


# *Responsibility Center Management (RCM)*



September, 2003  
RCM Workshop

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# *What Is Responsibility Center Management?*



- **Decentralized budget and financial management system that includes incentives for management of the budget units**
- Defined as “financial management systems having decentralized financial accountability for both revenues and expenses and incentives for the leadership of the budget units to achieve positive financial performance” - NACUBO

## *Where did RCM come from?*



- System originated in the business world with the responsibility center known as the profit center
- Profit center generates revenue and incurs costs and the manager is accountable for both
- System has been used in many colleges and universities for the past 25 years
- RCM not about maximizing profit or behaving like a business but makes apparent the consequences of the decisions we make

## *What Are the Goals of RCM?*

- √ Assign financial responsibility to decision makers as close as possible to the activity - supports better decisions
- √ Enhance authority of the Deans
- √ Provide incentives for revenue hunting and gathering
- √ Create a budgetary structure that ties resources to performance (Academic Plan **very important** with performance targets attached to the plan)

# *What Are the Goals of RCM?*



- √ Provide incentives for effective resource management and cost control
- √ Improve budget forecasting and planning by integrating academic and fiscal planning - supports longer term planning (ability to carry forward funds supports longer planning)
- √ Bring together responsibility, authority and accountability at the budget unit level

## *Why an RCM Implementation at OUC ?*



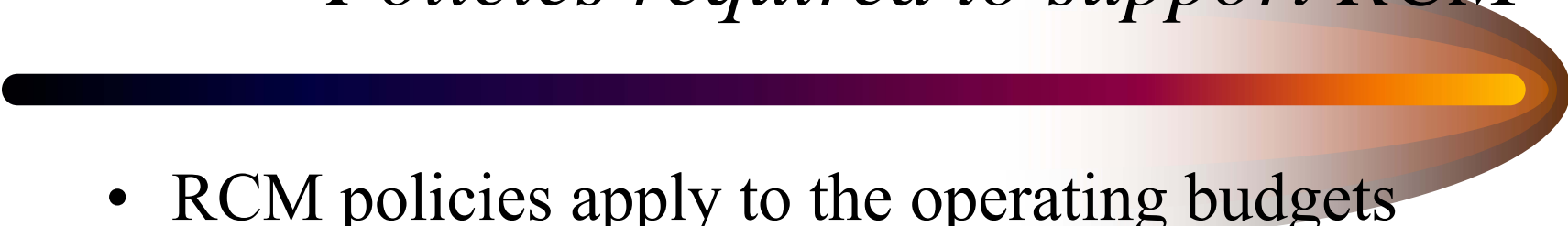
- Multi-Campus Strategy
- Regionalization - where responsibility for the academic plan at the Regional Campuses has been decentralized to the Principals. This began a couple of years ago with decentralization of CE
- Needed a financial system to support this decentralized management model
- RCM was a decentralized financial management and budget system that could support a multi-campus strategy

## *Defining RCM units*



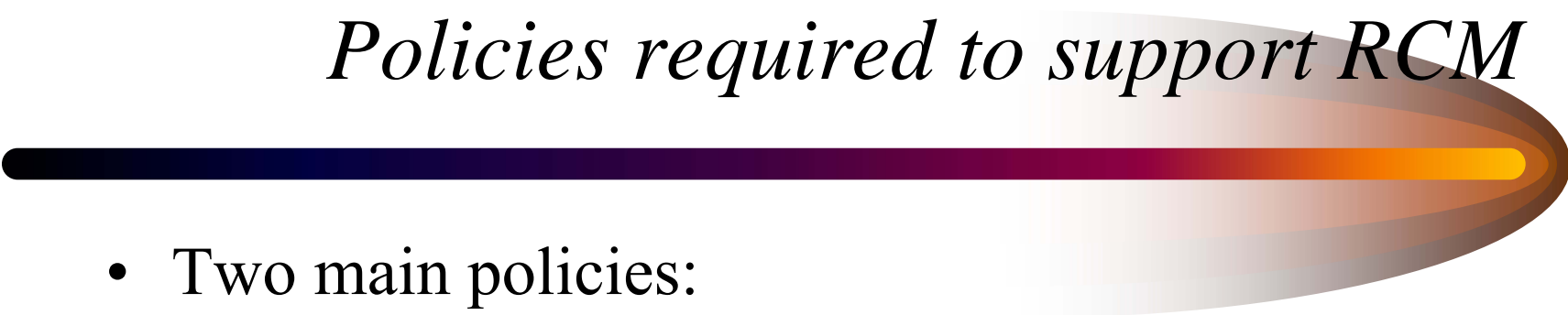
- RCM academic units defined as each of the Regional Campuses (Vernon, Salmon Arm, Penticton) and each of the Faculties (Arts, Business, Education, Industrial Trades and Services, FACE, Health and Social Development, Science, Engineering Technologies) in Kelowna
- Departments alone are too small to be RCM units as limited flexibility if there are upturns and downturns in tuition revenues

## *Policies required to support RCM*



- RCM policies apply to the operating budgets only
- Restricted budgets, Research, capital budgets, special one-time funds not included in RCM policies
- RCM carry forward policy applies at the RCM unit level (Individual department surpluses & deficits summarize to the total that can carry forward for the RCM unit)

## *Policies required to support RCM*



- Two main policies:
  - Allocation of tuition fee revenue
  - Carry forward of surpluses and deficits
- In addition:
  - Government grant allocation to balance the RCM budget unit
  - Grant recorded at the RCM unit level (Dean's/Principal's office)

## *RCM Adaptations at OUC*

- RCM model for OUC designed in 2003/04:
  - **Defined RCM academic units**
  - **Determined how regionalization and RCM can work together - who responsible for what - still in progress (Faculty teaching at more than one campus adds complexities to the model)**
  - **Developed RCM policies**
  - **Developed new financial reports in RCM format**
  - **Developing more decentralized budget approach**
  - **Constructing RCM web page**

## *RCM Adaptations at OUC*

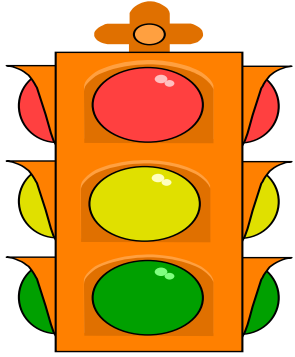


- Further development of RCM model (2004/05):
  - **New Chart of Accounts - organization code focus**
  - **Develop web based budget system**
  - **Review support units and define further RCM units if appropriate**
  - **Review support service costs to determine if it is appropriate to allocate any indirect costs (such as facility costs) to academic units**
  - **Incorporate carry forward surplus/deficit results**
  - **Review and improve RCM processes - work in progress**

## *Remember, RCM just a Tool*



- ⊗ Decentralized decision making does not mean that units are independent and autonomous
- ⊗ Governance and planning mechanisms must still be in place to ensure that this budget model is wisely used as a tool and does not become an end in itself



## *RCM Policy Summaries*

- Tuition fee revenue allocation policy (6-02)
- Carry forward surplus/deficit policy (6-01)
- Note: Full policy available in OUC policy library and next week on the RCM web page included under AVP Finance and Analysis

# *Tuition fee Revenue Allocation Policy*



- Tuition revenue for the **base funded** programs shared 80% to the academic programs and 20% to the central and support services (government grant also shared by all units).
- Other non base tuition already recorded 100% to the non base programs (contribute an overhead amount).
- Academic units - tuition allocated at the department level.
- Central and support services area - tuition not allocated to specific departments but held centrally to fund units overall.

# *Tuition fee Revenue Allocation Policy*

*(Cont'd)*



- **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 for academic programs and \$80 for vocational programs).
  - Regional campuses – the budget is based on only the previous year billing credit hour information. Next year they will be based on a two year average as well. (Needed to incorporate the impact of mode C on the Regional Campuses that occurred in 2002/03).

# *Tuition fee Revenue Allocation Policy - Summary (Cont'd)*



- **Actual tuition revenue in 2003/04:**
  - Actual tuition revenue allocated to departments based on billing credit hour information received from the Registrars office.
  - Note that this will take place in October and February. Budgets have been entered for the same time period so that actual and budget revenues appear in your financial reports in the same time period for comparative purposes.

# *Carry Forward Surplus/Deficit Policy - Summary*



- The carry forward surplus/deficit policy applies to RCM academic units and also support units such as Student Services, Labor Relations, etc. (Incentives for everyone!)
- **Surpluses** as determined at yearend carried forward 100% at the RCM academic unit level (not at department level)
- An RCM/Support 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, etc).

# *Carry Forward Surplus/Deficit Policy - Summary (Cont'd)*



- RCM unit managers can make expenditures of \$10,000 from surplus funds without approval. For expenditures greater than this they need the approval of the VP.
- A report of how surplus has been expended or a plan of how it is to be expended in a year must be provided to the VP each year.
- **Deficits** also carry forward 100% at the RCM unit level and the RCM unit manager must provide a plan to the VP on how he/she will eliminate the deficit.

## *Other Financial Policies*



- Salary savings (Applies to RCM and Support Units)
  - **Vacancy savings** for continuing positions remain with the RCM/Support unit.
  - Continuing positions that are vacant at the beginning of a new fiscal year will be adjusted to the budget rate of Grid 2 Step 7 (in most cases) in the new budget.

## *Other Financial Policies (Cont'd)*

- Salary savings
  - **Step savings** that occur at the time a new full time continuing position is hired will be removed and held centrally (used to fund step increases required by CBA).
  - If a temp position is hired to fill a full time continuing position during the year the step savings will remain with the RCM unit 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 will be required to cover the additional cost from vacancy savings during the fiscal year.

# *Example of salary savings*



		Step Savings
<b>Continuing Position</b>	<b>Vacancy Savings</b>	<b>New Continuing Position</b>

## *Other Financial Policies (Cont'd)*



- Capital Transfers
  - Where there are true expenditure budget savings there is an opportunity to transfer operating funds to capital with approval.
  - Where additional funds appear to be available as a result of new revenue the revenue must first fall to the bottom line as year end surplus before it can be transferred to capital ( as per the carry forward policy).

- Questions?

