Approval Date: July 17, 2006

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Parent Policy: **Budget Variance Accountability Policy**

Budget Variance Accountability Procedure

Office of Administrative Responsibility:	Office of Resource Planning
Approver:	Vice-President (Finance and Administration)
Scope:	Compliance with University procedure extends to all members of the University community.

Overview

A **budget unit** does not have the authority to overspend its annual operating budget allocation so as to place the unit in a deficit position for the fiscal year. **Budget variances** (both favorable and unfavorable) will be carried forward to the next fiscal year. Action plans for the carry forward amounts deemed significant are to be developed and approved. A budget unit is to monitor its variance on an on-going basis and report appropriately.

Purpose

To outline the action required in regards to a year-end budget variance.

PROCEDURE

All budget units will be held accountable for their annual operating budget variances.

Each budget unit is required to monitor its operating fund revenues/expenditures variance on an on-going basis.

Financial Services and the Office of Resource Planning will calculate the year end variance for all budget units.

The calculation of the year end variance will be finalized following the completion of the external audit.

1. Operating Fund 210

a. The budget variance is calculated as the difference between the **net revised budget** and the net of actual revenues and expenditures, adjusted for the difference between the amount budgeted for benefits and the actual cost incurred for benefits. The budget variances for those programs designated as revenue funded programs within Fund 210 are not adjusted for the difference in benefits.

b. The variance is reflected at the **"responsibility level"**. There may be more than one budget unit in a responsibility level.

c. Favorable Variance:

i. At the end of the fiscal year if a favorable variance occurs and the favorable variance exceeds 5% of the responsibility level's revised budget or $500,000, the budget unit must request carry forward of these funds. They are required to submit a plan, as an amendment to the budget, for the use of these funds. The plan is reviewed and approved by the appropriate Vice-President. In the event that the Vice-President is not satisfied by the plan, he/she may re-allocate the carry forward in excess of the allowable level of variance. (**Structural surpluses** will be included in this review only if the surplus in the reporting year exceeds the above reporting threshold.)

ii. This flexibility is provided to encourage good fiscal management and longer term planning. It is also provided as a disincentive to the incurrence of unnecessary expenditures in any fiscal year and as a means of coping with invoices and shipments received after the normal year end close.

iii. A responsibility level may chose to defer part of its current budget expenditure to a future year in order that it may meet a future expenditure. This deferral of budget is recognized as an important component of a responsibility level's activities and as such, it is to be included in all aspects of budget review and allocation, including the strategic business plan and the preparation of annual budgets.

d. Unfavorable Variance

i. All unfavorable variances will be carried forward as a charge against the budget in the next year.

ii. When an unfavorable variance occurs which exceeds 5% of the responsibility level's revised budget or $100,000, the budget unit must submit a plan to the appropriate Vice-President, indicating how that deficit will be funded and over what time period. The plan is reviewed and approved by the appropriate Vice-President.

e. -Once all variance explanations are compiled, a historic summary of the variance information will be provided to the President's executive committee (PEC) for information. Unfavorable variance plans are to be approved by PEC.

f. It is the responsibility of the appropriate Vice-President to monitor progress during the year against plans submitted for positive and negative variances.

g. If during the fiscal year, a responsibility level believes that it will end the fiscal year with an unfavorable variance, it must submit a plan, as an amendment to the budget, to the appropriate Vice-President at the earliest possible opportunity, and well in advance of year end. The plan must indicate how the situation will be remedied and over what time period.

h. If approved by the appropriate Vice-President, the year-end variance of a specified department or program will not be rolled up to the level of responsibility level, but will remain with the specified department or program.

i. In faculties/department where there are several responsibility levels, any non-salary budget should be returned to the appropriate departments.

j. Variances for chartstrings which are non budget variance programs are not required to submit plans for variances as these are planning/financial accounts only.

2. Operating Fund 100

The year-end variances for central institutional programs that have ongoing program activity will be carried forward and will follow the procedures as indicated for Fund 210. Central institutional programs such as general revenues, utilities, and benefits will not have a variance carried forward.

3. Ancillary (Fund 310) and Chargeback Enterprises (Fund 315)

a. The budget variance is calculated as the difference between the revised budget and the net of actual revenues and expenditures. The variance includes any benefits variance.

b. Ancillary and charge-back enterprises report their variances to the appropriate Vice-President.

c. Both favorable and unfavorable variances are to be approved by the appropriate Vice-President and operating/capital reserves will be adjusted accordingly.

d. Favorable variances will be placed into the ancillaries/charge-backs operating/capital reserves.

e. Unfavorable variances will be a draw against the unit's operating reserve. Interest is charged against operating reserves that are in a deficit position.

4. Access Grants (Fund 510)

a. The budget variance is calculated as the difference between the revised budget and the net of actual revenues and expenditures. The variance includes any difference in benefits.

b. Budget units receiving Access grant funding *are not* to exceed the amount of funding that they have received for the Access grant program.

c. Any variances with regards to Access grant funding are included with the budget unit's operating variance for the fiscal year. Access grant funding variances are reported to the office of the Provost and Vice President (Academic).

DEFINITIONS

Any definitions listed in the following table apply to this document only with no implied or intended institution-wide use. [▲Top]

Budget unit	A faculty/department/administrative unit/ancillary/charge-back unit that as an organizational grouping operates as a single entity and as such is required to prepare a strategic business plan and submit annual budget estimates
Budget Variance	The difference between the net of revised budget revenues and expenditures and the net of actual revenues and expenditures.
Net Revised budget	This is the annual budget and is the sum of the base budget and all temporary budget adjustments.
Responsibility level	Generally, a faculty or a support department that reports to a single Director or other executive.
Favorable variance	For operating fund departments (excluding revenue funded programs) -- variance that occurs when the net of actual revenues/expenditures is less than the net of budgeted revenues/expenditures. For ancillaries, chargebacks, and revenue funded programs -- variance that occurs when the net of actual revenues/expenditures exceeds than the net of budgeted revenues/expenditures.
Structural surplus	A surplus amount for a budget unit that compounds over the four year integrated planning cycle, indicating a possible surplus in the base budget.
Unfavorable variance	For operating fund departments (excluding revenue funded programs) -- variance that occurs when the net of actual revenues/expenditures exceeds the net of budgeted revenues/expenditures. For ancillaries, chargebacks, and revenue funded programs -- variance that occurs when the net of actual revenues/expenditures is less than the net of budgeted revenues/expenditures.

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