



CUT'S SUBMISSION

(in response to the)

CALL FOR SUBMISSIONS TO THE COMMISSION OF INQUIRY INTO HIGHER EDUCATION AND TRAINING (THE FEES COMMISSION)

31 May 2016

1. INTRODUCTION

We presume government should be having a trove of information about higher education funding and in particular fee-free higher education. May studies have been conducted by government and the then HESA in this regard. In particular, DHET conducted a study on fee-free higher education a few years ago; there have been many political pronouncements before and after that study; many other submissions may have been received over the years from stakeholders especially the students.

It would have been informative for a team with university finance, economics and general university funding expertise to prepare for all of us a concise document on the salient issues that emerge from all the previous work done or submissions made on this matter. Further, the same team could have collated information about other university funding systems and then elicited

some salient issues and preliminary views. We could all then have considered and critiqued such a preliminary document.

In the absence of such well-informed and expert views, CUT's response to the call could only be a rather simplistic one, based not so much on our expertise in the matter of fee-free higher education, but on mere observations we have made from readings and practice. In our view, that would not be enough to tackle such an important matter; hence, our request as above.

At the outset, CUT wishes to acknowledge the necessity and importance of the work that the Commission is doing. The university sector has, over the years, been engaging with government (via the then Department of Education and now lately the Department of Higher Education and Training) about the unfortunate negative trend in government grants to public universities. The corollary of this trend has been the rise of tuition fees to ensure that the same quality of education is provided. Thus, the #FeesMustFall movement, whilst it was somewhat unexpected in its timing, had been expected as a necessary response to this unfortunate and negative trend regarding government funding to higher education.

2. BRIEF ANALYSIS OF CUT'S SITUATION

In this section, we provide a brief analysis of CUT's situation with regard to our total invoiced fees and other relevant information, including student debtors.

The issue of fees is critical and strategic for CUT and a number of other higher education institutions in South Africa. For CUT, fees contribute significantly towards annual total income. In 2014 fees contributed 40.5%, in 2015 the contribution was 39.5% and the planned contribution for 2016 is 53.42%. Before the reader gasps in exasperation at the sight of this figure, we give the context. The reality is that CUT's tuition fees are, on average, only about R20 000 per annum, compared to, say UCT that could be as high as 3 times what CUT charges. Undoubtedly, universities like UCT would report a lower proportion of their total income as tuition fees and thus look better. But, the devil is in the detail of that and what the cause of it is (see, for example, our answer to question 3.10 below).

In a more acute way, CUT suffers from the phenomenon of dwindling government support that translates into higher fees being charged, albeit still much lower than others. This phenomenon does not affect all universities the same way.

Unlike some other universities that have a strong alumni base, strong networks that bring millions to those universities, are in the top echelons in our country in terms of rankings and as such attract funding much easier from those networks including international foundations, CUT does not have all of these. But, we are beginning to pursue, fairly aggressively, what we call 3rd stream income. In 2015, we were involved in projects that brought just over R40 million in this type of income. However, income from such activities is earmarked for the projects to be delivered what very minimal profits. There is hardly much to transfer towards the general funding of the university.

Having startled the reader with our figures in relation to increasing contributions to university funding from tuition fees, there are other dynamics associated with student fee income as follows:

Year	No. Reg. Students	Invoiced Fees Incl. Allow. etc. (R'000)	Fees Covered By Loans & Bursaries			Outstanding Student Debt At Year End (excl. Provision) (R'000)
			No. Students	As % of Student Nos.	Value (R'000) Incl. Allowances	
2013	13 751	214 539	6 395	46.51	172 716	165 584
2014	14 553	323 674	7 098	48.77	153 360	242 050
2015	14 527	392 265	5 885	40.51	214 275	281 988
2016	14 926	369 875	6 812	45.64	250 513	495 972

The table above shows that on average more than 45% of CUT students are financed by either loans or bursaries. In rand value terms the total annual amount of the bursaries and loans averages almost R198 million. The difference between the invoiced fees and the loans & bursaries value each year relates to fees that are billed towards self-funded students. Amongst these students, the majority is part of the “missing middle” that have difficulty paying, anyway. For CUT, with a much lower LSM level amongst its student body, the potential for self-funding students is even worse. This results in huge student debtors and budget deficits.

3. CUT's Considered Thoughts

In this section, we use a set of questions to force us to think deeper about the fee-free system of higher education being mooted.

3.1 What does a fee-free higher education system entail/mean?

We believe this concept is not self-evident. It needs to be defined and clarified. At the end of the day somebody pays. Government will have to pay; which just means taxpayers will have to pay. But, with so much pressure on the fiscus as a result of an under-performing economy and increasing socio-economic demands, we can no longer rely on government to fully fund higher education. Idealistic notions of free everything are, unfortunately, not consonant with the reality of South Africa's economic system nor any successful economy in the world. To wit, our government system is largely based on a user-pay principle. Even to get an ID or a passport at Home Affairs, the citizen pays not so much the total cost of producing it, but a subsidized portion. If the country abandons this principle at the higher education level, it will eventually have to abandon it in all other service oriented departments. This would not be sustainable for the country.

3.2 Does this mean that every student, regardless of affordability will be accorded fee free higher education?

We are of the view that those who can afford to pay must pay. Education is not just only a public good, but a private one. Actually, the current NSFAS system, whilst it may not be perfect, needs to be upheld. Simply, it allows those who benefited from the system to pay back, in part, in acknowledgement of the private good higher education accords them. We should not lose this principle.

3.3 What happens to contributions from society, industry, corporates, etc. that has been made in the form of bursaries and loans?

If the country goes for a wholesale fee-free education system, contributions from industry and corporates through bursaries and scholarships will be lost. Instead, we should be encouraging industry and corporates to contribute more and make more opportunities available. It might be difficult to think we could tax them more in order to contribute to university funding. They need to be given space and incentives to contribute more to funding higher education without that contribution being imposed as tax.

3.4 What happens to members of society who can afford and are willing to pay for their children's education?

We have to continue to expect that there are members of society who can afford to pay and must continue to do so. With appropriate incentives, some could even “adopt” and pay for other well-performing students.

3.5 At the moment the funding through bursaries and loans comes with allowances for accommodation, meals, books, transport and in some instances laptops/tablets. Will the fee free option cover the same?

This question suggests that a fee-free system for all would require lots of money from government. South Africa's economy has not been performing well over the years and it is not clear where all the money will come from. Yes, education should be a key investment in a country. But, in a country with a history of poverty, inequality and unemployment, there are many other pressing socio-economic challenges that government has to cater for. In the light of those basic challenges that afflict so many of our people, university education can only look like a luxury to them. We must not create an unnecessary competition between university education and other socio-economic needs that affect many more of our people. If we pursue this line of thinking (that university education must be free when meeting basic socio-economic needs could never really be free) then university education could eventually lose badly in that battle. A cultural revolution akin to that of China between 1966 and 1976 could easily emerge.

3.6 Are criteria going to be set to access this fee free higher education?

In the interests of efficiency, it may be that merit-based criteria would be the best to use if this system is adopted. Otherwise, the university system may well have many young people who stay in the system without making progress, just because the system is free anyway. But, once the criteria are merit-based, then we would have another problem; that of increasing access to the poorest whose high school results may not suggest merit.

3.7 Currently the existence of loans and bursaries serve as a performance monitor, how will this be adopted in the fee free structure?

South Africa needs to be careful about abandoning merit-based systems. Indeed, bursaries and loans require a particular level of merit for students to access them. Whatever is recommended, we should not make the system a real free-for-all and without any expectations of performance.

3.8 Government has battled to meet the financial needs of a percentage of the needy students. How will it generate resources to be in a position to cover ALL students regardless of need?

A number of questions and our answers to them above, deal with this matter.

3.9 Is there a possibility to consider grants, wherein after completion these are paid back to create a pool to ensure continued sustainability. This to be supported by a surety to ensure collectability.

At the moment NSFAS plays this role, but for needy students. Instead of a fee-free education there could be consideration of offering study grants to all South African students in institutions of higher learning, regardless of need status. The grants to be only approved upon signing of surety to ensure accountability and improved recoverability. This will ensure that there is a consistent cash inflows to sustain this grant, through either the graduate or the surety provider.

3.10 How will the price differential between institutions of higher learning be dealt with?

There are gaping disparities, and even unfairness, in the tuition fee regime amongst universities. For example, the decision to freeze all fee increases disadvantaged more of those universities, like CUT, that charge lower tuition fees. In some cases, those low fees are not much higher than what former Model C schools charge. The real outcome is that their relative percentage tuition fee increases would obviously be lower in real terms. Yet, we all got frozen equally. The disparities and differentials amongst universities also arise when some universities receive all sorts of funding from their networks (alumni, foundations, industry). This increases their total income and concomitantly lowers the percentage share of their tuition fee income. In the final analysis, even though their percentage share of tuition fees decreases, in real terms, what they charge as tuition fees is, like in UCT's case, roughly 3 times what CUT charges. A 10% increase of R60 000 in tuition fees is R6000 whilst the same percentage increase on R20 000 tuition fees (not much higher than fees at former Model C schools) is only R2000! Clearly, the university

that charges less is always on the back foot in terms of its income. There needs to be deeper thought about all these complex phenomena and calculations so that a proper understanding of the differentials and disparities amongst universities is achieved.

3.11 What/who will close the funding gap created by the fee free higher education to ensure that as an institution CUT can continue with the same offerings and better?

CUT is already a low tuition fee university relative to many other universities as argued in the sections and answers above. What should rather be considered is how to manage the higher tuition fees at those universities that charge many times over what CUT charges, for example.

3.12 With the bursaries and loans, some of the cash is received in advance which assists with cash-flow needs, will whoever/whatever replaces the funding gap take this into consideration?

There is a serious cash-flow problem in a number of universities including CUT. In the past, universities used to be lambasted by government for failing to manage their budgets and hence the cash-flow situation. A substantial number of our students do not pay their fees when they are supposed to. Currently 58% of our students have not paid their invoiced amounts for 2016. Further, with a deficit of R112 million in 2014, for example, as a result of student debtors, CUT would never be able to manage the cash-flow without any cash being received in advance to get our operations going. There needs to be an investigation into the cash-flow situation at universities that do not have much reserves to borrow or take from during the dry months when government grant funds are not available.

3.13 If the intention is not to close the funding gap and usher in a fee-free system, what shall give way?

South Africa is poised to lose a number of principles that have allowed it the success it currently has as an economy and the higher education system. As commented under question 3.1 above, for example, a number of principles that are the backbone of the economy (e.g. that citizens pay for subsidized services) could easily be lost. From question 3.6 for example, broadened access might suffer as many more students would have to depend on government which in turn would not have enough funds to support every student. It seems some South Africans have a view that it is only government that should operate in the higher education market. They forget that even the first black university, the University of Fort Hare, was founded by the private sector; in that case, the church. We are fortunate now that there is a strong private sector beyond church organisations that could also fund higher education in their own ways. South Africa must welcome this and celebrate it. Government has a responsibility to allow all these organisations to participate fully in higher education provision; not just to fund students in public universities, but to set up their own private universities. South Africa sits uncomfortably with a relatively low gross participation rate in higher education; which the

private sector could help to improve if government were to enact policies that encourage that.

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