Many institutions in our sector struggle to achieve enrollment growth and to effectively use scarce financial resources.
**WORKSHOP OBJECTIVES**

Demonstrate how to evaluate your current practices and offer specific recommendations for policies and practices that really work.

Learn easily applied evaluation approaches.

Consider alternative budgeting strategies that can cause a positive impact on admission and finances.
WHAT IS A BUDGET?

A budget is the plan which projects expected operational revenue and expenses of an organization for a future time period.
WHAT IS A BUDGET?

Budgeting is to estimate the future by considering input from management after considering internal and external factors of the organization.
OBJECTIVES OF BUDGETS

- FISCAL OPERATIONS
- CAPITAL INVESTMENTS
- STRATEGIC INITIATIVES
- DEBT SERVICE RETIREMENT
- SUCCESSION PLANNING
SCOPE OF THE BUDGETING PROCESS

- Revenue
- Operating Expenses
- Capital Acquisition
- Succession Planning
- Strategic Planning
FUNCTIONS OF BUDGETS

PLANNING AND FORECASTING FOR SOURCES AND USES

ALLOCATION OF CURRENT AND ANTICIPATED RESOURCES

SETTING PARAMETERS (A CONTROLLING INSTRUMENT)

MANAGEMENT TOOL

METHOD OF COMMUNICATION
- Organization Priorities
- Organization Values
- Goals and Objectives

ASSESSMENT TOOL
- Efficiency
- Profitability
- Internal Controls
- Compliance

Securing Strategic Sustainability
There are seven basic types of budgets.

1. **TOP-DOWN APPROACH**
2. **BOTTOM-UP APPROACH**
3. **ZERO-BASED BUDGETING**
4. **BASE BUDGETING**
5. **ACTIVITY BASED BUDGETING**
6. **KAIZEN BUDGETING**
7. **INCREMENTAL BUDGETING**
In a top-down approach, the top management prepares the budget according to the objective of the organization and passes it on to the managers for implementation.
TOP DOWN APPROACH

Advantages

- Budget will have an overall corporate functional approach rather than a divisional approach, since management’s concern will be the overall growth of the organization and not departments or divisions.
- Budget are developed by experienced management and if required, they can take help from an outsider.
TOP DOWN APPROACH

Advantages

- Budget preparation is fast and interdepartmental issues are not considered.
- Budget will be aggressive towards the growth or goals of the organization.
TOP DOWN APPROACH

**Disadvantages**

- Managers and the rank and file will be demotivated as they don’t have ownership over the budget and tend to feel that management have set targets which may be impractical.
- Top management may not have essential information about the organization and that may impact the budget.
TOP DOWN APPROACH

Disadvantages

• Inter-departmental communication will take a hit, as they will have no idea how the senior management set targets for each of them.
• Budget shall be feared less accurate as the top-level management do not have knowledge at the unit and operational levels regarding expenditures.
In a bottom-up approach the managers prepare the department wide budget according to the information and past experiences and present it to senior management for their inputs and approval.
BOTTOM-UP APPROACH

Advantages

• The managers are motivated since the ownership of budget is in their hands.
• The budget will be more realistic as managers will have a better knowledge of the operations of the organization.
• Managers will be more committed towards the organization and targets set by them as they are effectively the owners.
**BOTTOM-UP APPROACH**

**Advantages**

- Senior management will now only have to concentrate on the overall business strategy rather than a business unit.
- The budget can be quite accurate for the individual task which leads to overall accuracy for the total organizational budget.
Disadvantages

- Budget may not be in line with the overall objective of the organization since it was prepared by the managers who are not familiar with the organizational strategic plan.
- Budget preparation will be slow and dispute between departments may arise.
- Senior Management may lose the control over the organization’s forecasting.
- Managers may set targets which are easy to achieve to reduce pressure on them to meet such targets and goals.
ZERO-BASED BUDGETING (ZBB)

In ZBB, all the numbers reset to zero each fiscal year and are given a fresh thought over all the items of budget. The new numbers of every line item shall be justified with proper reasoning and shall not be ad hoc figures.
In BB, budgets are prepared based on meeting the absolute minimum expenditure to survive as an organization (going concern or what it takes to keep the doors open). However, any incremental spending over and above that level shall be justified on cost vis-a-vis benefit from the same.
ACTIVITY BASED BUDGETING (ABB)

In ABB, budgets are prepared with the intention of identifying the cost of every operating activity of the organization. Then the objective is to determine how that same operation can be done in a more efficient manner, thereby reducing the associated cost. This kind of budgeting is mostly used in a matured organization.
KAIZEN BUDGETING

“Kaizen” means continuous improvement. A Kaizen Budget is designed for cost improvements and revenue maximization.

Kaizen is Japanese word which means continuous improvement of working practices, personal efficiencies etc.
INCREMENTAL BUDGETING

Incremental budgeting is also called the traditional method of budgeting whereby the budget is prepared by taking the current period’s budget as a benchmark, with incremental amounts then being added for the new budget period.
Beyond simply allocating revenue and costs, budgets can reinforce and even define an institution’s priorities and commitments. Budgets are “the surest single indicator” of what a university is committed to doing.
Beyond simply allocating revenue and costs, budgets can reinforce and even define an institution's priorities and commitments. To build a more intentional budget model, institutions should consider how individual elements of their budget process can be redesigned to incentivize revenue growth and cost control, set performance targets, and fund strategic priorities.
ESSENTIAL LESSONS TO BUDGET DESIGN

Lesson #1
Let Institutional Goals Drive Revenue Allocation

Lesson #2
Keep Cost Allocation Metrics Simple

Lesson #3
Incorporate Performance Targets into Budget Allocations

Lesson #4
Build and Protect Strategic Reserves
EVALUATION OF BUDGET RESULTS

- Budget to Actual
- Cost Controls
- Performance Indicator
- Built in Profitability
- Market Demand Indicator
- Strategic Planning Resource
In reality, no single budget model provides a complete solution to all of an institution’s financial challenges. Underlying all budget models are a set of budget model elements that specify how to allocate revenues, how to distribute costs, and how to define and operationalize institutional priorities.
ALTERNATIVES TO STANDARDIZING THE INSTITUTIONAL BUDGET MODEL

The traditional model of incremental budgeting, which served institutions well in times of growth, is ill-suited to meet today’s demands for smarter resource allocation.
Given sustained downward pressure on revenue, the incremental budgeting model faces three (3) critical challenges:

- It does not create financial incentives for unit leaders to grow revenue or cut costs.
- It does not channel resources to areas with greatest potential for impact or financial return.
- It is difficult to maintain without growth.
Responsibility Center Management (RCM) gives units greater control over the revenue they generate and costs they incur.

02 RCM dictates that each academic unit carries its own costs and brings in its own revenue.
LIMITATIONS OF RESPONSIBILITY CENTERED MANAGEMENT

01 RCM requires a significant investment of time and resources to implement.

02 RCM precipitates leadership turnover.

03 Top-line impacts of RCM on enrollment and revenue are unclear and difficult to measure.

04 RCM reduces central resources for strategic investment.
Program prioritization is another method used in the budget development process to better reallocate limited resources.

The process is designed to be customized to the unique mission, aspirations, and culture of an institution.
DICKESON’S 7-STEP PROCESS

Step One: Readiness
Step Two: Organization
Step Three: Data Collection
Step Four: Assessment
Step Five: Decision Making
Step Six: Implementation
Step Seven: Evaluation
Be effective in budgeting and avoid the pitfalls that may weaken your budgeting process.
THANK YOU
THANK YOU FOR COMING