



Draft

Presentation to the Commission of Inquiry into Higher Education and
Training

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Introduction

The Council on Higher Education (CHE) appreciates the opportunity to make a submission to the Presidential Commission of Inquiry into Higher Education and Training (the Commission) on the onerous task of assessing the feasibility of fee-free higher education in South Africa.

The CHE has followed the events preceding the establishment of the Commission with dismay and deep concern for the implications for the future of higher education in South Africa. Unfulfilled aspirations of students, coupled with the struggles for access and then sufficient funding to sustain studies, find expression in the kind of protest action we have experienced recently. Worryingly, disruption of the academic programme, and destruction of property have become frequent accompaniments to protest action, deflecting attention from the issues that require attention.

It has become clear that demand for higher education will not abate as many in our society rightfully see it as a ticket to a prosperous future, aside from its value, intent and effect in developing the full potential of the brightest and most talented in our society. On whether the floodgates into higher education and training should be flung open through fee-free higher education, and the likely consequences of such a policy shift, we intend to address in this and subsequent submissions to the Commission. A primary consideration for us is that the gaze should not be narrowed to a consideration only of the needs in higher education, but that those of the entire post school education and training (PSET) sector should be considered. Failure to do so will result in a skewed PSET sector. Funding needs for infrastructure, personnel, operational costs and student funding in the Technical and Vocational Education and Training (TVET) colleges and in community colleges, and basic education for that matter, will require equal attention. The particular challenge of the NEETs (those not in employment, education or training), who number in the region of 3 million, also need to be brought into the equation.

We are mindful that the legacies of inequality, discrimination and deprivation continue to weigh heavily across all sectors of our society inasmuch as considerable progress has been made over more than two decades of democracy. We anticipate that the conditions and challenges which characterise the sector currently, rooted in these legacies, will continue for the foreseeable future. Within this context, any planning, growth and funding of higher education and training for the future must give continued attention to how access, support and funding will be provided, especially to the poor and the so-called 'missing middle' students. In our view, this is the central issue that underlies the protest action experienced last year, and which is threatened again this year, and will no doubt influence institutional and sectoral agendas for the future.

For the CHE, which is the quality council for Higher Education and Training, any policy, planning or funding decisions which respond to the challenges of accessibility, affordability and funding for the poor and 'missing middle', that lead to an erosion of the quality of provision in the system will be a pyrrhic victory, and should therefore be firmly discouraged. The value and stature of the qualifications that graduates aspire to and which are rightly anticipated to be the ticket to a brighter future, will decline precipitously should there be a commensurate decline in the quality of provision. This is the most probable consequence of continued underfunding of higher education through declining state subsidies, and static or declining fees in real terms when adjusted for inflation or through the continued freezing of fee adjustments, while costs continue to rise. The South African higher education system, while not without its problems and challenges, is recognised as the best on the continent, with several institutions comparable to the best globally in a variety of international rankings. The quality and stability in the system has been hard won though sustained effort over many decades. Choking its funding will have immediate and long-term effects which will be impossible to recover from if the experience of several top institutions on the continent which declined for similar reasons are to be learned from.

Our presentation is arranged around a number of key considerations that we submit are important to inform any possible recommendations that the Commission may propose.

1. Social justice imperatives

As the quality assurance body for higher education in South Africa, the CHE actively promotes the transformation of higher education and pursues the goals of achieving greater access to students and the improvement in the quality of higher education provision. Recognising the context of inequality between groups of students and institutions wrought by the apartheid system and bestowed as a legacy on the following generations, it seeks to provide substantive advice as well as to develop a national quality assurance system to bring about an integrated, equitable, and responsive higher education system fit for the 21st century. At the core of its activities is a commitment to social justice; quality assurance has been conceptualised as one of the means to bring about sustained improvement in the quality of higher education provision so that all students will be assured of receiving higher education that develops socially useful and enriching knowledge and the skills and competencies necessary for social and economic progress. It is this overall orientation and purpose that underlies our outlining of the important considerations we think should be taken into account

2. Purpose of higher education

The first consideration is the need to have a shared understanding of the purpose or purposes of higher education. Cognisant of the fact that higher education leads individuals to greater opportunities and that it also contributes to overall national socio-economic development, the CHE views higher education as both a private good and a public good, and not exclusively one or the other. This has a bearing on how it is constituted and how it is funded. The basic questions to ask are who should benefit from higher education, and who should fund it? These have become acutely difficult questions at this political conjuncture; twenty or more years after the beginning of the democratic dispensation, inequality is still widely evident in terms of access to higher education and in the share of benefits that it brings. These are thus profoundly moral questions, and the answers depend on our vision for the future and what we want to achieve in terms of higher education.

Statistics SA's most recent Community Survey (2016) shows that graduates on average earn more than non-graduates and that there is only 5% graduate unemployment in South Africa. This contrasts with the UK, for example, where it has been reported that a quarter of all graduates are low earners 10 years after graduating – this after the rapid massification of their higher education system. We have a relatively small system in which only 19% of 19-24 year-olds participate; the fact that graduates do get better jobs accounts in part for the huge demand in South Africa for wider access to university, yet the UK instance indicates that widening participation may reduce the certainty of high level employment for graduates. There is no doubt, however, that graduates derive individual benefits from their education that are not shared by those not receiving higher education. At the same time, there is a correlation between investment in higher education and economic development as evidenced in many developed and developing countries. For these reasons, in many higher education systems, cost-sharing models between the state and individuals are seen as justified. State subsidisation of higher education is prudent and necessary, but individuals receiving higher education will derive individual benefits that others do not. What we would want to see is a higher education system to which access is not limited by lack of access to good schooling and to student funding, but which is funded fairly in the context of the spectrum of possibilities for all school-leavers.

3. Need to see HE as part of Education as a whole – PSET and schooling

Part of the “who should be funded?” question thus involves matters of fairness across the education system. Despite the rapid expansion of the universities, from 493 342 enrolments

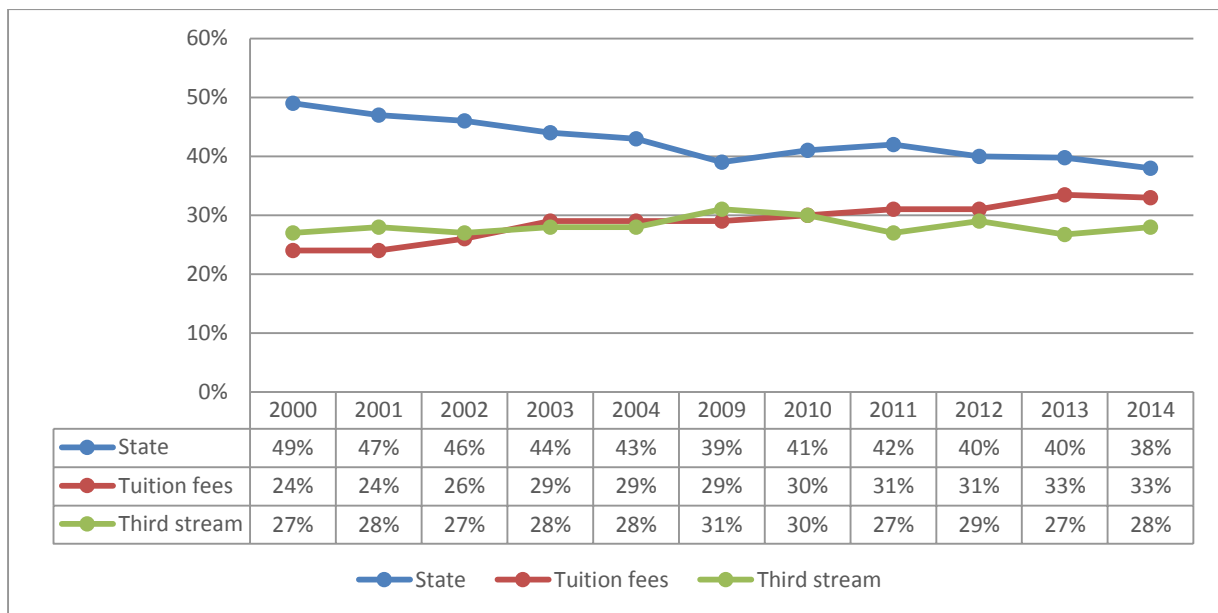
in 1994 to 969 154 in 2014, our higher education system, with a GER of around 19% of 19-24 year-olds in comparison with high participation systems in countries of similar development levels such as Brazil, Egypt and Portugal (46.5%, 29%, 66.2% respectively), is relatively small and can be classified as an elitist one. At the same time, with nearly a million students enrolled in higher education in comparison with 700 000 in the TVET sector (despite that sector's 67% growth since 2009), and far fewer in community colleges, it provides a disproportionate number of study opportunities for school-leavers in the context of the entire post-school sector. There are currently approximately 400 000 matriculants who qualify for higher education per year, but just over 200 000 university places for first-time entrants. CHE research has shown that those with passes qualifying for diploma level study are 6 times less likely to get a place in a university than those 150 000 or so with passes qualifying them to study for degrees. There are also 3.2 million people in the 15-24 age category who are not in education, employment or training (NEETs). The funding of university students thus needs to be seen in the context of the need to provide opportunities for all across the system to improve their life chances.

The funding of universities also needs to be seen in the context of schooling; education research has shown that early childhood development and a good foundation laid in primary school are critically important to the success of individuals in later study. Funding of higher education can thus not be seen in isolation from the funding of education overall.

4. Context of consistent underfunding

Having noted that, it is also the case that higher education in its own terms has been consistently underfunded for many years. The graph below shows how state funding has decreased over the years, that third-stream income (which is mostly earmarked for specific uses) has remained steady, and that universities have had to consistently raise fees to survive. It is clear that in 2014/15 the lines start to converge, and it was no surprise that in 2015, the result was extensive student protest. It is also evident that growth in student enrolment was not matched by a proportionate growth in subsidy. Any new funding regime that accommodates demands for fee-free higher education will need to be predicated on the fact of underfunding that has led many universities to be in dire financial straits – a situation that has been exacerbated by the 0% fee increase in 2016.

Figure 1: Proportional disaggregation of institutional funding per source from 2000 to 2014



* Source: Audited financial statements of the universities for the period 2000/01 to 2014/15. Pretoria: DHET

5. Quantum of need

The *White Paper for Post-school Education and Training* sets an enrolment target for higher education of approximately 1.6 million by 2030. The policy direction is towards substantial expansion, albeit at a somewhat slower rate than in previous years, which in the context of constrained resources amid many other demands, may be difficult to achieve. The proportion of students requiring financial aid is also continuing to grow – in 2014, 186 150 students of the 969 154, i.e. nearly 20%, were funded by NSFAS – and at some universities, students currently receiving financial aid already constitute approximately over 50% of the student body. *The Ministerial Report on Student Housing* of 2011 found that 107 598 beds were available for the approximately 535 000 learners at residential universities, and it has been calculated that 216 000 extra beds are currently needed in higher education, with this number growing to 400 000 by 2030 should the NDP enrolment targets be reached. At the same time, as the TVET sector grows, the financial aid system will need to expand dramatically to assist those entering the colleges.

The CHE is aware of suggestions that poor students should be subsidised by wealthier ones. While this is a sound principle, the reality is that the quantum of need is such that the number of poorer students is growing rapidly, and that the ‘missing middle’ is similarly expanding, while the number of students able to pay fees is decreasing. This is particularly the case at many of the historically disadvantaged institutions, whose fee base is decreasing. Assuming that 150 000 students of the million come from households that earn more than R700 000, to subsidise the rest, these students would each need to pay fees in the region of R500 000,

which clearly would be prohibitive for all but the very wealthy, meaning that the missing middle would simply expand upwards. The SARS tax figures for 2015 indicate that 9.7% of individual earners account for 57.4% of tax revenue, and that only 127 825, i.e. 2.26% of individual tax-payers, earn more than R750 000 per annum. The base for the funding of poor students by wealthy ones is just too small in the context of need to be a viable option on its own.

6. Inefficiencies in the system

a) Throughputs

There is no doubt that the higher education system is underfunded, but the hypothetical question that should be posed is, if the system and all higher education students were to be adequately funded, would all be well?

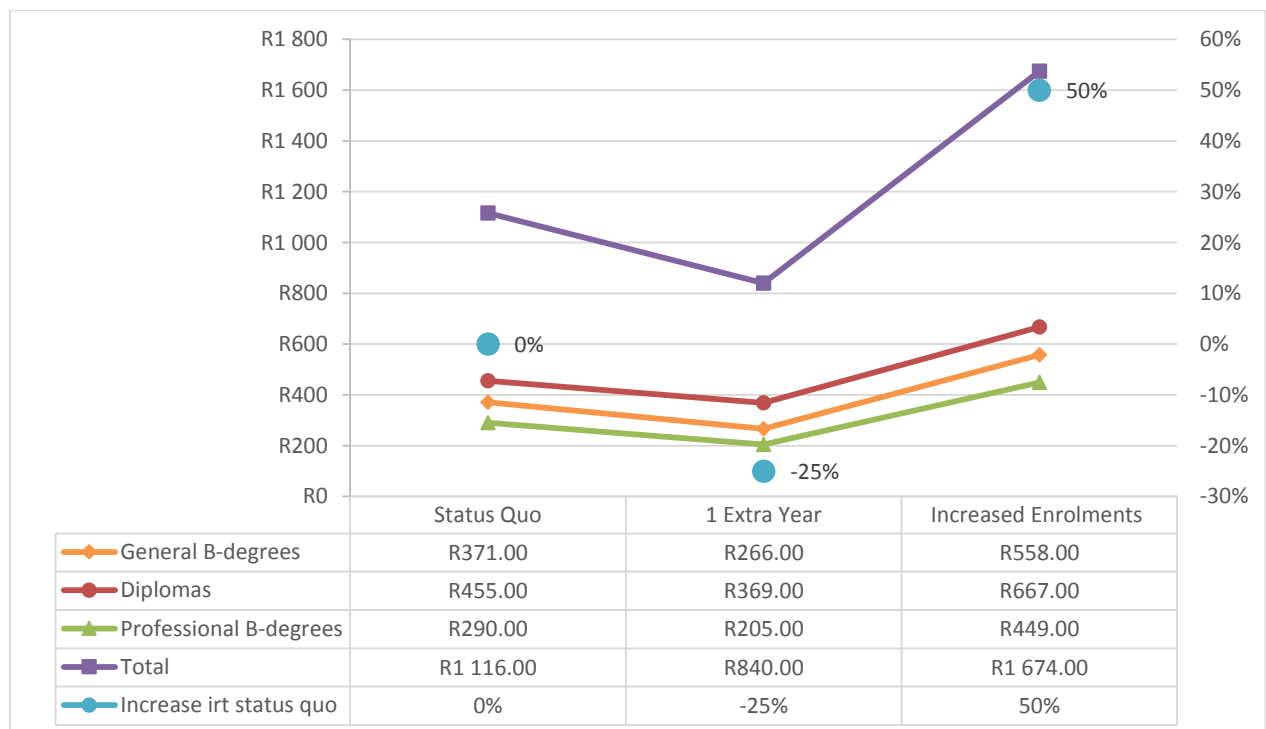
The CHE's major focus is on the improvement of quality in the system. Work that it has undertaken in recent years has indicated that, despite being a low participation system, i.e. a GER of 19%, throughput and retention rates in higher education are very low and compare favourably only with those mass systems (universities and other post-school institutions) with GERs of 80-90% or more. Cohort studies over a number of years indicate that of those students entering to study for a 3-year bachelor's degree, for instance, less than half will have achieved that qualification within 6 years. There are thus many repeat students in the system, and about a third will have dropped out within the first year of their studies. The pattern holds true across all race groups; for white students, many of whom have attended better resourced schools, it is less extreme but still troubling; with about 44% of this group of students achieving their degree in three years, and about 60% in 6 years. Given the extent of student dropout, the conclusion must be that the problem is far larger than individual student aptitude or orientation, and is systemic in nature.

From studies that the CHE has undertaken, there appear to be many faultlines that contribute to this. In the main, the finding is that the majority of students are underprepared for academic study, experiencing an articulation gap not only between school and university study, but at various moments within their degree studies, for example, in making the transition from science subjects to design in the final years of an engineering degree. That many funded students experience academic exclusion indicates that funding is not the only obstacle, but lack of funding exacerbates the problem greatly in that underprepared students are also faced with financial worries, hunger, lack of appropriate accommodation, lack of focus through undertaking part-time employment and potential exclusion for outstanding fees. Academic underpreparedness and insufficient funding combine to make our higher education system inefficient and unjust; subsidised students are spending far longer on completing their qualifications than is desirable, there are many repeat students in classes, and the dropout rate is high. This is a problem of social justice that the CHE has sought to

address through a proposal for an extended curriculum for higher education qualifications. The intention is to allow time in the curriculum for developmental work to be undertaken to ensure that students are able to bridge the various articulation gaps identified and improve their opportunities to achieve their qualifications. Equitable access to higher education is a sine qua non of a developing democracy, but social justice requires that that access has a reasonable chance of being met with success, both in academic and funding terms.

The inefficiency in the current way our higher education system functions is indicated in the quantum of subsidy that does not lead to the achievement of a qualification for students. The CHE's work on introducing an extended curriculum showed that for one cohort of students, the amount of subsidy (excluding NSFAS funding) that does not result in the achievement of a qualification is in the order of R1.1 billion. With sufficient developmental attention and support to assist more students to graduate, this could be significantly reduced, while increasing enrolments to achieve more graduates without changing anything in the education process so that current cohort flows apply would bring about higher levels of unproductive subsidy. Consideration must thus be given to finding ways to improve throughput in any new funding regime, not merely for economic reasons, but to increase the chances of students achieving a qualification as intended for their future opportunities.

Figure 2: Unproductive use of subsidy in a single cohort, by qualification type and scenario (in millions of Rand)

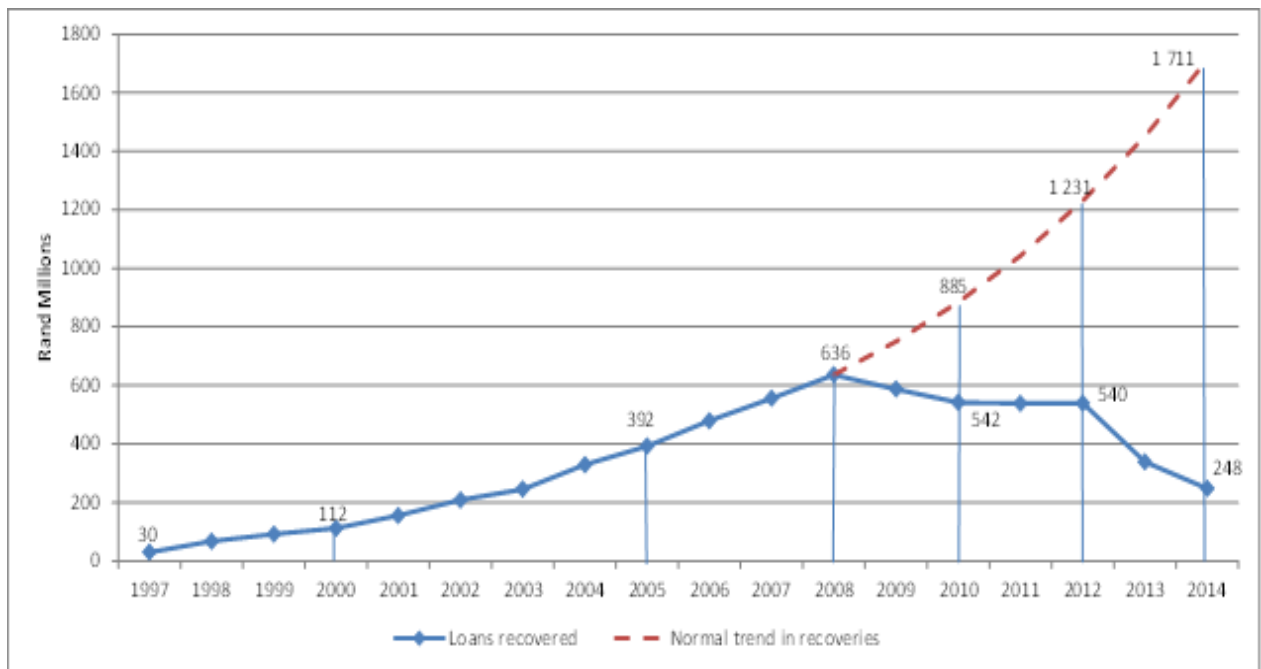


Source: *A Proposal for Undergraduate Curriculum Reform in SA* (CHE, 2013)

b) NSFAS collections and throughput rates

There has been much attention paid and work done recently, particularly by the Ministerial Task Team in relation to the current National Student Financial Aid System, and in rethinking the current model. There have clearly been issues in relation to the slow rate of debt collection since 2009, which to some extent are now being ameliorated.

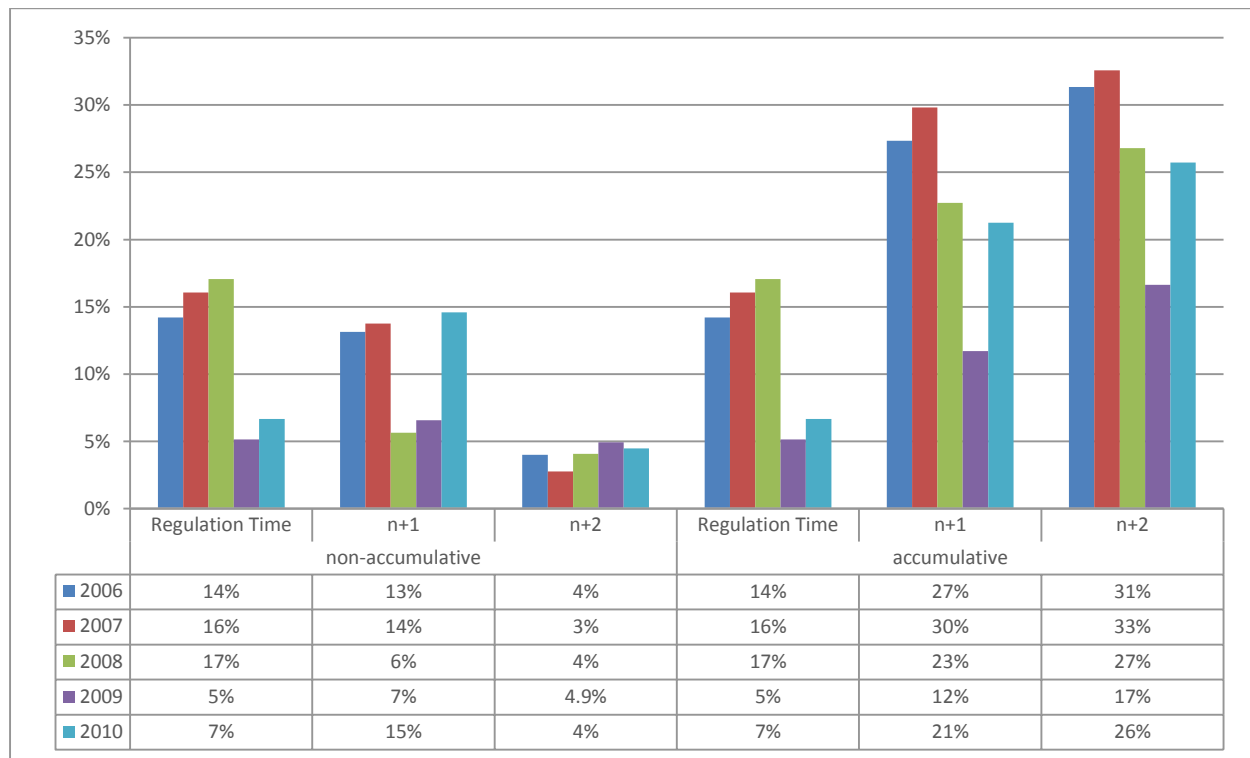
Figure 3: NSFAS loan recoveries versus a normal growth trajectory



Source: National Treasury (2015) *NSFAS Performance and Expenditure Review (PER)* (draft report).

Any loan or bursary system needs to be developed and managed with sustainability and future generations in mind. What is troubling is that cohort studies show that throughput rates for NSFAS students are very low, as evidenced in the two figures below. The number of funded graduates in a position to pay back debt owing has an impact on the replenishment of the amount able to be disbursed.

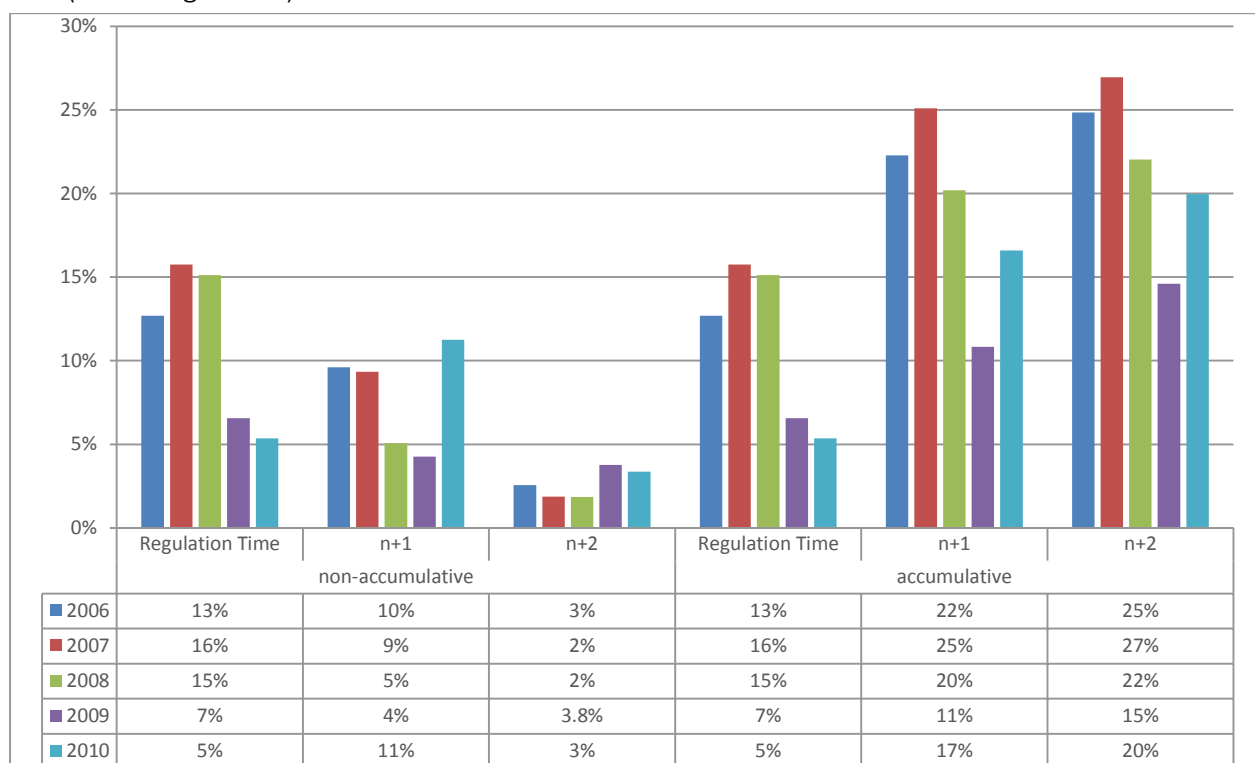
Figure 4 : Throughput rates of NSFAS students for 3-year degrees with first year of enrolment in 2006, 2007, 2008, 2009 and 2010 finishing within regulation time, up to year n+2 (excluding UNISA)



Source: *VitalStats 2014* (CHE, 2016)

* There may be potential graduates remaining in the system after 2014.

Figure 5: Throughput rates of NSFAS students for 360-credit diplomas with first year of enrolment in 2006, 2007, 2008, 2009 and 2010 finishing within regulation time up to year n+2 (excluding UNISA)



Source: *VitalStats 2014* (CHE, 2016)

* There may be potential graduates remaining in the system after 2014.

c) University organisation

There has been comparatively little work undertaken on how universities spend their funding, and whether there are efficiency gains to be made there. Certainly a number of universities have been considering austerity measures and looking very carefully at where expenditure can be cut. These are to be welcomed in the current economic climate, but given historic underfunding and the 0% fee increase in 2016, any gains to be made are likely to be relatively insignificant in relation to the quantum of need outlined above.

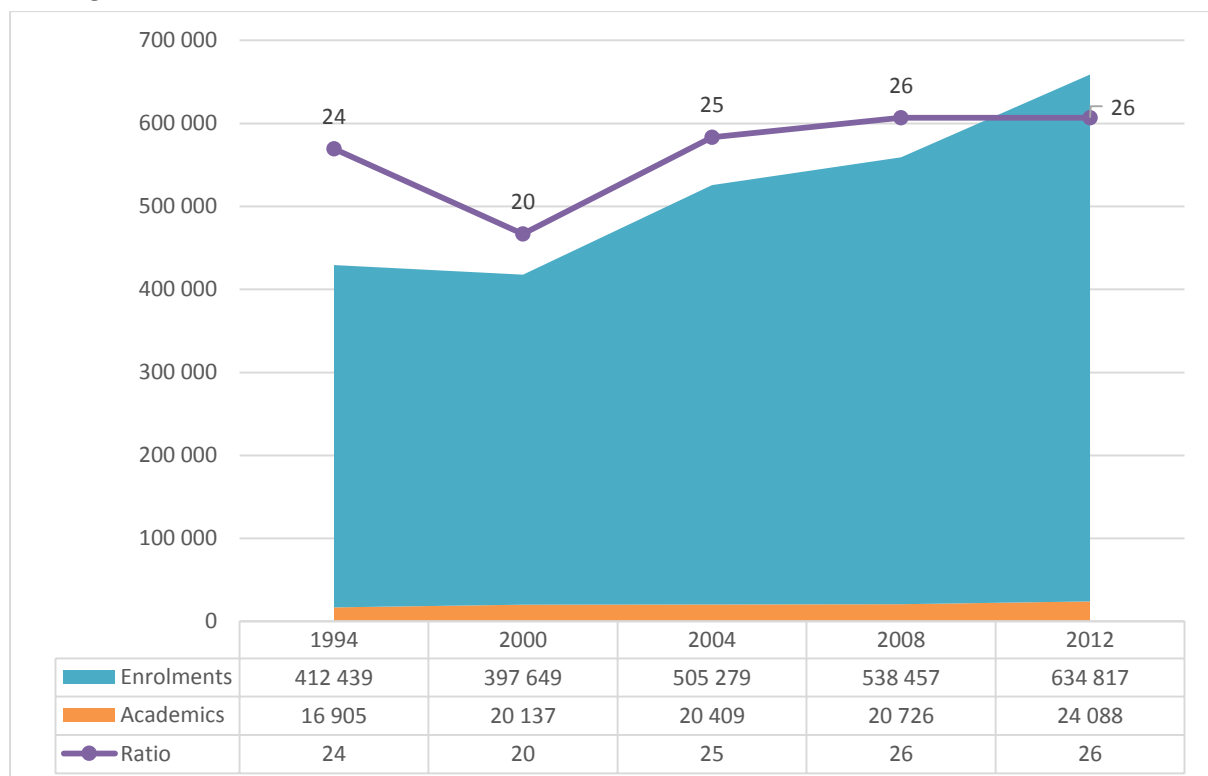
d) Underfunding and growth

In this regard, it must be remembered that there are infrastructural backlogs at almost all universities, and that currently only a small minority of students can be accommodated on campus when a large majority of an increasing enrolment need beds and meals as well as

tuition. Underfunding has also had a deleterious effect on academic staffing; not only have numbers of permanent academic staff not kept pace with as evidenced in the graph below enrolments (growth in FTE enrolments from 2000 - 2014 (60%) outstripped growth in academic staffing FTEs over the same period (20%)), but there has been an increasing casualisation of academic staff, i.e. more reliance on short-term temporary contracts, which has an effect on the quality of education offered. Often the temporary academic staff members are employed for student support activities such as tutorials and other academic development and in times of austerity, these are the positions most likely to be cut, diminishing the chances of an already underprepared student body of succeeding in their studies.

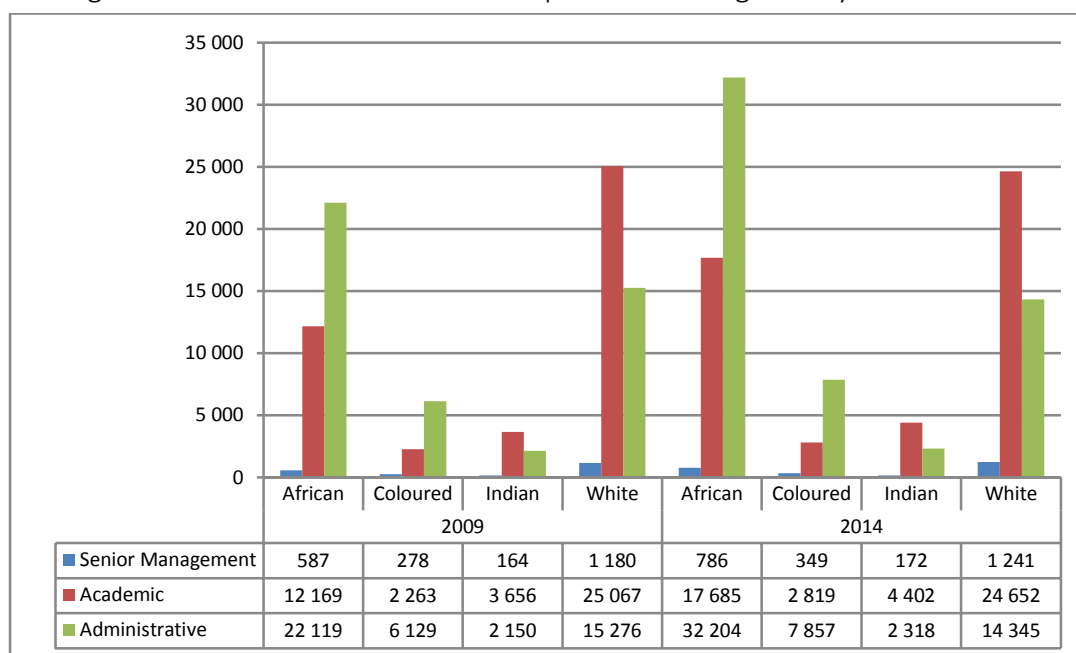
The staff to student ratio is currently far from ideal, and ironically, it is this criterion that often influences South African universities' positions in ranking systems more than research output. In terms of headcounts, the permanent academic staff to student ratio for 2012 was 1:55, with the combined temporary and permanent academic staff to student ratio being 1:18. Universities currently have too few academic staff, and while there have been recent government interventions to stimulate the growth of a next generation of academic staff, these may not be sufficient to achieve staff to student ratios that are more in keeping with the growth of enrolments and a student population that needs more academic support rather than less.

Figure 6 : FTE academic staff vs FTE enrolments for 1994, 2000, 2004, 2008 and 2012



In addition to this, the overall staffing population is somewhat skewed towards administrative staffing capacity. The ratio of administrative staff to academic staff in 2009 was 1.06: 1; by 2014, this was 1.14: 1. This will be exacerbated by insourcing and the costs thereof. As mentioned above, austerity measures are likely to affect temporary academic staff members in student support in the main, while insourcing will further skew the ratio towards administrative staffing.

Figure 7: Headcount staff in selected personnel categories by race for 2009 and 2014



7. Consequences of 0% fee increase

In assessing the feasibility of fee-free higher education, the short-term consequences of the 0% fee increase in higher education in 2016 need to be taken into consideration. In 2016, money was found to assist the universities, and they themselves contributed to filling the amount needed. This meant that some R3 billion was lost to other programmes to assist the poor, such as skills development and infrastructure development, and if this is to be the case in 2017, a further R5 billion will be diverted from other projects. The CHE's modelling work has shown that if there are no further fee increases for 2017, and that the fees stay at 2015 levels, universities will collectively lost a further R800 million in revenue in addition to R1.4 billion lost in 2016, despite compensatory grants from government. Five universities were already in deficit in 2015. On top of that, 2016 saw 16 not able to meet their expenses (unless they had already made cutbacks). In 2017, 10 would decline further. The universities are thus in a very weakened financial position.

Part of the effect of this weakened position impacts directly on student financial aid. Many universities currently subsidise poor students in addition to the NSFAS-funded students and will not have sufficient fee income to continue this practice. By way of example, at one university, R100 million will not be available for bursaries. That is 1 167 students who can't be funded, and while not all institutions are in a position to do this, this number will be much higher across the system. A no fee increase also means that those who are wealthy enough to pay an increase will be exempted; the poor, as in NSFAS-funded students whose fees are paid at university rates, will be in no better or worse position. The NSFAS, if it is to fund all eligible students even to the average grant level, will experience a shortfall of some R400 million – the effect is that fewer poor students will be funded while the wealthy are exempted from increases.

The longer it takes for a new funding regime to be decided upon and implemented, the more the current higher education system will deteriorate in quality as buildings and infrastructure damage will not be able to be repaired and backlogs addressed. It will also have an effect on research production and postgraduate study, as new research equipment will not be likely to be affordable. Any new regime must therefore take as its starting point that an already underfunded system has become much less financially viable, and that quality in higher education will need to be restored amid all the other competing demands for government funding.

8. Different models

In considering the question of fee-free higher education, the following need to be fully taken into account. The CHE is still busy considering a variety of funding and fee regulatory models elsewhere, but these are some of the preliminary observations.

In the first instance, higher education is not free anywhere in the world – even in fee-free systems, someone is paying for it. In systems where the government foots the bill for higher education and students attend fee-free, such as in Egypt, the public higher education system has suffered in terms of quality, while the private sector, which charges fees, has burgeoned. This has arguably exacerbated wealth inequalities, as it is generally the children of the middle class who gain access and who are then subsidised by the taxes from the general population, including those who do not gain access to university. Universities are expensive to run; inevitably in fully government funded systems, without fee income, what can be funded becomes less and less, leading to poorer quality education, the moonlighting by public academic staff at private institutions to supplement their income, the migration of the wealthy to the private sector or other countries in search of better quality education, leaving

the public higher education system unable to carry out research or to offer much in the way of quality postgraduate supervision.

In other systems that have traditionally been government-funded, this has proven to be unsustainable, leading to the introduction of fees. This is a situation that has pertained in the UK. Ironically, the cap on fees introduced meant that some institutions that has low fee suddenly put them up to the maximum. The introduction of fees was only made possible by the existence of an income-contingent loan scheme; no deserving students were therefore excluded by not being able to pay fees, as all were granted loans to be paid back at rates determined by their level of employment post-graduation. The consequence, however, is that graduates have debt to repay, which is not easy in a saturated graduate employment market. In South Africa, where graduate unemployment is very low, this may be more feasible, with the caveat that the number of very poor students who would be unlikely to recover from a debt burden is very high.

There are other models that utilise differentiated fees for students according to a sliding scale, which attempt to achieve some level of equity in terms of the question about who should fund higher education. These work best where the tax base is broad enough to subsidise poorer students across the system, but are unlikely to be feasible in institutions where the majority of students are poor. The disadvantages of such systems lie in the need for means tests, which are expensive to administer and which are open to fraud.

While the overall concern is to achieve greater access to deserving students, the question of access with success should be the real goal of any new funding regime. While fee-free higher education appears to be attractive to increase access, a danger lies in exacerbating already poor throughput rates in South Africa, as students may stay longer in the system, particularly as government funding is unlikely to extend to the further academic support that is needed.

9. What can be done?

In designing a new funding system for higher education in South Africa, government needs to reprioritise spending in favour of education overall. There is little point in designing different ways to cut the cake and expecting more people to get a slice where the size of the cake continues to shrink. In the reprioritisation, it would be important to think of education as a whole; again, there is not much point spending a much greater proportion of government funding on financing higher education students where basic education is not optimally preparing school-leavers for further study, and where there is a high drop-out of school goes before Grade 12 on account of insufficiently solid educational foundations having been laid in their early years.

In line with principles of equity and fairness, it is important to increase the life chances of all our youth, and not only a very small proportion thereof. In that sense, it is important to develop the TVET and college sectors further to create more opportunities for school-leavers and NEETs, and in so doing, to relieve some of the pressure on universities for continued rapid expansion.

Most importantly, current inefficiencies and inequities in higher education, evidenced in poor throughput rates, need to be addressed. Increasing access needs to be met with increasing chances of success. This could be done through restructuring the curriculum, or more foundation provision, or partnerships with other institutions in the post-school sector, and improving school-leavers preparedness for academic study. Reviewing the enrolment growth policy in higher education may also be prudent.

In that context then, different student funding models that make higher education affordable for the poor can be deliberated. One of the main funding hurdles in higher education systems is often the need to find funding or pay fees upfront – even relatively small amounts such as registration fees become insurmountable for the poor, even if tuition funding is promised. In devising a new system it may be worth considering not only who should pay, but when payment should be made. The life cycle of funding needs to be taken into account in attempting to achieve a system characterised by equity and fairness. In that sense, it may not be fair to have one's life chances determined by one's parents' income, particularly when individual gains may accrue to the individual as a result of their study. Perhaps it would be fairer for all deserving students to receive government loans (of different proportions based on requirement) based on their acceptance to study at a university, to be repaid according to a progressive system of interest rates where the high earners repay more, and the very poor have a greater proportion of bursary to loan in their funding mix. In such a system, it would still be possible to apply the already existing means test used by NSFAS to identify the poor. A concern is that government loans may accrue to the wealthy; however, if the wealthy can afford to pay fees, high interest rates on loans would be a disincentive to take them.

A progressive loan scheme of such a sort would require a sound taxation system and a high graduate employment rate to ensure its sustainability. These we have. What we currently do not have is a higher education system that has throughput rates that would make such a system viable – but that is true for fee-free higher education as well.