



# 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

- 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.