

Achieving a Business-Like Financial Management Approach in a University

Enrico Uliana
University of Cape Town
euliana@bremner.uct.ac.za

International Herug Conference 2003
University of Mississippi

Background

- Political transition 1994
- However economic equality distant
- Education integral – state funds redirected to desired outcomes (political?)
- Reduced state funds in real terms
- Downward pressure on fees
- Escalating costs
 - Financial aid
 - Technology
 - Residences
 - Academic development
 - Irrational exchange rate

Problem

The reality of the financial situation was masked by the accounting system commonly used in not-for-profit organizations

Fund Accounting

Financial Trend

	Compound Growth %	2000 %	1999 %	1998 %	1997 %
Subsidy	8	40	43	44	44
Fees	12	26	27	27	26
Private	16	34	30	29	30
Operating inc	12	100	100	100	100
Staffing	11	49	52	54	56
Op costs	22	44	42	39	37
Financial aid	15	7	7	7	7
Op exp	16	100	100	100	100

Budgeted operating loss for the year ended 31 December 2001

Faculty	Comm	Eng	Health	Hum	Law	Science	Bs School	Accom	Total
Fees	52	22	23	54	15	36	31	73	306
Subsidy	46	64	78	46	19	80	4		337
Other income	0	0	5	4	0	9	0		18
Accommodation							24		24
Operating Income	98	86	106	104	34	125	59	73	685
Staff academic	22	23	22	48	11	41	5		171
Staff non-academic	8	10	25	8	2	19	6	10	88
Staff non-recurrent	10	4	3	7	2	3	9	3	41
Space	10	11	14	16	3	22	4	0	80
Operating	9	7	7	8	1	9	38	52	131
Operating expenditure	59	55	71	87	19	94	61	65	511
Contribution	39	31	35	17	15	31	-2	8	174
Overheads									258
Deficit									-83

The Issues

- Deteriorating financial position
- Significant budget deficit for 2001
- Tension regarding cross-faculty subsidization
- All units see themselves as unique
- Value of intellectual capital, academic prestige
- No meaningful recovery of research and other costs

Approach Taken

Purpose

- Encourage financial discipline
- Remove budget fat
- Lower the spending base
- Breakeven by 2004

Introduced

- Multi-year financial plan
- Real reduction in spending (20% over 3 years)
- Savings retained in unit
- Quarterly reviews
- Exposed Return on Assets

ROA

- Prepare mind-set
- Recognize asset usage
- Show significance of cost recovery
- Incentivize productive use of staff
- And space

Why Not Budget Variance Analysis

- Mind set of spending entitlement
- Little history of accountability or review
- Budgets done on fund accounting – no consideration of sustainability
- Need to recognize full resource consumption

Why Not Simple Overhead Allocation

- Bad experience of allocation
- Poor understanding of nature of accounting numbers
 - Failure to distinguish between external reporting, control, and decision making
- Allocations poorly done on peanut butter basis
- Naively interpreted
- Disastrous consequential decisions e.g.. retrenchments

Target Achieved 2 Years Ahead of Schedule

- Early indications that breakeven would be achieved in 2002
- Changed system to bottom line focus for 2003 budget
- Did not implement ROA
 - Implementation and relationship to daily financial management would be difficult

Challenge

- Compute a bottom line measure
- Incorporating full resource consumption
- Provides appropriate incentive
- Acceptable to the community

An approach that facilitates a shift in mindset from *control of expenditure* to *information for sustainability and decision making*.

New Medium Term Financial Framework

- Apply good accounting practice
 - Separate capital and revenue
- Apply sensible financial principles
 - Separate operations and financing
- Report on basis of activities and not source of funds – due regard to decision rights
- Practice continuous improvement
- Penalize acquisition of assets, staff and space

What's in it for the Units

				2002	2003	2004	2005	2006
				Estimate	Illustrative	Illustrative	Illustrative	Illustrative
Recurrent Operating Income				741.07	791.07	844.11	906.65	968.78
<i>Annual growth</i>					7%	7%	7%	7%
Target Surplus	5%	<i>Interim targets</i>			2%	3%	4%	5%
<i>Planned target surplus</i>				-3.79	15.82	25.32	36.27	48.44
Recurrent Operating Expenditure Limit				744.86	775.25	818.78	870.38	920.34
					4%	6%	6%	6%
Recurrent Operating Surplus to be used as follows:								
50%	Free Endowment			-1.90	7.91	12.66	18.13	24.22
50%	Strategic and Structural Costs			-1.90	7.91	12.66	18.13	24.22
Net Financing and Investment Income				20.89	23.71	25.32	27.23	29.53
AVAILABLE FOR STRATEGIC AND STRUCTURAL COSTS								
Previous year's net financing income					20.89	23.71	25.32	27.23
Share of previous year's recurrent operating surplus					-1.90	7.91	12.66	18.13

Use of the System

- Set up as a punitive disciplinary medium
- Nothing to promote sustainability
- Nothing to assess real financial situation
- No feedback/feed forward
- Geared to prevent spend above budget

Changed Approach to System

- Integral part of management targets, reporting and evaluation
- Moving to CO as opposed to FM for reporting
- Allocating overheads in real time
- Using EIS for various reports

Summary

The most frequent comment when asked for some information was

The system can't do it!!!

Today its

What can we do to manage this better?