

**University of Johannesburg**

**Submission to the Presidential Commission**

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**UNIVERSITY  
OF  
JOHANNESBURG**

## UNIVERSITY OF JOHANNESBURG

### The context of the University of Johannesburg (UJ):

- was constituted in 2005 being a merger between Rand Afrikaans University (RAU), Technikon Witwatersrand (TWR) and the Soweto and East Rand campuses of Vista University, the East Rand campus was closed,
- a residential university with 4 campuses, 3 in Johannesburg and 1 in Soweto,
- +/- 50 000 (undergraduate and postgraduate) students enrolled for a variety of subsidised degree and diploma qualifications, this number includes 3000 international students from more than 80 countries,
- we aim to increase our number of international students to 5,000 by 2020,
- student numbers have been largely stable for the past 3 to 5 years between 49 000 and 50 000 curricular students,



## UNIVERSITY OF JOHANNESBURG

### The context of the University of Johannesburg (UJ):

- 9 faculties with qualifications across the educational spectrum and from diplomas to doctoral degrees,
- Faculties of:
  - Education, Engineering and the Built environment, Health Sciences, Law, Management, Financial and Economic Sciences, Sciences, Art Design and Architecture and Humanities,
- enroll into 1<sup>st</sup> undergraduate programmes, close to 28% of students who come from quintile 1 and 2 schools that serve the poorest in our nation,
- approximately 60% of graduates are first generation university graduates



## UNIVERSITY OF JOHANNESBURG

### The context of the University of Johannesburg (UJ):

- in 2015, a new high in our undergraduate module completion rates of 85.4% was achieved, overall annual graduate output is now in excess of 12 000 graduates per year, (see table below),

Degrees and diplomas awarded					
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Business / Management	4 272	4 935	5 033	4 706	4 705
Education	1 585	1 032	509	829	922
Humanities	2 098	2 296	2 676	3 165	2 827
STEM	3 274	3 147	3 358	3 634	3 695
Total	11 229	11 410	11 576	12 334	12 149



## UNIVERSITY OF JOHANNESBURG

### The context of the University of Johannesburg (UJ):

- 93% of our students obtain employment within 12 months of graduation,
- a further 9,500 students are enrolled in our continuing professional development and non-subsidised programmes,
- in numerous ways, the University is excelling:
  - in 2015 QS World University Rankings of universities in the BRICS countries again ranked UJ among the top 100 universities, placing it 67<sup>th</sup> among this economic bloc's 6 200 universities, and 5<sup>th</sup> in South Africa,
  - the 2015 QS Subject Ranking placed sixteen of UJ's subject offerings in the Top 300 subjects globally,
  - the University is the only African member of the prestigious Universitas 21 Group of research-intensive universities,



## UNIVERSITY OF JOHANNESBURG

### The context of the University of Johannesburg (UJ):

- Thompson Reuters ranking of universities, that ranks universities according to, their global research profile, their ability to recruit high quality staff and students, and their ability to establish, valuable international partnerships, has placed UJ in the 6<sup>th</sup> position of universities on the African continent,
- the National Research Foundation awarded UJ, in 2015, five new South Africa Research Chairs to UJ, these new research chairs are all held by UJ's female academics – proof of UJ's research impact.



# UNIVERSITY OF JOHANNESBURG

## Income:

- The income of the UJ consists of:
  - government subsidy,
  - tuition and residence fees and,
  - other income, which includes third stream income and investment income.
- government subsidy and the tuition fees are the two major sources of income and in 2015 represent approximately 81% of the consolidated income of the university.



## UNIVERSITY OF JOHANNESBURG

Income:

- The subsidy proportion of the total income of the UJ has been decreasing, because of the low real increase in the subsidy and the resulting double digit fee increases (see table below):

<b>University of Johannesburg – annual block grant increase</b>					
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>Annual increase in block grants (excluding earmarked grants)</b>	6,89%	6,23%	2.23%	5.09%	0.62%

<b>University of Johannesburg - analysis of Income</b>					
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>
<b>Government subsidy</b>	1 146 386	1 222 029	1 303 513	1 389 135	1 427 204
<b>Government subsidy as % of Income</b>	47,27%	45,03%	44,83%	41,91%	40,43%
<b>Tuition and residence fees</b>	931 930	1 043 877	1 097 025	1 292 451	1 424 405
<b>Tuition fee as % of Income</b>	38,43%	38,46%	37,73%	38,99%	40,35%
<b>Other income</b>	100 001	115 509	123 828	130 409	140 158
<b>Research income</b>	80 102	83 699	113 048	117 857	229 665
<b>Investment income</b>	166 632	248 763	270 373	384 707	308 375
<b>Total income</b>	<b>2 425 051</b>	<b>2 713 877</b>	<b>2 907 787</b>	<b>3 314 559</b>	<b>3 529 808</b>



## UNIVERSITY OF JOHANNESBURG

### Income:

- Due to the government subsidy increasing at a percentage lower than CPI and the HEPI, it is inevitable that this puts pressure on the tuition and residence fee increases, resulting in these being increased by double digit increases for the past 5 to 7 years to ensure adequate income to pay the operational expenses of the university,
- Based on the table above, indicating that the tuition and residence fees have been between 38% and 40% of total income for the period, with an increasing trend, this demonstrates the importance of the tuition fees in the finances of the UJ.
- Without tuition and residence fees the university will not be able to function, and in any future funding model these amounts will have to be replaced to ensure financial sustainability.



# UNIVERSITY OF JOHANNESBURG

## Income:

- The basis for the annual fee increase is the annual operating budget requirement and the funding of specified strategic initiatives. In addition, to support our financially needy students to enable them to succeed, we allocate a material part of the increase to student assistance.
- Since 2005, UJ has allocated a significant portion of the annual fee increases to student assistance. The following were allocated from the 2015 fee increase:

SRC Trust Fund R11m

UJ food assistance program, in partnership with

Gift of the Givers, (2 meals a day to 3 500 of our students) R12m

Free inter campus bus service R16m

Annual amount allocated to top up NSFAS R45m

**Total R84m**

(This is in excess of 45% of the 2015 fee increase rand value)



## UNIVERSITY OF JOHANNESBURG

### Expenditure:

- The Financial and Sustainability Committee of Counsel requires the management to achieve an annual break-even budget,
- A sub-committee of Universities South Africa (USAf), the Financial Executives Forum (FEF) commissioned a study into the internal inflation price index of universities and to determine a higher education pricing index (HEPI). The index score calculated, on 2013 year data, was 7.50% in comparison to a CPI for that year of 5.70%,
- The study further concludes that, if 2004 is taken as the base year, there was an 11.30% difference in the CPI and the HEPI,
- Thus if universities were funded at the level of the CPI from 2004 they would be underfunded by around 11.30% by 2013,
- In certain of these years the funding was not even at the CPI level, thus the underfunding could be substantially in excess of 11.30%,



## Expenditure

- The university's cost base is largely fixed due to the type of operational expenses it incurs, for the 2015 financial year, the UJ's expenses per the income statement are made up as follows:

Remuneration (permanent staff, contract staff and temporary staff)	61%
Overheads (water and electricity, utilities, cleaning and security expenses)	10%
Operational expenses (these expenses are variable)	29%

### Expenditure:

- It is necessary to note, however, that universities do not necessarily have the ability to manage all their costs, for example, a large portion of the costs is influenced by foreign exchange rates. Some of these are:

Library electronic databases,

Software and software licenses,

Research equipment,

Research consumables (for eg certain chemicals)

Computers and computer-related hardware,

## UNIVERSITY OF JOHANNESBURG

### Reserves:

- A further matter that requires explanation is the notion that the reserves per the statement of financial position “belong” to the Council of the respective university. This is simply not true,
- The reserves consist of various items, most of which are not under the control of the Council, and are typically made up of the following individual items:
  - Funds invested in property, plant and equipment (not liquid or able for use at all),
  - Bursary funds (where funds are placed in “trust” and the return thereon can be allocated to students as bursaries as per the bursary agreement),
  - Research reserve funds (where funding has been secured for research projects and the return on the investment can be used for the research project),
  - Endowments and/or university trusts usually under the control of independent trustees,
  - **Council controlled reserves**, which are the only funds available for investments, etc.

# UNIVERSITY OF JOHANNESBURG

## Reserves:

- it is important that universities must be able to accumulate and build adequate levels of reserves, based on their own financial ability and financial planning,
- any funding model should allow for this, as it creates greater stability and academic output,
- the ability of universities to build and to maintain an adequate level of reserves is crucial as reserves allow Councils to invest in strategic initiatives, such as new facilities or the funding of strategic research areas,
- the university strives to respond to the need for a range of scarce skills in the development of South Africa, and this requires swift action, which is reliant on funding from reserves. Moreover, the university reserves allow UJ to create its own specializations, niche areas and academic differentiators.



## UNIVERSITY OF JOHANNESBURG

### Reserves:

- Although the UJ was able to achieve modest operational surpluses this was not enough to fund the backlog maintenance,
- As a result, annual maintenance is financed from the investment return on the Council Controlled Reserves, the UJ's unfunded backlog maintenance in June 2014 was approximately R550m,
- During recent years, questions have repeatedly been raised concerning the reasons why universities should have reserves,
- As indicated above, in UJ's case, the Council controlled reserves allows strategic investments in innovative academic initiatives, investment in infrastructure, the provision of funding for maintenance, and to provide for a small buffer in the event of a period of financial uncertainty.





## UNIVERSITY OF JOHANNESBURG

### Current financial position:

- the university has achieved a positive operational result since its inception in 2005, as a result of the actions by Council and Management, which includes:
  - sound academic management to ensure that the university receives its fair share of the subsidy,
  - in some years, since 2007, double digit fee increases,
  - sound investment practises,
  - effective remuneration and operational cost management and
  - asset and reserve management,
- the university maintained its assets and infrastructure as best possible within the financial means,
- the Council controlled reserves is R1.2bn,
- thus, at this stage, the university is still in a financially sound position,



# UNIVERSITY OF JOHANNESBURG

## Student assistance:

- The University recognises that many students cannot afford university fees and we will thus continue with the support that we provide for our students through:
  - the top-up to the National Student Financial Aid Scheme to the value of R20M, this year, to support all 10,013 NSFAS-qualifying students,
  - through financial support and fund raising 2016 (so far) R74m (2015-R37m) to students in the so-called “missing middle” – these are students who do not qualify for NSFAS, but whose family income is simply insufficient to finance their studies through loans,
  - support of 2 meals-a-day to 3,500 financially needy students,
  - an additional R20m made available from our operating budget, to pay the 1<sup>st</sup> initial payment of +/- 3 800 students from the so-called missing middle.



## UNIVERSITY OF JOHANNESBURG

### Socio-economic, Academic Development and Student Residence matters:

- students are faced with various socio-economic issues as a result of the poverty and inequality in our society,
- large numbers of students do not have resources to provide for their basic needs such as food, clothes and personal items, while at university,
- thus, in addition to not being able to pay their studies or to buy books, they do not have money to sustain themselves at university, and as a result they struggle to progress in their studies,
- universities assist where they can, but there are not enough resources, in an underfunded system, to assist all the students with personal needs,
- the question is whether these needs should be funded by universities?
- universities have to allocate resources to assist students with their most basic needs, which in other societies would be funded by the students' families or sponsors,



## UNIVERSITY OF JOHANNESBURG

### Socio-economic, Academic Development and Student Residence matters:

- a further educational matter is underprepared students from the senior school system,
- additional costs are incurred in academic assistance to ensure that students do not drop out before they have completed their studies,
- this requires a suite of academic and social assistance programmes which the university has to provide,
- in our case an extensive Academic Development and Support Division is assisting 1<sup>st</sup> year and senior students to adapt to university life, this is a crucial intervention in ensuring academic success for our students,



## Socio-economic, Academic Development and Student Residence matters:

- in addition to this UJ also has an extensive tutor and mentoring programme to ensure students' success in the classroom. This is funded from the operating budget and the increasing investment for the past 5 years is as follows:

Additional Teaching and Learning assistance					
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
	<u>R' 000</u>	<u>R' 000</u>	<u>R' 000</u>	<u>R' 000</u>	<u>R' 000</u>
Tutors and Residence advisors	13 772	16 796	27 115	33 081	34 739
Assistant lecturers	-	-	-	11 683	12 915
<b>Total</b>	<b>13 772</b>	<b>16 796</b>	<b>27 115</b>	<b>44 764</b>	<b>47 654</b>

## UNIVERSITY OF JOHANNESBURG

### Socio-economic, Academic Development and Student Residence matters:

- no subsidy is provided for the operational expenses of student accommodation, the full cost is recouped from the student, due to the socio-economic circumstances in the country students are not able to afford the residence fees,
- due to the above residence fees are too low to operate, maintain and replace residences,
- in certain instances, a capital contribution, by the state, is made to build new accommodation, however universities do not have adequate reserves to develop additional residences as required by the Residence Norms and Standards which was gazetted late last year,
- the residence fees charged is also not at a level which allow an institution to obtain financing for new residence developments,



# UNIVERSITY OF JOHANNESBURG

## Socio-economic, Academic Development and Student Residence matters:

- any future model of funding for higher education will have to account for the following:
  - funds required to assist students with socio-economic inequalities, on top of subsidy and "fees",
  - adequate resources to assist in academic assistance and development,
  - funding regime to effectively operate, maintain and develop additional, much needed student accommodation,



## UNIVERSITY OF JOHANNESBURG

### Current funding macro principles:

- UJ agrees with the current dispensation whereby higher education is a **shared cost**, shared between the state and the private individual,
- this funding model assumes that higher education provides both **public** and **private good**, and should be funded as such,
- whereas the state funds the public good, the individual funds the private good, as the student and his/her family will benefit from the education,
- thus students who can afford to pay tuition fees should indeed pay, as they will derive personal benefits from their education,
- It is however a fact that a large portion of the population cannot afford to fund their studies, and mechanisms to assist these students should be developed and should operate effectively,





# UNIVERSITY OF JOHANNESBURG

## Current funding macro principles:

### Proposal

- as in the current scenario the UJ still proposes that, going forward, the **cost sharing model should continue**, and university funding will still be a combination of private and public funding,
- this will ensure that the State still funds the public good and the individual student funds the private good,
- a necessary element of social justice is that the funding model should include mechanisms to ensure that academically deserving and academically achieving students should be not excluded from university because they cannot afford it,

These mechanisms should be based on the following principles:



# UNIVERSITY OF JOHANNESBURG

## Current funding macro principles:

### Proposal

#### Model 1

- An analysis of the current level of government subsidy provided versus the tuition fees charged should be undertaken, **the aim of which would be to rectify the current imbalance between the contributions by the two parties concerned.** Thus, the level of fee payable should be at a realistic level and not unaffordable as it is now.
- In South Africa, the funding to higher education as a percentage of GDP was 0.68% in 2004/2005 and 0.72% in 2015/2016. Comparatively, based on 2012 statistics, the percentage for Brazil is 0.95%, Senegal and Ghana is 1.4%, Cuba is 4.50% and Finland and Norway 2%. It is evident that at the current level, state funding is not in line with other counties.
- If the higher education budget was set at 1% of GDP, the allocation during 2015/2016 would be R41bn vs the R30bn which was provided. The difference of an additional R11bn would make a major difference to the sector.

# UNIVERSITY OF JOHANNESBURG

## Current funding macro principles:

### Proposal

#### Model 1

- Once this imbalance has been rectified and the subsidy is at an appropriate level, the tuition and residence fees can be normalised and annual increases can return to affordable levels.
- Students who can pay for their studies should pay as they will derive personal benefits from higher education.
- Students who cannot afford to pay the adjusted, more realistic, tuition fees and residence fees should be able to obtain assistance to pay their studies. This assistance will be a combination of grants and loans, depending on the student and his family's ability to contribute to the education costs.
- The State will have to determine how much funding will be available for grants as these will not be repaid.



# UNIVERSITY OF JOHANNESBURG

## Current funding macro principles:

### Proposal

#### Model 1

- The work currently being done under the chairmanship of the NSFAS Board Chairperson to develop a new funding model for students is of utmost importance,
- This development is still in progress and a pilot will be run in 2017 with planned full roll-out in 2018,
- The principle idea is that households with a total of up to R600 000 could qualify for assistance,
- To fund this an array of funds, from the public, business and private sector will be required. Public credit instruments could include social impact bonds, residence development bonds, securitised debt and commercial loans.



# UNIVERSITY OF JOHANNESBURG

## Current funding macro principles:

### Proposal

The most important principles for this new model are:

- Effective distribution of the funds to financially needy students and the elimination of fraud and corruption;
- Effective back-office and administration on the funds and the loan book, by NSFAS or any succeeding entity;
- Effective collection mechanisms and penalties for non-repayment of the loan. Currently, limited penalty actions are available to NSFAS.
- This model supposes further that universities will continue to raise funds for their financially needy students as it is possible that a new “NSFAS” model will still not have adequate funding for all students who cannot afford university.
- The most important foundation of this funding alternative is the successful implementation of the new NSFAS Funding Model.



# UNIVERSITY OF JOHANNESBURG

## Current funding macro principles:

### Proposal

The most important principles for this new model are:

- A possible negative of this model is that student debt can increase, especially if there is low economic growth and high youth unemployment, as graduates will not find employment to repay their study loans (this could be for both points 2 and 3 above).
- In this model, tuition and residence fees are collected by universities at the time of study and could be funded by a loan which is repaid when a student completes his/her qualification.



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## Current funding macro principles:

### Model 2

- This model also supposes a combination of public and private funding, although the private funding is collected via a graduate tax once a student is employed,
- Thus the student does not pay during his/her studies but pays once employed. Such employment will be a part of the private good the student receives as a result of studying.
- As detailed in Model 1 point 1 above, the current subsidy will continue as is but the imbalance between the public and private good funding should still be rectified,
- Thus the subsidy will have to increase to an appropriate and comparable % of GDP (see above),
- The tuition fee part will be funded by a graduate tax, once a student qualifies and finds employment a percentage will be deducted via the PAYE system and paid into a ring-fenced fund which is used to fund the tuition part,



# UNIVERSITY OF JOHANNESBURG

## Current funding macro principles:

### Model 2

- As per the nature of the PAYE system and being a fixed percentage, the rand amount will depend on the earnings of the student.
- The negatives of this model may include:
  - If the economy does not generate sufficient employment opportunities for graduates this proposal will not work;
  - The administration of such a tax may be complicated by the fact that not all graduates are remunerated through a payroll system;
  - The tax will only apply to graduates who earn income in South Africa.



# UNIVERSITY OF JOHANNESBURG

## Conclusion:

- The UJ accepts the reality of the current economic situation in the country, one which does not provide ample opportunity for the government to increase the tax base or to raise taxes to fund (among others) the additional funding requirement of universities,
- The current uncertainties around fees, fee increases and subsidy levels creates uncertainties in the higher education sector. If this continues, it will assuredly impact negatively on the service delivery to students.
- Any future funding model should provide certainty for the financial sustainability of universities and the sector. Such a model should also account for the additional costs which South African universities have to carry due to the poverty and inequality within society. If these costs are not accounted for, the students' academic progress will continue to be hampered.
- Due to the level of financial resources required and the complexity of the sector, the UJ is of the opinion that a 'fee free' dispensation is not possible and not affordable. The funding of the higher education sector should be a joint venture between the state, public agencies, funding agencies, the business sector and the individual students on a cost sharing model.

**Thank you for the opportunity**

