

RCM at Algonquin

The great thing in this world is not so much where we stand, as in what direction we are moving.

- Oliver Wendell Holmes

No one in higher education would contest the currently challenging financial and demographic circumstances of operating a publicly funded post-secondary institute. The question becomes not what challenges lay ahead but how they may be faced. Algonquin College is adopting measures that will mitigate these realities and allow the College to weather the changes ahead, while continuing to offer high quality education.

Enrollment had been strong at the College for six or seven years, but when growth slowed in the fall of 2013, it was taken as an opportunity to revisit how financial sustainability could be shared amongst all departments. College leadership was unhappy with the existing budget process and felt that the status quo was no longer acceptable – they wanted equity and transparency with input and negotiation. Responsibility Center Management (RCM) was identified as a possible methodology that would enhance organizational effectiveness, improve transparency of resource allocation, and drive innovation and entrepreneurialism.

Beginnings

The idea of implementing an RCM model at Algonquin College has been in the works since 2012, when it was first included as an initiative for review in the annual business plan. With provincial transfers diminishing, encouraging staff and faculty to innovate while providing greater autonomy and decision making was viewed as a means to shared ownership of financial sustainability. A report in 2013 by the College's own Leadership in Education Institute expanded on this, tying an RCM model to greater engagement and responsibility among leaders and managers, while also aligning with the College's long-term goal of fostering empowered people at all levels. Thinking of RCM as being comprised of only budget and financial management principles is an oversimplification – RCM also lends itself to a

broader cultural shift, where strong senior leaders are vital in supporting the long term vision and mission of the institute.

“An Algonquin RCM model, if properly designed, will provide incentives to enhance revenues and control costs. The resulting financial improvements will provide reinvestment opportunities as a reward for entrepreneurial efforts.” – ALEI III Report, 2013

Though not without risk, adopting RCM principles was considered a viable option. Some RCM cost sharing principles were already in practice – Ancillary Services had already incorporated unit-performance budgeting procedures and the Centre for Continuing and Online Learning had also implemented a budget model that capitalized on innovation and entrepreneurial activities, applicant demand, and market forces for launching new programs on a cost-recovery basis.

In the summer of 2013, a study prepared by the Learning Alliance for Higher Education from the University of Pennsylvania examined existing budget practices at the College. The report acknowledged that adoption of RCM practices at Algonquin would fundamentally alter the centrally driven expenditure model. Central administration would no longer be in control of the metaphorical purse strings. Instead, the academic departments, which were currently responsible for their own revenues and expenditures, would receive additional revenues through an allocation of the Provincial Grant, but also be expected to cover their share of overhead and space costs. RCM would allow for a central pool of funds to be available to academic departments to draw on to top up their central grant allotment (subvention). The other two issues discussed in the report: major decisions to be taken and division of authority and responsibility between the central administration and management, the Office of Senior VP academic, and Offices of the School/Faculty Deans.

Project definition and development

Between these two reports, feasibility was confirmed, and concrete steps were taken towards the development of a suite of customized RCM principles. In December 2013, a project manager was hired, a steering committee assembled, and a campus-wide educational campaign begun. A dedicated project manager was crucial to piloting the development and implementation of what an RCM model could look like for Algonquin. Recruitment of Steering Committee members from a variety of departments

and staffing levels across the college was essential to have a balance of opinions and viewpoints. A thorough and responsive communications plan was key to create understanding and acceptance among all staff at all levels.

Information sessions began early on. The first 'lunch and learn' presentation was delivered on December 16, 2013 by the VP Finance and Administration to the general College Community. Described within were the fundamentals of the RCM philosophy, the associated core fiscal principles, as well as a timeline of planned activities. The RCM project manager met with College Leadership Council and President's Council members to identify risks and assess knowledge and willingness of senior leaders to adopt a new budget and financial reporting model. Initial sessions were educational in nature, continuing to explain RCM principles and potential implementations for Algonquin. With no one-size-fits-all RCM model, stakeholders needed plenty of information to be able to provide reasoned feedback and input on the 'Made at Algonquin' RCM design.

Communications delivery began in earnest in March 2014 with a formal communications plan, which included information delivery and mechanisms for soliciting feedback. Dedicated webpages were created to inform the college community of the process and impact of the RCM project. An advocacy video featuring the College President and college staff from various areas bolstered visibility and credibility for the project. Survey feedback and good news items were also published regularly.

In March 2014, the Project Charter was approved by President's Council. This important document outlined the goals of the project, key definitions, guiding principles, as well as expectations of President's Council and the Steering Committee. Supplementary goals tied financial matters with future trends, academic quality, and standards for non-academic departments. Three guiding principles linked RCM with the broader vision of the college:

- 1. The Algonquin College Vision, Mission, Core Values, and Strategic Plan, as well as all legislation, regulations & directives (policies, laws and regulations) governing College operations will be the overall guiding principles.*

2. *All recommendations and/or decisions will be carefully reviewed to assess the potential impact on students and employees, to optimize opportunities for student success and to maximize potential positive outcomes.*
3. *Budget and operations guidelines will take into consideration institutional goals in the allocation of resources and will be done following a fair, transparent and data driven methodology.*

With the project formally defined and approved, the next step was to create a model that worked for the College. Which and how many RCM principles should be adopted? The project manager extensively researched RCM implementations at Canadian and American institutions, examining up to 40 case studies. Highlights were brought forward and vetted with the Steering Committee, resulting in an initial draft of RCM principles tailored for Algonquin.

Designing an RCM model required an allocation methodology that would be accepted by all academic and non-academic departments. Tuition and direct costs were already allocated to all departments, as were specific and direct revenue. Three big questions remained around revenue, central administration expenses, and space costs. Namely:

1. How will the provincial grant be allocated to academic departments?
2. How will non-academic costs be allocated to the academic departments?
3. What will be included in defining space costs? How will these costs be allocated to the academic departments in a way that reflects the costs of different types of space and campuses? Do space costs get charged to all departments?

Early on, College staff had indicated that they wanted to be involved in institute-wide change, so these questions were brought to the schools, faculties, and departments. Through 'road shows', where the project manager visited with specific stakeholder groups, and town hall meetings, where stakeholders were invited to attend a presentation, feedback was collected directly. At least 27 presentations were made to over 250 staff from various areas. Additional feedback was solicited via online surveys, and all input brought back to the Steering Committee. Through these iterations of soliciting and collecting

responses, further adjustments to the RCM model and principles were made until a working model was formulated. Ultimately seven, 'Made at Algonquin' principles, were decided on:

1. A department keeps a percentage of their surplus funds to be used within a defined period of time.
2. A hold harmless policy at the academic department level for two years beginning April 1, 2015.
3. The net investment and impact of RCM implementation is sustainable.
4. Prior to any college level approval, a department must co-ordinate new initiatives with other departments which may be affected.
5. Non-academic costs do not, as a percentage, grow more than academic percentage growth.
6. RCM includes a definition of total costs of delivering a program or service.
7. RCM includes a defined internal costing process.

Customized road shows that included mocked-up financial reports and budgets were brought to the deans and directors, and their feedback absorbed into the developing model. At the beginning of April 2015, the RCM model went live – journal entries were finalized and 'before' and 'after' budgets done for comparison.

Sample Department		
	Current 2015/2016	RCM 2015/2016
Income		
Tuition	16,000,000	16,000,000
Other Revenue	3,000,000	3,000,000
RCM CPOG Grant		11,000,000
RCM Growth Grant		2,500,000
Total Revenue	19,000,000	32,500,000
Expenses		
Direct Costs	(22,500,000)	(22,500,000)
Central Admin		(6,500,000)
Space Overhead		(200,000)
Woodroffe Operating		(2,100,000)
Total Costs	(22,500,000)	(31,300,000)
Contribution Margin	(3,500,000)	1,200,000
Subvention Funding		750,000
Stretch Contribution Margin	(3,500,000)	1,950,000

External boxes and arrows pointing to the table:

- tuition fees earned by school/faculty** → Tuition
- contracts, continuing education, commission, corporate training** → Other Revenue
- salaries, benefits, administrative costs, supplies, etc.** → Direct Costs
- share of central administrative costs: Human Resources, IT, Finance & Administration, Library, etc** → Central Admin
- Revenue – Costs = Contribution Margin** → Contribution Margin
- share of grant from OMTCU to assist in achieving stretch target** → Subvention Funding
- General Purpose Operating Grant from Ontario Ministry of Training, Colleges and Universities (OMTCU)** → RCM CPOG Grant
- Growth Grant From OMTCU** → RCM Growth Grant
- share of Physical Resources (director's office, facilities planning, occupational health and safety)** → Space Overhead
- share of Woodroffe Campus services: technical services, operations and maintenance, grounds services, protection services, etc.** → Woodroffe Operating
- Current Contribution Margin + Subvention = Stretch Contribution Target** → Stretch Contribution Margin

Table 1: Sample statement for academic responsibility centre

Training

Staff needs to be equipped with the necessary training to get their jobs done. Understanding the level of readiness amongst administration, staff, and management for the RCM model required that more input be collected. A final road show and survey produced clear feedback on areas where staff needed training and support. Topics included financial literacy, fingers-to-keyboard (or just in time) training, how subventions and service level agreements work, and how the College would deploy RCM principles.

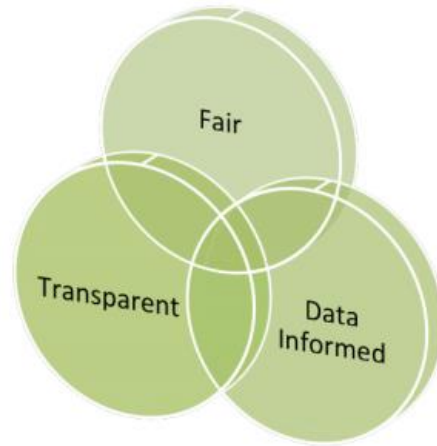
A final training plan was devised, composed of four sections:

- *Just in time* – The description of the journal entry processes and specific general ledger codes and descriptions.
- *Specific RCM training* – Specific training on how to read financial statements, with general financial literacy information and budget training available several times annually.
- *Review of actual financial information* – In summer 2015, the Vice President of Finance and Administration hosted meetings to look at the financial reporting system and RCM entries. Two separate meetings were held to focus on academic and non-academic departments.
- *Tool Kit* – A tool kit of resources and training, to support the skills needed to excel in leadership and management under RCM, but also in a larger context of management skills.

Impact

RCM will impact different groups at the College to varying degrees. At the upper level, President's Council will shift from dealing with operational budget decisions to strategic budget decisions. On the front lines, budget officers will experience differences with the financial reporting software; however day-to-day management of budgets and the flow of data will not change. Deans and directors will assume an expanded role as stewards of their departments. With greater budget control accompanied by the ability to retain a percentage of surpluses, a pool of money will be available to fund innovative and entrepreneurial ventures. The net expenditures for non-academic departments will all be part of the central administrative costs, or a common basket of services available to all departments of the College. This will impact the planning of resources to ensure acceptable levels of compliance for service

requests. For academic departments, RCM represents a not insubstantial change in thinking about successful program delivery. For all areas, the 'hold harmless' principle provides a buffer of two years to allow for the adoption of new financial and operating practices without financial penalty.



The three pillars

RCM will create transparency. As an example, departments will be able to view other budgets at a high level. How will faculty and staff be affected? Effects will be varied, depending on the job, but there will be more opportunity to innovate, whether by helping to create time savings, cost savings, cost sharing or revenue generating opportunities. All departments are able to keep a percentage of their budget savings, therefore creating incentive to manage variable expenses and generate additional income. Combined with increased transparency, this will encourage departments to collaborate and work towards common goals.

All academic departments will also have equal access to shared goods and services offered by non-academic departments via the Common Basket of Services model and defined by Service Level Agreements (SLAs). SLAs are based on a simple and transparent formula: one common basket of services for one price. Non-legal and internally created contracts, SLAs eliminate confusion by identifying and clarifying expectations on both sides. Service delivery will be monitored and evaluated via client satisfaction surveys and performance metrics. SLAs are to be reviewed informally within the departments annually and formally reviewed and, as necessary, amended every three years.

Next steps

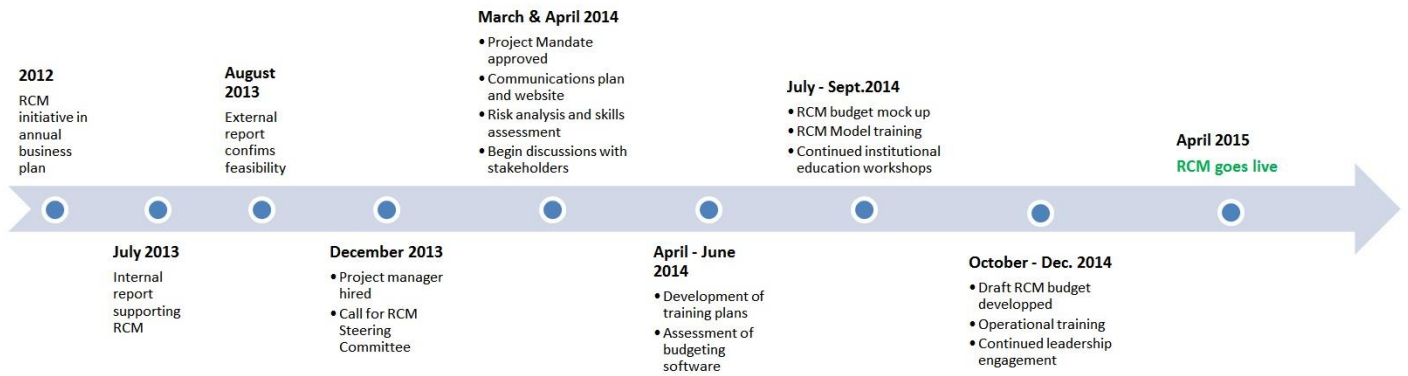
Between 2013 to 2015, the RCM transition endeavor was defined, planned, and designed. With the key pieces in place, the next step is transition to operations. Some restructuring and new positions are still to be created – a new Corporate Budget Manager in Finance to handle allocations under the RCM model as part of the normal budget process, and a new Institutional Research position under Academic Operations and Planning to manage SLAs, client satisfaction surveys performance metrics, along with other academic and College performance metrics. Ownership of the RCM model will remain with Finance, with continued reporting to the College Budget Committee, who will continue to recommend changes to President’s Council on the normal budget process. Governance of the overall RCM model will remain with the Vice-President Finance and Administration, and the Senior Vice-President Academic.

During the early days of transition, the ‘hold harmless’ principle will be important in creating trust and a chance for learning and adjustment under the new model. Long term success is not guaranteed. Other institutes have failed due to weak leadership, cumbersome committees, and inflexible implementation. Neither is RCM a panacea – issues of leadership transparency, efficiency administrative services, and integrity of financial data are all outside the model’s parameters.

Algonquin has learned many lessons along the way, starting with the fundamental questions of, ‘why RCM?’ Other revelations along the journey include:

- Anchor with principles: fair, transparent and data informed
- Keep it simple and customize only as required
- Get top level buy-in and senior Project Champions
- Listen and adapt to competing priorities
- Get professional project management and organizational change management
- Ensure stakeholder representation across the College
- Develop and implement a robust communication plan
- Foster stakeholder support
- Be prepared to practice, change and practice again to adapt over time

As a holistic model, RCM can act to promote balance between the interests of academics with those of the College, and put emphasis on collaborative growth of the total pie rather than divisive competition for specific pieces of it. With practice and over time, this will lead to greater internal transparency, a drive towards innovation and entrepreneurialism, enhanced competitive advantage, and ultimately, long term financial sustainability.



'Made at Algonquin' RCM timeline