Walter Sisulu University

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WALTER SISULU UNIVERSITY PRESENTATION TO THE COMMISION OF INQUIRY INTO HIGHER EDUCATION AND TRAINING

1 September 2016

1 INTRODUCTION

This memorandum has been prepared in response to an invitation to Walter Sisulu University (WSU) to participate in the proceedings of the Commission of Inquiry into Higher Education and Training (the Commission). It focuses on issues that affect WSU's financial sustainability and ability to provide appropriate educational services to its students. It also indicates the sources of the Institution's income streams and the extent to which it relies on each component stream.

WSU's aim is to present issues from its perspective as a Historically-disadvantaged Institution (HDI) which hopes to be on the road to financial recovery. We do not profess to speak on behalf of all or any other HDI, however.

2 CONTEXT

Walter Sisulu University came into being on 1 July 2005, but its legacy institutions, Border Technikon, East Cape Technikon and University of Transkei, have rich histories, with the latter going back to 1976, forty years ago. The University now has around 28,000 students and employs approximately 2,500 staff. Its four campuses in Buffalo City, Butterworth, Mthatha and Queenstown are spread across the eastern part of the Eastern Cape Province over an area with a circumference of approximately 1,000 km. There are 13 academic programme delivery sites – not counting the spread of Health Centres which we administer across the Province.

WSU is a complex environment. The institutional merger process had not been as successful as the authorities had hoped and the fledgling institution struggled to develop a single institutional culture with harmonised systems and processes. This resulted in the WSU being placed under administration from October 2011 to the end of April 2014. During this period attempts were made to stabilise the University and to re-position the Institution on a new trajectory. WSU is now in the midst of implementing a significant turnaround strategy to improve infrastructure, to review the academic enterprise, ICT infrastructure, financial sustainability and human resources. However, the Institution recognises that it still has some way to go before it reaches satisfactory operational levels.

3 DASHBOARD DATA

Based on 2016 projections, our total operating costs (including residences) are made up as follows:

Personnel costs	R 856m
Operational costs	R 424m
Depreciation	R 25m
CAPEX	R 20m
Doubtful Debt	R 33m
Total	**R 1358m**

Our budget, based on 2016 projections, is made up as follows:

Normal state subsidy	R 586m (48.7%)
Tuition fees with no increase for 2016	R 496m (41.2%)
No fee increase compensation by state	R 84m (7.0%)
Other income	R 38m (3.2%)
Total (excluding restricted funding)	**R 1 204m**
Residence fees	R 157m
Total	**R 1 361m**

A total of 28 300 students registered in 2016.

Of the 26988 undergraduates, 24 324 (90%) applied for NSFAS funding and 19 604 (72.6%) qualified for support. So, in terms of current nomenclature, approximately a quarter of our students fall within the "missing middle" category, while by far the majority are unlikely to afford university fees.

WSU has no reserves which generate interest income and can thus not absorb any fee waivers. We accept that there are some inefficiencies in our operations that need to be addressed, but we also require significant further funding to bring facilities to acceptable norms. We have been fortunate in having received R875m in funding support from the DHET in the past 10 years to address infrastructure backlogs.

Since income streams depend upon the payment of fees, cash flows remain tight.

4 POINTS FOR NOTING

Context

4.1 WSU is the largest university in the Eastern Cape Province and provides higher education opportunities primarily to poor communities in rural areas. It therefore serves as an important gateway for an important sector of society that would otherwise not be able to have the doors of learning opened for them. Its operations are core in addressing key national priorities.

4.2 Given the socio-economic circumstances of our students, the current fee-paying model, as traditionally applied, generates disastrous consequences for the Institution. In 2016 fees generated 48% of its income. But then, were this amount to be garnered from students and their families, our NSFAS support figures indicate that approximately 75% of our students would not be in a position to pay; while the other "missing middle" component would be hard-pressed to do so. This is also evidenced by the fact that historically, student debt figures have been substantial.

Finances

4.3 We are informed via the media of evidence before the Commission that, should fees not increase, WSU is projected to have the largest deficit of all the tertiary institutions. We are not sure of the base that was used for those calculations, but it probably did not consider our current post-turnaround situation. As indicated above, we are currently living within our means, although to achieve such discipline, service provision expenditure has been cut to the bone; human resources expenditure is insufficient to operate effectively; backlog and ongoing maintenance has been put on hold; and there is no cushion to meet unexpected expenditure. So, even though we are certainly financially stressed, the situation, we believe, is not as dramatic as has been portrayed.

4.4 The extent to which WSU is reliant on government funding is illustrated by the fact that WSU's normal state subsidy (R586m) and its NSFAS allocation (R571m) together constitute 85% of the University's total income.

4.5 WSU's concern is to maintain a steady and reliable income stream. Issues that affect our situation include:

- A fee-based model leads to student debt;
- Historically our students do not pay fees, which means that WSU will always have bad debts;
- Debt management is a high risk item.

4.6 In 2012, while WSU was under administration, the DHET allocated a once-off amount of R350m to assist the Institution with writing-off its bad debts and to improve its balance sheet. Scarcely three years later, at 31 December 2105, outstanding fees amounted to R434m of which R156m is considered to be doubtful. The traditional fee-paying financing model is therefore not sustainable income-generating option for an institution like WSU.

Fees

4.7 A comparison of fees that universities charge will indicate that WSU's fees for both tuition and residences falls substantially below the sector norms. This is the result of consistent failure in the past to levy inflation-related increases on fees, either in recognition of the socio-economic conditions prevailing in feeder areas or in response to student demands. Importantly, however, this means that while the Institution has barely managed to maintain its funding of basic educational services, it has not managed to maintain buildings and infrastructure, and to provide appropriate living conditions for students. In reality, therefore both tuition and residence fee income is substantially understated in terms of what is required for quality provision of services. The current no-increase situation exacerbates the situation and has similar long-term spin-off implications.

Accommodation

4.8 WSU currently supplies 7 500 beds to students – 4548 in University-owned residences and 2952 in private accommodation; in other words, only 27,8% of its undergraduate students have residence accommodation provided for them. University-supplied accommodation is grossly over-crowded with non-fee paying students – up to 8 persons in a single room – thus giving rise to unacceptable living conditions, as well as excessive strain on bulk infrastructure and maintenance, without generating income from the unregistered users. Again, given the geographic location of our campuses, where private accommodation is hard to come by, at least a further 12 500 beds are needed to provide a semblance of appropriate living and learning conditions for around 75% of our students. Our current CAPEX allocation is unable to make a dent in this backlog, and without state support in respect of infrastructure, which already has been substantial, WSU would not be able to cope. In addition, failure to improve living conditions and teaching facilities will lead to student unrest and additional security cost.

4.9 The likelihood of sufficient university-owned accommodation materializing in the near future is scant. Reliance will have to be placed on partnership projects. These usually come with inflation-related escalation clauses built into the contracts, which means that the residence fee component of our income cannot remain static.

Political risks and student action

4.10 The political risks associated with a fee-based model is apparent and needs little elucidation, save to point out some of the issues that impact specifically on WSU:

4.10.1 No-fee protests will be an annual focus area during SRC elections;
4.10.2 Protests disrupt the academic activity and rescheduling inevitably impacts on the quality of services that the Institution renders;
4.10.3 Security costs escalate. This year WSU has had to divert R3m from other operations to cover security costs associated with the two #Movements;
4.10.4 Political decisions not to pay fees will impact on the Institution's debtor book.

4.11 At the moment WSU students' reaction to the #FeesMustFall movement appears to be premised on the fact while their fees are covered at present, they do incur a liability in the future. The substantial majority of students are fully-funded NSFAS students. Whether fees go up or down, they remain fully-funded. In fact, if fees go up, it stands to reason that the University will be better placed to provide better services and living conditions for its students, and meet the basic benchmarks at other institutions. While at face value all of this does not make sense, the rationale appears to be that students want education to be entirely free without any risk of having to pay back monies to NSFAS later, when they are in a position to do so. This might also explain the reason why students are not flocking to take up Government's offer to fund historic debt.

4.12 Students are currently also objecting to the new NSFAS procedures. Again, with greater triangulation in respect of the information, it might mean that fewer students would be fully funded and so more could be exposed to paying fees. For the University, it would mean that the missing middle component is greater, with the concomitant likelihood of non-recovery of fees from those students being greater – thus increasing its sustainability risks.

4.13 Another feature is the potential risk to WSU of the #OutsourcingMustFall movement. A feature of its administration period is that WSU has had to reduce its staffing costs substantially to become financially sustainable – and in the process its academic service provision is severely compromised. At the moment, WSU provides some services in-house on some campuses while outsourcing those services on other campuses. Were all services to be provided in-house, approximately 800 staff would have to be absorbed, thus increasing the risk of further forced redundancies, with an additional increase in equipment and operational costs. Again, savings and efficiencies associated with outsourcing and no longer achieved would have to be factored into operational budgets.

5 CONCLUSION: OUR PREFERRED APPROACH

5.1 We recognise that it is incumbent upon tertiary institutions to ensure that they function in an efficient, economic manner. For example, if we are to educate for current and future employment, and/or for academic and financial viability, some of the programmes that we offer would need to be culled.

5.2 We have not investigated the feasibility of free education and are therefore not in a position to make submissions in that regard. We recognise however that government is at present unlikely to be in a position to provide funding for all institutional operations.

5.3 The current protests around fees and the #FeesMustFall movement make valid points, however, in that current funding of tertiary education is inadequate and that the level of funding burden placed on individuals and their families, is unacceptable. The sustained erosion of state funding for tertiary education must be halted and backlogs must be redressed.

5.4 We accept that even if free education (in the sense of a no-student fee situation) is attained, this would not absolve universities from finding funds from sources other than Government.

5.5 We have already indicated that a pure fee-based approach will result in continued financial pressure on an institution like ours. With that model, we will never be able to escape the trap that we find ourselves in currently; and we will always lag behind. If we are to continue as a gateway for poor people towards better socio-economic conditions, government must provide support for us to sustain that societal role.

5.6 We hold the view that since tertiary education serves both public and private needs and empowers individuals by increasing their own earnings capacity. It would therefore be acceptable for those who can afford it to pay either entirely or partially for their privileges. Those who cannot afford to pay for their education should be assisted, so that their socio-economic and financial statuses do not prevent them from reaching their potential. We therefore believe that it is in principle acceptable to have a fee-based model coupled with a strong financial support system to prevent inequities.

5.7 We are concerned that the manner in which fees were set in the past has created a situation where sectoral fee structures are not synchronised. Fees at some universities are double those for similar degrees at our institution. Fully-funded students at those universities therefore generate around double the income than those at WSU. In reality, our fees are too low. To redress the situation, substantial fee increases would be required at WSU, which, if done unilaterally, or without a similar increase in financial assistance to cushion the impact, would create substantial political risk. We therefore request that attention be given to how such risk could be ameliorated. Redress funding would help, but would not create a sustainable solution. Sectoral parameters for fees might be a better way to go.

5.8 We further suggest that the sector move towards a three-year rolling planning model for fee setting. This approach would provide clarity and some certainty, and would create greater institutional stability.

5.9 Special provision should be made for infrastructure development. We do not have the capital base to provide quality educational services and the backlog in this regard is enormous.

Professor J R Midgley
Vice-Chancellor and Principal
30 August 2016