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**SET 7 – HEARING 1 – DAY 4**

**COMMISSION OF INQUIRY INTO  
HIGHER EDUCATION AND TRAINING**

**PARTIES PRESENT:**

The Chairperson  
Commissioners  
Head of Evidence Leaders  
Evidence Leaders  
Experts  
Secretariat

**WITNESSES:**

Prof. D. Platjies – Financial and Fiscal Commission  
Dr. R. Mabugu – Financial and Fiscal Commission  
Mr. V. Mbethe – Financial and Fiscal Commission  
Dr. T. Ntshakala – Financial and Fiscal Commission

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**SESSION 1 – 02 MARCH 2017**

ADV. K. PILLAY SC: Good morning Chair, the next stakeholder Chair is the Financial and Fiscal Commission and we have four representatives of the FFC before us, I would ask that they each put their names on  
5 record Chair, before they are sworn in.

JUDGE: Good morning.

PROF. D PLAATJIES: Judge, I am Professor Daniel Plaatjies, I am the Commissioner on the Finance and Fiscal Commission and currently the acting Chairperson.

10 DR. R. MABUGU: My name is Ramos Mabugu and I am the head of the Research and Recommendations Programme at the Financial and Fiscal Commission.

JUDGE: Thank you Mr Mabugu.

15 MR. V. MBETHE: My name is Velile Mbethe acting CEO, Finance and Fiscal Commission.

DR. T. NTSHAKALA: Good morning, my name is Thembie Ntshakala, Programme Manager for Intergovernmental Fiscal Relations in the Financial and Fiscal Commission.

JUDGE: Thank you. Does any of you have objection to taking the oath,  
20 no, if you do not would you please raise your right hand say so help me God.

**PROF. D. PLAATJIES [d.s.s.]**

**DR. R. MABUGU [d.s.s.]**

**MR. V. MBETHE [d.s.s.]**

**DR. T. NTSHAKALA [d.s.s]**

ADV. K. PILLAY SC: Thank you Chair. The evidence will be led by Ms Lekoane.

ADV. M. LEKOANE: Thank you Chair. The FFC have prepared a  
5 presentation for the Commission, I would first ask the professor, Professor Plaatjies to perhaps start by telling us what the FFC is in terms of which legislation it is established and what its mandate is.

JUDGE: Yes please.

PROF. D. PLAATJIES: Thank you Chairperson. The Financial and  
10 Fiscal Commission is a constitutional structure in terms of Section 220 of the South African Constitution and we are also established by virtue of the Finance and Fiscal Commission Act of 1997, amended in 2015 to deal with other administrative matters around that but we also do our functions in terms of the Public Finance Management Act. Our strategic  
15 responsibility is to respond to the division of revenue, as presented by the Minister of Finance but also to finance and fiscal framework essentially the revenue and expenditure plan of the government and then to comment on a range of legislation and policy matters affecting sub-national government in particular meaning Provincial Government  
20 and Municipalities.

We also essentially present every year before the budget, budgetary proposals and recommendations for the next year so by the end of June this year we will presenting a set of budgetary recommendations for next year to be considered by the South African  
25 Government, the general public and Parliamentarians. Part of our job is

also to respond to, before the Minister of Finance tables his budget in Parliament is to consult with the Finance and Fiscal Commission and then we give our advisory comments to that that in a nutshell is the function, role and responsibilities of the Finance and Fiscal Commission.

5 JUDGE: Does that allow you to be critical of Government's policy?

PROF. D. PLAATJIES: Indeed, it allows to review, it allows us to analyse, it allows us to present either validating and confirming recommendations made but also to indicate where there are holes in certain policies, social policies in particular, economic policies and also  
10 to recommend alternatives. Another thing that makes our Commission is relatively different to what you will find in other countries, our role is essentially as articulated by the Act as an advisory role to government on what has been proposed both on social and economic policies affecting that. But there is also Chairperson the phenomenon that for  
15 instance every time the Minister tables his budget or his medium term budget policy statement we get consulted, we look at it, we analyse it, we review and then if the Minister of Finance and his team disagrees they need to table their disagreements and where they disagree with us.

In many instances, given the processes that we follow through  
20 the year with the National Treasury and also other line departments including Provinces that at times in certain municipalities, there is always a convergence of ideas, for example this year given the global domestic economic constraints that we find ourselves in, the lack of manoeuvrability and growth in the economy, there was an expectation  
25 that we would probably disagree with the budget, we did not because

there is no space, in fiscal space I mean, in the budget and the fiscal consolidation options that was followed we agreed because we were ...[intervenes]

JUDGE: Does your mandate extend to the allocation of priorities?

5 PROF. D. PLAATJIES: In terms of where funds should ...[intervenes]

JUDGE: Yes where funds should be spent.

PROF. D. PLAATJIES: Yes we are, part of our review and analysis is in any case also to identify where we thought funds should have been spent, but then there is the rational, you see if there is rationality, if it is  
10 fair and if it is fiscally prudent, we find ourselves many a times in the same space as the National Treasury, so we would say sometimes in our submissions that we think these are the following priorities that need to be considered but a many times, in fact most of the times, there is a convergence of those priorities and it is based on what we call our  
15 Secretariat which would be Ramos, Dr Ramos Mabugu and his team and the CEO interacting over the years with Treasury, over the year because there are three structures that essentially operate.

There is the technical teams which are officials, which is the Technical Committee of Finance which is the Treasury, the Provincial  
20 Treasury Heads and also the Finance and Fiscal Commission technical staff will interact and similarly there will be a political structure which consists of the Commission itself including the Minister of Finance and members of the Executive Councils in Provinces which is responsible for finance and that structure replicates itself at a municipal level in terms of  
25 its articulation at a national level where it will be the Mayor, the

Executive Mayor in particular, the MEC of Finance and the Minister of Finance. So there are those iterative processes between what is, and just on a lighter note I was saying to some of the people, I believe we are going to do the oath and I was saying that but Higher Education is a

5 socio-economic policy matter and there policy imperatives there are policy priorities, it is based on values, it is based on choices, it is based on certain principles that people take to decide we will rather fund a road as opposed to higher education or rather early childhood education as opposed to higher education and so on and so forth so it is political

10 choices that gets made and if you make the wrong political choice and people disagree with you, the public, electoral blocks is where you actually get punished.

So the phenomena here is the interaction around priorities, what gets ostensibly determined as priority, finds its articulation through our

15 processes with the National Treasury and other line departments, including civil society organisations where we would also look at the medium term budget policy statement, which is what people popularly refer to as the mini-budget but that articulates what are the things that is going to happen in the year before and then we see exactly where are

20 the differences or similarity with us so yes we can comment on it, yes we can advise on it but at the end of the day the budget is a political tool, it is a political decision so the Minister will then take what we have said to his cabinet, what they are saying to his cabinet and obviously there is another form of trade-offs that happens

25 JUDGE: Yes.

PROF. D. PLAATJIES: So at the end of the day the only thing that we see before the budget then after all these processes is when the division of revenue is tabled in front of us and we review it and we look at it and we comment and our comments goes from policy, economic policy, social policy including financing arrangements and part of our comments on the financing arrangements is part of our responsibility is in particular on the conditional grants, on the equitable share allocations and the potential agency transfers so we in a way make sure that there is no distortion in the system with regard to the intergovernmental fiscal arrangements.

JUDGE: Well let me put it this way, the question of raising or rather of providing education at a higher level, at a tertiary level has been a knotty problem for a long while and how that should be financed has been a problem for a long time and there have been a great many commissions which look into various aspects of the cost of running higher education. I take it at all times your Fiscal Commission has been aware of these various commissions and enquiries that have been taking place?

PROF. D. PLAATJIES: Indeed and if I just can mention that I do not know whether this Commission has also had the opportunity to look at the National Commission of Higher Education investigation which was chaired at the time by Jaraim Reddy and there was a special team that looked at, which I was sitting on, which looks at the time which looked at the student financial aid scheme, this new scheme that is in place.

JUDGE: Yes.

PROF. D. PLAATJIES: The have got all the different permutations to it

but also dealing ...[intervenes]

JUDGE: That report I recall, the previous one I am not sure of.

PROF. D. PLAATJIES: In that report there were some critical recommendations made but to answer your questions yes, as you will  
5 see when Dr Ramos in particular speaks on some of the analysis that we have done through our own model it has taken a number of factors into consideration so we do look at it because it has implications for the slice of the cake.

JUDGE: Yes.

10 PROF. D. PLAATJIES: It is a division of revenue.

JUDGE: Well then I assume that you as a fiscal body have been considering the various ways of financing education, higher education for the poor for quite a long time?

PROF. D. PLAATJIES: Indeed.

15 JUDGE: Directly and indirectly?

PROF. D. PLAATJIES: Yes, part of it is covered in our presentation if we get an opportunity to go there.

JUDGE: Yes.

ADV. M. LEKOANE: Sorry professor just before we move on. You will  
20 recall that in the constitution an appropriation must happen in terms of an act of parliament, yes?

PROF. D. PLAATJIES: Ja, ja, ja.

ADV. M. LEKOANE: Ja so such an act which provides for the equitable share and allocations of revenue the recommendation of the FFC is



required before it is passed, am I correct?

PROF. D. PLAATJIES: No, not the recommend, you see we need to define recommendation, remember our recommendations are wrapped in terms of an advisory recommendations, the nature of advisory is that, if I  
5 say this bottle of water, there is no water in the bottle and you look at it you can take the advice or you do not have to take the advice, that is the limitation but the legislation and the constitution requires the Treasury to explain the rationality of the decision.

So there are a couple of hurdles into why advice is accepted and  
10 why advice does not get accepted, it is not a blanket thing that says well we have heard you we are not interested in what you are saying, they cannot do that because when the Minister of Finance tables the Appropriation Act, the division of revenue and all those red books that you normally see, part of that and in one of those books are the  
15 responses to the recommendations of the Finance and Fiscal Commission and it requires parliament to look at these things to see how exactly it impacts on the money bills and so on and so forth. So yes we do see things and we do make our recommendations which is advisory recommendations.

20 ADV. M. LEKOANE: And what factors do you take into account when you are doing that exercise and coming to those recommendations?

PROF. D. PLAATJIES: Judge can I ask Dr Mabugu, Ramos to respond to that?

JUDGE: Yes of course, before each of you speaks would you mind  
25 placing your name on record because that allows the transcribers to give

us a proper record.

PROF. D. PLAATJIES: Can I just add to it, the acting CEO just reminded me, so when we do our presentation on our recommendations for the budget for next year, which we will do in June, those recommendations  
5 we present those recommendations, we table it at Parliament firstly and then we present those recommendations to a range of committees, in particular the Financing Committees, we also get invited to the there sectoral committees where we do the presentation of what our recommendations are and that cascades down to the Provinces and also  
10 the municipalities, depending whether they are affected by it so the process includes a range of Parliamentary Committees at different levels, province, national municipalities that looks at it, so it is basically a process where we say here is the data here is our reasons for recommending, add-ons, additions, new priorities, you need to make  
15 those decisions as parliamentarians and as you know there is sometimes a relational issue between what we table and what gets taken up in terms of the political system of parliament.

DR. R. MABUGU: My name is Ramos Mabugu, I am the head of research. The factors that we take into account are essentially laid out  
20 in Section 214 of the Constitution [A] – [J], it lists 10 factors that the Commission takes into account in making its recommendations and broadly those 10 factors relate to issues of efficiency, equity, vulnerability and stability in the revenue sharing system.

ADV. M. LEKOANE: Thank you. You may proceed with your  
25 presentation Professor.

PROF. D. PLAATJIES: Chair, now that we have covered a range or some of the issues, I thought it would probably be opportune just to give you a set of the outline and then we will run through it but there is a point which I would like to hand over to Dr Ramos Mabugu to take us through  
5 some of the outcomes of it. So essentially, based on our mandate and how we have interacted with the higher education arena on these matters, is that we look at the constitutional imperative and broader socio-economic implications, what is fee free education and is it desirable, we look at the overview and the budget analysis of the  
10 Department of Higher Education and clearly within that are different fiscal arrangements within that particular budget and we look at the whole question of quantum and funding sources as it relates to fee free education affordability.

I think the matter we would like to reconfirm in this process is  
15 that of Section 229 [1] [B] of the Constitution that states that everyone has the right to further education, which the state through reasonable measures must make progressively affordable and accessible. However, we would say that unlike rights to our basic in our education, entitlement to further education is qualified and subject to progressive access or  
20 availability of state resources, similar to housing, healthcare, food, water and social security with rights of access subject to the states available resources and clearly there has been the Grootboom case and other cases provides us with some lessons around that.

So it is therefore justifiably to conclude that guarantee to have  
25 access to further education is subject to available resources so it has all

to do with what is in the envelope, what is in the envelope, what is possible, what is the priorities and given the depth of the historic inequalities that we find within the country, so we would like to bring to your attention that South Africa has inherited and some of it is still there.

5 Segmented labour market, segregated apartheid schooling system but moreover that given the specifics what pro-education policy is the most appropriate so we are suggesting our several solutions to it. Grants to students, accommodation facilities, transport and nutrition and improvement in the quality of schools is probably the best solution.

10 So we are acknowledging there is an element at the schooling level that needs to be fixed. So based on our compatible general equilibrium model, where we developed appropriate prospective scenarios for socio-economic consequences of an increase in public expenditure on higher education, we are not only looking at increases of  
15 wages for teachers but also government spending on materials, in particular those intermediary inputs, such as infrastructure and the whole bag of requirements if you like to get the higher education enterprise ticking and functioning.

The model aims to provide a consistent framework to explore  
20 possible medium term developments based on main structural features of the South African economy so we are looking at what are the structural issues within the economy and bring that together with the demands on higher education.

ADV. M. LEKOANE: Sorry Professor, what are those main features or  
25 will you get to it?

PROF. D. PLAATJIES: We will get to it. The type of modelling allows combining detailed data bases for the saan macro based theoretical framework capturing the inter-independents and the inter-linkages of markets which such characteristics our model is useful tool to assess the  
5 long term impact of shocks and structural reforms. So within any economy and especially what has happened within the global environment has been a range of shock to households. Unemployment, reduction in income for the household and people are pooling resources so one has to look at all that. So the model then, when it comes to  
10 educational policy analysis, is helping us to look at the rewarding aspect for education policy but also the complexities around dynamics, the extent of the model domain links services, often public and education indicators with feedback and it links at the financing issues because as you know there are a range of financing issues that help to make tick a  
15 particular programme at school or university.

You have probably have heard that there is three types of income that comes into universities. There is a national subsidy, then it is the fees and then it is the third stream income to fill the gaps and they cannot do with that. The CGE models are called for an educational  
20 analysis since the analyst has to consider both macro and micro level policy questions, the rationale for a standard modelling approach also applies to education modelling, it looks at how to make policy analysis more cost effective, it permits accumulative progress and as you can see from the diagram which we have for you, there is what we call the period  
25 T which is current and the period T+1 which is the periods for the years

going forward. So the +1 if you look from now on at next year, the year after next and so on and so forth depending on what the horizon, it could be 10 or 20 year horizon in terms of the shifts that need to be created.

But more importantly in this current year it is about physical  
5 assets, it is about human assets, it is about those intermediary inputs as I have mentioned and how all of that contributes to education as an important utility in any economy. It has to look at the question of governance and the assets of governance and how we manage and the whole question of leadership and management on the university  
10 environment, our education environment rather and then obviously the structural reforms. And the structural reforms can come from economic shocks to new economic outlooks and new policies, new social policies. It can even come from political pressure so there are a range of things that need to be looked at.

15 So in the years going forward, if we say next year is the year then clearly our model helps to look at the change in human capital, the change in private assets, it looks at the public sector accounts, essentially looking at the accumulative effect of all the different accounts that sit in this environment but also others that has a direct and indirect  
20 link to higher education. All of this requires, will then lead us to new policy instruments, possible changes in public assets, infrastructure and looking at the new horizon around human assets.

COMMISSIONER ALLY: Sorry Prof when you speak about private  
assets in your period going forward, what are we considering when we  
25 talk about these private assets?

DR. R. MABUGU: By private assets we are referring to all the non-public endowments that are sitting within the non-public sector so it could be factories, machinery, human capital, that does not sit in the public space, those are private assets as distinct from those sitting within  
5 the state missionary.

COMMISSIONER ALLY: Thank you.

PROF. D. PLAATJIES: Thank you Ramos.

COMMISSIONER ALLY: Sorry just put your name on record otherwise they might think you the same person.

10 PROF. D. PLAATJIES: I am a Capetonian so I think my voice is distinct but I will try. So we use a logistic function to determine the students behaviour, For each year a student has three types of behaviours, sorry my name is Daniel Plaatjies, she graduates, she drops out or she repeats and if a student graduates she or he has two choices he can go  
15 on studying in the next year or she can enter the labour market and sucost the education system. The link between labour market and education sector has to consider students that have succeeded in primary cycle, enter the labour market as unskilled workers. As soon as they have succeeded at secondary level enter the labour market as  
20 semi-skilled workers and students that have succeeded at tertiary level enter the labour market as skilled workers.

So if a student leaves school without a certificate she enters the labour market at the previously lower level, thus skilled labour supply in the years going forward is given by the volume of the skilled in the  
25 previous period plus students who graduate from post-secondary and

enter the labour market. Semi-skilled labour supply is given by semi-skilled in the previous year plus successful students from a secondary level deciding to enter the labour market, plus students in the post-secondary that drop out. Low skilled labour supply is given by low skilled in the previous year less those who retire plus successful students from the primary level deciding to enter the labour market plus students in secondary, the dropout plus students in primary the dropout.

So each labour supply according to our consideration is race specific, given our historic inequalities where we come from, so what determines a student's behaviour, a variable school quality measured by government expenditures in education so it is about the education activities so we assume that if government increases the expenditure, that is more teachers or better school infrastructure architecture and instruction, students will go to school. A differential wage between mean semi-skilled wage and mean unskilled wage, we assume that if this variable increases students will continue at school to earn a better wage.

ADV. M. LEKOANE: Sorry Professor just one your first bullet point, in your investigations leading up to making recommendations to the Minister of Finance, have you found that the schooling system is underfunded because we know that they receive a bulk of the education allocation, is that what you found or what have you found?

PROF. D. PLAATJIES: Can I request that we going to deal with that in the presentation and if do not respond to it then please remind us but Dr Ramos is quite sharp in terms of bringing the linkages between basic to higher to the intermediate education together. So a differential wage



means semi-skilled wage and means skilled waged we assume that if the differential rate increases students want to become skilled. So we analysed the consequences of an increase of public expenditure and secondary and tertiary levels of between 10 and 20 percent the first year  
5 respectively.

First scenario, the policy is not linked to a fiscal reform and the increase in government expenditure could lead to an increase in government budget deficit. Scenario two, in order to deal with the increase in government expenditure the rate tax is levied on the  
10 household so that is the context what we are setting which will look at okay what are the results and how do these things interlink and how do we answer your question directly and indirectly. Chairperson I would like to hand over to Dr Mabugu to take us through that thank you.

JUDGE: Yes Dr Mabugu.

15 ADV. M. LEKOANE: Sorry before you proceed Dr Mabugu, what informs the 10 and 20 percent that you recommend here?

DR. R. MABUGU: Can I answer that, yes that is actually a very good question. The model allows us to explore various options, as many scenarios as one can think of, these are the central scenarios but we  
20 have found that and we have done sensitivity analysis around different percentages and the direction of the results does not change much because what we are picking here is in terms of direction of the socio-economic considerations that the commission heard us just to give testimony on so the direction does not change much within the 10 to 20  
25 percent range that we picked up. So those are central scenarios but we

are quite happy to explore any percentages that the committee may want us to experiment with.

So now work out the socio-economic impact of what Prof  
Plaatjies has laid out in terms of the architecture, and these are the key  
5 results that we have found. We find that the 10 and 20 percent  
expenditure increases lead importantly to improvement of household  
endowments in creation of skilled workers. When we compare that to  
how the economy would have progressed what we call the BAU or  
business as usual, had there not being an intervention we see that there  
10 is an increase in labour demand in secondary and tertiary sectors. In  
other words for socio-economic effects our first point being made there is  
even without fiscal reform increase in government expenditures directed  
towards secondary and tertiary education will have positive effects on  
employment but in the short run and the short run here defined as a  
15 period not exceeding five years.

And thanks to our education policy we end up producing more  
skilled workers such that in the long run we in fact have unemployment  
of skilled workers and it is very important to contextualise this result.  
When Professor Plaatjies started by laying out the structural features or  
20 the key problems he had said as a result of apartheid and its legacies  
the issue we now confront ourselves with 23 years after democracy is  
that we have a skills shortage or a skills gap and then we do this policy  
and what this policy does is over a period of 14 to 20 years if you sustain  
10 – 20 percent increase in government expenditure you actually reach a  
25 stage where you have wiped off the skills deficit that currently

characterise us as the number one binding constraint to deal with the legacies of apartheid.

But we need to just suppose that with developments on the socio-economic front we see an increase in skilled unemployment in the long run, we see the economy eventually slowing down in the long run and that will not permit it to continue mopping up the unskilled and semi-skilled workers that it was mopping up in the short run. So in terms of an expansion in public expenditure of 10 – 20 percent without adjustments on fiscal front, we can conclude that it will put the economy on an unsustainable path in terms of not being able to sustain the current account deficits that come in the future so this is the most important constraint to relentlessly running sustained public expenditure growths of 10 – 20 percent into the future there is that constraint on the current account deficit.

ADV. K. PILLAY SC: Dr. Mabugu may I ask you, I just have two questions and the first relates to the skills gap and how is it that you quantify the size of the skills gap and how long it will take to actually meet the skills gap given the fact that you are dealing here with highly skilled people who also get absorbed as entrepreneurs etcetera in the market.

DR. R. MABUGU: Yes so in terms of quantifying the skills gap we have got a labour market in the model, a labour module that on the basis of the labour force survey that we characterise the set up in terms of supply of labour and the demand for labour in the current period so we use categorisations that are in the labour force survey and according to

those defined skills categories. Then on the basis of that which is what Professor Plaatjies referred to as period T, the current period, we then run the model into the future and say if the way we have captured the working of the South African economy it is indeed the correct one, where  
5 will we be in 2030 if we continued accumulating the human assets, the private assets that professor spoke about in 2030 and we see that that disjuncture between labour supply and labour demand that we started from there would have been a convergence and no divergence between supply of certain skill category and demand for the certain skill category  
10 that is how we define our ...[intervenes]

ADV. K. PILLAY SC: And did you factor in the impact of globalisation on that analysis?

DR. R. MABUGU: Yes we essentially modelled South Africa as a small open economy that trades with the rest of the world through imports and  
15 exports and foreign direct investment within South Africa and outside of South Africa that is how we capture our variables for globalisation in the model.

ADV. K. PILLAY SC: I just have one further question and that is around, thus far you have done the model on the basis that more people will  
20 attend school if you increase your funding of specifically secondary schooling, what we do not see ...[intervenes]

DR. R. MABUGU: Sorry, if you improve the quality of the schooling system that is what makes people want to go to school or stay in school and also if the wage differential between the different skill categories get  
25 higher it keeps people longer in school, those are the two key variables.

ADV. K. PILLAY SC: I just wanted to find out if you considered whether if you increase your spending on secondary school and thereby increasing the quality of your secondary schooling education, whether that means if more and more people will be accessing tertiary education?

5 PROF. D. PLAATJIES: I think we, it is important that this commission understands that financial input is not the only input it drags a number of other inputs in the education system so even if you throw the whole budget at higher education, if you have not fixed the lower levels of education through quality teachers, quality teaching, a curriculum that  
10 connects with South Africa's history but also South Africa's economy and make sure that there is the necessary resources, infrastructure, labs, all those inputs that is required coming with the quality and qualitative teachers at that levels it will not work.

So the point that we make is that if there is good quality  
15 education in all its forms it is conceivable that because of the attraction of education to better employment opportunities people will go and study at higher education institutions. I mean all of us in this room are classic examples of against all odds at sometimes that we find our way through a bad education system and then fighting and then it is almost the  
20 element of survival of the fittest. Now the issue is that we do not require that any longer because the historical impacts are still there but the structural rigidities of legislation and so on and so forth is no longer in place but economic questions are still in place which also impacts on access to better quality resources in education.

25 So when we were talking about private assets, and this is

another element to it, is that depending where you are you also have access to other forms of endowments, bursary funds, depending who your parents are where they work, all of that contributes to a total better outlook. Education results shows you that things are turning around so  
5 the point I am making and the point that we are making is, it is not only about the financing even though financing drags many of these things. There are other qualitative innovations that is required at that input level which includes making sure that teachers teach, making sure that we do not have teachers that teach mathematics that cannot even pass their  
10 own grade that they are teaching mathematics in so it is a range of things, it is a total overhaul of the system of which finance is just one element of it.

JUDGE: Yesterday I put, to the witness who was testifying the proposition that because there are so many matters in the system that  
15 need attending to the pouring in of money at this stage may result in unnecessary waste, in other words for every R5.00 you put in R3.00 might be wasted and she said that is not the point, she said you have to make a start somewhere and while you do not ignore those things there is no objection to putting in R5.00 and only getting R3.00 back in the  
20 circumstances. What is your attitude, you must have considered this many times in the course of preparing or considering priorities and looking for money, do you consider that supposing we were to recommend fee free education for the poor at any rate that that can be done without first solving other systemic problems you have named as  
25 one of them the basic education system.

DR. R MABUGU: From the work that we, in fact we will come to the proposals at the end and expenditure management, current expenditure management is one of the recommendations that we are going to make, we think this is one of the often forgotten instrument or lever besides  
5 raising more revenue, pumping in more money there is a lot of room to get value for money from current expenditures and we arrive at that conclusion essentially by not through modelling exercise, that we do but by comparing it to a range of other comparable countries to say if they are spending X amount on higher education what is the return that they  
10 are getting in terms of throughput and in terms of other return variables and South Africa ranks quite low compared to peer countries in that respect. We would suggest that part of the solution has to be by doing more with what we are currently spending.

JUDGE: Yes but do you put more money in until you have eliminated the  
15 inefficiencies because one of the major reasons may be that those other countries do not have all the inefficiencies we have.

DR. R MABUGU: The sequencing is quite a difficult issue, I think there are, and this speaks to what we will come to later, if one averages what has been happening in the last say 10 years, you see a bottoming out in  
20 terms of expenditures or money going into the system and particularly we flag out the actual number of students that are funded through government, you see a bottoming out in those numbers or no increase in those numbers yet we know that the students that are qualifying have been increasing so irrespective of inefficiencies in the system we are not  
25 growing the numbers that we are financing and that says there are

element of inadequacy or for lack of a better word, a lack of not keeping up with the trend in numbers qualifying to go to institutions of tertiary learning.

So it is a very difficult area what you start with because the other things do not stop, our students passing matric and qualifying for higher education institutions continues growing and if you say I stop spending until I sort out problems to do with expenditure management in the institutions then what happens to that gap of students who qualify but because you are no longer extending that money waiting for efficiencies to be made at the institutions then that breeds a hotbed or a political hotbed which it takes you back to your original problem that you wanted to solve which was the skills problem.

JUDGE: Well do you say to the students that this year three out of five of you arriving at university will not finish your courses, we know that because the basic inefficiencies have not been addressed but nevertheless we are going to give you all the money you need in order that three out of five of you, in order that two out of five of you can graduate, is that the right approach?

PROF. D. PLAATJIES: The question is how do you fix the Concorde, sorry not Concorde anymore Boeing 747 ...[intervenes]

JUDGE: Well we have had, we have been fortunate enough to receive presentations on a number of areas which require fixing or appear to require fixing so we may have the keys to knowing what needs attention but we also may find that if we are to provide fee free education then those areas must be negated.



PROF. D. PLAATJIES: I guess the issue is ...[intervenes]

COMMISSIONER ALLY: Sorry Prof just the protocol of putting your name on record.

PROF. D. PLAATJIES: Apologies, my name is Daniel Plaatjies. I guess  
5 the issue is about how do you fix a Boeing 747 in mid-air and it can  
probably only happen in movies where Steven Segal gets in and fixes  
the thing and it happens, in this instance it is hard to bring it down  
because there is a growing number of students that comes out of the  
schooling environment that wants to get access to higher education so  
10 the issue here is about opportunity costs.

JUDGE: Well I would suggest it is a different thing, your Boeing 747 is  
on the ground and you know that it has defects which allow it to carry  
200 passengers but you need to get 300 passengers to point X. Now do  
you put the 300 passengers on board and say well if we lose 200 of  
15 them on the flight that is tough because that is about what we normally  
lose anyway or do you say I will try to get these technical deficiencies  
rectified first?

PROF. D. PLAATJIES: Well you can probably try to get another Boeing  
or a smaller aircraft to take the others on to that plane but here is the  
20 issue, it is the question of, you know this issue about marginalised youth  
has been quite a serious conundrum within South African society and the  
issue is how do you use higher education as one facility to address  
historical inequalities but also to address the whole question that you do  
not have a continuation, an increasing growth in those marginalised so it  
25 is about those opportunity costs but it is also about how the education

system, higher education system, universities in particular how do they respond to the needs of South African society and the needs of the state and when I talk state I do not talk about government but I am talking about the nation state, South Africans as a group, how do Universities  
5 respond to it. So there are innovative ways that universities has implemented in what I will loosely call development programs, it allows for that that try to build a gap between a matric qualification and the chances of the first year. Now clearly there needs to be a targeted intervention there, financial and otherwise.

10 JUDGE: Well there has been and it has been suggested to us that we can do rather better than that and we should be doing rather better than that.

PROF. D. PLAATJIES: Indeed, indeed. So the opportunity cost is something that must be considered in order to make sure we do not  
15 create, because higher education is the phenomenon, I mean I am just thinking about my own years, it is that particular environment where if you do not manage it properly as a state and government and all the resources it can create instability in the country, hence you guys exist, but there is other opportunity costs for the economy, there is opportunity  
20 cost for the future, there is the opportunity cost for creating a range of programmes that allows those that has not had the opportunity to access university to get into University, those that come from the higher education sector to access that.

And for us that is the key thing so it is unfortunately we, the  
25 formulas that we have in other countries does not fit because they do not

have the same historic problems at this moment, our historic problems are, in fact I will say to the commission staff that in many instances we find ourselves that we are in the future, the present and the future but we are so caught up in the past that it is actually hard to deal with past so in fact my point is the same what you are making Judge is that if we are not prepared to face up to the historic inequalities, the historic problems from the past but also make sure that the economy ticks and creates more growth and creates more job opportunities it is inevitable that there is going to be a demand that public education, higher education institutions needs to open its doors of learning.

But there are other formulas that people have been using over the years that connects the fees question with the merits issue and I do not know whether, because that is not our domain where the others have been able to connect those two and now you gradually allow students to come into the system, connect to merit in your first year, if you do not meet up with the test of that the burden shifts back to you as the student so there are the, but that has not been our focus on it so as it is about the opportunity costs in going forward on that.

ADV. K. PILLAY SC: Dr Mabugu just to come back to the presentation may I just ask a question around slide 14, which is the slide immediately before this one, where you stated the issue addressed is an analysis of the consequences of increased public spending in respect of secondary and tertiary education, may I ask why you did not consider an increase in primary, secondary and tertiary education?

DR. R. MABUGU: Again a good question, we could have but we just

decided that the spending on primary education with the access rates that we are currently seeing, there is not such a pressing issue in terms of the higher education issue that we are dealing with. A lot of the problems we wanted to address start from the secondary level shooting  
5 into the higher educational training so what we do with the primary education is we keep the current expenditures and spending at the higher levels that they are at and the assumed access rates and say the issue for primary education is in fact not a problem of access but rather a problem of how do you improve the quality of that basic primary  
10 education.

ADV. K. PILLAY SC: And did you consider possibly increasing spending in ECD, in early child development?

PROF. D. PLAATJIES: Yes indeed. I want to say to the commission that we have other reports which deals with early childhood as an early  
15 intervention, which deals with secondary and it deals with post-secondary and we are prepared either to send it to you via email or get our driver to drop it here for you to see because what is difficult about your question in terms of our response to today is that it would have been useful to show you the continue of our view on education and  
20 social development intervention until higher education so you can actually see that because education in all its forms is a very key facility in terms of human capital development, economic growth and development but also to create a good solid and social solidarity amongst people and stuff so those reports are available.

25 ADV. K. PILLAY SC: Professor Plaatjies that would be very important for

us to have a look at it and we would be grateful if you could arrange for us to have those reports.

COMMISSIONER ALLY: But it is, what I get from what you are saying is you have moved from that juncture of an understanding of the inequalities of the system and taking some parts of that to put what you are putting forward now because the way I understand Dr Mabugu, he understands that there is a problem from ECD right up to higher education and that is the quality of it. Now TIPS yesterday, Dr Magetle, about the issue of rather fixing the fees to my mind is a bit short sighted in this sense that somehow you need to package a solution that takes care of both along the way. You might not have all the funds but at least that which you have must be put to good use as Dr Mabugu was saying. So I understand that your presentation takes the inefficiencies into account but also taking into account that you are sitting with a limited amount of resources that you have.

DR. R MABUGU: I fully agree, I will just add the nuance that in our latest report that focused on ECD compared to primary, for ECD it has got its own unique challenges that are quite different from primary and their issues of access are also still quite an issue and what we did with the work that was focused purely on early childhood development was to recommend a specific conditional grant for ECD and if you look into 2017, the budget proposals there is actually a specific conditional grant aimed at dealing with ECD issues proper. And hopefully after a few years we will have evidence on the ground to see whether that conditional grant how it is performing but our recommendation was

accepted and features in the 2017 budget proposals on ECD.

JUDGE: Is ECD dealt with through basic education or through social development?

DR. R MABUGU: Social development at the moment.

5 PROF. D PLAATJIES: That actually a question which is puzzling us too Judge.

JUDGE: The question is neither true nor untrue.

PROF. D. PLAATJIES: In fact it can also be half-truth you know because in part it sits with basic education and parts it sits with social  
10 development and in part is sits with municipality and in part it sits with Department of Health so it is a bit of a schizophrenic arrangement around the allocation of that particular responsibility and I would venture to say in this commission it is because of that that there is a struggle to find a consolidated way of financing early childhood because the  
15 regulatory framework sits partly in Department of Health, social development and at the municipal level it sits there so there is an overlay of, onerous overlay of regulatory arrangements on the ECD field and as a result this stuff is non profit, private and it is not moving so it is only the rich that gets proper quality access, the rich and the middle class, proper  
20 quality access to early childhood education.

So on the one hand the interventions is not happening in the way it should be happening at that level and the carry through effect we feel when we get to the secondary level of higher educational meaning 8, 9, sorry I am talking with the old standard stuff, I am talking about Grade  
25 10, 11 and 12, there is that element that we can actually pick up in the

system so the half-truth is that it sits everywhere and that is a problem and we have raised it many times through our own commission reports to different Ministries and also to the Minister of Finance.

ADV. M. LEKOANE: Professor in the light of what you have just  
5 discussed does the commission consider one level of education to be more of a pressing priority over another or are they all dealt with on the same level?

PROF. D. PLAATJIES: We have not dealt with in a way of what comes first, what comes second, you see if everything was equal we would  
10 have said to you that higher education must be like the top priority but given our circumstances we find ourselves in and given that none of these sectors can be left behind we have not said to you that because of that, we will never say that, maybe 20 years down the line a new, our children run the systems properly and does not have to deal with the  
15 historic problems of inequality they would probably say to you that higher education is a problem because it needs to find a connection to the economy but early childhood also finds that connection to the economy.

Many times those that deal with the educational policy underestimates that because parents will look and find work if they are  
20 sure, firstly their children are safe, secondly the welfare of their children are being looked after and thirdly there is an educational programme of quality that helps their children understand the basics because remember in education it is about, and I say to my kids when they were young that two things that you need to happen to you in education, the  
25 first thing is you need to be able to read and if you can read you will be

able to do the maths, it does not work the other way round so those are two basic things that needs to happen to any child and it needs to happen at early childhood level, at that zero to 6 or zero to 9 some people would want to have it because the knock-on effect is huge.

5           When I studied for my first degree, if I did not concentrated on the maths issue I would not have been about to get through my first or second degree or third degree but it is that basic stuff and reading and maths are the two things. If you have not listened to anything that I have said today, reading and maths are the most important things. Children  
10 cannot do that between zero and 6, zero and 9, we have a problem and yes we have a problem and that is why we applaud the interventions by the Free State Government on education from the bootstraps of being a rural province to the interventions that they have made to get their children through higher education to get where they are. It is quite an  
15 intervention against all odds so yes Judge there is that problem about who is actually responsible or early childhood.

JUDGE: Could we proceed with the presentation thank you.

DR. R MABUGU: So we are now on the second scenario, I think we had discussed the first scenario. The difference between the second  
20 scenario and the first scenario again to recap is that in the second scenario we allow for fiscal adjustment, in other words we ask South Africans to pay for the policy. In the first one there was not any fiscal adjustment so for the second scenario in terms of the education outcomes they are not different from the first scenario, the policy has its  
25 intended consequences on the education sector. The difference comes



in terms of the broader economic impacts from the second scenario where it turns out that because you are financing it by using a direct tax fiscal adjustment consumption suffers and consumption, if you use that as a proxy for welfare it means peoples welfare in terms of consumption  
5 is one that suffers so that is the major difference between the two scenarios that we wanted to bring onto the table.

Moving on the next leg where we summarise the results, I think it is fair to say from our socio-economic analysis that as far as education policy is concerned, the policy is good for South Africa because the  
10 country suffers from skills shortages and households actually become more skilled so the first round of problems you address through an education policy irrespective of whether you do fiscal reform or you let the current account deficit take the burden that can also contribute to reduce inequalities among population groups and that is a strong calling  
15 for South Africa where inequalities are a huge issue.

Whatever the scenario, scenario one or two, we have unemployment for skilled worked in the long run, in other words you are so successful that you bring onto yourself new problems but our perception is rather deal with those problems than deprive people the  
20 skills so that is the second round or second generation type problem that you bring onto yourself in other words how do you restructure your economy to take into account that the education sector has delivered on its promise of dealing with the skills issue.

ADV. K. PILLAY SC: Dr Mabugu may I ask in relation to scenario two,  
25 you have looked at the scenario from the perspective of direct tax that

means a general tax, did you consider specific tax for example a graduate tax that will only affect wealthy households?

DR. R. MABUGU: Yes we will come back to that later but we have considered that and particularly in terms of the graduate tax we have  
5 used, we could only get numbers from the South African Revenue Services they have a key there in terms of whether someone has a degree or no degree teachers, so we could work out who are graduates and who are not graduates and then applying a rough tax there, we will argue that later, it turns out that to raise the kind of amounts that we are  
10 talking about it works out to something about R167.00 per month for each graduate if you do it across the board but one could also do an income contingent tax where if someone ends up with a low paying job you work into the system that they pay slightly less tax than one who ends up in a high paying job, those income contingent instruments can  
15 be worked out.

For instance if someone goes through higher education and chooses to become a social worker, we know that given current South African setting that pays very low compared to somebody that comes in actuarial scientist, an acurartist, yet in terms of social cohesion there is  
20 nothing to say that in fact a social worker is probably contributing to your social cohesion inequalities so you can work out an income contingent graduate tax depending on the actual specifics but what we have done is just to take the average for the last three years of the graduates that we could track and said what tax rate, what graduate tax rate could be  
25 imposed on that and it works out to around R167.00 per month.

ADV. M. LEKOANE: In the determination of who is getting paid lower is there a scale that you are using or is it just a general assumption, like you made an example an actuary and an educator, is there any material or instrument that you rely on for that determination?

5 DR. R. MABUGU: We have not gone into the specifics of the actual tax so that will be what that needs to take place, after that it will exactly determined if the committee wants to propose say an income contingent graduate tax what do we, how do we set the different rates, we have not gone into those intricate details ourselves but it can be done is the  
10 message that we want to communicate.

ADV. M. LEKOANE: So it is on principle now.

DR. R. MABUGU: Yes ma'am.

ADV. K. PILLAY SC: May I just ask you Doctor back to slide 17 and if your second scenario is now only a graduate tax on the basis of the  
15 income contingent graduate tax that you describe then how does it affect the conclusions which you make in paragraph 17, do you still believe a 10 – 20 percent increase on expenditure is ambitious because now we do not have households being implicated to such extent.

DR. R. MABUGU: The conclusion here and this is one that permeates  
20 through all recommendations around different instruments for financing higher education is that ultimately it depends on society's willingness to fund its share and that is a loaded statement right and filled in with a lot of values and politics behind it. Now if we do a graduate tax it does not suffer from saying that it is much more specific to someone that has  
25 benefited from the system then you can buy the support of those who

presently are not as well off as those that end up with, because the whole essence is about private and social returns, those are the returns of higher education so if something has high social returns but low private returns then you buy them into the solution by offering them lower taxes compared to, so almost a propasivity that you build into the graduate tax.

ADV. K. PILLAY SC: For example your social workers, that would apply to them.

DR. R. MABUGU: Yes, so it is a way of compensating the losers well they are not really losers you know, winners and gainers but they have are winners but they have chosen through a calling to end up after you have invested in that higher education to spend their lives in something with higher social value but does not have high returns and we think the tax systems can be done in such a way ranging from saying below a certain income threshold you do not pay anything to that, that you pay the full amount. So the beauty of the graduate tax not that it is the one we are punting is that the group that you have to deal with when you are trying to bring them into the social contract is much more defined and much smaller but if you do a broader tax then the group who is society, it is very difficult to harness all the energies and beliefs or common vision for removing the skills gap and paying for it.

ADV. K. PILLAY SC: Chairperson I see that is now 11:35, may I ask for a brief adjournment.

JUDGE: We will adjourn for a quarter of an hour thank you.

ADV. K. PILLAY SC: Thank you.

**MEETING ADJOURNS**

**MEETING RESUMES**

JUDGE: Thank you. Yes will you please proceed with your presentation.

DR. R. MABUGU: Ramos Mabugu, we are on section 2 of the presentation where part of the request was on our understanding of what is fee free education and its desirability. Here starting with what is free education, your questions actually made us think quite a lot because on the surface they look straightforward but they are not straightforward questions so when we talk about free education or fee free education does this mean all fees in other words tuition, text books, internet access, boarding and lodging, transport and pocket money must disappear ...[intervenes]

JUDGE: Well somebody yesterday said health students as well.

DR. R. MABUGU: And health as well.

JUDGE: Yes.

DR. R. MABUGU: And also there are issues of coverage, does it mean every student irrespective of financial need must be full funded by the state, what about the crucial issue about the timeframes within which free access to tertiary education must be realised so the question there is should it be now or nothing at all, Professor Plaatjies when he started he said the constitutional imperative is that there is progressive realisation but that does not define a specific time.

JUDGE: Neither does it say that it is free.

DR. R. MABUGU: Ja so those are some of the big problems but from our understanding which is the next slide we do not think there is

anything called free education, somebody must pay. The state, the firms, households, donors or whoever so there is nothing called free education somebody pays for it and in this case we are talking about the state paying for the education and the state we know its business model is reliant on raising revenue from residents and non residents so that is the institution that pays for education hence in the strict sense of the word that is not free education somebody is paying and that somebody is the state and how does it pay for it, its business model is tax financing.

Now we have spoken about returns to education which have both social and private beneficiaries so the funding mechanism is always included private and social component, the idea from students appears to be that government and tertiary institutions should pay so among the many entities or institutions that must pay the idea of students that it be shouldered by two, the tertiary institutions and government. But tertiary institutions do not generate enough to pay so government has to shoulder this. The students have made it very clear that they reject the current waiting between the two, between government and tertiary institutions that we currently have.

So that is the big problem that we are sitting with. Now in our perspective as the commission we think if coverage is for everyone irrespective of financial need the rich would benefit the most if education is subsidised for all and according to our constitutional imperative on factors that we have to take into account when making our recommendations, section 2:14 [A] to [J] of the core considerations there is the issue of equity, is it equitable and having a blanket approach to

fees, we submit would not pass the equitability test. Add to that in an era of slow growth, growing deficit and need for redistribution high unemployment we do not think it is in fact a good idea to have a blanket approach to the subsidy or state subsidy for free education.

5           Now in section 3 we wanted to go through issues of adequacy focusing on the state as the vehicle for financing education, how adequate is it and we do that through the budget analysis and with your indulgence one of my colleagues our specialist budget analyst in the commission will us through, Dr Thembie Ntshakala.

10 DR. T. NTSHAKALA: Thank you very much. Thembie Ntshakala, in terms of the state funding the funding mechanism is made up of a combination of things, one it is the mixture of redress, the carrot, the sticks, cost sharing and a system of handicaps. We have got the NSFAS which for students that NSFAS which is for students that are currently  
15 poor but will be for the future rich and then we will move not the next part that now outlined the different programs within the Department of Higher Education and Training. That slide actually project the real annual growth rate with respect to the different programs which include Universities education, technical and vocational education and training,  
20 skills development, this information would later be projected in terms of the graph hence I will dwell more on the slides that project the growth rate for each.

          The next slide talks about the key trends in terms of the departmental analysis, looking as at 2017/2018 the University education  
25 program it consumes the largest share of the departments budget and

between 2015/2016 to 2016/2017 the allocation for the University education we see it growing significantly by a percentage of 12.9 that is in real terms. Now when we look at the Tvet program together with the CET program, when we compare this to other program their real growth rate over the MTEF for 2017 are actually amongst the lowest. The Tvet in particular it grew by 1.8 whereas the CET grew by 0.5 hence it makes it those that have been amongst the lowest in terms of growth.

The next slide would look at now the prioritisation relative to the DHET programs. Looking at all the programs that are projected there we can see the third from the left which is University education, it consumes the largest and the increasing share of the whole DHET budget so the highest share goes to University education. The next slide which now shows the growth rate that we outlined in the previous table when it comes to the growth rate University education at year 16/17 it shows a strong growth of 13 percent thereafter the growth allocation slowed down and increase again by 11 percent in year 18/19 comparatively the allocations for the Tvet drastically declined specifically in 2016/2017 they University education is the top right graph and the Tvet it is the top right graph, sorry the University of education is the top left the other one is the top right.

When we move to the next slide now that says within the University program there are sub programs. When we look at the analysis for the sub programs under University program the graph that we see in the slide it shows that University academic planning and management is marginally declining from 29 percent in 16/17 to 24.5



percent in year 2017/2018 but still of all the sub programs academic planning and management still has the highest compared to other sub programs within the University programs. The next slide we, previously we have looked at the University program now we are looking at the sub  
5 programs under the Tvet's and we can see that the real unwell average of 2 percent is experienced over there, will be experienced over the 2017 MTEF period.

This level of growth in alignment with the policy goals around these colleges in terms of the increasing enrolment. We also observe  
10 that the low growth is coupled with the consistent decline in the proportion of the Department of Higher Education and Training budget allocated to the Tvet over the entire period that is reviewed meaning over the period of 13/14 until 19/20. The next slide shows the sub programs under community education and training colleges and based on the  
15 projection we indicate in addition to a very much real annual average growth in resources to the CET colleges program when we look at the MTEF for 2017 period, the proportion of the DHET budget allocated to the program is also projected to decline over the outer years of the MTEF period.

20 The next slide we would then be looking at the 9 financial performance of the colleges. There are two graphs, one it shows the number of student enrolled in the Tvet by program for 2012 to 14, the second graph that shows the number of students enrolled in the CET colleges for the same period which is 2012 to 2014. And what can be  
25 highlighted is that between 2012 and 2014 Tvet colleges experience an

increase in student enrolment. The skills development programs and short course as well as occupational qualifications they saw a decline in student enrolment, furthermore when we look at the CET colleges the Grade 10 to 12 programs experienced an increase when it comes to student enrolment for the period 2012 to 2014 whereas the other programs offered at the CET colleges they experienced a decline over the same period which is 2012 and 2014.

Lastly when we look at the Abbot level 4 program it experience a decline when it come to the student enrolment for the very same period which is 2012 and 2014 though it still had the largest number of students that enrolled in the CET colleges. The next slide now shows a comparison of students in the Tvet in the CET colleges for 2012 to 2014 for the same period the completion rates remain low for level 4 and Abbot level 4 programs in general, less than half of the students that write exams complete the program. Lastly for the NCV level 4 program the rate of completion declined between 11 and 2014.

Within the whole department of heat there are also NDT's that are reporting to the department where the table project the allocation for the NDT's reporting to the department and we can indicate that the largest entity transfer is in respect of the National Student Financial Aid Scheme. The next slide it shows the share of allocation comparatively and again the first right entity which is NSFAS it has the highest of all the NDT's for the Department of Higher Education and Training. The next slide it now shows the growth in the allocations just for the NSFAS and from the graph projected there we can indicate that apart from the 16/17

and 18/19 period it appears that the general growth in transfers for the National Student Financial Aid Scheme they are growing in a lower rate than CPI inflation which may have implications for how many students the scheme will be able to assist as well as the sustainability of the  
5 scheme itself when we look at the long term.

The NSFAS performance indicators are indicated in the next slide, we can see from the two graphs, the first one saying the amounts of funds recovered from NSFAS debtors per year, the second one shows the number of students assisted for higher education institutions and  
10 Tvet colleges and from there we can see that the number of students that were assisted by NSFAS and higher education and Tvet has and is projected to continue to grow, that is for the period of 2008/2009 and 2019/20. Furthermore the amount of funds what are recovered, the analysis it shows us that between the period 2008/9 and 15/15 NSFAS  
15 recovery depth declined slightly as of 2015/16.

When it comes to improving recovery of funds options around differentiating repayment periods and interest rate charged on outstanding debts should explored and could closely linked to the level of earnings. Lastly over the MTEF for 2017 the number of assisted student  
20 at Tvet colleges is projected to be lower than the number of students being assisted at the Universities. I would now hand over to Dr Mabugu who would take us through the assessment, thank you very much.

DR. R. MABUGU: Ramos Mabugu, now in terms of an overall assessment of what Dr Ntshakala has just given us in terms of the  
25 budget analysis, what we can conclude here is that the states current

medium term expenditure framework projections only provide for standstill growth in total student enrolment, see from the last graph it pitters out to around 150 000 for the future years but the actual growth in terms of student numbers is higher so per capita funding is likely to  
5 decrease through time. Now the student stance and the political response to their stance leaves us with at least two public finance questions that we need to answer.

The first is how much would it cost society to increase public support to higher education and training and what is the most efficient  
10 way to raise the money. So the first set of questions what is the quantum and what are the funding sources and options, in 2015 and part of our ongoing work actually dealt with the question of the quantum, how much would it cost said to implement fee free higher education and training and we compared our figures to the kinds of figures that other  
15 institutions are churning out and the figure for a particular year which was the last financial year for no fee increase discussed would range between 2.6 billion to 4.2 billion depending on what methodology each institution was using.

Institutions would come to different conclusions or different  
20 figures because some focus on inputs, some look at services or outcomes and in some instances whether the University itself proposes the figure or whether it is the national department which proposes the figure so that is the main explanation for the range but in all cases the range would lie between 2.6 billion and 4.2 billion rands. What about the  
25 commissions on estimation and I will explain, the way we have

approached our estimation is we started from the words in the Consumer Price Index, we thought that would be the most objective way to approach this.

And ways within the Consumer Price Index the cost of education  
5 accounts for 2.95 percent of consumer spending but that is basic and  
secondary, education accounts for 1.72 percent of that, CPI wage living  
1.23 percent to be the rate for tertiary education so we use that 1.23  
percent from the CPI. Using that and again excluding any contributions  
made by way of bursaries the amount would come to somewhere close  
10 to 40 billion per annum just using the CPI wage for tertiary education.  
Now when we backtrack to the previous year student protest were  
sparked in the main by a 10 percent increase for 2016 so that means an  
additional 4 billion, 10 percent of 40 billion, an additional 4 billion would  
need to be recovered, that is on the understanding that the cost is the  
15 1.234 percent rate. Now how much would it cost society to increase

ADV. K. PILLAY SC: Dr Mabugu I am sorry just a clarification question,  
the 40 billion per annum is that for all students or only for poor students?

DR. R. MABUGU: For all students.

ADV. K. PILLAY SC: The reason I am asking is because the estimation  
20 in the Ncasana report of funding for the poor and missing middle is that  
in respect of that category of students, the poor and the missing middle,  
the total cost would be 42 billion per annum.

DR. R. MABUGU: So the explanation for the differences as I said varies  
from which institution and how they arrive at theirs. We arrive at ours by  
25 taking the weight in the Consumer Price Index the 1.23 percent that is

what takes us to the 40 billion.

COMMISSIONER ALLY: Perhaps Dr Mabugu and the rest of you think about that because at the end we will come back to whether you have had sight of that report and why we might have different calculations but  
5 you may continue.

DR. R. MABUGU: Thank you, so how much would it cost society, given current figures we think an injection of an additional 40 billion from the public purse to the tertiary education sector ...[intervenes]

JUDGE: Per annum.

10 DR. R. MABUGU: Per annum, but then we need to realise the number of students currently enrolled is far fewer than those eligible to enrol having received entry exception so this 40 billion does not take into account that other group. If we assume that student numbers double and this is where lawyers and economists agree in terms of making  
15 assumptions and this does not make the assumptions correct but just to organise our way of thinking, so if we assume we are only enrolling half of what we should be enrolling so student numbers double so that everyone with an exemption does get to higher education and training, although we know the at the system currently cannot handle twice as  
20 many students then the cost approach is 80 billion lean extrapolation. And that translates to a deficit that is about 2 percent of gross domestic product so what is ...[intervenes]

JUDGE: Your 80 billion is it just tuition fees or is it all the ancillary costs as well?

25 DR. R. MABUGU: It is all the costs that we pick up in the CPI as part of

the tertiary education.

JUDGE: Full costs.

DR. R. MABUGU: Ja.

ADV. K. PILLAY SC: Doctor may I just ask you about the first bullet  
5 point, you say would require the injection of additional 40 billion, would it  
not be instead of an additional 40 billion you will have to deduct the  
existing allocation to NSFAS because this is total cost of University fees,  
in other words you have an existing NSFAS allocation and if the total  
required to fund University fees is 40 billion then you would need to, if  
10 you are looking for the additional amount that you need to spend you  
would need to deduct the existing NSFAS allocation from the 40 billion.

DR. R. MABUGU: Sorry I am not getting the exact question.

JUDGE: Well I did not understand that what you were talking about here  
was the additional cost but the total cost, would that be correct?

15 DR. R. MABUGU: Ja so this will be the additional cost that we required  
to remove fees, for the state to cover fees.

JUDGE: Yes.

DR. R. MABUGU: And the costs covered in the CPI.

JUDGE: Yes but you have not brought NSFAS into this you have  
20 assumed that is as present cost.

DR. R. MABUGU: Yes.

JUDGE: And it is included in the 80 billion.

DR. R. MABUGU: Ja.

COMMISSIONER KHUMALO: And on that first slide Advocate Pillay is

referring to, saying from the public purse it is exclusively from government, public purse or you including other sources of funds?

DR. R. MABUGU: So what we are doing here is we are trying to determine what is the total envelope that we would need, we have not  
5 come yet to the question of how do we apportion that extra 40 billion, we will come to it and in fact it is the most difficult question. Okay so in terms of cost it amounts to 2 percent of GDP that we have to find, 2 percent extra, 2 percent of GDP that will be added to our budget deficit so if budget deficit is sitting at 3.1 you need to blow it up to 5.1 percent  
10 of gross domestic product incrementally. Now we should not forget two further points, the first is that reduced tuition disproportionately benefits the wealthy, we have spoken to that point around equity and the second one is that tuition fees are not the only cost of an education.

JUDGE: That suggests that your previous figure was not a total cost  
15 figure.

DR. R. MABUGU: So residential institution, study friendly accommodation there are other things that where you can, where one needs to draw the line on whether they are part of the total cost or fall outside of the total cost and this is a grey area you know, is for example  
20 you spoke about health, ja is it a part of the total cost or because in the CPI ...[intervenes]

JUDGE: We understand that but I asked you just now whether the 80 billion was represented by the total cost of education and you indicated that it was because it included the ancillary matters that go with  
25 education, this qualification suggests that that is not so.



DR. R. MABUGU: Okay yes it includes all those direct costs we spoke about but not these other, the health ones, the quality of the residential institution, how far away it is from an institution, study friendly accommodation so all those finer quality issues are not included in the  
5 1.23 percent but probably issues that need more discussion and a common position on how we handle those, obviously so the main point here is the 2 percent of GDP is the lower bound estimate it could be higher if we include other ancillary matters.

ADV. K. PILLAY SC: I just want to be clear Doctor, does it include, do  
10 University fees in this example does it include residential accommodation, student accommodation.

DR. R. MABUGU: The 1.23 percent does not include residential ja but arguably one could argue should it not include residential accommodation, should not ...[intervenes]

15 ADV. K. PILLAY SC: No I understand, I am sorry I assumed that it did, and the amount that I put to you the 42 billion in the Isfap report and that Ncasana report is full cost of study. So you are saying that the figures you have worked with is just purely University fees?

COMMISSIONER ALLY: Perhaps that is the point that needs to be made  
20 Dr Mabugu, from where we are sitting we understand full cost of study to mean tuition fees, materials, laptops, transport and accommodation, could be some others also so when you have different figures coming from somebody else that could be the basis of the difference.

DR. R. MABUGU: Yes ja, yes sir. Okay so the next slide, okay these  
25 are the funding sources, let me now spend time on this one because we

all aware of those so what we have done here is to do an international perspective around the funding mix comparing South Africa to other comparable countries and the funding mix it typically consists of direct funding of institutions from the Fiscal and these are transfer directly from  
5 go to institutions out of the broad tax base and two methods are often used a block grant, line item or earmarked budgets. Then the private funding of which tuition fees is the most significant and it is paid up front by parents or by the students.

There are also deferred charges or student loans where student  
10 pays in the future through graduate taxes or through repayment of loans, there are also tax credits where students or their parents are offered tax benefits or deductions for study at tertiary institutions as happens in the United States. There is differential pricing of tuition fees where for example Universities charge international students higher fees than  
15 students and that happens in places like Canada, England and Australia. And the final one is regulation of tuition fees where for example government regulates the fees, for example in Japan Universities can only charge within 120 percent of the standard annual tuition fee set by the Minister of Education, Culture, Sport, Science and Technology.

20 So those are the different funding mix that we have seen and in terms of the second column there on cost of higher education it gives where comparable countries align, as we can see most countries tend to use a mix of funding practices so in terms of principle again if one were to benchmark countries have tended to go for a mix rather than a one  
25 solution approach. For countries that have no tuition this is Denmark,

Estonia, Finland, Malta, Norway, Slovakia and Sweden. Admission fees, no tuition that is Brazil, Germany, Mexico, Slovenia. Considerably low tuition you have to look at France and Turkey. So that is the sketching of the international environment and the different funding mix and who  
5 bears the cost of education that we could find.

So what is the most effective way to raise the money coming back home, well as we argued earlier implicit in these investments is society's willingness to fund its share and again it is a point that we come back to for example in the case of e-tolls between Tshwane and  
10 Johannesburg road users have voted and many refuse to pay and are able to do so with impunity, in other words if the Gauteng society has chosen not to pay its share of the road improvement network and not only that but that goes ahead with doubt, with impunity. In the case of NSFAS where government has attempted to improve credit markets for  
15 the benefit of poor students, many of those have received funds have not repaid their loans and have been able to do so with impunity.

So any payment system that the commission is going to recommend must have teeth which means a payment solution based on taxes because we can run, hide etcetera but when it comes to taxes you  
20 cannot duck and dive so the issue of society's willingness to fund its share is absolutely important and influences the instrument. Now looking at tax options ...[intervenes]

COMMISSIONER KHUMALO: Just sorry, on the last sentence are we sure that these who have not repaid their loans they are capable of  
25 paying now or is it just most people.

DR. R. MABUGU: We simply do not have that detailed information but NSFAS will be in a position to give a more refined answer to your question.

COMMISSIONER KHUMALO: If you classify them are they capable, like  
5 are they in employment, do they earn enough to you know, that is the kind of quantification I was asking for.

DR. R. MABUGU: Yes from the details we have on our side there are people who are employed with an income that choosing not to pay.

JUDGE: Yes well we know from the evidence that has been given to us  
10 that there is a low unemployment rate among graduates.

DR. R. MABUGU: Ja.

JUDGE: That must assume that NSFAS graduates also have a lower unemployment rate, maybe higher than others but nevertheless, so one must assume there are a large number of people who are able to pay  
15 and we know how very few who are paying.

PROF. D. PLAATJIES: Can I just also say that it also depends on the capabilities in the tracking system that an institution like NSFAS will be using because I remember some time ago that when the EU used to fund student financial aid through the Kagiso Trust Bursary Fund and  
20 then there was the Tefsa through the two, 1 point odd billion rands that was given by the then apartheid state, it was a problem with tracking students that exited the system successfully because it is about the ID numbers, it is about the tax number and it is about a range of other matters that sits in the private domain of that particular individual so  
25 tracking, so what we are saying is if the payment system works then it

actually means that the tracking system also works because the tracking system will allow you to collect your debt and that in itself requires some form of investment given the number of people that we have that have exited the system through ...[intervenes]

5 JUDGE: It does not really, if your income tax authorities are collecting what is owed to you which does not really require an investment if the income tax authorities are collecting what is owed to you.

PROF. D. PLAATJIES: Indeed, that is when people are in the formal system of employment but there are also other innovative ways that  
10 people create income and whilst we lament the whole thing about the number of graduates that is unemployed over the years, people do survive another pulling effect of other forms of income and question is should that be, should that also be considered as a formal income and hence the tracking which is another debate that one needs to look at,  
15 that is the point I am making because if you have inherited X amount of funds you are not necessarily registered as for those funds in terms of the employment taxing system obviously depending on the tax bracket and how that has been worked out, so it is a number of things, a number of unknowns that needs to be looked at relative to tracking system so  
20 parallel to your taxing system there must also be a tracking to check where people are, how are they employed, are they temporarily employed, where are they living you know, are they on the municipal system in terms of a municipal account so that they can also be tracked in that way.

25 COMMISSIONER KHUMALO: So for the purpose of the presentation

the use of the word impunity maybe can be revisited depending on the circumstances because you cannot punish a deed that is not deliberate.

JUDGE: Well I think impunity means more than just punishment, it means in this case the ability of the authorities to recover the money that  
5 is owed to them.

PROF. D. PLAATJIES: That is indeed so, you have also asked us to do this thing so our presentation is covered by that.

DR. R. MABUGU: So now we moving into the options and here I want to stress options and which of the options gets chosen is something that  
10 somebody will need to deal with so we have made the assumption that the total cost of education is tuition cost plus an additional 50 percent for room and board and the yearly bill then comes closer to 60 billion per annum so the 40 billion and we just assume that if you put room and board additional 50 percent for that we are looking at an amount of 60  
15 billion per year.

Now this cost needs to be funded in some way, what are the tax options on the table, the first one that we have looked at it is the value added tax, if one were to raise that amount on a yearly basis by a value added tax then one has to raise value added tax by an amount around  
20 0.6 percent, how from 14 percent to 14.6 percent.

JUDGE: VAT produces about 9 million a year does it not?

DR. R. MABUGU: VAT?

JUDGE: Or am I wrong.

DR. R. MABUGU: VAT, much higher than that.

JUDGE: Much higher than that.

DR. R. MABUGU: Ja.

JUDGE: Okay.

DR. R. MABUGU: Much higher than that.

5 JUDGE: Oh yes I am sorry it was thinking about 1 percent, okay thank  
you.

DR. R. MABUGU: Now this steps ...[intervenes]

JUDGE: So what would 1 percent of that be in a year, alright what will  
10 10 percent be since we levy 14 percent, what would 10 percent of that  
14 be?

DR. R. MABUGU: We will just have to do the arithmetic.

JUDGE: Alright.

DR. R. MABUGU: But we know that 0.6 percent we will come quite  
close ja. Now this option is efficient and has equity through zero rating  
15 and exemptions, it has got a list of 19 commodities that are zero rated or  
exempted from the tax but there is likely to be contestation around equity  
aspects of it but in our submission we think the discussion around equity  
of the VAT should be on whether the commodities that are zero rated or  
exempted are that coverage is the correct one or we need to change it  
20 somewhat. As soon as agreement is reached and we agree that those  
commodities currently 19 are the correct ones, then there should not be  
a discussion around equity issues around alleviating, it turns out that on  
the commodities that you are levying that tax it will be highly efficient and  
you have addressed your equity issues through zero rating and

exemption.

Personal income tax which is the second tax option, the feasible rate there will lie between 1 percent to 5 percent depending on the degree of bracket prep and spread that one assumes. The problem with  
5 this one is the tax base is very narrow, it is a very narrow tax base and it harms savings.

JUDGE: What are savings?

DR. R. MABUGU: Sorry.

JUDGE: I said what are savings is the part of your income that you do  
10 not consume.

COMMISSIONER ALLY: Ja tongue in cheek what are savings, we do not have savings?

DR. R. MABUGU: Okay I get you, that is a good one.

JUDGE: Off the record I would say that our present financial system  
15 does not encourage savings but anyway that is irrelevant, you can ignore it thank you.

DR. R. MABUGU: It is extremely relevant.

PROF. D. PLAATJIES: If you ask us before we came here we could have probably made that statement but unfortunately we cannot make it  
20 on the record now.

DR. R. MABUGU: Okay the third option we have already discussed at the beginning, this is the graduate text whether you want a flat one or make income contingent so I will not go into that. Now the final option would be monetising the debt where you essentially print money to pay



for this to the tune of 60 billion every year and this option may appear costless security of tenier anyone because you are just running the printing press for money but it devalues currency and leads to inflation and most importantly inflation is anti poor so suggesting that the best way to help poor people is to harm them, we think that would be very patronising at the very least so this is why we are not favourable to monetising the debt as an option because it pretty much gets poor people through inflation, so those are the tax options, their pros and cons.

10           The second are private sources and private sources within public institutions, student fees we think it is advisable to keep students fees in one form or the other, if you push us further where should we pay the proportion of student fees the ranges that we have seen from benchmarking is that it should like between 5 to 25 percent of the average cost of the study program so some form of student fees but you may want to make recommendations on what proportion of the cost of the study program student fees should cover and a ballpark range or threshold to work with is in the magnitude of between 5 to 25 percent and the reason for that, for keeping student fees but at below 25 percent but not lower than 5 percent is that it allows you take advantage, to take advantage of the price mechanism, often times the price mechanism signals to our institutions to stay abreast of developments and where the market is going second guessing the globalisation effects that we discussed initially so if you lose or if institutions lose student fees they have lost a signalling mechanism to take into account those advantages

and again it is not true that gratuity is unjust, in other words no fee for a wealthy student is unjust and is inequitable as we discussed.

So we think stats should continue strengthening the grant and loan system to avoid the financing barriers to access, the dangers they  
5 can be substitution to state effort and the greatest burden because we say there is no such thing as free education the state must pay, the greatest burden will be for the middle class or taxpayer because they are the business model upon which the state is premised on by getting those taxes. Continuing on public sources in public institutions we think we  
10 should continue to promote donations, the alumni should continue, donations from firms and individuals, you may want to recommend tax incentives for that if you wanted to have that play a bigger role than it currently does.

Also encourage the creation and development of private  
15 institutions through national investment or investment from abroad. Tax exemption you could recommend to municipalities to offer land concessions for encouraging creation and development of private institutions as a way of opening the doors to higher learning from private sources.

20 COMMISSIONER KHUMALO: So the slide 41 does not include these, the public purse slide, the 40 billion referred to in slide 41, saying these funds would not be part of that.

DR. R. MABUGU: The private sources.

COMMISSIONER KHUMALO: Yes.

25 DR. R. MABUGU: Yes these ones are meant to augment the state

contribution.

JUDGE: Is the danger not then that you will increase the commodification of education?

DR. R. MABUGU: It is an issue of balance so the way we have thought  
5 around the issue of commoditisation of higher education was to propose  
the threshold of 5 to 25 percent that way you roll out fees becoming the  
main source, in other words it allows state funding to remain the  
mainstay of the system so that threshold then becomes extremely  
important but exactly where do you pack it is an impericle issue and ja.

10 JUDGE: Alright.

DR. R. MABUGU: Yes so that was private sources. The final one is  
again the one we started with on the expenditure side where Honourable  
Judge started by asking should we fix first even expenditure  
management issues, inefficiencies etcetera and this is accused a  
15 neglected aspect of higher education funding and if funding can be made  
more generous in spending wisely and that implies good governance  
that allow for change instead of avoiding it, good management,  
implementation of management tools, making everyone directly  
interested in the management of the funds available to them, rigorous  
20 export control, cuts in government waste across the board so that side  
we should not forget that in fact it is extremely important and I am sure  
our colleagues from Department of Finance will come in and warn in a lot  
more around value for money and expenditure management as a core  
lever for financing sustainably future education.

25 JUDGE: Yes well these are flags that you see waved but not often is

there a large army marching behind them.

DR. R. MABUGU: Yes. So coming to concluding remarks and our key points if I can just go through here, funding higher education and training is a societal responsibility. Higher education and training institutions should receive an increase in priority, the need to become an increasing share of gross domestic product and that is because they are crucial for economic development. We should take into account the increasing demand for higher education and training due to a rise in participation rate, the cost of good teaching and learning as well as good research. It is advisable to maintain fees as part of the setup to take advantage of the price mechanism, also other private sources and expenditure side management. Should continue strengthening the grant and loan system to avoid the financing barrier to access but avoid the blanket subsidy as that is inevitable and its motivation is indefensible given current economic climate and high inequalities that the country is seized with.

Broadening the base of consumption taxes, value added tax appears better than increasing personal income tax rate given the current setup for a South Africa. There is limited scope to use borrowing to finance the education policy because it directly hurts the people that you say you want to protect in the first place, thank you.

COMMISSIONER KHUMALO: Just one question, borrowing in this context would it be maybe the Treasury borrowing for the education policy or from which pool would this borrowing, the use of this borrowing that you are advising against, I do not know have I phrased it correctly?

DR. R. MABUGU: Yes, so this is borrowing to cover the budget deficit

that has come as a result of ...[intervenes]

COMMISSIONER KHUMALO: Oh you mean in the country?

DR. R. MABUGU: Yes.

COMMISSIONER KHUMALO: Okay, are there alternatives to this that  
5 would be presented later in a more specific way?

DR. R. MABUGU: Our preference is that tax revenues cover current  
expenditures and when it comes to borrowing only borrow for capital  
investment or future investment, yes.

JUDGE: So what you really need to be addressing is how does one put  
10 the backbone into the fiscal authorities to give them the resolution to  
impose these taxes?

DR. R. MABUGU: Yes sir.

JUDGE: Alright.

COMMISSIONER KHUMALO: Would social impact bonds constitute this  
15 limitation as well?

DR. R. MABUGU: The social impact operates mainly through  
consumption and skills generation, those are the two main levers in our  
analysis.

COMMISSIONER ALLY: Sorry Doctor maybe you are misunderstanding  
20 Commissioner Khumalo, not social impact, social impact bonds.

DR. R. MABUGU: We have not studied such social impact bonds.

ADV. M. LEKOANE: I just have three further aspects I would like you to  
assist us on and they are basically submissions made by the FFC before  
the various parliamentary committees and/or institutions, so the first is

the submission on the 2016 fiscal framework and revenue proposals, I will deal with that one first and at page 29 under financing key social programs which includes education, you note of course the increase in demand for access, the massification issue and in the face of decreasing  
5 government subsidies in real terms and you make a recommendation at paragraph 4.3 and you say future shortfalls in student NSFAS funding be identified upfront at the beginning of the academic year to avoid funding costs that are unrelated to education, can you just assist us with understanding what those unrelated costs are, funding costs that are  
10 unrelated to education?

PROF. D. PLAATJIES: Chair can I just ask, which document does the lady refer to?

COMMISSIONER ALLY: Perhaps Miss Lekoane if you have it online that we can transpose it because I am not sure if the team have their report  
15 or their submission to the finance committee or appropriations committee with them at the moment.

ADV. M. LEKOANE: Thank you Commissioner Ally perhaps we could also just put them in writing to them and they can respond back in writing to us, it is not a lot of points it is just the main reports from three reports.

20 PROF. D. PLAATJIES: Ja, that got erroneously to you because I was just wanting to look at what, confirm our constitutional law mandate but it is in the public domain. I want to invite the commission Judge to if there are any other questions that you want to ask us I can bet you will be quite a very helpful commission. Sometimes we do these things at a  
25 very low cost base in terms of our own financial position but given the

importance of this public good you send us the questions we will run our systems, we will look at what is available, we will give you additional information but as long as you give us a sufficient leeway of time to adequately respond to you because we do not want anybody when they  
5 read these documents say that we have actually given you *crap* you know because it is also reputational matters that sits in this thing and we need to check number of database systems. Sorry I was not sure *crap* is a word used here but *crap* means nonsense and non sense means no sense so just to help myself out of this one.

10 ADV. K. PILLAY SC: Thank you.

PROF. D. PLAATJIES: So we are available to help the commission think through a number of things.

ADV. K. PILLAY SC: Thank you Professor we are very grateful for the offer and we will definitely take you up on it. Doctor Ntshakala I just  
15 have one question and that is in relation to slide 25 of the presentation where in the first bullet point you mentioned that the real annual average growth of the budget is 4.1 percent, I just wanted to get a sense of how does this compare to the annual average growth in other departments?

DR. R. MABUGU: That is the highest amongst all the departments and  
20 part of it is the 5 billion extra that has been added into the system to address.

ADV. K. PILLAY SC: And just to give us some basis for comparison, what is the average growth in relation to other departments?

DR. R. MABUGU: 2 percent.

25 ADV. K. PILLAY SC: Thank you Chair we have no further questions.

JUDGE: I have a couple of questions. Have you read the ministerial task team report on funding of higher education for the poor and missing middle?

PROF. D. PLAATJIES: Nope, sorry no we have to take the brunt for  
5 some of this.

JUDGE: Were you aware of its existence?

PROF. D. PLAATJIES: I am quickly consulting my learned colleague.

JUDGE: Yes.

PROF. D. PLAATJIES: In fact there is a simple answer to it I do not  
10 know why we tangoing here too much on it, given that higher education  
is a national function and we focus on the division of revenue and  
intergovernmental financing we were not consulted on it but they  
probably use some of our reports in terms of how we respond to the  
appropriation so (1) no we have not seen it, I saw it now in terms of what  
15 one of your staff has showed us and (2) we do not know the full content  
of it so we were not consulted on it.

JUDGE: Thank you.

ADV. K. PILLAY SC: Some of the questions we will be addressing to you  
in due course Prof will be in relation to the Ncasana report.

20 JUDGE: The other thing is that I asked you earlier about buckets with  
holes in them and so on, one of the aspects which seems to go rather  
further than that rather simple analogy is the position of the Tvet colleges  
because it has been strongly urged with a great deal of persuasion that  
there needs to be a complete realignment of the relationship between



Universities and Tvet colleges so that more money is poured into Tvet colleges with far greater and improved infrastructure and realignment of curricula and so on and so forth, a major task with a view to increasing the numbers who go to Tvet colleges and encouraging students about the virtues of Tvet colleges and the education that they provide. Now have you at all considered what additional cost might be involved in providing for upgraded Tvet colleges in addition to providing fee free education?

PROF. D. PLAATJIES: Chair no we have not considered in that aspect, I can tell you that with the shift of the function from the provinces to national, on that basis we have got to report in what it meant for the Fiscal because remember we work on the basis of finance follow function so we have a report which did speak to the shifting of the function from provinces to national and how that created almost like a destabilisation in the financing arrangements of the provincial level so that is also available. In terms of the latter part of your question I do not think we have done that work and it is simply because part of the function initially was sitting in the provinces which actually required us to give an opinion about that and part of it was sitting in the national government in terms of the national administration.

JUDGE: Yes.

PROF. D. PLAATJIES: So the two is now together but we had a view on, like with many other functions that have been shifted on the policy appropriateness, the relevancy of it and also the financial and fiscal implications of that so that report is also available, I am not so sure what

it is going to tell you in terms of the questions for now but if you think a little bit deeper in terms of the comment that you have made we could probably make an attempt to respond more intelligently to what you have asked.

5 JUDGE: You are not aware of any attempt that has been made to promote the Tvet colleges as against the Universities in the fiscal terrain.

DR. R. MABUGU: We are aware of the discussions within the higher education community and I think a ratio of 1:4 is a part of the discussion but from the budget analysis that we have shown which shows in terms  
10 of prioritisation within Department of Higher Education and Training you could see that over a six year cycle in terms of prioritisation that is not being reflected in the ...[intervenes]

JUDGE: That is exactly why I asked the question yes, thank you.

COMMISSIONER ALLY: Well and perhaps that can come with your  
15 additional submissions, you see on the Tvet my one is a big deeper in the sense of your function as a commission and your engagements with various stakeholders, how is it that Tvet's have had a declining, have been declining in terms of funding on your watch in terms of prioritisation, you have seen the increase in the number of students that  
20 attend as opposed to the increase in the number of students that attended Universities so in that whole cycle if you played any role in terms of, because you were an advisory body whether you had opportunities to advise and whether those advices ended up in the sewerage pipe or not as it were, perhaps you can provide that later in an  
25 additional because that was my issue in respect of the slide 25 dealing

with Tvet's and the declining is you put it there as a fact that this is what has happened, my question is why has it happened taking into account the way we want the economy to go as it were, that is on that slide.

JUDGE: Well let us deal with that one.

5 COMMISSIONER ALLY: I am not sure, Chair I am not sure they want to deal with it now but will want an opportunity to provide it later, you can choose which one you want to do, Prof.

PROF. D. PLAATJIES: I think there are two sets of issues here, the one set of issue is that when the function was in the provinces, remember the  
10 system is quite a sophisticated system in terms of the simple but sophisticated, before the Tvet's were moved to national it was a provincial responsibility with national policy questions to it right so the financing arrangement was allocated through an equitable share allocation so through the equitable share allocation the provincial  
15 executive makes the allocative decision, there is an allocation letter which like do say you spent money on this and this, XYZ but the political decision gets made in a particular way and during the time there were also pressures on when the function was sitting in the provinces was also pressure of other, for instance HIV AIDS programs, there were the  
20 issue of other social grants growing at an alarming rate and so there were lots of maraba going on, taking from Paul to pay Peter and those type of things that happened.

So in many ways when the funding got shifted there was a ringfencing of the money in the provinces to shift it but it was also an  
25 element of stult that happened in the provinces because if you have

clever, sharp and clever technocrats and politicians in certain provinces they will ringfence the money in a particular way so they keep some for their own so in many ways there was a particular base that was not at a higher level so you could probably read from the nature of the investment in there what is the unarticulated policy intend to bring the two sectors together within higher education environment. But more than that I think it is, we would be able to provide you with that information.

The second set of issues, do you want to respond to that. Yes it is quite a complicated thing because we will also be able to show you the trajectory, the spending trajectory over time on it and that information is available so if we get a nice formally articulated question we will be able to answer the right question in the right way.

COMMISSIONER ALLY: Now you have on your slide 43 you have dealt with NSFAS and you should be aware that NSFAS has designed with the help of the private sector a more efficient recovery system, now I must say to you that the report, the ministerial task team report you are going to read envisages a different function for NSFAS but on the evidence before us NSFAS has provided what they will be doing in terms of recoveries, one of that, one of the issues as I said is getting private sector experts to assist them (2) you will know because it was in parliament that there has been a directive that NSFAS be assisted by SARS, South African Revenue Service in terms of identifying those debtors that are working and not deducting at this particular time but only identifying because NSFAS had a problem in finding various debtors, I

take it that you are aware of that and that did not come out in your presentation on NSFAS, that is all Chair thank you.

JUDGE: Right.

COMMISSIONER KHUMALO: No further questions from us Chair.

- 5 JUDGE: Thank you, we would like to thank the members of the Fiscal Commission for coming here with their presentation and for all the industry that went into preparing it thank you.

**NO FURTHER QUESTIONS**

- 10 ADV. K. PILLAY SC: Thank you Chair, we have no further witnesses for today so we reconvene, the wet who was due to present in the second half of the day has just cancelled so if we can reconvene at 10:00 tomorrow morning.

JUDGE: Now are we having that witness tomorrow?

ADV. K. PILLAY SC: No we are not Chair.

- 15 JUDGE: Oh so we will have the Minister pure and simple.

ADV. K. PILLAY SC: That is correct Chair.

JUDGE: Right thank you.

**MEETING ADJOURNS**

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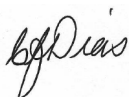
### SET 7 – HEARING 1 – DAY 4

### COMMISSION OF INQUIRY INTO HIGHER EDUCATION AND TRAINING

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