

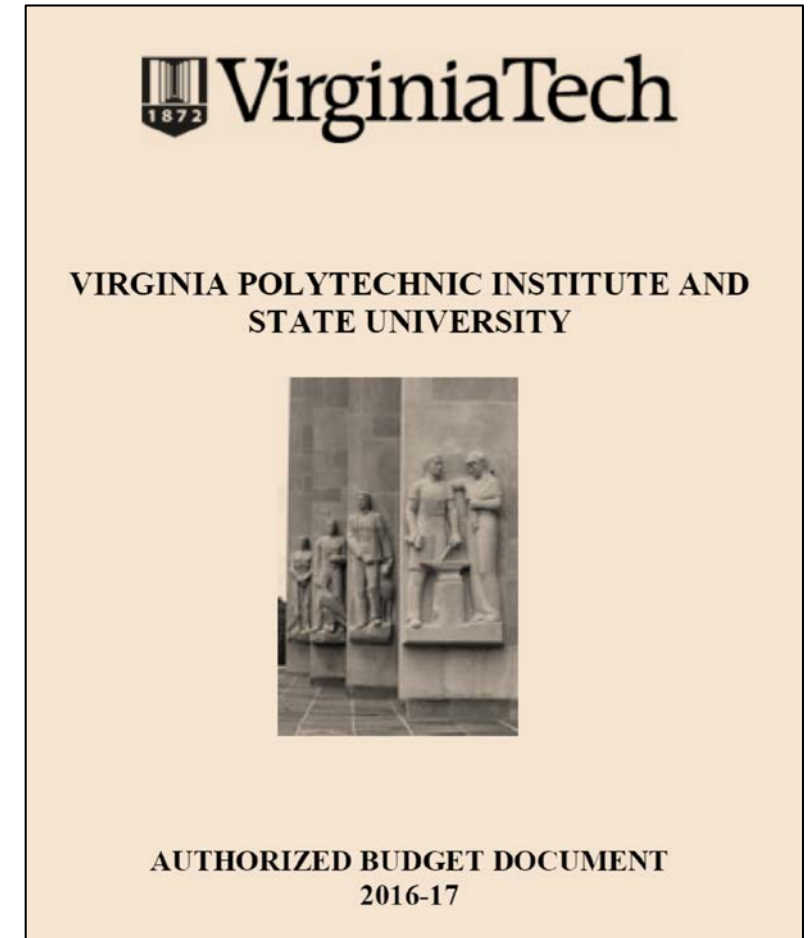
Virginia Tech's Partnership for an Incentive Based Budget

Ken Smith, Vice Provost

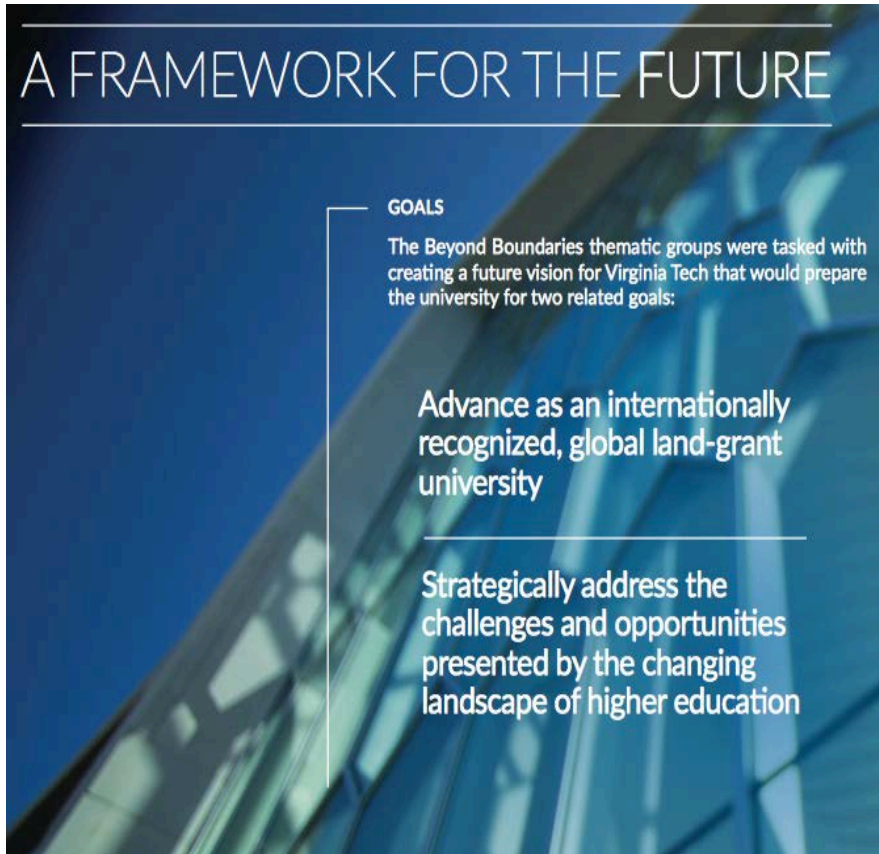
Jeff Earley, Associate Vice Provost

Virginia Tech currently uses incremental budgeting to develop its Educational and General Fund annual budget.

- Unit budgets are based on last year's allocation plus or minus an increment.
- There is decentralized expenditure authority but centralized resource growth authority
 - New initiatives are requested by units from the Provost and CFO.
 - Decisions are communicated back to units in annual resource allocation letters.
- There is some limited formula budgeting for enrollment support and equipment funding
- There are some limited revenue sharing budgets for summer and winter sessions and select “enterprise fund” programs



The Beyond Boundaries planning process calls for Virginia Tech to adopt more agile funding strategies .



2047 FUNDING MODEL

Agile funding strategies

- Generating new learner-centered revenues
- Developing world-class philanthropy
- Creating new partnerships
- Evaluating Value to Experience (VTX)



World-class research

Ut Prosim

Academic excellence



Moving to performance budgeting is set in this context of the need for greater decentralization.

- To adapt to a changing resource environment from one of subsidized operations to self-support/ revenue generation
- To optimize the availability of data and meet expectations that data should inform operational decisions
- To achieve greater transparency and accountability in the allocation of resources and the accomplishment of outcomes
- To manage effectively in the growing complexity of the organization by moving decision making closer to where program outcomes are occurring

A 2011 survey of college and university business officers shows the variety of budget models in use.

- Public, doctoral universities are most common in their use of some form of incremental budgeting.
- Performance based budgeting was used in just over 25% of public doctoral universities.
- In practice, multiple approaches to budgeting are used within the same institution for various types of funds.

THE 2011 INSIDE HIGHER ED SURVEY OF

COLLEGE & UNIVERSITY Business Officers

INSIDE
HIGHER ED
insidehighered.com

Budget model used at your institution during the current academic year (ay 2010-11)*	Formula	Incremental	Performance-based	Revenue Center Mgmt. (RCM)	Zero-Based Budgeting
All Institutions	26.1	60.2	19.6	14.2	30.0
Public Institutions	34.8	59.3	21.0	11.8	25.6
Doctoral Universities	44.7	78.7	25.5	21.3	0.0
Master's Institutions	25.0	73.8	19.6	8.9	16.1
Baccalaureate Colleges	31.0	72.4	17.2	20.7	13.8
Associate/Community Colleges	35.8	47.4	20.8	8.7	37.6
Private/Non-Profit Institutions	17.1	62.3	18.2	17.1	33.2
Doctoral Universities	16.0	56.0	24.0	48.0	20.0
Master's Institutions	14.8	71.6	14.8	12.3	25.9
Baccalaureate Colleges	17.4	58.4	19.1	15.2	37.6

A more recent 2016 survey shows that VT is not alone in changing its approach to budgeting.

- Many institutions (21%) have adopted Responsibility Centered Management (RCM) or some variant of that approach.
- Virginia Tech is not adopting RCM.
- Virginia Tech is adopting performance budgeting to achieve many of the benefits of decentralization while avoiding some of the pitfalls of RCM

THE 2016 INSIDE HIGHER ED SURVEY OF COLLEGE AND UNIVERSITY BUSINESS OFFICERS

A study by Gallup® and Inside Higher Ed

SCOTT JASCHIK & DOUG LEDERMAN
EDITORS, INSIDE HIGHER ED

Roughly half of CBOs, 47 percent, say their institution has changed its budget model in the past four years. Slightly more than a third, 35 percent, of those who have not changed their model say their college plans to do so.

Twenty-one percent of CBOs say their institution uses a Responsibility-Centered Management (RCM) budget model.

Has your institution significantly changed its budget model in the past four years?								
	All Institutions by Sector			Public			Private Nonprofit	
	All	Public	Private Nonprofit	Doctoral	Master's/ Bacc.	Assoc.	Doctoral/ Master	Bacc.
% Yes	47	49	44	48	32	53	37	49
% No	53	51	56	52	68	47	63	51
(Based on those whose institution has not changed its budget model in the past four years) Does your institution plan to significantly change its budget model in the near future?								
% Yes	35	35	35	n/a	n/a	n/a	45	28
% No	65	65	65	n/a	n/a	n/a	55	72

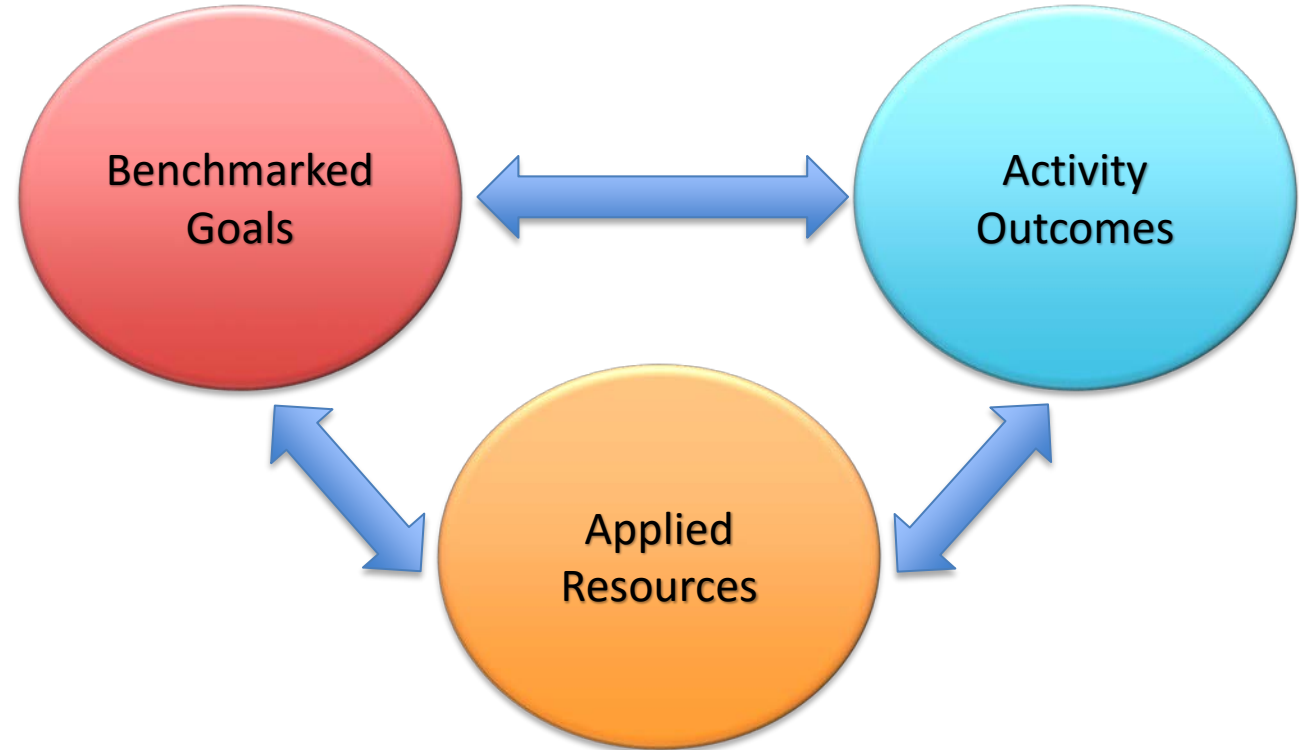
n/a: Data not shown due to insufficient sample size.

Virginia Tech's new model is the Partnership for an Incentive Based Budget (PIBB)

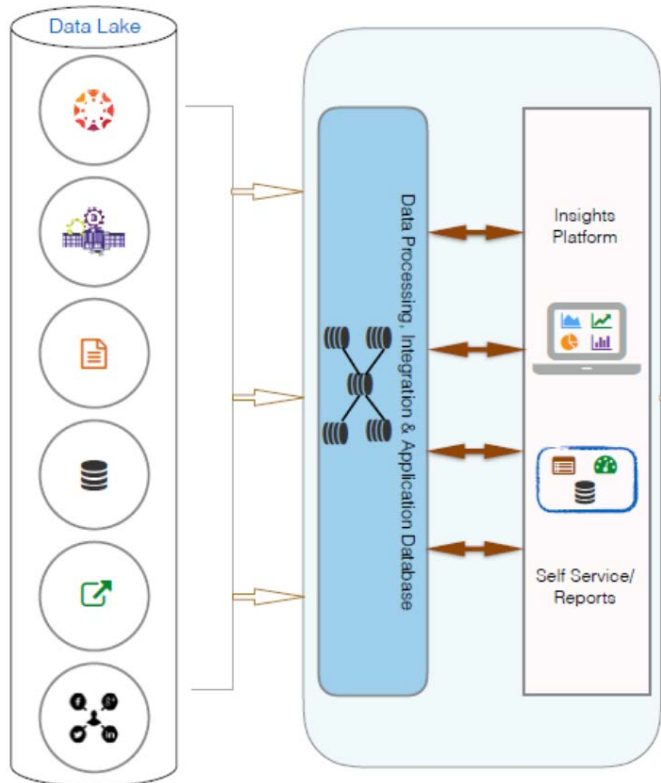
Partnership in Defining Outcomes



Incentives for Achieving Outcomes



To adopt performance based budgeting Virginia Tech must develop new approaches to information sharing.

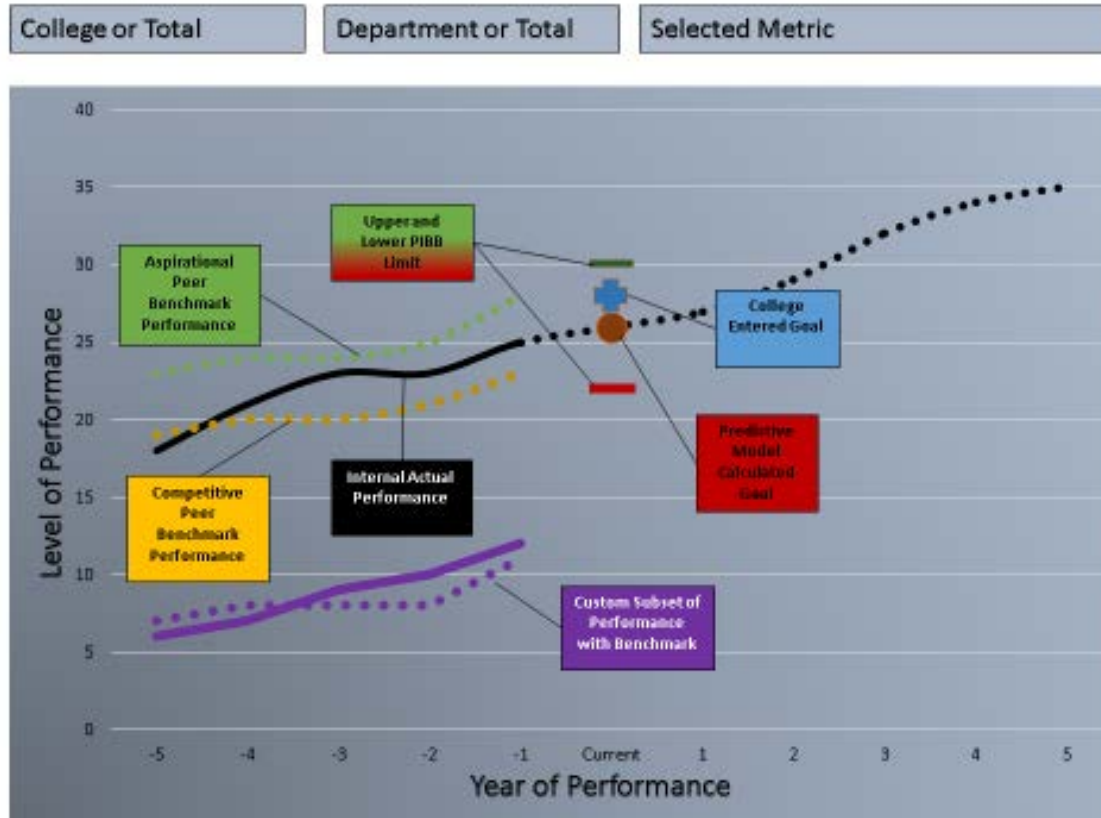


Academic Decision Support System

An Academic Decision Support System will provide the information needed to:

- Allocate resources associated with enrollment growth to the units engaged in that growth
- Promote achievement of other external funding goals for sponsored research and advancement
- Promote quality through the introduction of external comparison data
- Promote efficiencies by tracking and comparing the ratio of inputs to outputs and outcomes against desired levels and external comparison sets.

The performance budget system will raise the budget conversation from inputs to outcomes.

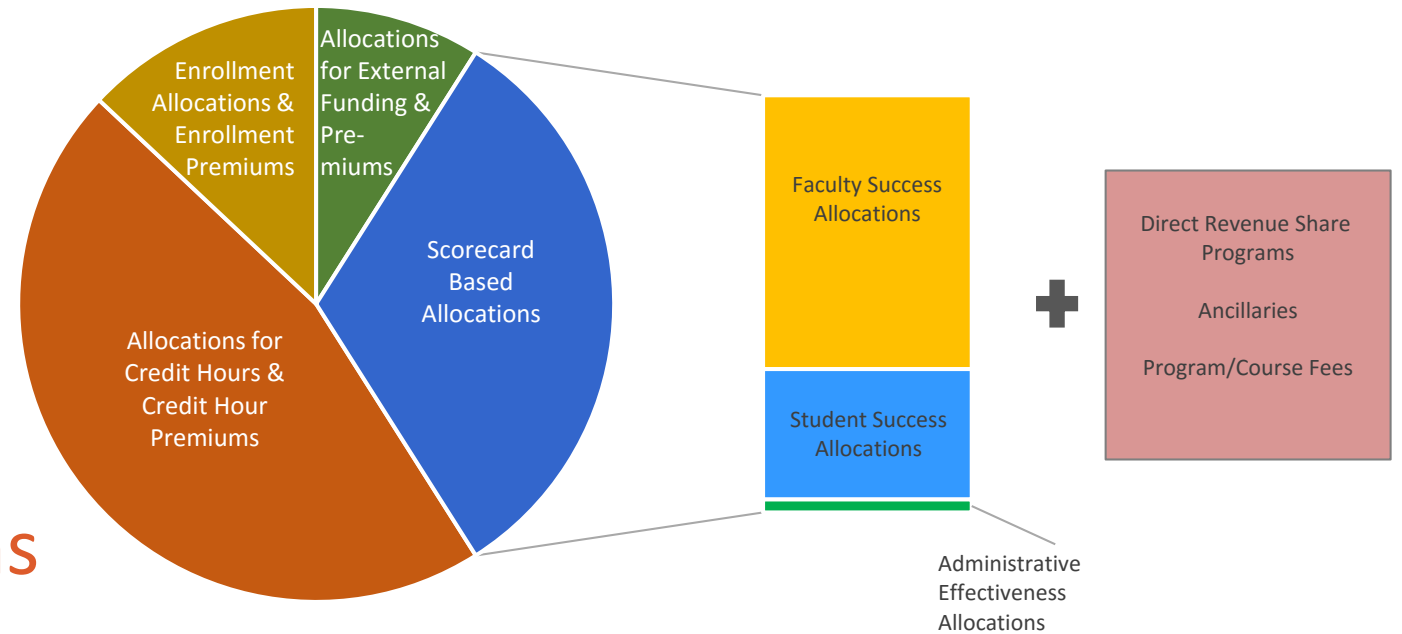


- A performance model allocates existing budgets and growth in budgets based on the actual achievement of agreed upon outputs and outcomes.
- Goal setting will use predictive modeling of enrollment and student credit hour patterns to inform and validate individual college projections.
- Actual activity will be compared to external benchmark data of competitive and aspirational peers where that data is available.

PIBB CALCULATION COMPONENTS

PIBB Calculation Components

- Unit Allocation Metrics
- Scorecard Metrics
- Direct Revenue Programs



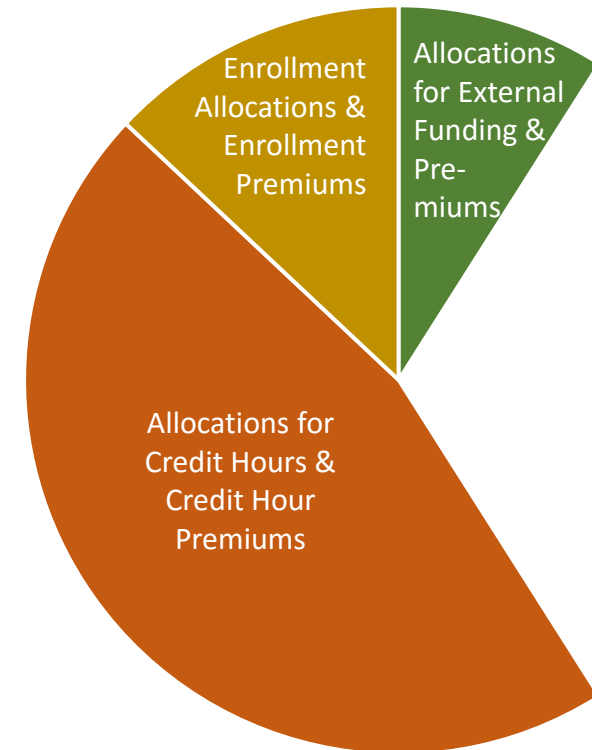
PIBB Calculation Components

Unit Allocation Metrics: 22 Metrics for Resource Growth Incentives

- Baseline metrics and premiums for units meeting certain quality standards or support strategic directions in three categories:
 - Instruction and Enrollment
 - Philanthropy
 - Sponsored Research

$$\text{Metric Units} \times \text{Value per Unit} = \text{Budget Allocation}$$

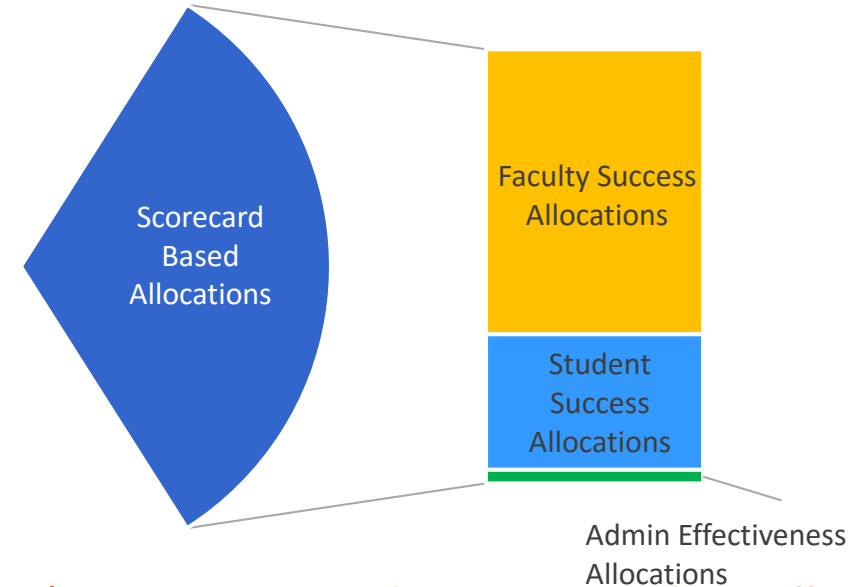
- Value per unit can be influenced by scorecard performance; connecting quality back to quantity



PIBB Calculation Components

Scorecard Metrics: key metrics in three broad areas and related sub areas

- **Faculty Success**
 - Scholarship, teaching, engagement, & diversity
- **Student Success**
 - Entering, continuing, graduating, VT-shaped experiences, diversity
- **Administrative Effectiveness**



- University is developing the academic decision support system (ADSS) to monitor and report trends in all metrics for all departments.
- Departments and colleges are identifying key metrics related to their profile and establish goals.
- Performance in scorecard metrics that point to quality outcomes in instruction, scholarship and other unit allocation outputs will be linked to unit allocation values.

PIBB Calculation Components

Direct Revenue Programs

– Direct Revenue Share

Additional allocation for programs priced and operated to cover their direct and indirect cost and generate net revenues to support department, college and university expansion

- Special Sessions – Summer and Winter
- On-Line Masters Programs
- Executive Programs
- Baseline of value is allocated through Unit Allocations and Scorecards, premium up to agreed upon distribution of revenue allocated through this third component.

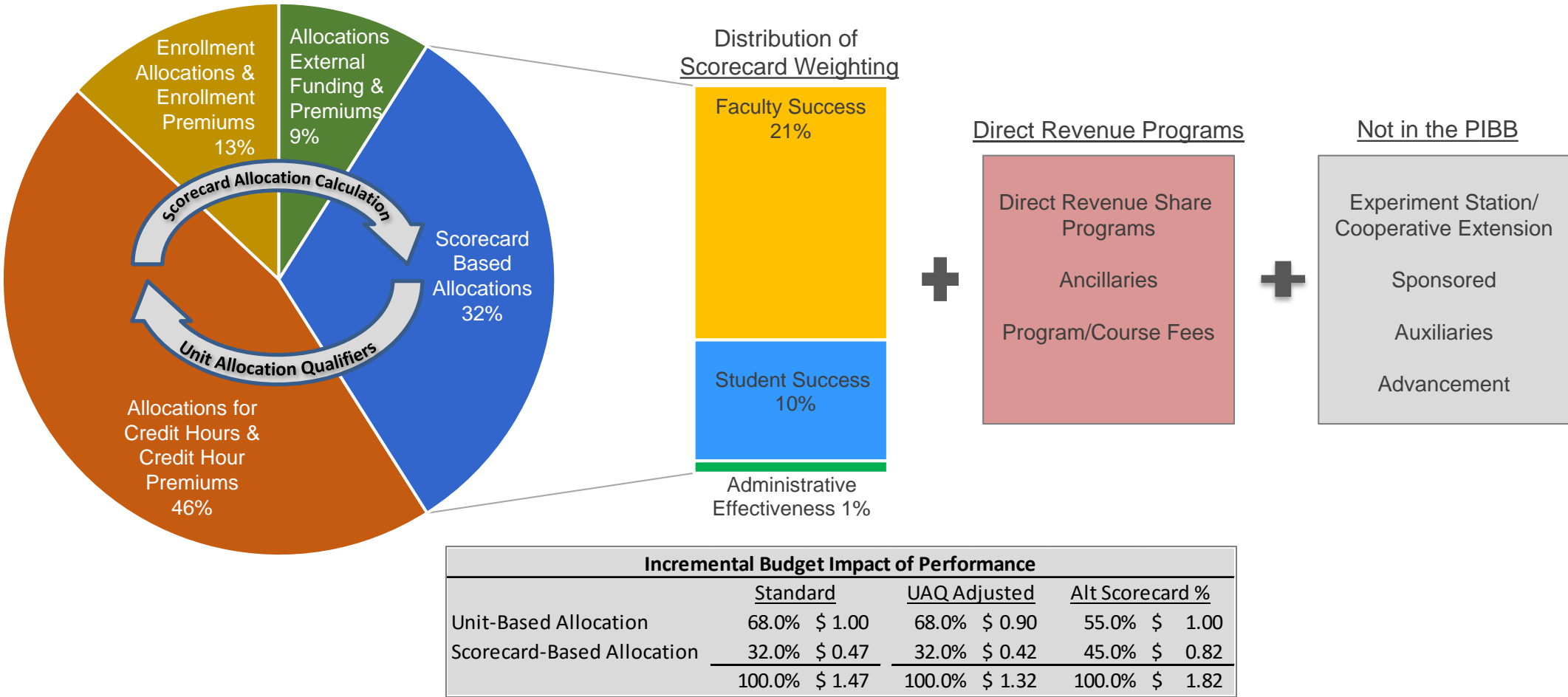
– Ancillaries

– Program/Course Fees

Partnership for an Incentive Based Budget

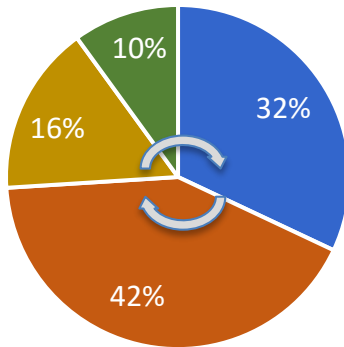
Budget Allocation Methodology

Note: Percentages represent average proportion of budgets across the university's colleges; actual percentages will vary by college.

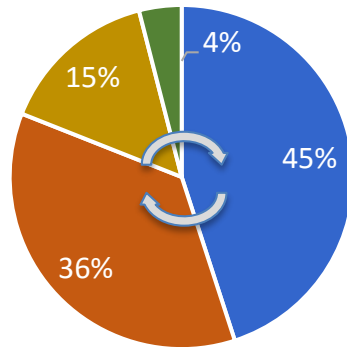


Potential Distribution of PIBB Components Among Colleges

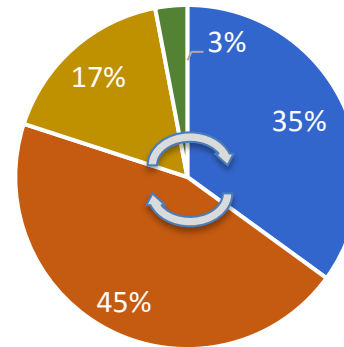
(Based on the Spring 2016 PIBB Model Conceptual Draft)



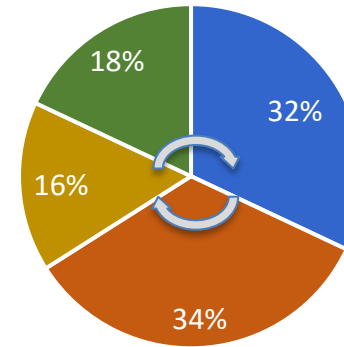
CALS



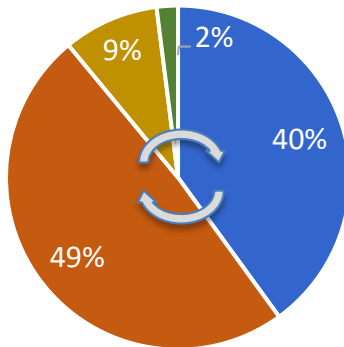
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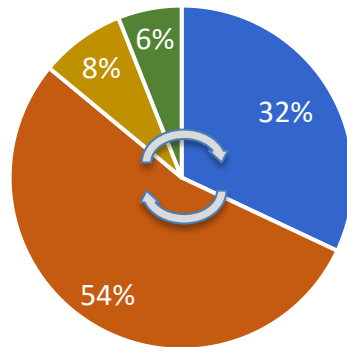
PCOB



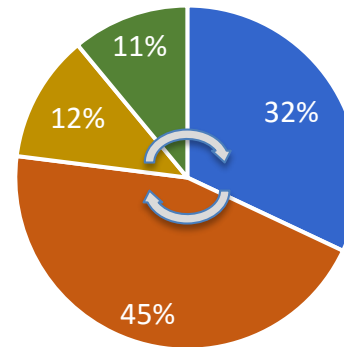
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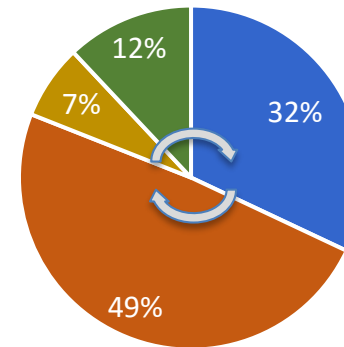
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COS



CNRE



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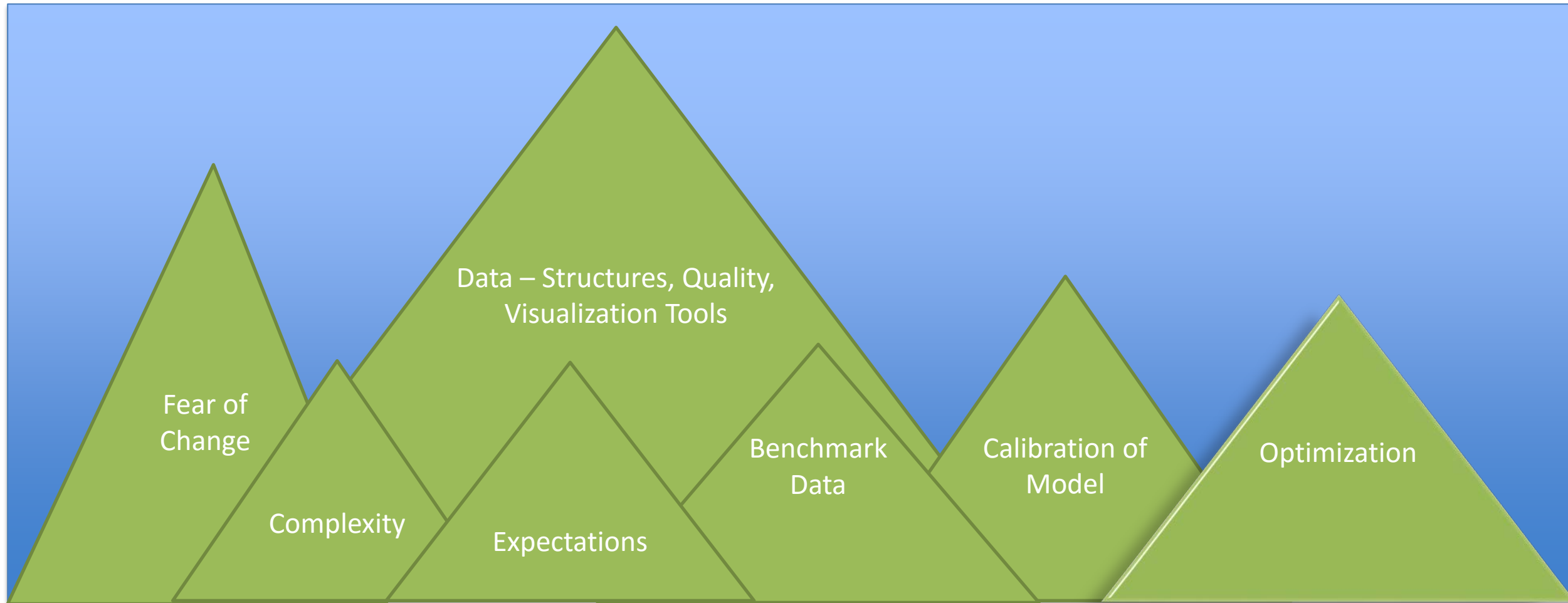
Allocations for SCH's

Allocations for Majors

Allocations for External Funds

Scorecard Based Allocations

Challenges



Timeline

- Spring 2017 – Parallel model development, data structuring
- Summer 2017 – Data and visualization platform decisions
- Fall 2017 – Budget summits with goal setting on student success
- Spring 2018 – Budget summits with goal setting on faculty success
- July 1, 2018 – Implement PIBB for colleges
- July 1, 2019 – Implement PIBB for academic VP areas
- On-going – Calibration, optimization, continuous improvement

QUESTIONS?

Ken Smith kensmith@vt.edu

Jeff Earley jeasley@vt.edu