Forecasting Workshop

Financial Services – Budget Accounting
October 11, 2016
Topics

- What is a Forecast?
- Forecasting Methods
- Completing the Forecast
- Reviewing the Forecast
- Timeline
- FAQ
- Carryover
What is a forecast?

- A planning tool that helps to project financial outcomes, relying on data from the past and present

- The forecast takes into account actuals and projects future results
Budget vs. Forecast

- **Budget** – A financial plan that summarizes the revenues and expenses for a given period

- The annual budget is adjusted for increases or decreases in funding and allowed spending
Why does the University forecast?

• We are **required** to provide forecasted results to:
  ➢ Province: Government Reporting Entity (GRE) – Dept. of Finance
  ➢ Board of Governors

• To provide a foundation for budget and strategic resource planning (SRP)
Why does the University forecast? (Cont’d.)

• To exercise good financial stewardship

• We want to know how well we are doing:
  ➢ Will we be over budget?
  ➢ Will we have a surplus?
    ✓ If so, what will carryover be, and how do we plan to spend it?
What does this all mean to me?

- Stakeholders rely on the integrity of the information collected from units
  - Financial Services: financial stewardship and reporting as well as budget planning and resource allocation (Financial Planning Office)
  - Board of Governors: oversight of the University
  - Province of MB: our primary funder – planning future funding
What does this all mean to me? (Cont’d.)

• Stakeholders rely on the explanations provided by the units
  ➢ Need to ensure they **MAKE SENSE**
  ➢ Need to ensure they are accurate, complete and reliable
What does this all mean to me? (Cont’d.)

- The **BENEFITS** of forecasting:
  - Evaluate current and future financial conditions
  - Prepare for future funding requirements
  - Project short- and long-term staffing needs
  - Provide direction for future decision making on spending and resources allocation
  - Identify short- or long-term influences on SRP
What does the University forecast?

- The University has to forecast all funds which includes:
  - Operating Fund, Capital Fund, Research and Special Fund, Staff Benefits Fund, Trust Fund, Endowment Fund

**BUT** The units are only required to forecast for the OPERATING FUND
What does the University forecast? (Cont’d.)

• Compare March 31 forecast against April 1 fiscal budget

• One forecasting exercise to the units for 2016-17
  ➢ End of Q2 – project to March 31
Forecasting Process: Q1, Q2 & Q3

Required by Board of Governors & Province of MB:

- **Q1** - The University forecasts April 1 Fiscal Budget for all funds

- **Q2** - Each fund hierarchy must complete a forecast to March 31 and may budget for the next 3 – 5 years, if required
Forecasting Process: Q1, Q2 & Q3 (Cont’d.)

- **Q3** - Same process as in Q2 except:
  - Operating Fund forecast is largely based on the results of the units’ forecasting exercise
  - Forecast of inter-fund transfers takes transfers of operating funds to Capital Fund (Nov 18/16) requested by the units into consideration
How is the forecast reviewed?

Budget Accountants:
• Administer the collection of Operating Fund forecast information
• Compile forecast information for reporting
• Analyze the data collected
  ➢ Does it make sense?
  ➢ Is it as accurate and complete as possible?
  ➢ Is it reasonable?
  ➢ Is it reliable?
Forecasting Methods
Forecast

Past  Present  Future
Forecasting Methods

How are you coming up with your forecasted numbers?

• Do you use a particular forecasting model?
  1. Quantitative method like extrapolation?
     ➢ This method uses past and current financial data to project the future financial position

  2. Qualitative/Subjective method?
     ➢ This method is relying on the opinion of decision makers to make financial projections
Forecasting Methods (Cont’d.)

3. A hybrid of quantitative and qualitative methods?
   - This method involves a combination of quantitative and qualitative methods
Forecasting – Revenue

1. FAST 5-Year Trend Analysis

<table>
<thead>
<tr>
<th>Pred...</th>
<th>Pred...</th>
<th>Acct</th>
<th>Title</th>
<th>Mar-2016</th>
<th>Mar-2015</th>
<th>Mar-2014</th>
<th>Mar-2013</th>
<th>Mar-2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales of Goods and Services</td>
<td>520</td>
<td>External Sales and Service ...</td>
<td>343,683</td>
<td>397,906</td>
<td>398,429</td>
<td>366,637</td>
<td>299,363</td>
<td></td>
</tr>
<tr>
<td>Internal Sales and Service Income</td>
<td>530</td>
<td>Internal Sales and Service ...</td>
<td>237,119</td>
<td>195,657</td>
<td>282,703</td>
<td>193,673</td>
<td>211,043</td>
<td></td>
</tr>
</tbody>
</table>

2. Qualitative Information

- New revenue agreements, events, etc.
- Expiring revenue agreements
Forecasting – Salary Expenses

1. Salary Commitments loaded in FAST

2. FAST 5-Year Trend Analysis
3. Qualitative Information
- New hires
- Retirements
- Maternity leaves
- Other Salary or Position Changes
Forecasting – Non-Salary Expenses

1. Committed Purchases

<table>
<thead>
<tr>
<th>Acct</th>
<th>Title</th>
<th>Sep-2016 YTD Actual</th>
<th>O/S Commitments</th>
<th>YTD Total Activity</th>
<th>YTD Fiscal Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>704</td>
<td>Printing and Duplicating</td>
<td>4,517</td>
<td>466</td>
<td>4,982</td>
<td>10,210</td>
</tr>
<tr>
<td>706</td>
<td>Consumable Materials and...</td>
<td>64,629</td>
<td>28,909</td>
<td>93,538</td>
<td>39,059</td>
</tr>
<tr>
<td>708</td>
<td>Telecommunications</td>
<td>13,814</td>
<td>17,148</td>
<td>30,962</td>
<td>31,442</td>
</tr>
<tr>
<td>710</td>
<td>Other Expenses (Non cons...)</td>
<td>24,777</td>
<td>2,846</td>
<td>27,623</td>
<td>107,953</td>
</tr>
<tr>
<td>724</td>
<td>Bank Charges</td>
<td>268</td>
<td>0</td>
<td>268</td>
<td>0</td>
</tr>
<tr>
<td>Subtotal</td>
<td></td>
<td>108,004</td>
<td>49,369</td>
<td>157,372</td>
<td>188,664</td>
</tr>
</tbody>
</table>

2. FAST 5-Year Trend Analysis

<table>
<thead>
<tr>
<th>Acct Title</th>
<th>Sep-2012 YTD Actual</th>
<th>Sep-2013 YTD Actual</th>
<th>Sep-2014 YTD Actual</th>
<th>Sep-2015 YTD Actual</th>
<th>Sep-2016 YTD Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Travel</td>
<td>110,558</td>
<td>105,272</td>
<td>97,338</td>
<td>135,339</td>
<td>124,720</td>
</tr>
<tr>
<td>Hospitality</td>
<td>26,334</td>
<td>16,276</td>
<td>17,836</td>
<td>13,323</td>
<td>13,245</td>
</tr>
<tr>
<td>Subtotal</td>
<td>136,893</td>
<td>121,548</td>
<td>115,174</td>
<td>148,662</td>
<td>137,965</td>
</tr>
</tbody>
</table>
Forecasting – Non-Salary Expenses (Cont’d.)

3. Qualitative Information
   - Non-Committed Purchases: Purchases or contracts made outside of the U of M systems
Forecasting Template
Variance Explanations
Example 1 – Poor Variance Explanation

- **Variance:** $217K decrease
- **Account Type:** External Sales and Service Income
- **Comparison:** 2016-17 Forecast vs. 2015-16 Prior Year Actuals

**Variance Explanation (Note 1)**

Less revenue received than last year
Example 1 – Good Variance Explanation

<table>
<thead>
<tr>
<th>Variance Explanation (Note 1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Last year an external sponsor (TD Bank) gave the Faculty $200,000 to support the North Conference that took place in January 2015. This sponsorship was a one-time thing. The next North Conference will take place in January 2020</td>
</tr>
</tbody>
</table>
Example 2 – Poor Variance Explanation

- Variance: $77K Surplus
- Account Type: Support Salaries & Wages
- Comparison: 2016-17 Forecast vs. 2016-17 Adjusted Budget

Variance Explanation (Note 1)

vacant positions
### Example 2 – Good Variance Explanation

<table>
<thead>
<tr>
<th>Variance Explanation <em>(Note 1)</em></th>
</tr>
</thead>
<tbody>
<tr>
<td>2 vacant positions have been unfilled since April. One employee was terminated and the other quit at the end of last fiscal year. Hiring process for both positions has begun and both will be filled by April 2017.”</td>
</tr>
</tbody>
</table>


Example 3 – Poor Variance Explanation

- **Variance:** $2.3M Surplus
- **Account Type:** Revenues Less Expenses (Overall Surplus)
- **Comparison:** 2016-17 Forecast vs. 2016-17 Adjusted Budget

Variance Explanation (Note 1)
Example 3 – Good Variance Explanation

<table>
<thead>
<tr>
<th>Variance Explanation (Note 1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>We intentionally reduced our spending this fiscal year to prepare for future budget cuts. Significant cost reductions occurred for travel, hospitality, printing and consumables. Major capital projects and renovations were also postponed.</td>
</tr>
</tbody>
</table>
Example 4 – Poor Variance Explanation

- **Variance:** $325K Deficit
- **Account Type:** Revenues Less Expenses (Overall Deficit)
- **Comparison:** 2016-17 Forecast vs. 2016-17 Adjusted Budget

<table>
<thead>
<tr>
<th>Variance Explanation (Note 1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deficit okay, in discussions with central admin</td>
</tr>
</tbody>
</table>
Example 4 – Good Variance Explanation

<table>
<thead>
<tr>
<th>Variance Explanation (Note 1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A fire broke out damaging 3 class rooms and various computer equipment. Insurance proceeds will cover half of the deficit. In discussions with Tom Hay in Financial Services on Aug 15 regarding how to cover the remaining deficit. See attached e-mail backup.”</td>
</tr>
</tbody>
</table>
Variance Analysis – Benchmarks

What benchmarks does Budget Accounting use to compare against the forecast?

- April 1 fiscal budget
- Year-to-date (YTD) fiscal budget
- Prior year actuals
Variance Analysis – Benchmarks (Cont’d.)

Why use these benchmarks?

• The University is required to explain variances between April 1 fiscal budget and actuals/forecast to our stakeholders
• It gives a sense of what “normal” is or how things should be
• Helps identify unusual items such as errors, omissions, or one-time occurrences
Variance Analysis

How does Budget Accounting conduct a variance analysis?

1. Horizontal Analysis
   *I.e. Is travel expense higher or lower than last year? By how much? WHY?*

2. Vertical Analysis
   *I.e. Is the unit forecasting an overall budget surplus or deficit? By how much? WHY?*
Variance Analysis (Cont’d.)

How does Budget Accounting conduct a variance analysis?

3. Annual Trends
   l.e. Is the forecast comparable to the last 3-5 years? If no, WHY?

4. Qualitative Factors
   l.e. Has budget been allocated appropriately? Does the information provided make sense?
Follow Up (if necessary)

Budget Accounting will follow up when:

• Variance explanations are not provided for highlighted cells
• Variance explanations don’t make sense
• Variance explanations don’t explain the variance
• Further information is required
Follow Up (if necessary) (Cont’d.)

• **NOTE:** Business Managers and their Dean, Director or Head of Administrative Unit are responsible for the forecast which includes variance explanations
Big Picture View

After explanations for variances have been provided, what’s next?

Budget Accountant will:
- Take a “big picture” view – Unit Level
  - Does the information that the unit’s presented make sense?
  - Look for unusual items
  - Do the explanations received explain at a high-level the overall forecasted results for the unit?
Big Picture View

- Take a “big picture” view – University Level
  - How are we doing?
  - How will we do?
  - What do we need to watch out for when we plan next year’s budget?
Big Picture View

Projected Use of Carryover - *NEW*

• Provide a plan of when and how your carryover will be spent

• Purpose: Overall carryover returned to units totaled $54M
  ➢ Information requested by Province
  ➢ Indication of the unit’s long-term financial plan
Action Plan

For units projecting a deficit, include the action plan:

- What is the unit doing to address the deficit?
- How and when will the issue be resolved?

- Business Manager responsible to communicate relevant information regarding the action plan to their Budget Accountant on a regular basis
6. Timeline

- **October 14**: Budget Accounting sends templates out to units.
- **November 10**: Unit templates due back to Budget Accounting.
## Stats – Forecasting Exercise (15-16)

<table>
<thead>
<tr>
<th></th>
<th>Q2 2015-16</th>
<th>Q3 2015-16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Templates distributed</td>
<td>90</td>
<td>99</td>
</tr>
<tr>
<td>Templates returned after deadline</td>
<td>18</td>
<td>5</td>
</tr>
<tr>
<td>Projecting surplus</td>
<td>72</td>
<td>73</td>
</tr>
<tr>
<td>Projecting balanced budget</td>
<td>5</td>
<td>11</td>
</tr>
<tr>
<td>Projecting deficit</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>General university units</td>
<td>7</td>
<td>10</td>
</tr>
</tbody>
</table>
Frequently Asked Questions
Budget Only Accounts

• Creating budget-only accounts at the 3-digit level to help units allocate their budget more effectively

• Minimum expectation:
  ➢ Units budgeting at a more detailed level will not be required to move their budget to these accounts

<table>
<thead>
<tr>
<th>700BGT</th>
<th>713001</th>
<th>713002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Travel</td>
<td>Airfare - Domestic</td>
<td>Airfare - Foreign</td>
</tr>
</tbody>
</table>
Change in CDI Process

The Campus Development Initiative (CDI) levy is an internal charge of 1.5% against all employment gross salary amounts incurred in the Operating Fund.

Impact on Units:

• **Old Process**
  - CDI expense: Account 68070 (Staff Benefits)
  - CDI budget: Account 68080 (Combined Benefits)

• **New Process**
  - CDI expense & budget: Account 810128 (Interfund Transfer to Capital Fund)
Budget Transfers

• Tips for BETTER Budget Transfers:
  
  ➢ Same documentation for Budget Transfers as Journal Entries
  
  ➢ Include documentation or explanation for WHY budget is moving
Budget Transfers – Cont’d.

• Tips for **BETTER** Budget Transfers:
  
  - Upload documentation or attachments to improve the posting process and reduce paper back-up

<table>
<thead>
<tr>
<th>Stats</th>
<th>2015-16</th>
<th>2016-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget Transfers created</td>
<td>5,731</td>
<td>2,344</td>
</tr>
<tr>
<td>With Attachments</td>
<td>2,915</td>
<td>1,169</td>
</tr>
<tr>
<td>With Attachments %</td>
<td>51%</td>
<td>50%</td>
</tr>
</tbody>
</table>
Forecasting and Budget Support

Budget Accounting is here to support you!

- Website: [http://umanitoba.ca/admin/financial_services/budgetgrant/budgetacctg_staff.html](http://umanitoba.ca/admin/financial_services/budgetgrant/budgetacctg_staff.html)

<table>
<thead>
<tr>
<th>Budget Accounting Services</th>
<th>Phone</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jonathan Hyman</td>
<td>474-9800</td>
</tr>
<tr>
<td>Jill Mangin</td>
<td>474-6394</td>
</tr>
<tr>
<td>Emmanuel Modozie</td>
<td>474-9318</td>
</tr>
<tr>
<td>Breanne Stoller</td>
<td>474-6848</td>
</tr>
<tr>
<td>Jun Wei</td>
<td>474-9285</td>
</tr>
<tr>
<td>Irina Leitman</td>
<td>474-8362</td>
</tr>
</tbody>
</table>
QUESTIONS??