STELLENBOSCH UNIVERSITY SUBMISSION TO THE COMMISSION OF INQUIRY INTO HIGHER EDUCATION AND TRAINING

6 September 2016

1. Introduction: SU support for sectoral approach

Stellenbosch University (SU) welcomes and supports the sector-wide approach to the current financial dilemma within higher education in South Africa which has now escalated to concerning levels of instability, turmoil, violence, and damage to property, as well as the threat to the academic project and the long term sustainability of many public higher education institutions.

We concur with the combined sectorial issues that have been highlighted in the submissions by Universities South Africa (USAf), the University Council Chairs Forum (UCCF) and the Council on Higher Education (CHE). The chronic underfunding of the sector over close to two decades has given rise to a plethora of consequences affecting much more than the financial situation at our universities. These sectoral challenges necessitate a sectoral approach to find lasting solutions.

In this submission we will be referring to some of the generalities that affect all institutions, but specifically related to how these impact SU, as well as our unique set of circumstances.

SU supports the sectoral proposal of the minimum of an 8% increase in annual income for 2017 if universities are to maintain current levels of academic quality and financial sustainability. This income could come from a variety of sources, including state subsidy, student (tuition) fees and a complex array of other private sources of funding.

However, an income increase of only 8% will just enable institutions to maintain current standards and activities. It is not enough for any improvements, expansions or innovation. Neither will it ensure long term financial sustainability – an unenviable situation for universities with a major impact looming for the quality of the academic offering in the sector. An income increase below 8% is likely to compromise the financial position of at least two thirds (17) of the universities in the sector (26) in 2017.

Recent rumblings in the political sphere remind of the Swahili proverb: w*hen elephants fight the grass gets hurt*. In this regard the SU management would like to emphasise the role of higher education in the realisation of the objectives of the National Development Plan and the implications for the country if the sector is to be exposed to ongoing underfunding, instability and political undercurrents. The negative impact will ripple far beyond the higher education sector.

2. International context

Financial challenges in higher education are not limited to South Africa. Factors shaping the future of the sector appear to be universal, and questions relating to who is, and who should be footing the bill, are being asked worldwide.

In their book – *Financing Higher Education Worldwide. Who pays? Who should pay?* – D Bruce Johnstone and Pamela N Marcucci, interrogate the financing of higher education worldwide with some of its discernible trends, particularly the shift of higher education costs from governments and taxpayers to students and parents. Some of the important forces that have been shaping and will almost certainly continue to shape the future of higher education and who we will pay for it, include the following:

- surging enrolments and enrolment demand;
- increasing higher education costs and revenue needs;
- growing liberalism of the world economy;
- increasing globalisation; and
- declining government revenue due to sluggish economies, the difficulty of collecting taxes and competition from other compelling social needs.

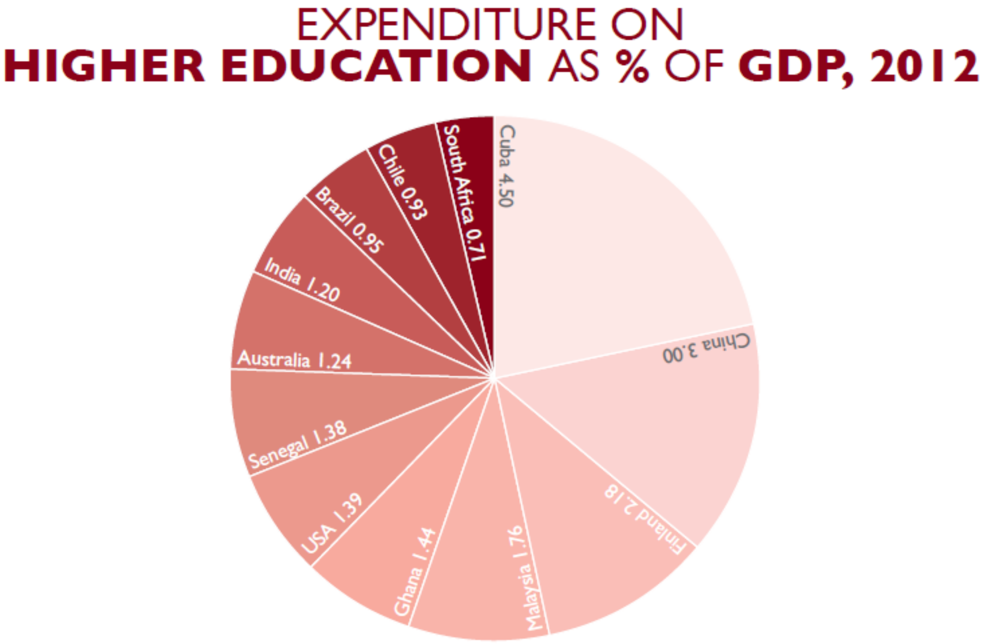
The authors conclude that cost-sharing between governments (and taxpayers), students (and parents) and philanthropists, for almost all countries is not only an imperative for the financial health and sustainability of higher education institutions, but it can also bring about enhanced efficiency, equity and responsiveness.

Johnstone and Marcucci acknowledge the sheer difficulties of advancing such policies, in addition to the extraordinary and almost inevitable political resistance and turbulence that generally and understandably accompany the implementation and or sustaining of tuition fees and other cost-sharing policies. They also indicate that the advocacy for cost-sharing is always an advocacy for its ability to supplement and augment government revenue; never to replace it. Governments should continue to recognise the worth of higher education to the individual and society alike; the value of expanding participation in this sector and the fact that higher education is expensive and that its revenue needs will continue to grow. Financial assistance in the forms of targeted government grants and loans should always be a feature of higher education cost-sharing.

3. South African context

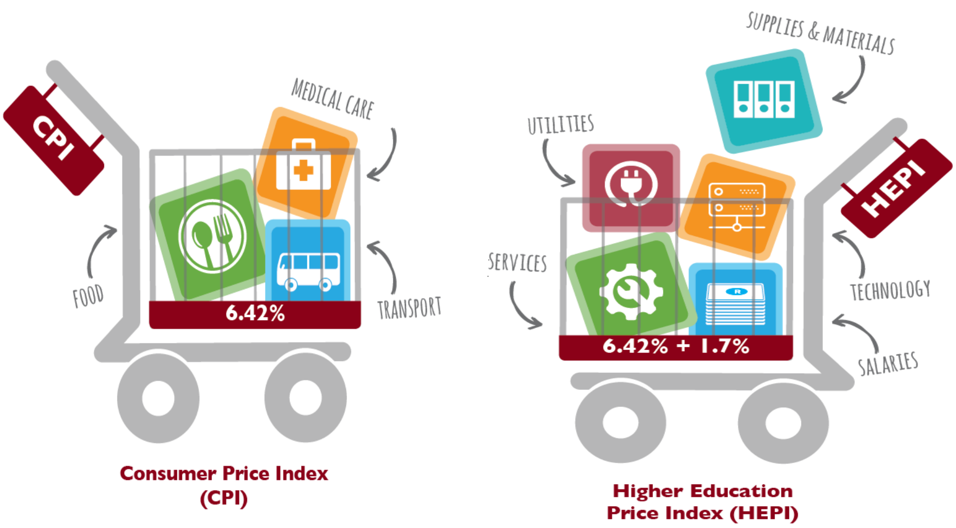
- Universities in South Africa have been chronically underfunded (annual increases below Consumer Price Index – CPI) for close on two decades which essentially is the current source of the financial crisis in higher education.

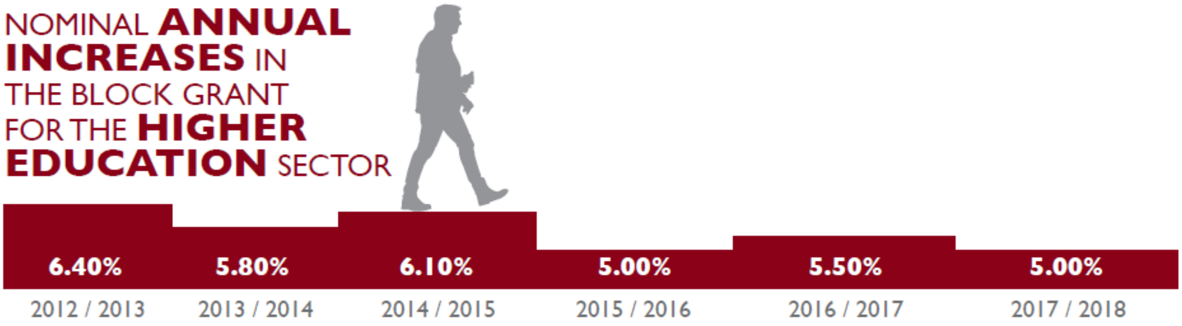
- South Africa's investment in education as a percentage of the Gross Domestic Product (GDP) is much lower than in many other African and BRICS countries (see graphic below).



- While South Africa currently spends about 0.75% of its GDP on higher education, the US and the UK contribute 0.9% of GDP and Germany spends 1.1%.

- There has been a steady decline in the state subsidy, with an annual increase less than the CPI, while expenses have been increasing by at least the HEPI. At the turn of the century state contributions to university education was around 49%, declining to 40% by 2012. In the same period student fees increased from 24% to 31%.





Nominal annual increases in the block grant from the DHET for the Higher Education sector have been consistently less than the Consumer Price Index (CPI).

- These circumstances prevail amidst pressures from the Department of Higher Education and Training (DHET) to increase the intake and the throughput rate of students (for which Stellenbosch University is mostly unfunded). In addition there has been a steady decline in funding for higher education infrastructure in recent years.
- The potential impact of the DHET's new subsidy formulae for universities, and the timelines for the implementation thereof have created uncertainty within the higher education sector.
- Problems with the administration of NSFAS funds, as well as the new platform to be used, have added to the sector-wide uncertainty.
- The lack of sufficient funding was exacerbated by the 0% student fee increase announced for 2016, and it will have an expected ripple effect beyond 2019.

4. The Stellenbosch University perspective

High research costs

South African universities differ quite substantially in shape, size and composition, and so do student fees at various institutions. Some focus on research output, contract research and postgraduate study, with laboratories, libraries and technology that are expensive to maintain. The same applies to institutions that offer programmes in Medicine and Health Sciences, Science, AgriSciences and Engineering. A "one-size-fits-all" fee increase is therefore not a solution for the sustainability of the sector.

As a well-established research-intensive institution, the sustainability of SU's research depends on third-stream (contract research) and fourth-stream (philanthropic donations) income. A total number of 850 new research contracts were processed in 2015, amounting to a total monetary value of R1,187 billion, typically spread over the multi-year duration of such contracts.

A report of the Department of Higher Education and Training for 2015 (based on the 2014 output) confirms SU's status as the most research productive academic institution in South Africa with a weighted research output per fulltime academic staff member (publications and postgraduate students) of 3,03. It also puts SU in the first position in terms of per capita publication outputs with a figure of 1,5. Further-more a record number of 267 PhD degrees were conferred in the 2015 academic year.

This income from contract research may create an inaccurate perception of a well-funded institution. Creating an enabling environment is important to research success, and such research enablers, including world-class human resources, as well as high-end and expensive infrastructure, come at a substantial cost. Some of these funds may be allocated as bursaries to postgraduate students, but SU requires student fees to enable us to fund bursaries for poor undergraduate students. We give back between 55% and 60% of our second-stream income (from student fees) to students in the form of financial aid.

Maintenance backlogs

Being close to 100 years old (in 2018) SU has a large number of aging buildings, and as a result of earlier budget cut-backs, the institution is currently experiencing a back-log in maintenance.

Insourcing/Outsourcing

Although SU opted for viable sourcing instead of insourcing all contracted services as some other institutions, the *ex gratia* payments and subsidies to the employees of subcontractors resulted in additional expenditure to the amount of R20 million. This expenditure was to ensure that the workers of SU's subcontractors earn at least the same cost-to-company salary as SU employees on the same post level.

Additional services

Municipalities and government departments such as the SAPS and the Department of Basic Education are no longer able to fulfil their roles to the required levels. As a result SU has had to allocate funding to subsidise public transport for staff and students; to provide substantial academic support services for first-year students who are inadequately prepared for higher education; and to institute additional safety measures.

All the factors mentioned above contribute significantly to escalating costs at SU, as the additional expenditure is not subsidised via government funding.

4.1 Bursaries as a strategic instrument

The outcomes of last year's #FeesMustFall movement emphasised the reality of South Africa's unequal society, and highlighted the need for quality higher education to produce skilled workers to take the country forward.

In the current economic climate and growing demands on government to stimulate growth and create jobs, fee-free university education currently is not feasible, but until alternative and viable solutions are found, universities have no other option but to adjust tuition and accommodation fees in a responsible manner.

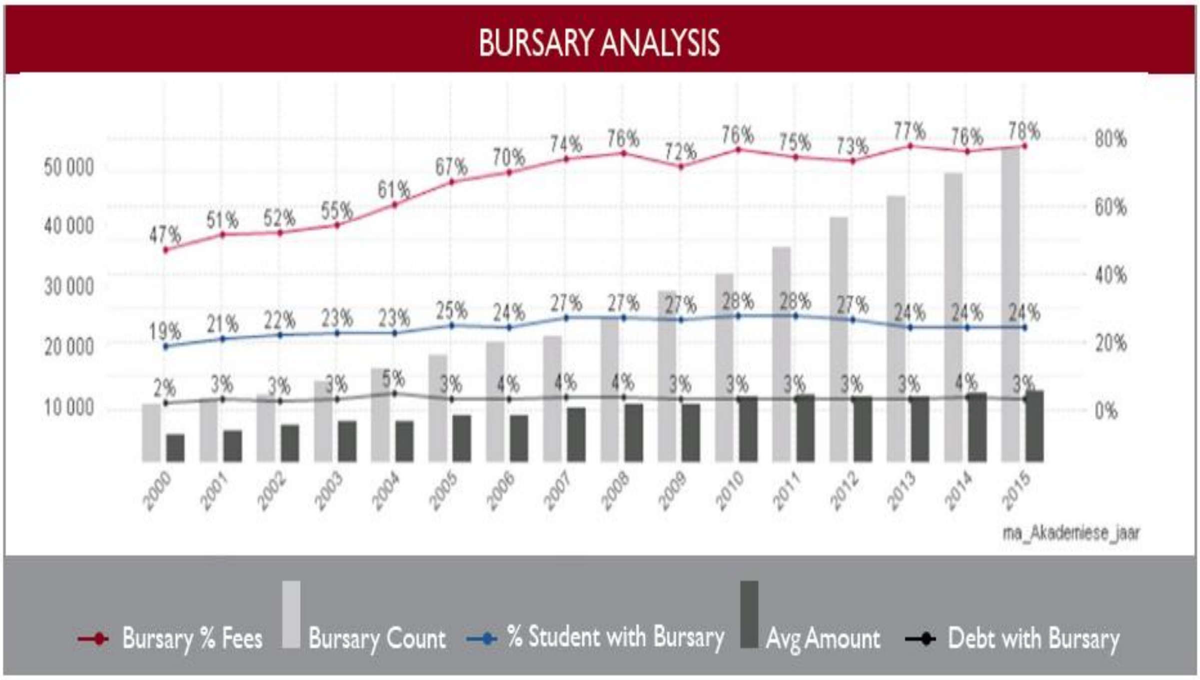
Stellenbosch University (SU) and the rest of the sector acknowledge that South Africa has an unequal society comprising of an affluent and upper middle class that can afford university education and a large component of lower middle class and poor students who cannot pay their way. We realise that student fees are a major concern for many of our students and their families. However, we do not believe that fee-free higher education is currently feasible.

Stellenbosch University supports and follows a differentiated approach, with an emphasis on financial support to academically deserving, poor students:

- Students from households with an income of R600 000 or more a year are in a better position to pay tuition fees.
- The National Student Financial Aid Scheme (NSFAS) supports students from households with an income of less than R122 000 per year.
- SU offers bursaries to students from households with an income of less that R240 000 a year, a group that is part of the "missing middle" who do not qualify for NSFAS funding.

Statistics regarding bursaries (2015 data):

- 24% of all students receive a bursary;
- Total bursaries paid by SU in 2015 amounts to R658,7 million:
    - R402,8 million from own funds & research contracts (R115 million from the main budget allocation)
    - R255,9 million as agents (including on behalf of NSFAS)
    - Of specific concern is the so-called "missing middle" group of students who do not qualify for NSFAS funding, but who also cannot afford university fees. The annual household income for this group ranges from R122 000 up to R600 000. SU has managed to provide bursaries for a portion of this group in the income bracket from R122 000 up to R240 000 per year. However, such initiatives would be jeopardised if SU is not in a position to increase its annual income.



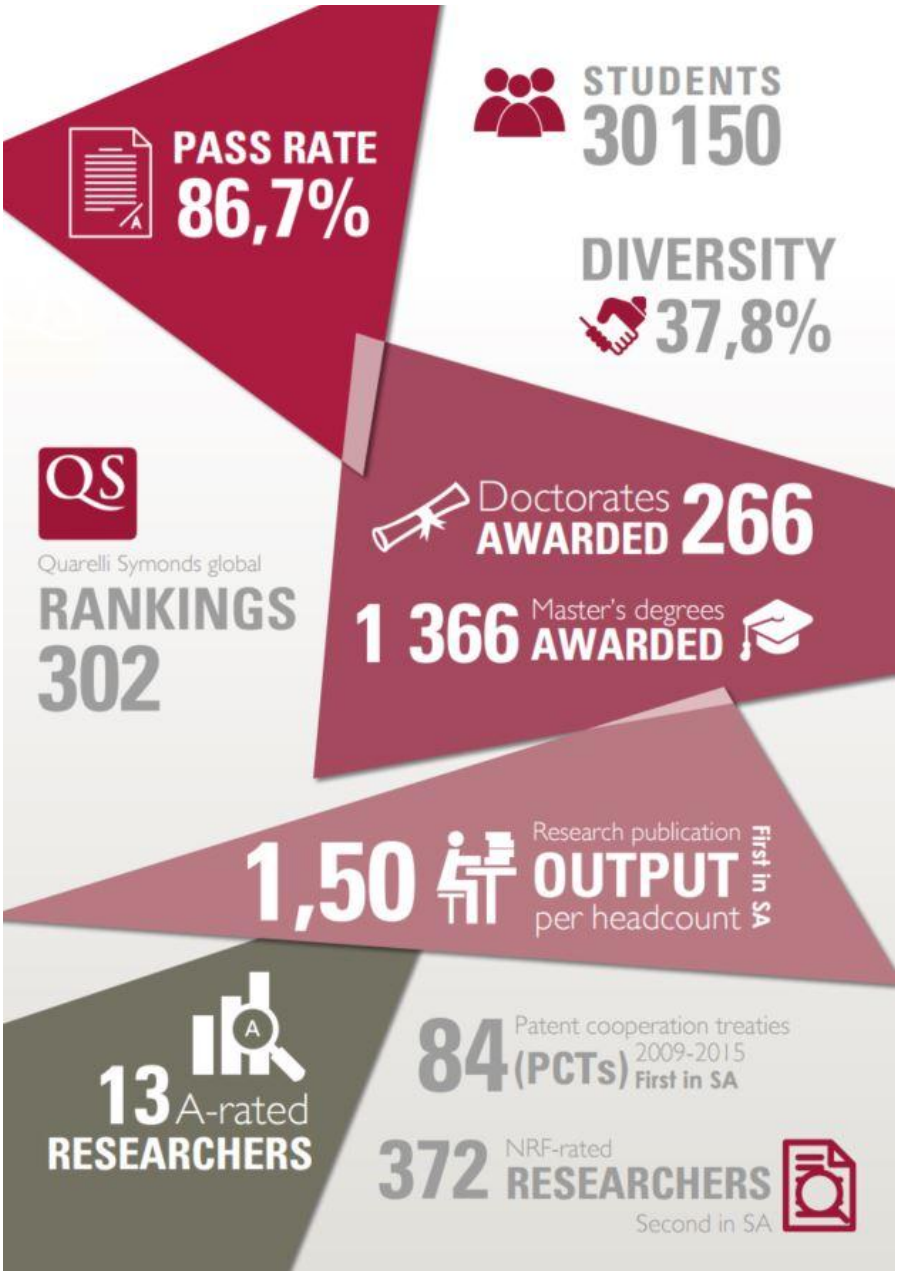
GROWTH & COMPOSITION OF BURSARIES, 2011 - 2015

		2011	2012	Increase / (Decrease) 2011/2012 %	2013	Increase / (Decrease) 2012/2013 %	2014	Increase / (Decrease) 2013/2014 %	2015	Increase / (Decrease) 2014/2015 %
Total expenditure of recurring nature, of which:	Rm	2 708	3 090		3 321		3 653		3 716	
Bursaries paid	Rm	422	462	14	531	10	588	11	659	12
% of expenditure	%	15.6	15.6		16.0		16.1		17.7	
Principal	Rm	253	270	7	316	17	338	7	403	19
Agent	Rm	169	212	25.6	215	1.6	250	16.3	256	2.3

CATEGORY GROSS INCOME PER FAMILY / PY	NUMBER OF APPLICANTS	AMOUNT NEEDED
R600,000 – R241,000	235	R9,508,275
R240,000 – R123,000	457	R28,195,175
R122,000 – R0	950	R81,448,143
TOTAL	1642	R119,151,593

The table above illustrates the estimated "missing middle" based on the number of applications for financial assistance received by SU. It may not reflect the actual number of students who may qualify for financial aid in any of the above categories.

4.2 SU Value proposition



As a national asset, SU makes a valuable contribution to the country. We deliver sought-after graduates, maintain a high research output, employ many rated scientists, produce record numbers of PhDs and provide innovative academic student support services.

Whereas the average first-year throughput rate in South Africa is 50%, more than 85% of our students go on to their second year. All of this form part of SU's value proposition. Stellenbosch University takes pride in its teaching by top experts in their fields, our excellent research output, as well as initiatives to develop responsible citizens and sought-after professionals with graduate attributes that extend beyond an academic qualification. Adequate funding is a prerequisite to sustain our academic excellence, bursaries and student support services.

4.3 SU financials (2015)

Stellenbosch University has four income streams: (1) state subsidy; (2) tuition and accommodation fees paid by students; (3) contract research, investments, commercialisation and sales; and (4) philanthropic donations and bequests.

Salient features of 2015 Consolidated Annual Financial Statements	
INCOME STATEMENT	
Surplus for the year	R1 317,3
Less: Interest & Dividends (R347,7) + Realised profit on disposal of investments (R545,7m) + Foreign exchange rate profits (R15,2m)	(R907,7m)
Remaining surplus (restricted & unrestricted)	R409,6m
Main budget surplus (Mainly: Saving on utilities = R26,7m)	R36,1m
Restricted surplus	R373,5m
BALANCE SHEET	
Restricted funds	R7 971,7m
Unrestricted funds	R1 663,0m
Earmarked funds (incl, funding for Capital Renewal Plan as approved by Council 1 December 2014)	R1 239,8m
Unearmarked funds	R423,2m

Understanding the US financial statements (2015)

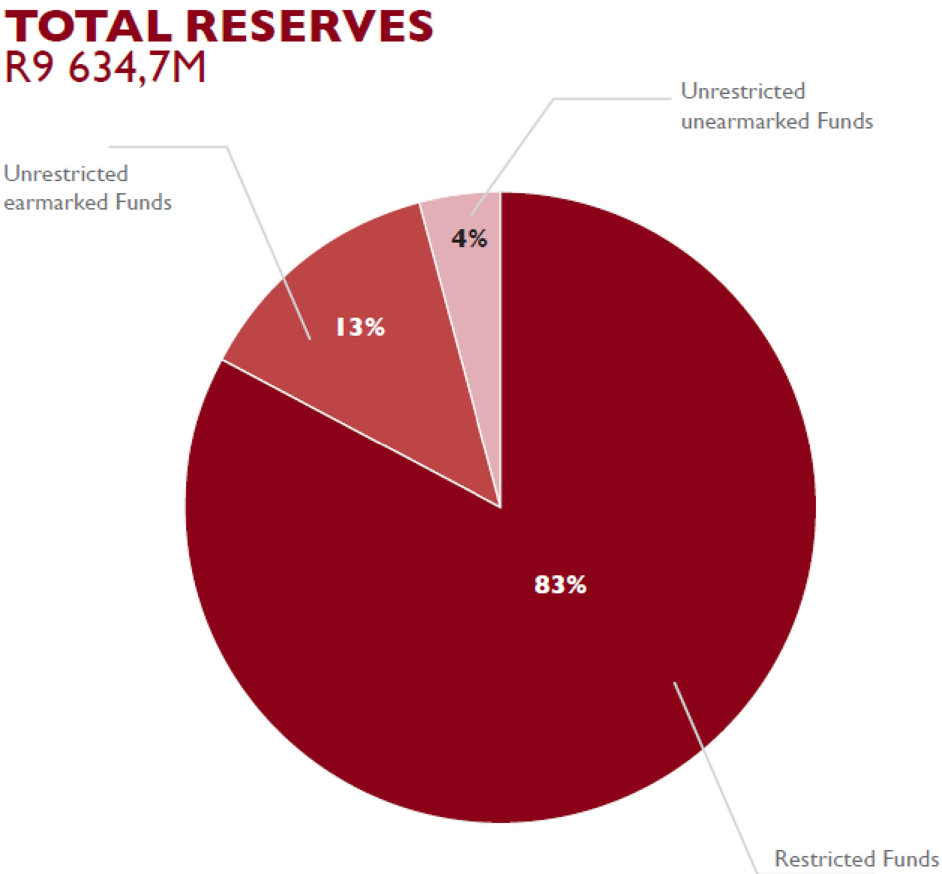
Income statement:

- Reported surplus (total) = R1 317m, comprised as follows:
    - Interest, dividends and realised profits on investments = R907m (allocted to relevant funds)
    - Unrestricted surplus (for example core academic activites funded by state subsidy and tuition fees) = R36m
    - No surplus on Accommodation budget

Balance sheet:

- Funds consist of restricted and unrestricted funds.
- Restricted funds (R7 971,7m) consist of operating, loan, endowment and fixed-asset funds with specific conditions for application.
- Unrestricted funds (R1 663m) are those funds that the Council may use at its discretion.

- Within the pool of unrestricted funds are funds earmarked (R1 240m) for specific purposes that cannot therefore be applied for purposes other than what it is earmarked for without question.
- Included in the earmarked reserves is R297 million earmarked for maintenance backlogs and strategic gearing-up of the University's physical facilities by the Council during 2014. On 30 November 2015 the Council also voted R15,2 million for the defrayal of the deficit on the 2016 budget as a result of the 0% increase in student and accommodation fees for 2016.
- Unearmarked funds (R 423m) available for use under Council's discretion.



BUDGET SCENARIOS for 2017

- In the table below three scenarios based on the % increase in university income are presented. These include the following:
  - Adjusted for macro assumptions. It is *preliminary figures*, and certain assumptions will still be updated/adjusted.
  - Various scenarios for a possible increase in student fees are presented:

1. 0% adjustment: budgeted shortfall of R40,8m in 2017. It should be taken into consideration that the impact of the 0% increase for 2016 is not limited to that specific year only. It will have an effect beyond 2019, and even later if SU should experience another year of no increase in annual income.

2. Adjustment equal to CPI (6,42%): budgeted shortfall of R9,5m in 2017

3. Adjustment equal to the Higher Education Price Index (HEPI) which amounts to CPI plus 1,7%: budgeted surplus of R1,1m in 2017.

NOTE:

1. None of these scenarios has a budgeted surplus in 2018 and beyond.

2. These scenarios present the "status quo", meaning that only current activities can be funded, with no additional funding towards any new activities or more funding for bursaries.

MAIN BUDGET 2017:

3 SCENARIOS FOR ADJUSTMENT IN STUDENT FEES			
DESCRIPTION	1 0% adjustment R'000	2 Adjustment of *CPI% R'000	3 Adjustment of *CPI% + **Higher Education Sector inflation R'000
Total expected income	2 302 435	2 353 850	2 367 454
Total expected expenditure	2 352 273	2 363 384	2 366 324
Expected surplus (shortfall)	(49 838)	(9 534)	1 130

*CPI = CONSUMER PRICE INDEX

**The inflation rate in the higher education sector is some 1,7% higher than CPI as a result of expensive facilities and imported equipment as well as international research publications.

Recommendations

- Due to various factors, including the slow economic growth rate in the country, increasing demands on government resources and decades of funding backlogs, Stellenbosch University is of the opinion that fee-free higher education currently is not feasible. Studies have also shown that in the developing world fee-free higher education has tended to benefit the upper middle class and very affluent sectors of the population rather than the poor.

- Higher education contributes to the public and private good, and for that reason the main sources of funding should be government grants and student fees. Stellenbosch University (SU) acknowledges that South Africa has an unequal society comprising of an affluent and upper middle class that can afford university education and a large component of lower middle class and poor students who cannot pay their way. Therefore Stellenbosch University supports and follows a differentiated approach: fee increases that are mitigated through financial support to academically deserving poor students related to the combined annual household income.

- SU does not support differentiated student tuition fees based on household income, but we do support the provision of bursaries and/or loans to academically deserving, needy student according to a sliding scale linked to the combined annual household income of the student's family. Below three funding scenarios are provided as examples. Each scenario is linked to the family's combined annual household income.

Scenario 1: the annual household income exceeds R600 000

HOUSEHOLD INCOME EXCEEDS **R600 000 PER ANNUM:**

STUDENT A		STUDENT B
BEng	Degree	BCom
R49 000	Tuition incl program & module cost	R32 000
R29 000	Accommodation	0
R2 000	Additional cost	R4 200
R80 000	TOTAL	R36 200
R80 000	Settled by Family	R36 200
0	Settled by Bursary – US	0
0	Settled by Bursary – NSFAS	0
0	SHORTFALL	0

Scenario 2: annual income between R240 000 - R600 000 (missing middle):

HOUSEHOLD INCOME BETWEEN **R240 000 - R600 000 PER ANNUM :**

STUDENT A		STUDENT B
LLB	Degree	**BSc**
R39 000	Tuition incl program & module cost	**R40 000**
R29 000	Accommodation	**R29 000**
R2 000	Additional cost	**R8 000**
R70 000	**TOTAL**	**R77 000**
R40 000	Settled by Family	R10 000
0	Settled by Bursary – US	R40 000
0	Settled by Bursary – NSFAS	0
R30 000	**SHORTFALL**	**R27 000**

Scenario 3: annual household income of less than R122 000

HOUSEHOLD INCOME LESS THAN **R122 000 PER ANNUM:**

STUDENT A		STUDENT B
BCom	Degree	**HonsBA**
R41 000	Tuition incl program & module cost	**R40 000**
0	Accommodation	**0**
R1 000	Additional cost	**R2 000**
R42 000	**TOTAL**	**R42 000**
0	Settled by Family	0
0	Settled by Bursary – US	R20 000
R42 000	Settled by Bursary – NSFAS	R22 000
0	**SHORTFALL**	**0**

FURTHER READING

- *Financing Higher Education Worldwide. Who pays? Who should pay?* – D Bruce Johnstone and Pamela N Marcucci, The John Hopkins University Press, 2010
- Funding public higher education institutions (Article published by PWC)
- *Stellenbosch University Annual Report (2015):*
- The flawed ideology of 'free higher education' by Nico Cloete
- The ideology of free higher education in South Africa – the Poor and the Middle Class Subsidising the Rich by Nico Cloete.

This submission by Stellenbosch University was prepared by its Finance Division.

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