queen's NBM, in Huron's assessment, these elements work well as a collective whole in managing university resources.

The NBM governance process includes broad stakeholder engagement and supports the university's vision. The incentives are substantive, highly aligned with the guiding principles, and are representative of the NBM's greatest strengths. Stakeholders feel that one of the strengths of the NBM is that it largely promotes innovation and entrepreneurship, while making stronger financial links to academic activities. There is also an increased cost containment focus to improve financial margins of faculties and shared service units.

The Committee agrees with the recommendation by Huron to not make any wholesale changes to the NBM at this time and to perform a further review of specific components of the NBM (i.e. bins and drivers and cross teaching), after the formulaic hold harmless period ends. Although the Committee has not identified a need for any immediate significant changes to the NBM at this time, the Committee recommends the following adjustments to the NBM and action items to address some noted weaknesses and disincentives:

1. *Adopt a revised set of principles and objectives for Queen's NBM.*
2. *Include all research overhead, non-MTCU grants, and admission fees revenue in the NBM on a go forward basis.*
3. *Invest in an enterprise-wide budgeting tool, when appropriate, to better facilitate budget modeling, planning, and forecasting.*
4. *Develop a funding mechanism that supports the costs of research.*
5. *Establish a working group to review and standardize service level agreements.*
6. *Perform a review of internal chargebacks over and above the budget allocation for Shared Service units to determine when these chargebacks are appropriate.*
7. *Improve the communication to Shared Service units of funding decisions that are made during the budget cycle.*
8. *Maintain sufficient discretionary funding in the University Fund to provide future case by case support to faculties and ensure university priorities are adequately funded.*

9. *Review all bins and drivers after the end of the hold harmless attenuation period to reduce the complexity of the NBM.*
10. *Perform a review of the cross teaching formula after the end of the hold harmless attenuation period.*
11. *Develop policy levers to control the duplication of courses by multiple faculties due to the cross teaching formula.*
12. *Maintain the current arrangement for interdisciplinary teaching at the graduate level.*
13. *Develop a policy for common space.*
14. *Perform a review of the university's enrolment management process at the graduate level.*

By implementing these recommendations, the university will address some key stakeholder concerns and strengthen the NBM in the short term. In addition, the Committee has made recommendations that can inform a further, and more comprehensive, review at the end of the hold harmless attenuation period.

Appendix A – Glossary of Terms

Activity-based Budget Model

In 2013-14, the university transitioned to an activity-based budget model which sees all revenues flow directly to the faculty or school that generates that revenue, and charges a proportionate share of central university costs, such as shared services, back to the faculties and schools. The model provides a transparent budget process and incentives to grow revenue and contain costs.

Attribution Mechanism

In the new budget model, all revenues and costs are attributed through formulas which form an attribution mechanism. These formulas strive to align with where the revenues are generated and where the activity that drives the expenses occurs.

Bins

Bins are used to capture the operating costs associated with the university's shared service units. Costs captured by the bins are allocated to Faculties and Schools based on cost drivers (see below). Some shared service units allocate all their costs to a single bin (e.g. Human Resources), whereas other shared service units require multiple bins to reflect different cost structures of parts of their operations (e.g. ITServices defines its activities as either "Enterprise Services" or "Learning Services"). Other examples of bins are Occupancy Costs (Utilities, Deferred Maintenance, Insurance, etc.), Teaching Space Costs and Student Affairs.

Drivers

In Queen's budget model, the expenses of shared services are attributed to Faculties and Schools in relation to the activity that drives the cost of those services. There are 18 individual expense drivers to attribute the costs of shared service units. For example, to allocate occupancy cost (the cost of space), the cost driver is each Faculty's, School's and shared service's share of assigned space measured in Net Assignable Square Metres (NASM) or to allocate Library Information Resources and Information Services, the cost driver consists of undergraduate FTE, graduate FTE and faculty EFT, each weighted equally.

Hold Harmless

When the university transitioned to the activity-based budget model in 2013-14, the budgets of faculties and schools were set according to the revenue they generate and costs they incur, where previously budgets were determined largely by historical practice. The hold harmless guarantee ensured that no faculty or school would receive a budget under the activity-based model that was lower than what they received in 2012-13. Full hold harmless funding was guaranteed in 2013-14 and 2014-15, and will then be phased out over a period of four years, which means the elimination of the funding by 2019-2020.

Operating Budget

Approved annually by the Board of Trustees, the operating budget sets out projected revenue and expenses associated with the university's operations.

PACB

The Provost's Advisory Committee on the Budget (PACB) reviews budget submissions from faculties, schools and shared service units and advises the Provost on the university's budget.

Shared Services

The units on campus that provide services to the university as a whole, such as Human Resources, Advancement, the Library, senior administration, student services, and IT Services. Occupancy costs, like utilities and custodial services, and student financial support are also included among shared services. Shared Services should be viewed as facilitators whose purpose is to support and enhance the academic and research enterprise, through direct support to faculties and schools or indirect support to other shared services.

University Fund

The University Fund is a central discretionary fund that university leadership uses to financially support strategic initiatives and university priorities. Spending decisions for the university fund are made by the Principal and the Provost.

Appendix B – New Budget Model Review Committee Terms of Reference

The purpose of the New Budget Model (NBM) Review Committee is to undertake a review of the NBM to assess critically the strengths and weakness of the both the model itself and the associated processes to assure ourselves that they support each other and meet the originally agreed objectives.

A. Scope

The review will focus on answering the following questions:

1. Are the principles and objectives of the model still appropriate?
2. Are the NBM and its associated processes upholding these principles and objectives?
3. From a strategic and technical perspective:
 - i. What are the strengths of the model and its processes?
 - ii. What are the challenges of the model and its processes?
 - iii. How might any challenges be best addressed?
4. Are the bins and drivers still appropriate for the attribution of revenues and expenses?
5. Is the cross teaching formula appropriate and creating the correct incentives?
6. Is the current arrangement for interdisciplinary teaching at the graduate level effective?
7. Are incentives properly aligned?
8. Are there unintended disincentives or disparities?

B. Governance

The Chair of the review committee is the Associate Vice-Principal (Planning and Budgeting). The chair will be expected to report to the Provost regularly on progress, and to seek direction from the Provost where necessary. The committee will prepare a draft report for the Provost Advisory Committee on Budget, and will deliver its report, including any recommendations for modification to the NBM and its processes, through the Provost to the Principal.

C. Timeline & Logistics

The committee will meet frequently with a minimum of once per month and more frequently as required. Committee members cannot delegate their role to a subordinate. The review committee will complete its work and deliver its final report by January 2016 so that it will be possible to put any proposed modifications to the NBM or its associated process in place before the beginning of the planning cycle for the 2017-18 budget.

D. Membership

Megan Sheppard, Associate Vice-Principal, Planning & Budgeting	Voting (Chair)
Chris Conway, Director Institutional Research & Planning, Planning & Budgeting	Non-Voting
Tim Almeida, Director, Budget Office, Planning & Budgeting	Non-Voting
Denis Bourguignon, Chief Financial & Administration Officer, Faculty of Health Sciences	Voting
Kellie Hart, Special Projects Manager, Planning & Budgeting	Non-Voting
Steve Tanner, Director Finance & Administration, Faculty of Arts & Science	Voting
Sarah Kauffman, Director Finance & Administration, Faculty of Engineering & Applied Science	Voting
Patrick Legresley, Associate Director Finance, Queen's School of Business	Voting
Deanna Morash, Assistant Dean Administration & Finance, Faculty of Law	Voting
Joan Lee, Manager, Finance, Faculty of Health Sciences	Voting
Julie Anne Matias, Budget & Staffing Manager, Faculty of Education	Voting
Lynn Freeman, Director, Administration and Finance, School of Policy Studies	Voting
Charles Sumbler, Executive Director, Office of the Vice Principal (Research)	Voting
Deanna Bennett, Executive Director, Office of the Vice Principal (Advancement)	Voting
Ginette Denford, Director Finance & Staffing Office of Vice Provost (Student Affairs)	Voting
Lori Stewart, Director Office of the Provost & Vice Principal (Academic)	Voting
Katie McGrath, Manager, Finance & Administration, Office of the CIO	Voting

Appendix C – Bios of Huron Consulting Group’s Team Members

Andrew Laws, Managing Director



- **Experience:** 10 years, 40+ institutions
- **Focus Area:** Andrew helps academic institutions maximize, allocate and leverage financial resources, and specializes in designing budget models that use incentives to drive desired behaviors and focus resources on institutional strategies.
- **Recent Clients:** Tulane University, Brown University, Purdue University, Auburn University, Drexel University, Ohio University, and Rice University

David Jewell, Engagement Manager



- **Experience:** 9 years, 10 institutions
- **Focus Area:** David helps institutions optimize their use of institutional resources through the design of allocation models, development of incentives, and education and engagement of stakeholders.
- **Recent Clients:** Brown University, University of Memphis, the University of Alabama, Birmingham, the University of Florida, George Mason University, and Ohio University

Joi Hayes, Engagement Consultant



- **Experience:** 1 year, 3 institutions
- **Focus Area:** Joi assists academic institutions in operational and strategic planning. She recently completed a master’s program with a focus on change management and human performance improvement.
- **Recent Clients:** University of Wisconsin-Platteville, Carnegie Mellon University, and Northern Kentucky University

Source: Town Hall Presentation: “Overview of Queen’s Budget Model Review”, July 7, 2015