

UPDATE ON RESTRUCTURING OF THE UNIVERSITY'S ADMINISTRATIVE FUNCTIONS

PRESENTATION BY PROVOST HUME TO THE BOARD OF REGENTS' COMMITTEE ON FINANCE, DELIVERED ON WEDNESDAY, NOVEMBER 13, 2007

Earlier this morning, Executive Vice President Lapp presented for your approval a proposed operations budget for the University of California for fiscal year 2008-09.

Among the fundamentals of this proposed budget is our responsibility – and I quote – “to fund critical needs through cost-saving reforms identified as part of an ambitious and sweeping multi-year restructuring initiative.”

The proposed budget identifies the need for \$ 28.1 million in initial savings from University efficiencies in 2008 - 2009.

Let me stress: These are *initial* administrative savings for that year. We are committed to achieving multiples of that throughout the system in subsequent years. We are on a clear path to do so.

However, if the restructuring effort now underway becomes simply about dollars, then we will have sold ourselves – and the people of California – very short.

Our goal has to be much more than saving money.

In our restructuring we are working to align our administrative systems with the broader vision articulated by the Long Range Guidance Team of *one university that can focus the unrivaled creative power of its ten distinctive, world-class campuses to meet the needs of the people of California.*

Ten campuses, each strong, each different from the other, collaborating academically when that makes sense, and collaborating administratively when that makes sense.

That vision, and the many planning activities that we've been following, already guided the creation of the University's 2008-09 operating budget.

It is also shaping the work of the Regents Committee on Long Range Planning and the strategic priorities that that Committee will recommend to the Board for adoption.

And it guides me, in my capacity as chief operating officer, supporting the President, in leading the restructuring process that I will now report on - both the initiatives being undertaken internal to the Office of the President and those that are taking place and will take place throughout the system.

In today's presentation I will summarize the scope, and give you some detail, of what we are doing.

To help you understand the scope there is a summary handout, a single page, here at the Regents meeting.

This has also been distributed at the Office of the President, where I know a lot of people are listening, and it is posted on our restructuring web-site. Just Google 'UCOP restructuring' and you go straight there.

First, I will talk about what we are already doing at the Office of the President. We decided that it was essential that we focus first on streamlining and improving administrative functions there before moving to identify additional, new efficiencies throughout the system.

Next March I will present a **proposed new budget for the Office of the President**, item 1 on the handout.

I can promise you this: *The proposal I submit will reflect an Office of the President that is smaller in size, more focused in its mission, and more customer-oriented in its culture.*

To develop that budget, I have ordered every department to provide plans to me for a 10% budget reduction, item 2 on your handout.

At the same time, I am asking hard questions about each function – are these services most appropriately located in Oakland; or would they be better, more effectively, and more efficiently supplied by a campus; or by outside vendors? Are they needed at all?

The answers will come in the coming months, and I will evaluate and reach them on the basis of your clear understanding, and therefore our clear understanding, of the role of the President's office. I'll come back to this in a few minutes.

To give me the flexibility I will need to make the appropriate budget decisions, I have instituted an OP, office-wide **vacancy control initiative** – also item 2 on your handout – that requires that Executive Vice President Lapp and I now approve all requests to hire employees to fill vacant positions, to create new positions, to hire consultants, or contract employees, or temporary workers, or to enter into professional service contracts.

Through this process, we are capturing savings from nearly 300 vacancies, not including those in the Office of the General Counsel, which does not report to me. General Counsel Robinson is discussing his plans with EVP Lapp and me; I hope to move down a parallel path.

In addition, I have directed that all unused funds carried over from previous fiscal years be identified and, if possible, captured for other uses.

We have identified more than 5 million dollars that is now set aside for savings, reinvestment or for addressing structural deficits.

To add to the structural consolidations in the health sciences and services and in the research support areas that you already know about, we are now moving to **consolidate administrative support functions** throughout the Office of the President, beginning first in information technology areas with desktop and server support; then in human resources support and in accounting support.

In addition to consolidating staff we are consolidating equipment; we anticipate saving \$1.3 million over three years by reducing 104 servers scattered throughout the Oakland office, all of which have to be managed and maintained, down to five.

Item 4 refers to work to optimize governance and accountability, and administrative efficiency, of our many client service entities.

As you are aware from the presentation that Vice President Broome and I gave you in July this year, many of the functions in what we call the Office of the President do not support the president – they are programs that we administer centrally in support of the campuses, or the state, or in some cases the CSU system and private universities, on behalf of the state.

21% of the OP budget supports the core work of the President's office – the budget, financial management, the investment office, audit, external affairs, academic and health affairs, Regents support;

18% of the budget is for system-wide support - student services, human resources benefits, IT services for the campuses,

and 61% is for system-wide administered programs.

Each of these system-wide functions requires sound governance and accountability. Each is unique – some are competitive grants programs, some involve teacher education throughout the state, some advise farmers, through Cooperative Extension.

The UC Press publishes books and journals for our scholars and for people from other places, even other countries. Continuing Education of the Bar provides courses and publications for practicing lawyers and judges.

Some are self-supporting, like the Press and CEB; many, like the competitive grants programs or Cooperative Extension, administer earmarked funds on behalf of the state.

With the advice of the Monitor Group, I am giving a lot of thought to this broader challenge of governance, accountability and optimal function for these many client-service entities, whether they are housed in Oakland or elsewhere.

We do this really well for some of them, but we can do better for some others.

The second cluster is activities is things that we are already actively doing throughout the system to improve administrative functions and save costs, in addition to our common information technology backbone and its first major user, the systemwide digital library.

Under Vice President Anne Broome, we are continuing an ambitious **risk management** initiative, item 5 on the handout, designed to reduce costs by 15% over 24 months. At the 18-month mark, we have already exceeded that goal:

With a total investment of \$9.6 million, we have reduced costs by more than \$100 million. We intend to provide you with a full presentation of this initiative at the January meeting.

We are also continuing to improve our **financial management**, including in the way we manage the University's debt, item 6.

Current savings are being realized by refunding current debt, to the tune of more than \$70 million in reduced debt service costs.

More savings will be achieved through the recent upgrade, by Moody's, of the University's general revenue bond rating to "Aa1" with a positive outlook, from "Aa2."

This is the second highest debt rating an institution can receive and places UC in the top ten of all public universities that Moody's rates.

The system is also continuing to aggressively explore ways to leverage UC's size through **strategic sourcing** opportunities, item 7.

As of June 30, the UC Strategic Sourcing Program included 84 contracts, totaling \$285 million in value, which are generating \$37.6 million in annual cost savings.

New strategic sourcing initiatives are being developed, including for air travel, research laboratory furniture and network equipment, which have the potential to generate an estimated \$17 million in additional annual cost savings to the University.

Item 8, our **medical centers** are also working to leverage their collective strength.

For example, they are collaborating closely on new Medicaid payment arrangements, for an increase of \$50 million annually in funding, and are working on a plan to increase Medicaid physician payment rates by as much as \$10 million per year.

They are also negotiating larger commercial clinical care contracts as a single consolidated entity, and are counteracting increasing costs of medical supplies by pursuing savings through national group purchase organizations.

Item 9; the system-wide Information Technology Guidance Committee, following a detailed review of the needs of the system to stay at the forefront of information usage for research and teaching, has advised that we should plan for one new-generation, consolidated data center to serve the system, with a back-up system.

The Regents Long Range Planning Committee is aware of this need and is factoring it in to our forward planning.

Many of these initiatives could not have been achieved without the interest and support of several members of the Regents.

In particular, I want to thank Regent Blum for his help and encouragement on the debt refunding and strategic sourcing initiatives, and Regent Lansing for her focus on collaborative efficiencies among the Medical Centers.

But I also want to acknowledge the employees at the Office of the President.

Without them – and their creativity, hard work and public spiritedness – many of these initiatives never would have been imagined, much less implemented.

Now let me turn to the third cluster of activities, the main, broader near-term restructuring initiatives, five of which were identified with the help of The Monitor Group assessment.

The Monitor Group is providing direct assistance with some of these initiatives, but the ultimate responsibility for success, and for change, falls on us.

Our primary workforce for advice is people from the campuses, working with some Regents, some people from my office, and some people from Monitor.

The first of these initiatives, item 10, began because of the need to **clarify the role of the Office of the President.**

To improve the function of the President's office we need to clearly understand its role, in a system of the kind that we envisage and that, in many ways, we now have.

We call this the 'OP roles' group. It is critically examining how the University is lead and managed overall, including the specific services that the President's office should provide.

Chancellor Vanderhoef leads the group, I charged it, and Regent Schilling serves on it, and so do some of the best and the brightest from our campuses.

It has become clear that the key questions, the key decisions, are really about the role of the President, in relation to the Regents and to the campus Chancellors.

We now believe that *its work product must be considered by The Regents*.

I have asked Regent Lansing, as chair of the Regents Governance Committee, to consider convening a joint meeting between the Governance Committee and the roles working group between now and January Regents meetings to discuss the work group's recommendations as they now stand.

She has agreed, and the Chairman, Regent Blum, has agreed.

Our plan is to be able to report to the January Regents meeting on these discussions, which I believe can and should inform all other decisions about the structure and function of what we call the Office of the President, and the role of the President relative to the roles of the Regents and the Chancellors.

This timetable also coincides well with the ongoing search for a new President, as well as the development of a next year's budget for the Office of the President.

The second initiative, item 11, is to develop a **budgeting, accountability and funds distribution process** that is transparent and more closely linked to the University's strategy.

Executive Vice President Lapp is well along in this process, which she described to you earlier.

You are centrally involved in the development of this process, as we work through the development and approval of this year's budget.

Our goal is for all of the Regents, the faculty, and campus leaders to have not just more input into shaping our budget priorities, but also to understand how and why budget decisions are made, including the allocation and distribution of funds to the Office of the President and to the campuses.

The third initiative – item 12 – is to streamline and improve the **capital projects development process**, which we believe strongly can generate substantial savings in reduced financing and delay costs.

Solid progress is being made on this effort, with the support of the Monitor Group, and we expect a full report by January.

The fourth initiative is to upgrade the **Human Resources capabilities at the Office of the President** to something commensurate with the University's size and functions, in order to recruit, develop, and retain the highest quality employees throughout the system.

Again, we are being supported in this work by the Monitor Group.

The fifth initiative, item 14, is to re-conceptualize and re-tool the **University's External Relations** functions, to ensure long-term support for the University and its priorities.

This means addressing all aspects of University support-building, from alumni and donors to industry and other friends, to the people of California and their Federal and State representatives.

This is a complicated task, but not impossible. Many of these things must be campus-centered; some must be coordinated as a system. They all relate to each other.

This work is being done mostly by people from our campuses, our primary clients, with some Regents, and some experts from outside the university, advising.

Finally, in this group, we are making significant process in analyzing ways to improve returns on the funds currently in our short-term investment pool, or STIP, item 15.

A group is actively working to address this challenge, and will have recommendations ready for implementation this year.

The last item listed, what would be number 16, is very important for the University in the long term.

There are very probably still substantial improvements in efficiency and effectiveness that can be captured by more collaborations between campuses in administrative support – what the Long Range Guidance Team called 'common systems in support when that makes sense'.

We are demonstrating that we can get our house in order at the center.

We are now beginning to challenge the campuses, and to design incentives and rewards, to create more common systems between the campuses when that makes sense –

- more things like the digital library,
- or the very impressive collaborations that now exist among our five medical centers.

To achieve these things, to improve our administrative support functions at lower cost, will require trust, understanding and collaboration between the campuses.

Things like a truly common payroll system among the campuses, one admissions system, more streamlined and rational support for student education abroad.

We are doing some things together well, but we may be able to do more, at lower cost, and with much better service.

I see one thing now as being key among the sixteen distinct and major elements that I have described.

That is your engagement, as Regents, with number 9 on the list, the question –

what is the role of the President, what is the role of the Regents, what is the role of the chancellors, in a system of ten distinctive campuses, each strong in different ways?

As I mentioned earlier, Regents Lansing and Blum have agreed that the Governance Committee of the Regents will now join this process to help you, to help us, answer that question.

Understanding that clearly will be essential for decisions on the Office of the President's structure and its budget.

Making the Office of the President leaner, more efficient, is the essential first step in capturing additional savings in future years through further system-wide administrative collaborations.

In conclusion, let me acknowledge our colleagues across the system who are contributing significant time, energy and talent to this effort, including Regents and many dedicated employees at the Office of the President, and many people from the campuses, working to make the system better.

To them, I say thank you, and I thank you as well for your attention. I will be happy to answer any questions.