



Operational Planning

Target Based Budgeting at AUB

Spring 2005

Agenda



- The Need for Planning
- Time Horizons for Planning
- Target Based Budgeting
- “All Funds” Approach
- Full-Cost Focus
- Target Based Budgeting & the Unit Manager
- Area Target Base & Medicine’s Target Base
- Process for 2005/06 Budget

The Need for Planning



- AUB has embarked on a serious strategic planning effort.
 - Framework for planning (State of the University Address).
 - BOT Strategic Planning Committee
 - Formation of the Institutional Planning and Process Improvement Office (IPPI).
 - Strategic Planning Steering Committee.
- Strategies must guide resource allocation.
- Budgets must be linked to plans.

Time Horizons for Planning

- **Strategic Planning Process**
 - Approval of recommendations for December 2005
 - Operating Budget of 2006/07 to reflect unit-level strategic plans.
 - Plan implementation will occur over multiple years.
- **Operational Planning Process**
 - Implementation for 2005/06 operating budget.
 - One year area/departmental budgets plus scenarios for four years to continue for faculties and major support/administrative groups.

Target Based Budgeting



- **Guiding Principles**
 - Setting priorities
 - Linking budgets to plans
 - More flexibility for unit managers
 - Accountability and incentive system
- **Main Features**
 - Area target budgets
 - 75% carry-forward for applicable accounts
 - University's upper ceiling is overall AUB surplus (before marked-to-market gains/losses)
 - Surplus divided among units having favorable budget performance

"All Funds" Approach

- All funds approach to budgeting considers all revenues and expense sources.
 - Unrestricted and restricted funds
- Comprehensive view of entire operations irrespective of the source of funding.
- AUB financial reporting system in the process of upgrade that will facilitate this step in the future.

Full-Cost Focus

The background of the slide features a faint, golden-toned image of a globe with a compass rose overlaid on it. The globe is positioned in the upper right quadrant, and the compass rose is centered in the lower right. The overall aesthetic is professional and navigational.

- All plans / initiatives must reflect full cost implications.
- Recurring and non-recurring costs taken into consideration.
 - Plans must identify building and infrastructure needs.
- Piecemeal approach not acceptable.

Target Based Budgeting & the Unit Manager

- Implications for the Unit Manager
 - Increased operational flexibility in defining his/her line budget items.
 - More involvement in influencing the manager's bottom line that is within his/her control.
 - Accountable to meet agreed upon financial targets.
 - Financial incentive to improve operations.
 - Partial carry-forward of surplus expires after two years.

Area Target Base

- Long-term objective is to create an operational kitty for strategic initiatives.
- Proposed target base for 2005/06 equals the projection for 2004/05 based on YTD February 2005 (5 months) results.
- All expense items are included in the target except for:
 - Merit/promotional salary increases
 - Benefits
 - HIP and NSSF Loss
 - Library books and periodicals
 - Replacement and renewal
 - Fuel
 - Allocated costs
- Proposed target intended to start iterative process of negotiations between senior administration, area managers and the Budget Committee.

Medicine's Target Base

- Faculty of Medicine, Medical Library, UHS and School of Nursing to be treated with same methodology applied to rest of Education.
- AUBMC target base for 2005/06 to be overall financial performance target (bottom line before allocations).

Process for 2005/06 Budget

- Area expense targets based on five-month projection issued in March 2005.
- Discussing unit plans in March and April.
- Macro plan for 2005/06 from central administration developed in April and May.
 - Tuition
 - Enrollment
 - Remuneration (merit) and benefits.
 - AUBMC
 - Centrally-managed accounts (utilities, renewal).
- Draft 2005/06 operating budget completed in May.