

For Information

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SIMON FRASER UNIVERSITY
FINANCIAL SERVICES
MEMORANDUM

REVISED

To: Senate

From: Roger W. Ward
Vice-President
Financial Services

Subject: Operating Budget 1993/94
Principles and Processes

Date: October 14, 1992

In March of this year Dr. Peter Meekison presented his report "Resource Allocation and Management System Study" containing recommendations with regard to the budget preparation and budget management processes at the university. This report has been reviewed and discussed by the Vice-Presidents, Deans and SCUB.

The attached "Operating Budget 1993/94 Principles and Processes" has been developed in response to Dr. Meekison's first recommendation concerning the budget preparation process. Dr. Meekison recommended that such a document "should be prepared by the Vice-President, Financial Services for discussion and review by SCUB and the Senate and final approval by the Board". Accordingly, I am forwarding this document which has been reviewed by the Vice-Presidents and presented to SCUB for information and discussion at the next meeting of Senate.



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SIMON FRASER UNIVERSITY

OPERATING BUDGET 1993-94 PRINCIPLES AND PROCESS

A. PRINCIPLES

The President's "Challenge 2001" strategic plan begins as follows: "Simon Fraser University shares with all research-intensive universities the fundamental mission to discover, transmit and preserve knowledge". The primary goal of the budget process is to develop and administer a fiscal framework which provides long-term, stable budget support for the University's mission, and which contains adequate flexibility to establish support for new initiatives and priorities.

1. **The University Act does not allow the University to incur any liability or make any expenditures which it is unable to fund out of annual income for the year. That is, deficits are not permitted.**

An objective of the process will be a budget which is balanced in the sense that continuing operating commitments will be funded from recurring revenues. Specifically, new faculty or support staff positions and all salary increases will be funded on a fully annualized (12 month) basis. Ancillary operations, such as the Bookstore, Residences, Duplicating, Printing and Parking will each be budgeted to break even.

2. **Enrolment growth will normally only be accepted if fully funded by the Provincial Government.**
3. **Unit level planning and accountability will be major objectives of the budget process.**

Units will be held accountable for performance against budget.

4. **The allocation of enrolment growth funds (formerly the Access grant) should be in approximate proportion to the academic and administrative components of the operating budget while leaving flexibility for the provision of new academic programs. Enrolment growth funds are not normally to be used for general inflation.**

To date the university has received enrolment growth funding at the full average cost per student which recognizes the fact that over time both the direct costs of instruction and the indirect costs of administrative support increase as the university grows in size. Internal allocation of enrolment growth funding should, in the first instance, be responsive to academic units that are experiencing the enrolment growth while also recognizing longer term increases in average costs to administrative services.

5. **In order to balance the operating budget, opportunities to increase revenue should be utilized to the extent appropriate and, where possible, expenditures should be controlled by realizing efficiencies within existing activities.**

6. **Budget pressures demand that choices be made from among existing activities and that units be treated selectively in the budget process consistent with the University's mission.**

Other mechanisms for selective treatment may be employed in accordance with this principle. The creation of a Budget Adjustment Fund (by taxing all units) is one such instrument that could be used. Reallocation from the BAF would be made on a selective basis.

7. **The University will continue to provide a Non-Recurring Budget as resources permit.**

The Non-Recurring Budget is a vehicle for responding to special one-time or short-term needs. Its primary source of funding is the salary annualization fallout from the previous year.

8. **The development of budget policies and practices will take into account both the need for flexibility and initiative at the unit level and the interests of other units and the institution as a whole.**

Considerable discretion will continue to be exercised at the Faculty and budget unit level. For example, the operating budget allocation to a Faculty will be distributed internally by the Dean, subject to applicable University policies.

Policies governing restrictions on budget adjustments, position control, overheads, conditional grants, etc., must continue to strike the appropriate balance between the interests and priorities of the units, and the requirements for fiscal responsibility at the institutional level.

9. **Once the budget is approved for the upcoming year, the University will strive to provide stability for individual unit budgets during that year.**

A stable and workable operating reserve policy will be developed with the intent of providing a means of dealing with unfavourable balances of revenues and expenditures which may occur during a budget year. Contingencies will be established within the University's budget to provide short-term and continuing discretionary funding for particular needs. The current carry forward policy, governing funds carried forward from one year to the next by individual units, will also continue.

10. The reallocation of resources should occur explicitly. The mechanics of budgeting should not effect an implicit redistribution of resources.

Adjustments for scale increases and merit increments for continuing staff will continue to be provided centrally. The issue of inflationary adjustments for temporary staff and non-salary budgets should be specifically addressed.

In a further application of this principle, when constructing the preliminary operating budget, vacant faculty positions are normally recorded at the level of aP4. Vacant Librarian and support staff positions are recorded at the floor of the appropriate classification.

Particular care should be taken with respect to new or extended internal cost recovery mechanisms. While such mechanisms are necessary to ensure that the operating budget is not used to subsidize activities and services that should be funded from other sources, several other considerations should apply. Cost recovery mechanisms offer opportunities to place resource consumption decisions in the hands of people who are best able to value alternative uses of available funds. Their appropriateness must be carefully examined, however, where the consumer is not in a position to make choices either with respect to the necessary level of service or to the supplier of that service. All charges should be reconciled with the actual costs of delivering the service in a cost effective manner. The benefits derived from the charging system must outweigh the cost and inconvenience of its administration to the whole system.

Similar care needs to be taken with respect to any decision to allow units to retain new external revenues generated by or directly attributable to activities in which they are engaged. In such situations the University risks making operating budget decisions that do not take into account all the resources available for operating purposes.

B. PROCESS

There are two streams to the University operating budget process, a global planning process and a confirmation of detailed unit budgets which are reconciled before input to the University's computerized financial information system and publication in the Operating Budget book.

1. Global Planning Process

The global planning process begins with the creation in November of this "Principles and Process" document, which lists the principles that define the guiding framework within which the global budget will be prepared. This document is provided for discussion and review by Vice-Presidents, Deans, SCUB, Senate and final approval by the Board of Governors.

Work begins in October on budget estimates, which present the global budget at levels of aggregation which allow maximum reliability of projections. The budget estimates concentrate discussion on global issues such as across-the-board and selective expenditure reductions, size of tuition fee increase, size of contingencies, size of salary increases, etc. The preparation of the budget estimates is an iterative process which uses the published budget from the previous year as its base. The estimates incorporate known changes and planning assumptions which are refined as better information becomes available. Vice-Presidents will develop budget planning guidelines based upon information generated by this process.

Budget planning guidelines are normally issued by the Vice-Presidents to their respective Faculties and units in November or December. Discussions regarding plans and budgets follow, with input on Faculty/unit budget needs and issues normally in the hands of the appropriate Vice-President by mid-January to provide adequate time for consideration. Academic departments will communicate through the appropriate Dean.

The University expects to receive later this year or early in the new year a statement, from the Minister of Advanced Education, Training and Technology, of the size adjustment in the provincial operating grant. This figure is used to refine the estimate of the scale of the global actions that will be required to balance the budget in the coming year. This will lead to the development of specific budget recommendations by the Vice-Presidents for the units within their jurisdiction, taking into account any budget reductions that have been determined by the President and the Vice-Presidents. Throughout this iterative process updated global budget projections will be presented to the Vice-Presidents, Deans, and SCUB for their review and advice. Finally the proposed operating budget is recommended by the President to the Administration/Finance Committee of the Board for recommendation to the full Board for final approval.

At the same time that the recurring operating budget is being developed, decisions will be made by the President with respect to any supplementary sources of funding. In the past, two supplementary sources of funds have been budgeted. The Non-Recurring Budget is for one-time and few time allocations to meet priority but non-recurring expenditures. The university contingency funds are used to deal with temporary or permanent funding problems. The creation of a Budget Adjustment Fund (BAF) funded by a BAF tax on all units would provide a reallocation vehicle.

2. Unit Budget Confirmation

Detailed budgets are prepared on an incremental basis. The first step will be to confirm the base budgets, both salary complements and non-salary total, at the departmental level. The working papers which show this level of detail will be circulated to departments in December for return in January. After the base has been confirmed, adjustments will be incorporated for base changes, decreases or increases. This detail will then be summarized and matched with the proposed global budget.

Upon final approval by the Board of Governors, budgets will be confirmed to departments and non-salary line item detail requested. Subsequently line item budgets will be reconciled with the Board approved summary budget and inputted to the university's financial information system and finally published, in late summer, in the Operating Budget book.

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October 22, 1992
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