UNIVERSITIES SOUTH AFRICA SUBMISSION TO THE PRESIDENTIAL COMMISSION OF INQUIRY INTO HIGHER EDUCATION AND TRAINING (THE FEES COMMISSION)

Universities are key to developing a nation. They play three main functions in society. Firstly, they educate and train people with high-level skills for the employment needs of the public and private sectors. Secondly, universities are the dominant producers of new knowledge, and they critique information and find new local and global applications for existing knowledge. Universities also set norms and standards, determine the curriculum, languages, and knowledge, ethics and philosophy underpinning a nation's knowledge-capital. South Africa needs knowledge that equips people for a society in constant social change. Thirdly, given the country's apartheid history, higher education provides opportunities for social mobility and simultaneously strengthens equity, social justice and democracy. In today's knowledge society, higher education underpinned by a strong science and technology innovation system is increasingly important in opening up people's opportunities.

The National Development Plan, 2014

This submission consists of six parts: a brief preamble on the role of universities in a society such as ours, an introduction to the funding crisis being faced by the sector, an introduction to a set of principles that would allow us to think concretely about the issue of fee-free higher education in the current context, a presentation of a set of broad proposals, some thoughts about the consequences of a fee-free higher educaion system and finally, a few concluding remarks.

PREAMBLE

It is well established that South Africa's higher education system is a fundamental ingredient in the development strategy that has been adopted, whether it is towards the construction of a growing, globally competitive economy or to its many nation-building projects. At the heart of the higher education system are its universities and their capacity to produce high quality graduates and new knowledge. At the same time they are key social institutions in addressing the social justice agenda of one of the most unequal societies in the world. They do this through the creation of pathways for social mobility as the state and the higher education system grapple with the challenge of broadening access to higher learning to students from those families and communities that were previously excluded and to ensure their success. In the context of the newly formulated post-school education and training system, new opportunities arise for addressing these important national projects.

This higher education system is by far the most productive on the African continent both in terms of the quantity and quality of graduates and its research outputs.

TABLE 1. NUMBER OF GRADUATES PER YEAR

	Number of Graduates	**Number of STEM Graduates**
2012	165,986	48,848
2013	180,823	53,176
2014	185,375	55,574

Between 1994 and 2016 the number of students in the public higher education system has grown from about 500,000 to about 1 million. This change has driven the fairly dramatic shift in its student demographics. By 2014 some 72% of the first-entry students into the public universities were African students. More remarkably perhaps, about 58% of the students in the system are women. Table 1 demonstrates the fact that between 2012 and 2014 there has been a steady increase in the number of graduates produced and most heartening is the growth in the number of graduates in the STEM (Science, Technology, Engineering and Mathematics) areas.

At the same time, South Africa's higher education system faces some of the most telling challenges in its recent history with widespread concerns about the instability it experiences, in particular in terms of its funding. It has always been assumed that its primary roles are to address the national social justice agenda, on the one hand, and to contribute to the creation of high-level human resources and knowledge for the economy and for the national socio-political project. To make progress in achieving these the sector has to be properly funded.

The National Commission on Higher Education (NCHE) in 1996 produced a blueprint for the transformation of the sector and now, 20 years on, this is a time for reflection to assess how we might design a higher education system that can be more effective in playing the roles laid out for it. There are deep concerns, highlighted by the *#FeesMustFall* campaign, that our universities have priced themselves out of the reach of poor families, therefore undermining their role in building a more socially just society.

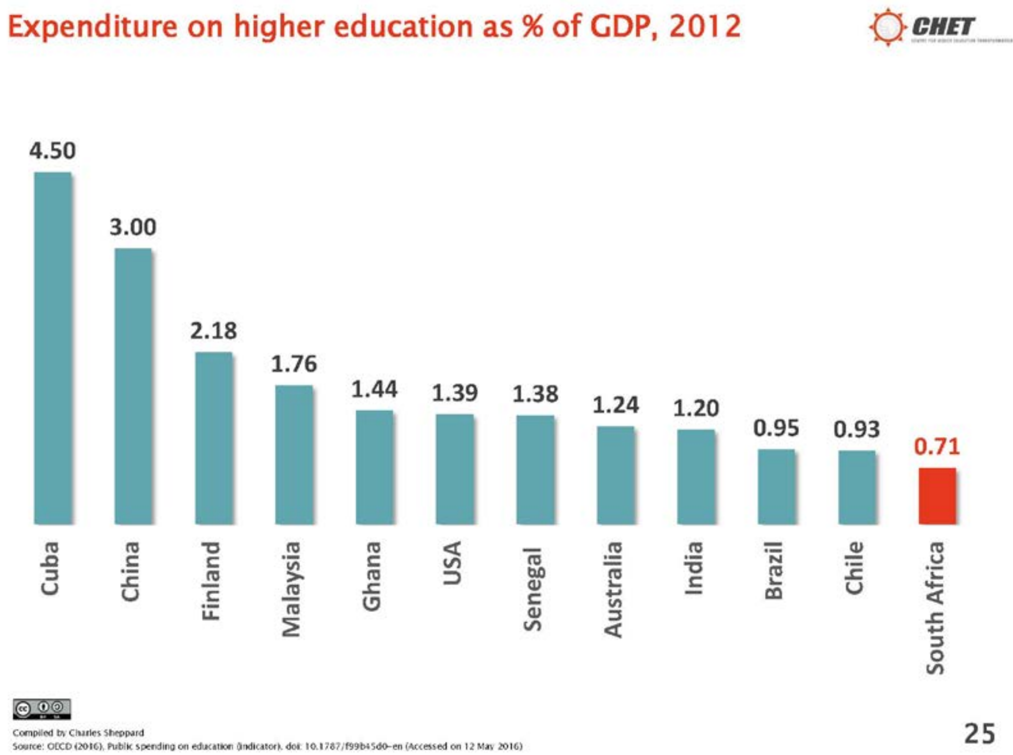
SOME IMPEDIMENTS: A FUNDING CRISIS

There are a number of serious impediments that prevent the system from achieving its maximal potential. Of these, the deep and longstanding concerns about the efficacy of the basic education system and its seeming inability to improve the quality of preparation of learners to engage successfully in the higher education system is of enormous consequence. It is a direct contributor to higher costs and to the low throughput rates, for example. The rate of student dropout from the system, while not globally unique, is of deep concern and together with the Department of Higher Education and Training (DHET), Universities South Africa (USAf) is embarking on a substantial study to understand this phenomenon better.

Perhaps of greatest concern is the fact that the system is underfunded. Several studies have shown that in comparison with other societies, this underfunding is considerable. The primary sources of funding are the DHET block grant based on the system of full-time student equivalents (FTEs) and student fees. The student fee component in the construction of university budgets is typically in the region of 30-40% and this constitutes an amount approaching R30 billion per annum if the cost of accommodation of students in residences is included. The historic increases in tuition fees beyond CPI are a direct result of the fact that the subsidy allocation to universities per full time equivalent student has been in decline and the fact that the higher education price index (HEPI) is approximately 2% higher than CPI. Universities South Africa generates HEPI, a measure of the inflation rate for higher education, by taking into account the typical spending patterns of universities. For the period 2010/11 – 2012/13 this higher education price index was 1.7% above CPI. The methodology for the calculation of HEPI has been provided to the Commission and the index for 2013/14 - 2015/6 is currently being produced. Amongst the key drivers of HEPI are the growth in academic salaries, utility costs (especially electricity), foreign exchange based expenses (book and scientific journal costs, computer hardware, computer software, research equipment, experimental consumables, etc.) and security and cleaning contracts. These have all grown at rates higher than CPI on an annual basis.

Benchmarking the funding of higher education

As mentioned earlier the funding level of the South African higher education system has to be benchmarked against funding levels of other successful and comparable higher education systems. Taken from a Centre for Higher Education Transformation (CHET) presentation, the bar chart below shows government investment in higher education as a ratio of GDP for several countries and for 2012, the ratio for South Africa was 0.71. This was less than half that of Cuba, China, Finland, Iceland, Malaysia and Ghana and also significantly less than Senegal, Chile, Brazil and India. If we take the 2014/2015 government spend on higher education to be R24.2 billion (as per DHET's report titled *Statistics on Post-School Education and Training in South Africa: 2014*) and the nominal GDP for 2014 as R3.8 trillion (Stats SA) then the South Africa ratio for 2014/2015 is about 0.64, a real decline between 2012 and 2014. Taking into account the importance of the large national, public good projects of the higher education system, it has to be funded at an appropriate level.



The decaying subsidy

Table 2 below provides an analysis of the government funding for higher education through the block grant system, which is at the core of the funding levels for teaching (and research). What Table 2 tells us is the following:

a. The National Treasury's allocation to DHET for higher education between 2012/2013 and 2015/2016 is approximately 2 percentage points above CPI throughout the period. **(Row 1)**
b. Three factors affect this allocation as it translates to subsidies to the sector. The first is the top slicing of this allocation for various kinds of earmarked grants, which has grown annually at about the 10% level. The block grant therefore, grows at the same rate as CPI. **(Row 2)**
c. The total Teaching Input (TI) subsidy grows at a rate that is below CPI. **(Row 3)**
d. The second factor is the annual increase in the number of students in the system. The student teaching input units grow at the rate of 4.5% per annum. **(Row 4)**
e. The third factor is that the higher education inflation rate (HEPI) is approximately 1.7% higher than CPI.
f. ***The result is a steady decline in the teaching input grant per student unit even before CPI/HEPI is taken into account.*** **(Rows 5 and 6)**
g. On an annual basis therefore, there is a rapid erosion of the value of the teaching input grant per student unit.
h. The same occurs with the Teaching Output grant. (Rows 7 – 10)

TABLE 2. SUBSIDY LEVELS OVER THE PERIOD 2012/2013 – 2014/2015

	2012/2013	2013/2014	2014/2015	2015/2016	Note	No.
Treasury Allocation	R20.9 bn	R22.4 bn	R24.2 bn	R26.2 bn	Excluding NSFAS	
% Increase	8.3%	7.2%	8.0%	8.2%	Above CPI	**(1)**
Block Grants	R17.4 bn	R18.4 bn	R19.6 bn	R20.9 bn		
% Increase	6.4%	5.8%	6.1%	6.6%	CPI-linked	**(2)**
Teaching Input (TI)	R11.7 bn	R12.1 bn	R12.7 bn	R13.1 bn		
% Increase	6.9%	4.2%	4.7%	3.1%	Below CPI	**(3)**
TI Units	1 071 822	1 119 033	1 169 143	1 222 348		**(4)**
TI/Student Unit	**R10 916**	**R10 813**	**R10 863**	**R10 717**		**(5)**
% Increase		-1.0%	0.5%	-1.3%	TI/student unit growth negative	**(6)**
Teaching Output (TO)	R2.5 bn	R2.7 bn	R3.0 bn	R3.2 bn		**(7)**
TO Units	134 272	141 344	149 138	159 578		**(8)**
TO/Student Unit	**R18 619**	**R19 102**	**R20 116**	**R20 053**		**(9)**
% Increase		2.6%	5.3%	-0.3%	TO/student unit growth < CPI.	**(10)**

It is of grave importance therefore, that any move towards fee-free higher education takes into account the need to bolster the teaching and research block grants to universities.

Further, due to the pressures of fair employment and the establishment of what is considered to be a decent wage, the HE sector is under considerable pressure to insource contract workers of ancillary services. Preliminary findings of a study done by USAf indicate that this figure rests between R400 million and R2 billion per annum. This includes the insourcing of services for the residences.

While the mandates of all universities are teaching/learning, research and community engagement there may be differing emphases in various institutions though they must discharge all these mandates. Thus, the South African higher education system is differentiated in the sense that some institutions are regarded as having primarily an undergraduate teaching/learning focus, others would be regarded as being research intensive and yet others would be regarded themselves as focusing on more than one area. It is important that each type of institution is properly and suitably funded to carry out its particular mission.

It is in the nature of universities as social institutions that stable funding systems are critical for their long-term optimal operation.

PRINCIPLES

1. The principle of institutional autonomy is at the very heart of a successful higher education system and the Higher Education Act 101 of 1997 constructs a system of governance that contains a range of checks and balances to ensure that the system is effective in its various roles.
2. Universities are bound by the Higher Education Act 101 of 1997 to ensure the highest levels of financial integrity and sustainability. The councils of the universities together with executive management bear this fiduciary responsibility.
3. To be regarded as being effective universities must maintain the highest levels of quality. To achieve high quality teaching/learning and research they have to be funded at appropriate levels.
4. The higher education system has a critical role to play in building a socially just society that provides for real social mobility. In light of this, access has to be made available to students from poor and middle-class families. The establishment of the Ikusasa Student and Financial Aid Plan (ISFAP), together with a revamped NSFAS, is an important development in this regard.
5. Higher education produces both collective (public) goods and private goods. It is expected therefore that the funding required for higher education will derive partly from the public fiscus and partly from private investment in the form of student fees or in the form of a graduate tax or some other mechanism.
6. While progress has been made in improving the throughput and graduation rates of students, continued attention is being paid to further improving these.
7. Universities will continue to strive to improve levels of efficiency and effectiveness in all aspects of their operations.

Each of these principles should be borne in mind as the matter of student fees is considered.

PROPOSAL 1 – FULL FINANCIAL AID AND LOANS FOR THE POOR

1. This proposal assumes that universities must be in a position to guarantee their financial sustainability through a combination of both public and private funding. It addresses the issue of social justice by ensuring that mechanisms are established to ensure that students who are accepted into higher education institutions will not be excluded on financial grounds.

2. In terms of the capacity to afford higher education there are 4 categories of students in our universities:
   a. Students who can afford to pay university fees where family earning is above R600 000 per annum, say. This figure is still being discussed.
   b. Students in families with family earnings above the NSFAS threshold but not earning enough to be able to afford university fees or to be able to raise a commercial loan. In this category family earnings will be between R120 000 and R600 000 per annum.
   c. Students who qualify for financial aid and receive financial aid. In this category family earnings will be less than R120 000 per annum.
   d. Students who qualify for financial aid and qualify for entry to university but who do not receive financial aid because there are insufficient funds to cover their costs by NSFAS.

3. Model One

   a. Students in category a. will pay fees.
   b. Students in category b. will receive loans for full cost of study from ISFAP. Depending on the affordability criteria there may well be the need for a family contribution.
   c. Students in categories c. and d. will receive financial aid for full cost of study from NSFAS/ISFAP, which may be fully paid back or partly paid back, partly written-off depending on affordability and conditions of the grant. This will be subject to the funding decisions in paragraph d below.
   d. There will have to be a formal decision by government about how many full loans are available for students in categories c. and d.
   e. Universities will be encouraged to continue their practice of supporting students in categories b., c. and d. through external fundraising or through internal funding mechanisms. An analysis of current university allocations in this regard is available.

4. The successful implementation of ISFAP/NSFAS is at the heart of this model.

5. The cost and free structures within universities and between universities are not homogeneous and this will have to be taken into account in the calculation of the full cost of studies.

3. Institutions will work hard to maintain a close alignment in enrolments with the negotiated Institutional Enrolment Plans so that financial aid and more general funding strategies may be properly developed and implemented.

4. The downside: this model may result in the development of a large student debt problem as has happened in other parts of the world. In the USA, student loan debt has reached $1.2 trillion, which is currently larger than credit card debt in that country.

PROPOSAL 2 – A GRADUATE TAX MODEL IN A FEE-FREE EDUCATION REGIME

1. Proposal 2 assumes that there is a national consensus that we should establish a fee-free higher education system. Such a construction has to ensure that the current income generated through tuition fees, which exceeds R20 billion, must be assembled through other avenues. This proposal therefore, assumes that universities should continue to be in a position to ensure their financial sustainability through a combination of both public and private funding. It addresses the issue of social justice by ensuring that mechanisms are established to ensure that students who are accepted into higher education institutions will not be excluded on financial grounds. It must be emphasised here that "fee free" means there is no payment by the student at the point of service but there will be recovery of the costs later or from a redistributed base (e.g. the graduate tax or any other form of taxation).

2. This proposal provides a simple (and perhaps simplistic) model of a system that may be considered for a fee-free regime in South African higher education. It depends on the utilization of the personal income tax system.

3. **Model Two**

    a. The cost of the **public goods component** of higher education is covered through the existing subsidy system in terms of teaching input, teaching output and research output factors, together with earmarked funding in the development grants. In 2014/2015 this figure was R24.2 billion.
    b. The cost of the **private goods component** of higher education will be paid through a Graduate Tax. Everybody with a higher education degree or diploma obtained at a South African public institution will pay an extra x% on the PAYE tax. This ring-fenced amount will be directed back to cover the cost of the private goods component of higher education. This will be a general PAYE tax on all graduates as a way of addressing the social justice agenda of higher education.

4. This will be an efficient 'fee-collecting' system.

5. The contribution of individuals will naturally be graded by how much they earn.

6. One of the problems may be a cash flow issue. If you are getting the money through the tax system, you still need to put up the money up front for a number of years. This may be challenging in a fiscally constrained environment.

7. The downside: (a) This model will add significantly to the tax burden of individuals. (b) If the economy does not generate sufficient employment opportunities for graduates this proposal will not work. (c) The administration of such a tax may be complicated by the fact that not all graduates are remunerated through a payroll system. (d) The tax will only apply to graduates who earn income in South Africa. (e) This system may be constrained by a cash flow issue. If the fee component is being accessed through the tax system, there may be a need to put up the money up front for a number of years. This may be challenging in a fiscally constrained environment.

PROPOSAL 3 – FURTHER SUGGESTIONS

1. The **tax incentives** regime should be strengthened and deepened for individual and corporate giving towards bursaries and scholarships.

2. Formal consideration should be given to industrial sponsorship of student funding in higher education either through a levy system or through the tax system.

3. Consideration should be given to deploying **skills levies** in a consistent and direct way within the relevant industrial sectors in the form of loans, grants and scholarships.

4. The Commission has been introduced to several proposals for the creation of **social bonds** as a way to contribute to addressing the student fees challenge. These should be considered.

5. The messaging to students and the public more generally should be coherent, precise and coordinated between DHET, NSFAS, USAf and the higher education institutions.

POSSIBLE CONSEQUENCES OF A DECISION OF A FEE-FREE SITUATION

1. Possible distortion of the social justice agenda of the higher education project

If the Commission decides on moving towards a fee-free higher education system for all students that may result in a distortion of the social justice agenda of higher education in the sense that subsidising students who are fully able to afford higher education releases the wealthy from contributing to the functioning of the system. In a real sense, in very unequal societies such as South Africa, a conclusion may be reached that this is a case of subsidisation of the wealthy by the poor.

It may also be argued that if a fee regime persists in other education sectors such as early childhood education then this firstly, would be politically untenable and secondly, could be considered as a subsidisation of higher education.

2. Impact on cross-subsidisation

Our current arrangements are quite tolerant of some internal cross-subsidisation of fees across disciplines and levels of study. Accounting Department income, for instance, may contribute to the cost of Humanities (say) and undergraduate income contributes to postgraduate costs. This is because the factor allocations to different areas of university activities in the funding formula do not (and cannot be expected to) account for real costs across disciplines and universities.

3. Possible distortion in the construction of the block grant

In the absence of “Fees” the likely scenario will be a single block grant, which will be intended to cover all of this. The simple use of the funding formula on an expanded block grant may create distortions since current fees at individual universities cannot be a basis for a future sharing of the block grant. The sword may also have a second edge when one thinks of funding as a “steering mechanism” in the hands of the Minister – no fees will strengthen the mechanism. The Presidential Commission will need to turn its mind to the structure of DHET funding arrangements if the idea of “fees” as income to universities is to be abandoned.

4. Fees for postgraduate students

Student fees for postgraduate studies cover a smaller proportion of costs compared to those for undergraduate studies. This is also true for part-time studies. This means that a fee-free system may result in a distortion of the size and shape of the universities.

SOME CONCLUDING THOUGHTS

Higher education has both private benefit to the individual who receives it and public benefit for the society with a population that is highly educated. There is a strong correlation between the socio-economic development of a country and the proportion of its population that has received higher education. USAf therefore agrees with the principle of a cost sharing model to cater for the cost of the public goods of higher education on the one hand, and that of the private goods on the other hand. The main funding sources of higher education therefore, are the fiscus-based state subsidy system and the private contribution (in the form of tuition fees and/or other sources of funding). As such a fee-free higher education system is not supported by USAf unless there is clarity in the way in which the full higher education budget is constructed.

The tuition fee and/or other sources of funding should be at a level that allows students and their families to see sufficient value in the investment. In many countries families assess the value of

a degree by comparing the cost thereof on a net present value basis versus immediate employment.
The level of public investment in higher education must be internationally benchmarked and matched to the value of the public good. If this is not done effectively, the tuition fee portion would be so large as to systematically exclude students from poor and middle class families.

All of South Africa's universities are, in terms of their financial sustainability, in a fragile state. If the state declares fee-free higher education for all without making up the loss of income for the universities most, if not all, of our public universities will slip into effective bankruptcy within a few months. This will erode the growth potential of the country and undermine the potential for inclusive development.

USAf therefore, does not support a fee-free higher education model unless there is absolute clarity about how a full-funding model is constituted.

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