Budget Strategies for Higher Education
• This webinar is part of our monthly webinar series to bring programming of interest to our members.

• The webinar is eligible for CPE. If you are interested in receiving CPE credit for this webinar, please e-mail me (Marty Mickey) at mmickey@nl.edu now. During the webinar, there will be four check-in questions for you to answer. **In order to receive CPE, you must answer three of these questions.**

• Copies of the slides for this presentation and a recording of the webinar will be available on the CACUBO website in a couple of days.

• We will send out a survey afterwards to solicit thoughts and topics for future webinars. If you would be willing to present in a future webinar, please e-mail me at mmickey@nl.edu.

• Save space on your calendars for the 2024 CACUBO Annual Conference which is September 29-October 1 in Indianapolis. Great networking and CPE opportunities. Also, our Accounting and Business Operations Workshop in Des Moines is scheduled for May 5-8. Go to the CACUBO website for more details.
Agenda

01 BUDGET CHALLENGES AND CORE TENANTS
02 INCREMENTAL BUDGETING
03 PERFORMANCE-BASED BUDGETING
04 PERFORMANCE-BASED BUDGETING
05 INCENTIVE-BASED BUDGETING
06 AUTOMATION IN BUDGETING
Introductions

Scott Simpson, Partner

Tammy Lohr, Senior Manager
Current Budget Challenges

REVENUE SOURCES
- State allocations decreasing and/or unstable
- Enrollment trends decreasing
- Endowments reduced rate of return

BUDGET ALLOCATIONS
- Instructional programs
- Student support
- Administration and operations
Which situation best describes your institution’s current revenue forecast?

A. Revenues are increasing and stable
B. Revenues are increasing and unstable
C. Revenues are stable
D. Revenues are decreasing and stable
E. Revenues are decreasing and unstable
Popular Budget Models

- Incremental
- Performance-based
- Activity-based
- Incentive-based
What budget model does your institution currently use?

A. Incremental
B. Performance-based
C. Activity-based
D. Incentive-based
E. Other
Incremental Budgeting

Last year

This year
# Incremental Budgeting

<table>
<thead>
<tr>
<th>PROS</th>
<th>CONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Easy to implement</td>
<td>• Limited ability to align resources with strategic goals</td>
</tr>
<tr>
<td>• Provides stability in expectations across functions</td>
<td>• Lacks incentive for a review of costs</td>
</tr>
<tr>
<td>• Highly predictable, resulting in easier forecasts</td>
<td>• Does not account for operational changes (internal or external)</td>
</tr>
<tr>
<td>• Reduces internal discussions over resource allocations</td>
<td>• Less connection between costs, revenues, and performance</td>
</tr>
</tbody>
</table>
Incremental Budgeting

WORKS BEST WHEN:
• Goals and objectives are stable year over year
• Conservative institutional leadership
• Stable funding sources
Performance-Based Budgeting
## Performance-Based Budgeting

<table>
<thead>
<tr>
<th>PROS</th>
<th>CONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Emphasis on measuring outcomes and performance</td>
<td>• Potential to under resource weak areas and perpetuate poor performance</td>
</tr>
<tr>
<td>• Fosters competition between academic programs to perform</td>
<td>• Additional time dedicated to understanding performance drivers or inhibitors as part of the budget process</td>
</tr>
<tr>
<td>• Intentional and explicit alignment between resources and results</td>
<td>• Competitive behaviors among academic programs</td>
</tr>
<tr>
<td>• Incentivizes performance</td>
<td></td>
</tr>
</tbody>
</table>
Performance-Based Budgeting

WORKS BEST WHEN:
• Leaders (internal or external) demand greater accountability
• Demands for transparency on how funds are being expended
• Institution has clearly defined performance metrics and monitoring mechanisms in place
Activity-Based Budgeting
## Activity-Based Budgeting

<table>
<thead>
<tr>
<th>PROS</th>
<th>CONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Clearly links revenues to strategic objectives</td>
<td>• Requires substantial time and resources to set up</td>
</tr>
<tr>
<td>• May support increased revenue</td>
<td>• Takes approximately three years to implement</td>
</tr>
<tr>
<td>• Empowers local planning and accountability for resources</td>
<td>• Activities that don’t generate revenue may be under supported</td>
</tr>
<tr>
<td>• Incentivizes efficient management of resources</td>
<td>• Incentivizes revenue production even if activity doesn’t align with strategic goals</td>
</tr>
<tr>
<td>• Enhanced understanding of costs to perform activities</td>
<td></td>
</tr>
</tbody>
</table>
Activity-Based Budgeting

WORKS BEST WHEN:

• Historical cost data is available to evaluate the cost of providing services and promote accurate budgeting

• Organizational transformation such as expanding a school, starting a new school, opening a new campus, etc.

• Adequate budget and fiscal expertise and resources exist within each unit
Incentive-Based Budgeting

Portion of revenues are allocated to administration

Portion of budget is allocated to administration

Remaining revenues allocated to colleges

Campus-wide strategic initiatives may be funded

Portion of revenues are allocated to strategic initiatives

College-specific strategic initiatives may be funded

Remaining revenues allocated to colleges
Incentive-Based Budgeting

Allocates funding based on specific activities and metrics; indirect costs and strategic initiatives are paid by revenue-generating units.

**PROS**

- Delegates operational authority to each school
- Empowers deans to pursue additional revenue sources and effectively manage costs
- Provides transparency into budgeting decisions
- Enhances high-demand programs

**CONS**

- May result in competition for students among colleges, which can result in duplicate core course offerings
- Greater focus on revenue-producing courses may result in
- Resources are tied to outputs (e.g., enrollment) rather than outcomes (e.g., graduation rate, student experience)
Incentive-Based Budgeting

WORKS BEST WHEN:

• Institution has a clearly defined strategy and goals
• Funding sources are unstable or declining and shortfalls should not be shared equally
• Strong central administration to provide incentives that encourage collaboration
• Adequate budget and fiscal expertise and resources exist within each unit
Which budget methodology do you think your organization would benefit from the most?

A. Incremental
B. Performance-based
C. Activity-based
D. Incentive-based
E. Other
What Type of Budget Methodology Is Right for You?

- Mission, vision, and values
- Size and history
- Centralized versus decentralized
- Revenue sources and stability
- Establish budget principles
Budgeting Best Practices

- Align limited resources with strategic priorities
- Financial forecasting
- Stakeholder participation
- Budget versus actual monitoring
- Performance monitoring
Budgeting and Performance

- **Link performance measures to budget allocations**
  - Establish clear, time-bound performance targets
  - Consider performance measure needs in budget development

- **Allocate resources based on performance**
  - Develop incentive structures to reward performance
  - Align resources with performance measure aspirations

- **Monitor and report on performance and spend**
  - Conduct budget reviews relative to performance measures
  - Make budget adjustments as necessary to support performance
What proportion of your budgeting process is automated?

A. 0%, we rely on manual processes
B. 1-50%, we have small amounts of automation
C. 51-75%, we have quite a bit of automation
D. 76-100%, we have automated budgeting development and reporting
Automate for Higher Value Activities

Strategic
- BUSINESS INSIGHTS ANALYSIS
  - Drives better decision making
- REPORTING AND CONTROL

Tactical
- DATA OPERATIONS

Current State
- 20%
- 30%
- 50%

Desired State
- 70%
- 20%
- 10%
Information Shelf Life

DELIVERING INFORMATION IN THE DECISION-MAKING WINDOW ADDS SIGNIFICANT BUSINESS VALUE

1st 15th 30th NEXT MONTH

Decision-Making Window

“What is happening?”
“What happened?”

There is a significant difference in business value between these questions
Planning in Higher Education

- Incorporating business metrics with the financial metrics
- Automated structured reporting
- Enrollment
- Centralized planning platform for various offices
- Student services
- Full labor cost planning
  - Tuition
  - Room
  - Board
  - Financial aid
  - Facilities
Embed Planning

EMBED PLANNING IN DATA ANALYTICS FOR KEEN INSIGHTS

Comparative analysis across multiple forecasting versions provides important insights for decision making

• **A target makes a metric meaningful**
• Highlight what has changed
• Reveal developing trends
• Agility needs real-time comparisons
• Decisions need actuals to-date plus forecast

64% of annual targets are obsolete in 4–6 months
Connect With Us!

Tammy Lohr, Senior Manager
tammy.lohr@mossadams.com

Scott Simpson, Partner
scott.simpson@mossadams.com
The material appearing in this presentation is for informational purposes only and should not be construed as advice of any kind, including, without limitation, legal, accounting, or investment advice. This information is not intended to create, and receipt does not constitute, a legal relationship, including, but not limited to, an accountant-client relationship. Although this information may have been prepared by professionals, it should not be used as a substitute for professional services. If legal, accounting, investment, or other professional advice is required, the services of a professional should be sought.

Assurance, tax, and consulting offered through Moss Adams LLP. ISO/IEC 27001 services offered through Moss Adams Certifications LLC. Investment advisory offered through Moss Adams Wealth Advisors LLC.

©2023 Moss Adams LLP