FROM **HOPE** TO **ACTION** THROUGH **KNOWLEDGE**

The Renaissance of the
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Crossing the Financial Rubicon

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The bitter truth of UWC's finances

I joined the University of the Western Cape in March 2003 as the Manager of Restricted Funds, which entailed the management of grant and contract funding from external agencies and donors directed towards specific projects with predetermined outcomes. At the time the University was in a precarious financial position with a huge overdraft. Nine months later, following the resignation of the then Executive Director: Finance and Services, I was requested by the Rector and Vice-Chancellor, Prof Brian O'Connell, to fill the position in an acting capacity. I later successfully applied for the substantive position, which I still hold.

From a governance perspective it is important for university councils not only to be alert to the financial health of an institution, but also to take prompt action when required. During the early days of Prof O'Connell's term of office Council had much firmer control of the proverbial purse strings to limit expenditure according to preapproved budgets. Growth in operating expenditure by far outpaced revenue. In hindsight, these measures were clearly insufficient and, coupled with the prevailing rhetoric, suggest a huge underestimation of the necessary interventions required for financial recovery. Over the next decade a shared understanding between the vision of the Vice-Chancellor, the Executive Director: Finance and Services and the Council assisted a great deal to stabilise UWC's financial position.

Towards a New Order

My assessment of the financial situation indicated a total bank overdraft significantly in excess of R100 million, which was accumulating due to a negative cash flow situation for the day-to-day operations of the University. The declining student enrolment numbers and a culture of non-payment, resulting in accumulating student debt, had a negative impact on the institution's revenue base and working capital. Among the staff there was a perceived mistrust of the Executive Management arising from a deep sense of betrayal by the previous University leadership that led to, amongst other things, staff retrenchments. Our ability to pay staff salaries while at the same time satisfying our creditors presented an enormous challenge.

The situation appeared insurmountable. But then the newly appointed Prof Brian O'Connell formulated his Vision to express his steadfast belief that the situation could be reversed. However, we needed to be strategic and purposeful about implementing this Vision. He and I would meet on a daily basis to assess and discuss strategies and interventions. Prof O'Connell was very clear in his thinking: for UWC to survive, the number one priority was to protect and grow the academic project – for if the academic project collapsed then UWC would crumble. Consequently, we needed to ensure that the required key infrastructure and essential academic staff appointments for successfully rolling out UWC's academic programmes were in place, while placing a moratorium on other new developments. This had to be done even if it meant increasing our financial overdrafts. This priority was central to Prof O'Connell's turnaround vision for UWC. We embarked on roadshows with internal and external stakeholders, including our creditors. Prof O'Connell and I shared UWC's dire situation with complete transparency, followed by an outline of his vision – of how UWC was to be turned around. He strongly emphasised that without their support UWC would not survive. He strongly emphasised that 'We', the UWC community, had to confront the challenges and go forward as a collective with a shared vision, otherwise there would be no future for our University. Prof O'Connell's honesty, passion, self-belief and commitment, coupled with his charisma and unrelenting stand on principles, won over the stakeholders and gained their trust, including the staff union leadership. Moreover, our creditors expressed confidence in the leadership of Prof O'Connell.

Tactical financial management

The challenge going forward was easy to identify: “to convert debt into cash”. To achieve this objective, we needed to focus on funds owed to the University as well as instil a culture of fiscal discipline across the institution. To achieve this, it was necessary for all stakeholders to own the financial turnaround project.

We realised that the existing centralised financial system was not promoting efficiency and effectiveness. As the Executive Management, we decided on a devolved model that would vest ownership with faculty deans and heads of academic departments, administrative and support divisions, entrusting them with financial responsibility as budget owners and decision makers on utilisation of their available funds. This gave birth to a decentralised finance and procurement system to improve transparency and administrative efficiencies. This move had a significant positive impact, for now senior and middle managers across the University took collective ownership of fiscal discipline towards achieving a single goal – achieving a financially stable UWC.

On a day-to-day basis, we managed the University's finances off bank statements, as the existing financial management system was lagging behind in providing updated information. As part of the recovery strategy, we requested the deferral of purchases of non-critical capital equipment and other large acquisitions to avoid exceeding our bank overdraft. The negotiations on deferral of purchases with faculties were at times heated and acrimonious, and we were often accused of mismanagement. Such engagements were usually emotional and abusive towards us, but we held our ground as we were aware of the even more dire consequences if we did otherwise.

In keeping with our principle of transparency as we worked towards our desired first step of achieving a breakeven situation, we had monthly meetings with our major bank, ABSA, which had embraced Prof O’Connell’s vision. Impressed with his honesty, passion and self-belief, ABSA took cognisance of the risks involved and decided to partner with UWC. The trust that was established facilitated access to any further overdraft requirements.

Internally, we implemented measures to increase cash flow. Increasing student debt as a result of non-payment of tuition fees was a major challenge. In an attempt to alleviate the situation, we introduced an initial

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up-front payment of registration fees, which was a comparatively small part of the tuition fees. This provided some relief during the first three months of the year, a period when cash flow challenges are at their peak. As regards recurring student debts, our approach was very professional. One-on-one meetings were held with the relevant students and their sponsors/parents. Open discussions were held with dignity, sensitivity, understanding and respect. In the end agreements were reached for affordable monthly payments. In an attempt to increase student numbers, we also discounted the tuition fees of students with better school-leaving marks, not only to compete for an educationally better prepared pool of incoming students, but also to attract students from the then ex-model C schools who were able to pay fees. To increase capacity to attract and accommodate more students, Council also supported a proposal from Prof O'Connell to construct a student residence village on campus by entering into a private-public partnership arrangement on the basis of a build, operate and transfer model. This model yielded a total of 1 100 additional beds at no financial risk to the University and, after an extended lease period, the assets would accrue to UWC. Through these measures student debt started to decline and the cash flow situation began to improve.

In parallel, we implemented an upskilling project for all staff in the Finance and Services Division and those in the faculties, administration and support divisions responsible for financial management. The focus was on enabling them to be responsible, effective and efficient in their specialised portfolios, including engaging in careful assessment of the need for a particular payment and its impact on the overall divisional budget. The staff were made aware of the relevance of their respective portfolios to the overall financial management and recovery of the University. This initiative was accompanied by externally facilitated workshops with staff on the importance of fiscal discipline; they were presented in addition to the regular roadshows with UWC stakeholders in which Prof O'Connell and I provided feedback on the latest developments, with an emphasis on positive changes taking place. These actions served as catalysts in changing the staff culture towards acting in unison to turn UWC around. To illustrate this: in his vision and the roadshows Prof O'Connell consistently emphasised that the academic project, which was UWC's core business, could not be compromised. Consequently, as a first step in the 2004 budget, despite being in an overdraft situation, funds were set aside to renovate the lecture halls in the A and B Blocks to improve the facilities as

well as the students' and staff's learning and teaching experience in these spaces. The visibility of such positive changes strengthened confidence in the leadership of Prof O'Connell and his Executive Management Team.

As part of the financial turnaround strategy, all contracts with external service providers were revisited to establish – in the light of the existing financial overdraft situation – the priority of the particular service, risks associated with suspension or termination of the contract, etc. This process allowed the institution to streamline external service provision towards enhancing value for money. In the process we scrutinised all agreements with our vendors. Many of these agreements were ill-conceived and over-priced, to the detriment of the University's finances. I vividly recall a particular vendor informing me that UWC is not allowed to brand itself on campus, as the vendor had exclusive rights to perform the branding function, even on campus, with an automatic annual renewal or termination of their contract at the vendor's discretion. I reviewed their contract and found those exact terms were indeed stipulated. Over a period of one year we managed to clean up all the contracts by engaging vendors, reconstructing the legal framework and initiating a review of our policies on procurement. Prof O'Connell and I were constantly engaged on contractual matters, which gave us an insight into designing policies and frameworks that led to direction and endorsement by stakeholders. In fact, he had his finger on every aspect of the financial recovery strategy and implementation plan. I recall Prof O'Connell visiting me at my house on a Good Friday to discuss the progress of UWC finances. It seemed like we could not meet enough to discuss options and support each other during this trying financial period.

During this period of fluidity it could have been expected that some senior scholars might wish to leave the institution. In response, the principled decision taken by Prof O'Connell was that while we would engage with the relevant staff members to retain their services, at no point would UWC accede to a salary request that we considered too high for the higher education sector, irrespective of the salaries at other universities. It would have been irresponsible for us to do so.

An unexpected obstacle

In the midst of our internal financial challenges we were faced with a major external issue. In 2004 the South African Revenue Services (SARS) conducted an audit of the university sector for the period 1994-2004.

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The preliminary findings submitted to us for comment suggested that some historic practices at UWC had been in contravention of tax regulations running into a few hundred million rand. In challenging the preliminary report, UWC put up a fierce defence. The entire Finance and Services Division worked as a collective for many long hours preparing the supporting evidence as we contested each finding. This process took a year, after which Prof O'Connell and I met with senior SARS officials in 2005 and argued against each and every finding. While I provided the technical expertise, Prof O'Connell argued the UWC context of the University's purpose and mission as an institution that opened its doors of learning to the talented amongst the poorest of the poor. He was at pains to explain the difficult period that UWC went through prior to his arrival which had led to eventual bankruptcy. He further related that after his arrival proper financial management structures had been put in place and positive changes were taking place at the institution, and he shared his vision of where UWC was headed. Subsequently, SARS presented to us its first proper assessment, which concluded that UWC owed an amount of R46 million. A major point of contention for us in the assessment was the issue related to postdoctoral fellows. At that point in time, it was not practice for postdoctoral fellows to be formally 'registered' as students. Therefore, SARS interpreted postdoctoral fellows as being salaried staff members, which meant that their monthly stipend should have been subject to income tax regulations. The matter was eventually closed when SARS presented UWC with a formal assessment of R6 million. We communicated our argument on the postdoctoral fellowships to Higher Education South Africa (HESA), the consortium of South African Universities (today known as Universities South Africa (USAf)). A sub-committee of HESA, including myself, drafted a policy on the management of postdoctoral fellowships, which was eventually accepted by SARS and is applicable today.

The Crossing

Our range of interventions from the beginning of 2004 in dealing with fiscal discipline and cautious spending, together with our regular roadshows on the positive changes taking place at the University, led by Prof O'Connell, did not only build confidence among the stakeholders, but our first unqualified audit was posted for the year ending 31 December 2004, with our first surplus generated by the General Fund (Council Controlled Funds) to the value of R11.6 million. This meant that our overdraft had started to decrease and UWC was moving in a positive direction.

It is documented elsewhere in this book how Prof O'Connell was able to convince the Department of Education (DoE) that the proposed merger of UWC with the Peninsula Technikon, as recommended by the working committee on the rationalisation of higher education, was not in the national best interest (Department of Education, 2002). Moreover, the vision he presented for turning UWC around was very well received. These events, coupled with the positive changes evident at UWC at the end of 2004, led to a proposal from the DoE to recapitalise UWC in 2005 so as to bring the financial overdraft to a zero balance. This news was indeed most welcome. The recapitalisation accelerated our recovery period by instantly erasing the overdraft. Many meetings on implementing the recapitalisation programme were held between officials of the DoE and Executive Management, focusing on the roll out and on fulfilling our obligations, led by Prof O'Connell and myself. We worked tirelessly to submit our documents that detailed the vision and the accompanying business plan on stabilising UWC's future as a going concern.

The recapitalisation of UWC was essentially redress funding whereby the DoE acknowledged UWC's determined and bold contribution to the fight against apartheid and the price the institution had to pay by being denied appropriate support from the apartheid government during those years. The University was effectively restored to operating from a zero bank balance and to embrace the future with confidence. UWC posted annual surpluses on its General Fund from 2004 and has continued to do so to this day. Prof O'Connell was instrumental in realising this financial success, as his vision, drive, hard work and charisma brought stability and created confidence in the University. Ironically, vendors that did not want to be associated with UWC were knocking on our doors for business. Banking houses suddenly showed an interest in UWC, with the intention of competing for the main account of the University, which was now dubbed 'a prestigious client'. Investment houses were calling us up for meetings and gala dinners to rub shoulders with this prospective prestigious client. As the academic project took on a new life, external scholars started to show an interest in UWC and its academic/research programmes.

Prof O'Connell and his Executive Management Team were cognisant of the fact that UWC had been woefully underfunded during apartheid, as were the other historically disadvantaged institutions (HDIs), but especially so in the case of UWC as it was victimised by the apartheid government for its bold stand in the fight for freedom under the leadership of Prof

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Jakes Gerwel. Therefore, the institution, while operating from a deficit position, had off-balance sheet deficits such as inadequate facilities for teaching and learning and research – the core components of the academic project – as well as inappropriate support structures, an inadequate staff complement and inappropriate remuneration structures, etc.

Consequently, Prof O’Connell went on a fundraising drive armed not only with his ambitious vision, but also with his self-belief, passion and deep-seated understanding of the importance of the role UWC had to play in the rebuilding of our country. He was able to impress Mr Charles (Chuck) Feeney, founder of The Atlantic Philanthropies (AP), who endorsed Brian O’Connell’s Vision and donated R200 million for the construction of the new Life Sciences Building and the School of Public Health Building. This was by far the biggest donation in the history of UWC. Moreover, AP assisted with the planning and the building concept. This was a huge feather in the cap for Prof O’Connell and UWC as the infrastructure required for his vision for UWC “to do good science” was now being concretised.

The total cost of the Life Sciences building was R550 million and construction was completed in 2010. We had endless discussions about phasing in the Life Sciences Building, for example, in the first phase to just construct the building and then complete the furnishing in the second phase, etc. We were perplexed by the enormity of the project, which UWC could not process within its financial capacity. Meanwhile, Prof O’Connell was unrelenting in his pursuit of additional funding, writing letters to the Minister of Education and conducting meetings with the Minister – sharing what had been achieved at UWC and what was planned next – in so doing, motivating the Minister to match The Atlantic Philanthropies donation. After an analysis of the progress at UWC, Minister Naledi Pandor acceded to the request and approved the transfer of R200 million to UWC for the proposed infrastructure development. This funding from the DoE served as the precursor to a new funding programme introduced by the DoE for infrastructure development at public higher education institutions, amongst others, to address the infrastructure backlog at the HDIs created during apartheid.

The new Life Sciences Building and the School of Public Health put UWC on the map as an institution engaging in high-level research and postgraduate studies. With its new found energy, self-belief and determination, and working as a collective to fully realise the vision of its leader, Prof Brian O’Connell, UWC’s confidence continued to grow.

Figure 5.1 The new Life Sciences Building opened in 2010.

The University decided to finance the R90 million required to complete the Life Science Building with a loan from the Development Bank of Southern Africa, which arrived after the completion of the building. The late arrival of the R90 million convinced me and Prof O'Connell, as well as other members of the Executive Management Team, that UWC was no longer the institution that had once been hopelessly bankrupt, as we funded the R90 million from our own working capital to avoid disruption of the construction programme. I remember the UWC Finance Committee questioning why UWC should take out a loan of R90 million when it had paid for the construction of the building already. For me, this was a sweet debate, very different from being criticised in the earlier years for accessing higher overdrafts and navigating through the month to make sure our staff payroll was not rejected.

Conclusion

Today UWC is recognised as a metaphor of success in South Africa, showing one can emerge from a seemingly hopeless deficit position with hard work, dedication and belief in the vision of an outstanding yet humble leader. This is UWC's message. Its success under the leadership of Prof Brian O'Connell was recognised in government circles and acknowledged across the higher education sector. Today UWC operates on a solid financial basis thanks to the leadership of Prof O'Connell. One cannot overstate the significance of his vision, unique leadership style and total commitment, which won the hearts of all UWC stakeholders as well as external bodies, eventually leading to the successful turnaround of the University.

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I want to acknowledge, with all the sincerity I can summon, that Prof O'Connell was a true leader who was at the same time well grounded; he expressed his understanding of the truth and his opinions as forcefully as his laugh exploded out of him. He was a great public speaker and had this odd habit of telling a story to whoever was in the audience as though he was just making small talk, but instead diffused tensions and got people who had not been speaking to each other for years to talk to one another again. To this day he remains a positive point of reference and I still hear staff using his catchy phrases and echoing his style. UWC will forever be grateful to Prof O'Connell for his leadership in transforming a seemingly hopeless situation into one of pride and joy. For me, it was indeed a special privilege to work alongside him.

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