

**Okanagan University College**  
**Responsibility Center Management**  
**Policy and Procedures Manual**  
**January, 2004**

DRAFT

# RCM OPERATIONS MANUAL

## Responsibility Center Management (RCM) Financial and Budget System

| <b><u>Table of Contents</u></b>                               | <b><u>Page</u></b> |
|---|--------------------|
| <b>1. Introduction to RCM</b>                                 | <b>4</b>           |
| <b>2. Responsibility Center Units</b>                         |                    |
| 2.1 Overview  | <b>4</b>           |
| 2.2 Responsibility units defined                              | <b>5</b>           |
| 2.3 Typical rules for responsibility center management system | <b>7</b>           |
| <b>3. Responsibility for Revenues and Expenses</b>            |                    |
| 3.1 Revenues:   | <b>8</b>           |
| ▪ Tuition revenue for base funded programs                    |                    |
| ▪ Tuition revenue for non-base funded programs                |                    |
| ▪ Continuing Education revenues under RCM                     |                    |
| ▪ Government block funding                                    |                    |
| 3.2 Expenses:   | <b>9</b>           |
| ▪ Continuing position salaries                                |                    |
| ▪ Temporary salaries  |                    |
| ▪ Non-salary expenditures                                     |                    |
| ▪ Recruitment expenses  |                    |
| 3.3 Salary savings:   | <b>10</b>          |
| ▪ Vacancy savings   |                    |
| ▪ Step savings  |                    |
| 3.4 Capital transfers   | <b>11</b>          |
| <b>4. RCM policies required for OUC</b>                       |                    |
| 4.1 Application of polices                                    | <b>11</b>          |
| 4.2 Carry forward of surplus and deficits summary             | <b>12</b>          |
| 4.3 Tuition fee revenue allocation summary                    | <b>13</b>          |

|   |           |
|---|-----------|
| <b>5. Labour Relations/Human Resources Procedures</b>                 | <b>14</b> |
| ▪ Recruitment   |           |
| • Advertising   |           |
| • Interview expenses  |           |
| • Relocation  |           |
| <b>6. Budget Process</b>  | <b>14</b> |
| <b>7. Financial Reporting</b>   | <b>14</b> |
| <b>8. Appendix A – Carry forward of surpluses and deficits (#6.1)</b> | <b>16</b> |
| <b>9. Appendix B – Tuition allocation methodology (#6.2)</b>          | <b>21</b> |

## 1. INTRODUCTION TO RCM:

Okanagan University College has adopted a new budget model – Responsibility Center Management (RCM) - for all internal financial reporting and budgeting.

Beginning in fiscal year 2003-04 OUC adopted an RCM budgeting and financial management system with the goal of decentralizing management, budgeting, and decision making to those who are most directly responsible for performance. RCM is a budgeting and financial management system that provides incentives for income generation, supports effective resource management and cost control and that integrates academic and financial planning in a multi-year planning environment.

RCM, as a financial and managerial structure, exists along side the strategic planning, annual planning and budget process and acts as a compliment to institutional decision processes. It promotes greater entrepreneurial activity by individual RCM units. It provides avenues for enhanced communication and participation among and between separate areas of the university and with other institutional partners. It provides more opportunities for review and input by more groups and individuals according to the managerial arrangements of the various RCM units and thereby distributes decision making to RCM unit managers as appropriate to legal, fiduciary and practical limits.

Although RCM opens up opportunities for innovation and financial growth, it also demands greater accountability and oversight to protect quality and other institutional values, and to discourage unhealthy competition. **Comprehensive financial, legal and administrative policies and procedures must continue to apply to the conduct of University business at both administrative levels and at the level of each RCM and responsibility unit.**

## 2. RESPONSIBILITY CENTER UNITS:

### 2.1 Overview:

The responsibility center is the key budget-management and decision making unit in RCM. There are two types of responsibility centers: “contribution or profit centers” which generate operating revenue and incur costs, and “cost centers” which generate little or no revenue but incur costs providing support services to the contribution or profit centers.

With RCM, an institution is organized into separate responsibility units comprising the faculties, campuses, general administrative departments, etc.

Budget responsibility for all major revenue and expense categories is decentralized to each Dean, Principal and unit administrator and they are accountable for managing their unit's "bottom line". At the end of a fiscal year, budget surpluses can be saved and carried forward and invested for new endeavors, or held for protection against future deficits. Budget deficits become obligations of the unit to be repaid from the future year resources. The ability to carry forward surpluses and the need to avoid deficits are incentives in RCM that encourage entrepreneurship and thereby, growth in the overall resource base. As is the case in higher education, most departments/programs and activities must still be subsidized in order to uphold their mission. However, RCM decentralizes responsibility for programmatic financial decisions so that more decisions can be made by those best able to weigh their consequences in the management of their resources. The academic RCM unit is responsible and accountable for both academic and financial performance. In turn this frees up institutional leaders to focus on larger issues of financial strategy and priorities.

Each RCM unit in turn may be comprised of multiple departments/programs that vary in mission, size and complexity. Most departments and programs alone are too small to absorb the shifts in activity or cost structure that can occur which is why RCM is usually applied at a larger unit level. RCM is a general incentive model based on averages. It is not a detailed cost accounting model and therefore is only a rough approximation of costs and revenues. To move to a detailed cost accounting model and full implementation at a department level would be a significant administrative task. OUC chose not to do this.

## **2.2 Responsibility units at OUC defined:**

The responsibility centers at OUC include both contribution centers and cost centers. The initial implementation of Responsibility Center Management will see the establishment of the academic RCM units which are the **contribution units** that generate both revenues and expenses. The model will also incorporate the regionalization aspects of OUC whereby responsibility for the academic plan at the Vernon, Penticton and Salmon Arm Campuses has been decentralized to the Principals at these locations. Therefore these regional campuses and each of the faculties at the Kelowna North and South campuses will be academic RCM units. The remaining administrative and support responsibility units which incur costs supporting the academic units will be **cost centers**.

The initial implementation of Responsibility Center Management at OUC will see the establishment of the academic RCM units (contribution units) as follows:

- Shuswap/Revelstoke (Salmon Arm)  
Includes:
  - Academic, vocational and development courses offered at Salmon Arm
  - Salmon Arm Administration
  - Continuing Education (CE) - regional operations

- North Okanagan (Vernon)
  - Includes:
    - Academic, vocational and development courses offered at Vernon
    - Vernon Administration
    - Continuing Education (CE) - regional operations
  
- South Okanagan Similkameen (Penticton)
  - Includes:
    - Academic, vocational and development courses offered at Penticton
    - Penticton Administration
    - Continuing Education (CE) - regional operations
  
- Kelowna Campuses - Each faculty is a separate RCM unit.
  - They are as follows:
    - Faculty of Arts
    - Faculty of Business
    - Faculty of Education
    - Faculty of Health and Social Development
    - Faculty of Science
    - Faculty of Engineering Technologies
    - Faculty of Industrial Trades and Services
    - Faculty of Adult and Continuing Education (Continuing Education- CE regional operations for Kelowna only)

The administrative and support responsibility units (cost centers) provide support to the academic RCM units. They are as follows:

- Office of the President
- Office of the VP Academic
- AVP Information Services
- OUC Library
- OUC Wide (General)
- Division of Admissions and Registrar
- Division of Student Affairs
- Division of Housing, Food & Conference Services
- Division of Computing and Media Services
- AVP Advancement
- Division of Financial Services
- Division of Human Resources
- Division of Labour Relations
- Institutional Research
- Supply Management Services

- Division of Facilities Management
- AVP Finance and Analysis
- Governance
- AVP Legal Affairs
- Public Affairs
- VP Research Services
- OUC International

### **2.3 Typical rules for a Responsibility Center Management system:**

The following provides a brief over view of some details about how a typical RCM system operates:

- Each RCM unit develops its own strategic and financial plan that is consistent with the university's overall plan.
- Each unit is responsible for its financial decisions and for managing both revenues and expenditures to a bottom line.
- Tuition revenues are expected to be focused toward the costs of serving students and therefore, tuition revenue is distributed to academic units based on the number of credit hours taught by the unit. In order to allow for planned, orderly reactions to changes in revenues resulting from enrollment shifts tuition budgets are often determined for each unit based on the historical average of credit hours taught.
- Central funding appropriations, including government funding, are allocated to RCM units based on judgement rather than any predetermined formula. Every unit in the institution depends on some portion of the central appropriations. Appropriations are often made based on the difference between a unit's revenues and expenses.
- In order to ensure a commitment to institutional goals and the integrity of institutional values, a portion of the university budget is also set aside for distribution by the Provost based on an institution's strategic priorities.
- All direct expenditures and any other expenditure that can be directly tracked to a unit are assigned to that unit. (Note that in the full RCM model all indirect expenditures are allocated to the academic units based on some pre-established allocation models. OUC has chosen not to do this at this time).
- The units have the ability to carry forward yearend surpluses and they also have the obligation to deal with unit deficits.

### **3. RESPONSIBILITY FOR REVENUES AND EXPENSES:**

The revenues and expenses related to the academic RCM units will be assigned to the units as follows:

### **3.1 Revenues:**

**General guiding principle:** Tuition revenue and government block funding will be shared across both the academic RCM units and the central and support responsibility units of OUC. Sharing tuition revenue and the government grant across all units allows the university to compensate for wide disparities of unit costs. It also allows the total organization to share any growth and/or any decrease in tuition revenues and government funding.

#### **Tuition revenue for base funded programs:**

- The initial recommendation is that tuition revenue be shared 80% to academic RCM units and 20% to central administrative and support units. The 20% will be held centrally and not allocated to individual central administrative and support units. The 80% actual tuition revenues related to the base funded academic programs will be allocated to the individual departments within the academic RCM units as per the tuition allocation policy # 6.2. See Appendix B.
- Tuition revenue budgets for each department will be established based on a historical two-year average for credit billing hours. In cases where this may set an unrealistic budget for a unit (i.e. a regional campus where small enrollments have a big impact as a result of programming changes) just the previous year's credit billing hours will be used as a base. Budgets for each unit will be established on the 80/20 shared basis as above. See Appendix B.

#### **Tuition revenue for non-base funded programs (cost recovery programs):**

- Tuition revenues for the non-base cost recovery programs will not be shared on the 80/20 basis as above but will be allocated directly to the specific non-base programs to which they relate.
- English as a Second Language (ESL) tuition revenues are not part of the shared allocation model. Specific arrangements on how this revenue will be distributed are currently being discussed.
- International revenues are not part of the shared allocation model.

#### **Continuing Education (CE) revenue under RCM:**

This department provides access to higher education for residents within the OUC region. The programs may be credit or non-credit in nature. These programs are funded on a cost recovery basis.

This division also coordinates summer session and distance education with undergraduate degree offerings.

- All actual non-credit and credit course revenue will be fully attributed to the CE department in each current fiscal year.
- The CE department will also receive its contract revenue in each fiscal year. Contract revenues from programs offered in conjunction with other university programs may involve revenue sharing that would be based on individual agreements made between the department and each of those programs.
- An overhead contribution policy for CE programming which supports the OUC infrastructure activities is under consideration at this time as the treatment of over head contributions is inconsistent across the organization.

### **Government block funding:**

- In the initial year the government grant block funding will be allocated to the academic RCM units based on the difference between revenues and expenses for each unit in order to bring the unit to a balanced position. In the beginning year this will be a smooth transition with no redistribution of resources. In subsequent years this allocation will be based on a subjective review of the unit budgets to determine the amount of allocation required to bring the unit to a balanced position (as the result of any tuition revenue or expenditure budget adjustments.) Allocating the grant by judgement rather than formula considers that academic and institutional values need to play a decisive role in the allocation process particularly as every academic unit depends on a portion of the government grant block funding.
- Central administrative and support units will be funded from the central share of tuition revenue and government block funding. Funding for these units will remain central and will not be allocated directly to each unit, rather the unit will be given an annual expenditure budget with a target bottom line.

### **3.2 Expenses:**

- **Continuing position** salary budgets and related benefit expenses that directly relate to the academic RCM unit will be attributed to that unit. Continuing budget splits will be based on faculty workloads in each academic unit and will be determined by the educational plan and discussions between the Deans and Principals.

- **Temporary salary** budgets for instructional staff will be allocated to the appropriate RCM unit in the fall of 2004/05 once staffing determinations have been made.
- **Non-salary expense** budgets (travel, supplies, etc) will remain with the faculty RCM units and will not be allocated to the regional campus RCM units at this time. They remain the responsibility of the Dean until such time as an appropriate division of expense budgets for each regional campus can be determined.
- **Recruitment expenses** - All responsibility units will be required to cover their recruitment costs through salary savings.
- In the initial implementation of RCM there will be no allocation to the unit for indirect costs related to services such as Finance, Human Resources, Registrar, Facilities, Library, etc. Support areas will develop service level agreements to support the level of expenditure funding they receive. These agreements will hopefully be developed for the next budget cycle.

### **3.3 Salary savings (Applies to both RCM and Support Units):**

Salary savings that may be retained by the RCM unit and the administrative and support units will be determined by the following procedure:

#### **Vacancy savings:**

- Position savings due to vacancies will accrue to the RCM units or administrative and support units in the initial year of the vacancy. Faculty positions that remain vacant into the next fiscal year will be set at the position budget rate (Grid 2 Step 7) at the beginning of the new fiscal year.
- Where a temporary replacement is hired to fill a continuing position vacancy the step savings will remain with the department until such time as a permanent replacement is hired.

#### **Step savings:**

- Where a permanent replacement for a continuing position vacancy is hired at a lower step in the grid, any step savings resulting will revert to a central fund during the fiscal year.
- Where a temporary replacement is hired to fill a continuing position vacancy during the year the step savings will remain with the department until such time as a full time continuing position is hired.

- If a continuing position is hired at a greater step than is in the budget the RCM unit/Support unit will be required to cover the additional cost from vacancy savings during the fiscal year.

### **3.4 Capital transfers:**

There are two different types of transfer requests:

- 1) Requests to transfer existing approved budget allocations: (i.e. from an approved budgeted amount that is not needed as originally planned).

OUC can support requests of this type where the funds are coming from an existing approved budget allocation and all that the budget unit manager is doing is re-tasking this resource to another use in the existing fiscal year. This would be subject to existing approval processes.

- 2) Requests to spend surpluses that arise from increases in activity over and above that budgeted. These are not supported for the following reasons:
  - They increase the overall institutional revenue and expenditure levels of the institution beyond what was approved in the annual budget.
  - The actual funding may not materialize because of issues that arise in the year-end accounting process that have not been reflected in either expenditure or revenue accounts.
  - RCM units have not met their account minimums required to access carry-forward funds.

## **4. RCM POLICIES REQUIRED FOR OUC:**

### **4.1 Application of policies:**

- RCM policies apply to the operating budgets only.
- Restricted budgets, Research, capital budgets, special one-time funds are not included in RCM policies.
- The RCM carry forward policy applies at the academic RCM unit level. Individual department surpluses and deficits within the RCM unit summarize to the total that can carry forward for the overall unit. The government grant allocation is set at an amount to balance the overall RCM budget unit to zero. The government grant revenue is recorded at the RCM unit level in the Dean's or Principal's office.
- The RCM carry forward policy also applies to the administrative and support responsibility units as defined in 2.2 of this document.

- A summary of the two main policies follows:

#### **4.2 Carry forward of surpluses and deficits #6.1 (Appendix A):**

Under RCM, a surplus is defined as the responsibility center's ending financial result that is greater than the budgeted bottom-line (net). A deficit is defined as an ending financial result that is below the responsibility center's budgeted bottom-line (net).

At the end of the fiscal year the surplus/deficit position of these units will be dealt with according to the carry forward policy #6.1. This policy outlines the calculation of the surplus/deficit position and how it is carried forward. At this time the policy recommends surplus retention at 100%. It also indicates that deficits become the obligation of the units. See Appendix A for policy details. A summary of this policy follows:

- The carry forward surplus/deficit policy applies to RCM academic units and also support units such as Student Services, Labour Relations, etc. (**Incentives for everyone!**)
- **Surpluses** as determined at yearend are carried forward 100% at the RCM/Support unit level as defined in 2.2 of this document.
- A unit must maintain a minimum surplus reserve of 0.5% of total expenditures. The maximum surplus reserve is 5.0% of total expenditures.
- Surplus funds can only be used for one-time type expenditures (capital, program development, one-time program offerings, etc).
- RCM/Support unit managers can make expenditures of \$10,000 from surplus funds without approval. For expenditures greater than this they need the approval of the appropriate VP.
- A report of how surplus funds have been expended or a plan of how it is to be expended in the fiscal year must be provided to the VP each year.
- **Deficits** also carry forward at 100% to the RCM/Support unit level and the unit manager must provide a plan to the VP on how he/she will eliminate the deficit.

**Carry forward information will be calculated by the Director of Financial Services following the completion of the annual audit process and will be forwarded to the academic RCM and responsibility cost center unit managers shortly thereafter. The Director of Financial Services will provide direction on how to access carry forward funds.**

### **4.3 Tuition allocation methodology - Policy #6.2 (Appendix B)**

Under RCM, each of the academic units is allocated a share of the net tuition. Allocation methodology is as follows:

- Tuition revenue for the **base funded** programs is shared 80% to the academic programs and 20% to the central and support services. The government grant is also shared by all units.
- Other non-base tuition is recorded at 100% to the non-base programs (who may contribute an overhead amount).
- For academic units tuition is allocated at the department level within the RCM unit.
- For administrative and support services areas tuition is not allocated to specific departments but held centrally to fund units overall.
- Tuition revenue will be credited to the unit that pays for the instructional costs.
- If units share instructional resources they may negotiate additional arrangements, as they deem appropriate.
  
- **Tuition revenue budgets 2003/04:**
  - Faculty departments – the budgets are based on an average of the previous two years billing credit hours times the billing rate approved by the Board for 2003/04 budget. (\$108/billing credit hour for academic programs and \$80/billing credit for vocational programs).
  - Regional campuses – the budget is based on only the previous year billing credit hour information. In 2004/05 the budget will be based on a two-year average as well. (OUC needed to incorporate the impact of mode C instructional workloads on the Regional Campuses that occurred in 2002/03 as a result of collective agreement changes).
  
- **Actual tuition revenue in 2003/04:**
  - Actual tuition revenue is allocated to departments based on billing credit hour information received from the Registrars office. The tuition revenue is allocated to academic units based on the billing credit hours information as provided by the Registrars office at the stable enrollment dates.
  - Actual tuition revenue will be distributed in October, February and March. (Note that budgets have been entered for the same time period so that actual and budget revenues appear in the financial reports in the same time period for comparative purposes).

- Bad debt expenses will be applied to the department in which the original revenue was recorded.

## 5. LABOUR RELATIONS/HUMAN RESOURCES:

### Recruitment:

- The Dean and Principal involved with staffing for a position that crosses campuses should initiate the staffing request through the Deans' office.
- **Advertising** should be done through cost effective methods. Advertising costs will be prorated to the RCM units based on the percentage budget split of the position by RCM unit. These costs require the approval signature of both the Dean and the Regional Principal.
- **Interview expenses.** These expenses should be shared by the RCM units involved based on the percentage budget split of the position. These costs require the approval signature of both the Dean and the Regional Principal.
- **Relocation costs.** Relocation costs need to be approved by the RCM managers involved and shared between the units based on the percentage budget split of the position.
- Costs of recruitment are to be funded through vacancy salary savings.

Please refer to Labour Relations for further details on recruitment and other staffing issues.

## 6. BUDGET PROCESS:

- As part of the annual budget planning and development process, each contribution center will devise a 3-year programmatic and financial plan.
- Annual budgets will be prepared by each RCM unit and submitted to the Provost for review. Program goals and performance targets will be set in consultation with senior management as part of the annual budget process.
- Requests to increase budgets must be accompanied by a demonstrated source of revenue.
- A system to support Web based budgeting will be reviewed for implementation as soon as possible.

## 7. FINANCIAL REPORTING:

- Reporting requirements will be supported by the use of the program code from the FOAPAL to identify location in the beginning year of RCM. For the 2004/05 year a new chart of accounts based on the organization code structure will be developed.
- Reporting mechanisms to support RCM will be refined over the next year.

Central and support units will be reviewed in 2003-04 to determine where it is appropriate to set up RCM units and where it might be appropriate to allocate indirect costs.

Many details of procedure and practice will have to be worked out and no doubt refined in the course of this budget reform. **RCM will be reviewed after the first year of experience with the model. Of necessity refining the model will be an evolving process.**

**APPENDIX A - Carry forward surplus/deficit policy #6.1**



---

|                      |   |
|----------------------|---|
| <u>Title</u>         | <u>Carry forward surplus/deficit policy</u> |
| <u>Policy Area</u>   | <u>Finance and Analysis</u>                 |
| <u>Policy Number</u> | <u>6.1</u>                                  |

The following are responsible for the accuracy of the information contained in this document,

**Responsible Officer:** Associate Vice President /Bursar (Finance and Analysis)  
**Responsible Office:** Finance and Analysis  
**Approval By:** Cabinet  
**Approval Date:** July 8, 2003  
**Effective Date of Policy:** September 1, 2003

The following are responsible for the administration of this policy,

**Primary Office**                      **Contact**  
Finance and Analysis              Associate Vice President (Finance and Analysis)

---

**a) Policy Statement**

This policy is committed to an incentive system for budget managers that encourages them to manage their operations in the most effective and fiscally responsible way enabling them to carry forward year-end surplus funds and avoid year-end deficits.

**b) Reason for Policy**

The overall goal of this policy is to provide an incentive system for budget managers that will encourage them to manage their operations (which may include both base and non-base activities) in the most effective and fiscally

responsible way. This policy supports the implementation of Responsibility Center Management (RCM) and is intended to apply at the responsibility center level. The two main types of responsibility centers that will be included in this policy are:

- the profit center which generates revenue and incurs costs with the manager being accountable for both,
- the cost center, which generates little or no revenue but incurs costs with the manager being accountable for costs only.

Under Responsibility Center Management the academic units (teaching units) who generate revenue through their student activities will be treated as profit centers and will be referred to as RCM academic units. The RCM academic units will include Penticton Campus, Salmon Arm Campus, Vernon Campus and the Kelowna faculties of Arts, Business, Education, FACE, Health, Science, Technologies, and Trades. The non-academic units (non-teaching units) will for the most part be treated as cost centers and will be referred to as non-academic responsibility units. For the remainder of this policy the use of the term “unit” will refer to both the RCM academic units and the non-academic responsibility units.

Revenues and costs incurred for a unit should relate to the activities of the unit. Costs incurred should be reflected where the decision to incur the expense was taken. Revenues should follow to the unit responsible for the revenue generating activity. Resulting year-end surpluses can be carried forward by the unit to be used in future periods. Allowing carry over funds is essential to long term planning for multiple year programs and initiatives. The ability to retain surpluses must also be balanced with the responsibility for deficits. While there needs to be some consideration for factors beyond the control of the decision-makers, it is generally expected that over time a particular unit will operate without an accumulated deficit.

It is not the goal of the organization to accumulate large surpluses. The primary goal of the organization is to deliver training and educational services. Therefore the accumulation of surplus is merely a means to achieving better delivery of services over time and not an objective in itself. To preserve the focus on the primary organizational objective a limit needs to be set on the amount of surplus that can be accumulated.

If in delivering training and educational services the actual performance of a unit is significantly different than budgeted performance expectations there needs to be a review by the appropriate senior executive to determine that surplus/deficit carry forward amounts are appropriate related to performance targets.

The determination of any surplus or deficit must be consistent with generally accepted accounting policies and procedures and with Okanagan University College (OUC) financial policies.

### **Policy Objectives:**

The objectives of establishing this policy can be summarized as follows:

- To moderate the effect of fiscal year end purchasing decisions.

In the present mode of operations there is a propensity to adopt a “use-it or lose-it” strategy to managing budgeted expenditures. It is desirable that all purchase decisions be made on the basis of a clearly defined need and a product evaluation of the alternatives available to meet that need. By providing for retention of surplus it is anticipated that surges in spending, aimed at fully utilizing the available budget, in the final months of the fiscal year will be avoided.

- It will provide an opportunity for improvements in planning operations from year to year.

The ability to operate from a financial platform of an accumulated surplus will allow the operating units to take a longer perspective in the planning process.

- To allow for forward planning of special initiatives or projects that cannot reasonably be expected to be achieved in one year.

There may be some initiatives that are presently being missed because of an inability to fund them out of one year’s budget. There are also some expenditures necessary every few years that stretch the financial resources in those years and effect the setting of operational priorities. The ability to retain surplus will allow an operating unit to plan for these and provides for the funding over time.

- To enable the organization to absorb unexpected costs and manage for contingencies.

Occasionally the organization will incur unexpected costs that have not been budgeted for. In order to have funds available to cover these contingencies there is a need to have some accumulated surplus to absorb these expenditures.

- To motivate management and encourage good financial management.

By retaining surplus, the managers who demonstrate good financial management will have control over a portion of the resources that their

management made available. This will provide them with some additional resources to devote to their operations and provide stronger motivation to manage them well.

Units will have little incentive to outperform their financial targets unless they are able to retain a significant portion of the surplus against target. Units will also have little incentive to achieve their bottom-line performance targets unless they are required to cover a significant portion of their deficit against target. For these reasons, this policy will allow the unit to keep annual budget surpluses while requiring it to repay annual operating deficits, as defined by this policy.

## **c) Policy Details & Procedures**

### **Operating Surplus**

The annual operating surplus for each unit will be determined in accordance with generally accepted accounting principles and with OUC financial policies. An operating surplus is defined as the unit's ending financial result that is greater than the annual budgeted net target. Each year the annual surplus amount would be "banked" and added to a specific reserve account for each unit on an accumulating basis.

As a basic premise, the accumulation and use of banked surpluses will be as unrestricted as possible, however some restrictions are necessary. Restrictions on banked surpluses are as follows:

- The unit must maintain a minimum reserve balance of 0.5% of its total expenditure base. A minimum reserve will serve as a contingency fund for unforeseen events.
- The unit may accumulate surplus in its reserve to a maximum level of 5% of its total expenditure base.
- Accumulated surplus may only be spent on one-time costs (short term operating and facilities costs, program enhancements such as investments in equipment, program development or start-up costs, etc.). The surplus may not be used to create new on going permanent positions. It may not be used to fund projects that would require additional ongoing permanent funding of any type unless permanent funding has been identified and is forthcoming.
- Surplus funds must be accumulated prior to spending against them.
- The unit manager may withdraw amounts of \$10,000 or less per expenditure item from the reserve account. There are no limits on the number of withdrawals of this amount down to the minimum reserve level.

- For withdrawals from the reserve account greater than \$10,000 per expenditure item the unit must submit a proposed spending plan to the Vice President (Academic)/Associate Vice President (Finance and Analysis) which ever is deemed the appropriate senior manager for his/her approval.
- On an annual basis the unit must submit a spending plan the Vice President (Academic)/Associate Vice President (Finance and Analysis) explaining how surplus funds have been or will be expended.

The Vice President (Academic) and the Associate Vice President (Finance and Analysis) will review annual surpluses that would result from extenuating circumstances to determine whether the surplus is appropriate to carry forward. This will include situations where the actual performance of a unit is significantly different than budgeted performance expectations. A mandatory review of variances related to performance targets will be completed each year as part of this review.

(Note: Any surplus related to capital expenditures will be subject to the policy on carry forward of capital funding and will not form part of this carry forward policy).

### **Operating Deficit**

A deficit is defined as an ending financial result that is less than the unit's annual budgeted net target. A deficit will be determined in accordance with generally accepted accounting principles and with OUC financial policies.

Units are expected to manage their resources in a manner that avoids creating deficits. Should a deficit occur, the unit would be required to develop a plan to correct the causes of the deficit and to eliminate it. Deficits that occur can be covered by accumulated surplus that the unit has in its reserve account. If this would draw the accumulated reserve balance down to an amount lower than the minimum balance required, the unit would be required to develop a budget plan to bring the reserve back to the minimum balance during the next annual budget cycle. Time lines required to correct the deficit situation that are different than above, would be determined in consultation with the Vice President (Academic) and the Associate Vice President (Finance and Analysis).

If a deficit results from extenuating circumstances beyond the budget managers control the Vice President (Academic) and the Associate Vice President (Finance and Analysis) will need to determine how the carry forward of the deficit is to be covered.

|                   |
|-------------------|
| <b>d) History</b> |
|-------------------|

N/A

## APPENDIX B – Tuition Fee Revenue Allocation Policy #6.2



---

|                      |  |
|----------------------|--|
| <u>Title</u>         | <u>Tuition Fee Revenue Allocation Policy</u> |
| <u>Policy Area</u>   | <u>Finance and Analysis</u>                  |
| <u>Policy Number</u> | <u>6.2</u>                                   |

The following are responsible for the accuracy of the information contained in this document,

**Responsible Officer:** Associate Vice President /Bursar (Finance and Analysis)  
**Responsible Office:** Finance and Analysis  
**Approval By:** Cabinet  
**Approval Date:** July 8, 2003  
**Effective Date of Policy:** September 1, 2003  
**This Policy** OUC Policy Manual 1995 10 30  
**Supercedes:**

The following are responsible for the administration of this policy,

**Primary Office**                      **Contact**  
Finance and Analysis              Associate Vice President (Finance and Analysis)

---

### a) Policy Statement

This policy outlines the tuition fee revenue allocation methodology for sharing of tuition fee revenue across the organization, establishment of annual tuition fee revenue budgets and the allocation of actual tuition fee revenue when received.

### b) Reason for Policy

The tuition fee allocation model is a method of estimating tuition fee budgets and allocating instructional fees to each of the faculties and campuses that reflects the tuition revenue earned by these units. The tuition fee allocation model will apply only to tuition fees for degree, diploma and certificate programs funded through base funding.

- This model assumes that the Okanagan University College (OUC) Board of Governors will have final approval of all tuition rates for base-funded programs and courses.
- Both tuition and government funding will be shared across academic and support units of OUC. This will allow the support units to share in the growth of tuition revenue resulting from increased student volumes or increased tuition rates. It also allows for the sharing of any increase or decrease in government funding across the total organization.
- Tuition revenue budget estimates will be determined based on credit billing hour history as calculated by the Registrars Office.
- Actual tuition revenue will follow to the unit of instruction based on the actual credit billing hours for the unit in that fiscal year.

### **Definitions:**

Definitions are provided below for some basic terms used through out the document.

**Credit Billing Hour:** This is the value used to determine the cost of a course. This value is multiplied by the per-hour tuition rate established annually by the OUC Board of Governors. A credit billing hour is determined as follows:

- For Academic courses it is based on academic credits. For many courses billing credit hours are equal to academic credits. For any course with higher costs of delivery, such as lab courses, studio courses, courses with tutorials, and other, billing hours are calculated to be academic credits multiplied by a factor of 1.15.
- For Health, Vocational and Trades programs billing credit hours are the number of hours delivered in a program component divided by 30. This division occurs because there are 30 instructional hours in a full-time week of vocational study. The billing credit hour value therefore represents the number of full time weeks of instruction delivered in the program component.
- For ABE and ASE programs, the billing credit hour value is the number of instructional units delivered through the course over the entire length of the course.

**Credit hour base:** The credit hour base is the historical credit billing hours for an instructional unit, be it just the previous year actual (or an average of previous years.)

**Explanation of policy details:**

- Tuition fee revenue sharing: The allocation methodology for sharing revenue is based on financial information that indicates that central and support costs for the organization are approximately 20% of the total budget.
- Determining tuition fee revenue budgets: Other universities have indicated a preference for the previous two-year average for the credit hour base as it is intended to allow a unit time to adjust resources to correspond with changes in net tuition revenue increases and decreases.

In reviewing the historical data we found that using a two year average to set tuition budget targets would be detrimental to the Vernon, Penticton and Salmon Arm Campuses because their credit billing hours had decreased in 2002/03. The average of the previous two years was therefore greater than their most recent experience and may set them a budget target they could never meet. However, the two-year average is advantageous to most faculties within the South Kelowna and North Kelowna campuses as it was lower than their most recent year's experience for 2002/03. It has been suggested that the changes in credit billing hours at all campuses resulted from changes to the collective agreement in 2002/03 as it related to Mode C teaching loads.

In order not to disadvantage the new Responsibility Center Management (RCM) units it seemed appropriate to start the RCM budget process for tuition revenue based on a mixed allocation model. The credit hour base will therefore be the previous two-year average billing hour credits for the faculties and only the previous year billing hour credits for the regional campuses. The impact of the initial implementation of Mode C teaching loads in 2002/03 should be incorporated into the two-year average for 2004/05. In 2004/05 tuition revenue budgets for all RCM instructional units should be based on the two-year average as it is more appropriate under RCM to have a common allocation model for all units.

- Actual tuition fee revenue allocation: It is most effective to record the initial assessment for tuition fee revenue to a central pool and then allocate tuition fee revenue to the responsibility units from the central pool. At this time it is more effective to calculate the sharing of tuition fees and to prepare a journal entry for the accounting entries from central perspective than to program the student system to make this calculation and feed the accounting information electronically to the appropriate account codes.

## c) Policy Details & Procedures

### Allocation methodology:

#### 1. Sharing of tuition fee revenue between academic (instructional) units and central and support services:

Tuition fee revenue will be shared 80% to the academic units and 20% to central and support services.

#### 2. Determining budget estimates for tuition fee revenue using a credit hour base:

- **Budget estimates for 2003/04:**

##### Faculty RCM units:

Tuition fee budget estimates for **faculty instructional units** will be determined for the appropriate unit based on an **average of the previous two years** credit billing hours times the current billing hour rate as approved by the OUC Board of Governors for 2003/04. (Example: The 2003/04 faculty unit budget will be prepared based on an average of the 2001/02 and 2002/03 credit billing hours. A factor weighting of 1.15 has been applied to the average credit billing hours where appropriate).

Tuition fee budget estimates for any new programs or new capacities initiated during budget development will be conservatively based on the projected credit billing hours times the current approved billing hour rate.

##### Regional Campus RCM units:

Tuition fee budget estimates for **regional campus instructional units** will be determined based on the **previous year's** credit billing hours times the current billing hour rate as approved by the OUC Board of Governors for 2003/04. (Example: For the 2003/04 budget year the budget estimates would be based on the 2002/03 credit billing hours. A factor weighting of 1.15 has been applied to the previous year's billing credit hours where appropriate).

Tuition fee budget estimates for any new programs or new capacities initiated during budget development will be conservatively based on the projected credit billing hours times the current approved billing hour rate.

- **Budget estimates for 2004/05:**

Tuition fee budget estimates for **all RCM instructional units** will be determined for the appropriate unit based on an **average of the previous two years** credit billing hours times the current billing hour rate as approved by the OUC Board of Governors for 2004/05. (Example: The 2004/05 budget will be prepared based on an average of the 2002/03 and 2003/04 credit billing hours. This average will include any changes in factor weighting as approved by the Board for 2004/05).

Tuition fee budget estimates for any new programs or new capacities initiated during budget development will be conservatively based on the projected credit billing hours times the current approved billing hour rate.

### **3. Actual tuition fee revenue allocations:**

Actual tuition fee revenue will be recorded in a central pool as it is assessed. The total tuition fee revenue applicable to each instructional unit will be determined based on the actual credit billing hours for the appropriate unit. The Registrar's Office will provide this information to Finance.

The calculation to determine the sharing of tuition between the academic (instructional) units and the central and service units on an 80/20 basis will then be completed by Finance and Accounting staff. The 80% share of the tuition revenue for each instructional unit will be recorded in the appropriate unit through a journal entry process. The 20% share of tuition fee revenue for the central and support units will be recorded centrally (as is currently done for all tuition revenue) and will become part of the overall funding for support and central services.

#### **d) History**

Supercedes: OUC Policy Manual 1995 10 30