UNIVERSITY OF JOHANNESBURG

Submission to:

The Commission of Inquiry into Higher Education and Training

Preamble

The principle of institutional autonomy is at the very heart of a successful higher education system. The Higher Education Act 101 of 1997 constructs a system of governance that contains a range of checks and balances to ensure that the system is effective in its various roles. Universities are bound by the Higher Education Act 101 of 1997 to ensure the highest levels of financial integrity and sustainability. The Councils of the universities together with the executive management bear this fiduciary responsibility. To be regarded as being effective, universities must maintain the highest levels of quality. To achieve high quality teaching/learning and research, they have to be funded at appropriate levels.

The University of Johannesburg (UJ) is a university enacted under the Higher Education Act 101 of 1997 (as amended) and was formed in 2005 being a merger between Rand Afrikaans University (RAU), Technikon Witwatersrand (TWR) and the Soweto and East Rand campuses of Vista University.

UJ is a residential university with 4 campuses, 3 in Johannesburg and 1 in Soweto, and 50 000 (undergraduate and postgraduate) registered students enrolled for a variety of subsidised degree and diploma qualifications.

The UJ has a strong commitment to the principle of access for students from impoverished communities and the working class and to provide them with tertiary education to ensure that they can uplift themselves and their families. The results of the Commission of Inquiry are thus of utmost importance for the financial sustainability of UJ.

This submission is centered on the need for the UJ, and other universities, to be financially sustainable into the future, thereby being able to provide much needed higher education to the South African population to ensure that the developmental goals are achieved. Successful socio-economic transformation through the creation of skilled graduates relies on a stable funding model and sufficient funding for essential university operations within teaching, learning and research. Thus, whichever funding model is selected should be at a level that will ensure adequate funding and financial sustainability for the universities.

Since the inception of UJ, the Financial Sustainability Committee of Council, in accordance with Council's policy, has been committed to preparing an annual operating budget based on at least a break even position or a small annual operating surplus.

This was achieved for most years since 2005. This Council policy was adopted to ensure operational financial sustainability and to enable the university to maintain its reserves at an acceptable level. This also made it possible for the university, with assistance from the State, to invest at least R1.5bn into the physical infrastructure of the UJ.

Income

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

The UJ's government subsidy, as with all other universities, is calculated by applying the funding formula to the block grant and is based on certain parameters for input subsidy and certain output parameters to calculate the output subsidy.

The nominal annual increases in the total block grant (excluding earmarked grants), as per the Ministerial Statement for the higher education sector, are detailed below:

2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
6.40%	5.80%	6.10%	5.00%	5.50%	5.00%

As indicated above, the UJ's subsidy is a share of the total block grant based on the funding formula. Therefore, the annual subsidy increase which UJ receives is not necessarily the percentages detailed above. Depending on the various parameters, in the last few years the UJ increase was less than the percentages above and materially lower than the HEPI of 7.50% (see details below):

University of Johannesburg – annual block grant increase

	2011	**2012**	**2013**	**2014**	**2015**
Annual increase in block grants (excluding earmarked grants)	6,89%	6,23%	2.23%	5.09%	0.62%

Due to the government subsidy increasing at a percentage lower than CPI and the HEPI, it is inevitable that this puts pressure on the tuition and residence fee increases, resulting in these being increased by double digit increases for the past 5 to 7 years to ensure adequate income to pay the operational expenses of the university.

The UJ Council and Management agree that increasing tuition and residence fees by double digit percentages in the future is not feasible and that this makes university education unaffordable for a large portion of the South African population. However, as detailed above, UJ had no option but to increase the tuition fees at levels which would allow an annual break-even operating result and to ensure financial sustainability during the past 10 years.

This was one of the major reasons for the #FeesMustFall initiative last year, which resulted in a 0% fee increase for 2016.

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

University of Johannesburg - analysis of Income

	2011	**2012**	**2013**	**2014**	**2015**
	R'000	R'000	R'000	R'000	R'000
Government subsidy	1 146 386	1 222 029	1 303 513	1 389 135	1 427 204
Government subsidy as % of Income	*47,27%*	*45,03%*	*44,83%*	*41,91%*	*40,43%*
Tuition and residence fees	931 930	1 043 877	1 097 025	1 292 451	1 424 405
Tuition fee as % of Income	*38,43%*	*38,46%*	*37,73%*	*38,99%*	*40,35%*
Other income	100 001	115 509	123 828	130 409	140 158
Research income	80 102	83 699	113 048	117 857	229 665
Investment income	166 632	248 763	270 373	384 707	308 375
Total income	2 425 051	2 713 877	2 907 787	3 314 559	3 529 808
Annual increase in total income	8,66%	11,91%	7,15%	13,99%	6,49%

The varied increases are mainly due to the unpredictability of the investment income, which is precisely why UJ does not include investment income in the annual recurring operating income budget, but rather allocates investment income to maintenance projects and capital development.

Based on the table above, indicating that the tuition and residence fees have been between 38% and 40% of total income for the period, with an increasing trend, this demonstrates the importance of the tuition fees in the finances of the UJ.

Without tuition and residence fees the university will not be able to function, and in any future funding model these amounts will have to be replaced to ensure financial sustainability.

UJ's process for annual fee increases is transparent, and continuous consultation with the Student Representative Council (SRC) is an integral part of this process.

The basis for the annual fee increase is the annual operating budget requirement and the funding of specified strategic initiatives. In addition, to support our financially needy students to enable them to succeed, we allocate a material part of the increase to student assistance. As indicted earlier, a cornerstone of UJ is to provide access to higher education and thus to a better life to the children of poor and working class households. Currently, 28% of UJ's undergraduate enrollment is comprised of first generation students.

Since 2005, UJ has allocated a significant portion of the annual fee increases to student assistance. The following were allocated from the 2015 fee increase:

- SRC Trust Fund	R11m
- UJ food assistance program, in partnership with Gift of the Givers, (2 meals a day to 3 500 of our students)	R12m
- Free inter campus bus service	R16m
- Annual amount allocated to top up NSFAS	R45m
Total	**R84m**

This is in excess of 45% of the 2015 fee increase.

The UJ has been focusing on increasing third-stream income and has made some progress in increasing research funding and contract research. The commercialisation of UJ intellectual property to add to the third stream income is a priority of the management, but this will require investments from the university to succeed.

<u>Expenditure</u>

As noted above the aim is to achieve an annual break-even budget.

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

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

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

The UJ has various strategies to reduce cost on an ongoing basis and to ensure that efficiencies are achieved. The retention of a high quality service to our students is paramount in all our planning, and we cannot compromise on this provision.

As part of the process of analysing funding, each university will also have to analyse its costs, to ensure the most cost efficient operational model. It is necessary to note, however, that universities do not necessarily have the ability to manage all their costs, for example, a large portion of the costs is influenced by foreign exchange rates. Some of these are:

- Library electronic databases;
- Software and software licenses;
- Research equipment;
- Computers and computer-related hardware.

<u>Academic development and assistance</u>

A further operational requirement is to ensure that underprepared students are successful in their university studies and to ensure that students do not drop out before they have completed their studies. This requires a suite of academic and social assistance programmes which the university has to provide.

The UJ has an extensive Academic Development and Support Division to assist first-year and senior students to adapt to university life. This is a crucial intervention in ensuring academic success for our students.

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

Additional Teaching and Learning assistance

	2011	2012	2013	2014	2015
	R' 000	R' 000	R' 000	R' 000	R' 000
Tutors and Residence advisors	13 772	16 796	27 115	33 081	34 739
Assistant lecturers	-	-	-	11 683	12 915
Total	**13 772**	**16 796**	**27 115**	**44 764**	**47 654**

This strategic investment has resulted in an increased graduation rate over the past 5 years of 10% and it will result in further increases in the graduation rates. See below:

Degrees and diplomas awarded

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

The delivery of an exceptional academic experience and total student experience to prepare our students for the world of work is of utmost importance. To achieve this the continued investment in academic support and classroom support is required.

Reserves

A further matter that requires explanation is the notion that the reserves per the balance sheet belong to the Council of the respective university. This is simply not true. The reserves as per the balance sheet consist of various items, most of which are not under the control of the Council. The reserves are typically made up of the following individual items:

- Funds invested in property, plant and equipment;
- Bursary funds (where funds are placed in "trust" and the return thereon can be allocated to students as bursaries as per the bursary agreement);
- Research reserve funds (where funding has been secured for research projects and the return on the investment can be used for the research project;
- Endowments and/or university trusts usually under the control of independent trustees;
- Council controlled reserves, which are the only funds available for investments, etc.

Based on the information and reasoning above it is important to state that universities must be able to accumulate and build adequate levels of reserves, based on their own financial ability and financial planning. Any funding model should allow for this, as it creates greater stability and academic output.

The ability of universities to build and to maintain an adequate level of reserves is crucial as reserves allow Councils to invest in strategic initiatives, such as new facilities or the funding of strategic research areas. The university strives to respond to the need for a range of scarce skills in the development of South Africa, and this requires swift action, which is reliant on funding from reserves. Moreover, the university reserves allow UJ to create its own specializations, niche areas and academic differentiators.

Although the UJ was able to achieve modest operational surpluses this was not enough to fund the backlog maintenance. As a result, annual maintenance is financed from the investment return on the Council Controlled Reserves. The UJ's calculated backlog maintenance in June 2014 was approximately R550m, and this was submitted to the Department of Higher Education at their request.

During recent years, questions have repeatedly been raised concerning the reasons why universities should retain reserves. These questions have been raised based on the reserves on the individual universities' balance sheets. As indicated above, in UJ's case, the Council controlled reserves allows strategic investments in innovative academic initiatives, investment in infrastructure, the provision of funding for maintenance, and to provide for a small buffer in the event of a period of financial uncertainty.

The information above was provided to demonstrate the interdependencies of the various elements in university finances. All of the components of the financial statements noted above are important for the financial sustainability of the university sector and should be addressed together to ensure a financially viable higher education sector.

<u>Student accommodation</u>

The government does not provide any subsidy for the operational expenses of student accommodation. In certain instances a capital contribution is made to build new accommodation. Universities do not have adequate reserves to develop additional residences as required by the Residence Norms and Standards which was gazetted late last year.

Residence fees charged to students are the only income to operate residences and therefore when a 'fee free' dispensation, or any other model, is considered it is important to consider residences as part of such a dispensation.

<u>Socio-economic matters</u>

Universities are faced with various socio-economic issues which students have to cope with as a result of the poverty and inequality in our society. Larger numbers of students do not have resources to provide for their basic needs such as food, clothes and personal items. Thus, in addition to not being able to pay their studies or to buy books, they do not have money to sustain themselves at university, and as a result they struggle to progress in their studies.

Universities assist where they can, but there are not enough resources to assist all the students with personal needs.

As a result, universities have to allocate resources to assist students with their most basic needs, which in other societies would be funded by the students' families or sponsors.

Any future model of funding for higher education will have to account for the funds required to assist students with socio-economic inequalities.

<u>Current scenario</u>

The UJ agrees with the current scenario whereby higher education is a shared cost, shared between the state and the private individual. This funding model assumes that higher education provides both public and private good. Whereas the state funds the public good, the individual funds the private good, as the student and his/her family will benefit from the education.

Thus students who can afford to pay tuition fees should indeed pay, as they will derive personal benefits from their education. It is however necessary to stress that a large portion of the population cannot afford to fund their studies, and mechanisms to assist these students should be developed and should operate effectively.

As noted above it is evident that the balance between the contribution towards public and private good has been skewed and the individual is now carrying the larger portion of the costs.

Thus this imbalance must be addressed and rectified in any proposal which is made.

<u>Proposal</u>

As in the current scenario the UJ still proposes that, going forward, the cost sharing model should continue, and university funding will still be a combination of private and public funding. This will ensure that the State still funds the public good and the individual student funds the private good.

A necessary element of social justice is that the funding model should include mechanisms to ensure that academically deserving and academically achieving students should be not excluded from university because they cannot afford it.

This model should be based on the following principles:

Model 1

1. An analysis of the current level of government subsidy provided versus the tuition fees charged should be undertaken, the aim of which would be to rectify the current imbalance between the contributions by the two parties concerned. Thus, the level of fee payable should be at a realistic level and not unaffordable as it is now.

   In South Africa, the funding to higher education as a percentage of GDP was 0.68% in 2004/2005 and 0.72% in 2015/2016. Comparatively, based on 2012 statistics, the percentage for Brazil is 0.95%, Senegal and Ghana is 1.4%, Cuba is 4.50% and Finland and Norway 2%. It is evident that at the current level, state funding is not in line with other counties.

   If the higher education budget was set at 1% of GDP, the allocation during 2015/2016 would be R41bn vs the R30bn which was provided. The difference of an additional R11bn would make a major difference to the sector.

Once this imbalance has been rectified and the subsidy is at an appropriate level, the tuition and residence fees can be normalised and annual increases can return to affordable levels.

2. Students who can pay for their studies should pay as they will derive personal benefits from higher education.

3. Students who cannot afford to pay the adjusted, more realistic, tuition fees and residence fees should be able to obtain assistance to pay their studies. This assistance will be a combination of grants and loans, depending on the student and his family's ability to contribute to the education costs.

   The State will have to determine how much funding will be available for grants as these will not be repaid.

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

   The most important principles for this new model are:

- Effective distribution of the funds to financially needy students and the elimination of fraud and corruption;
- Effective back-office and administration on the funds and the loan book, by NSFAS or any succeeding entity;
- Effective collection mechanisms and penalties for non-repayment of the loan. Currently, limited penalty actions are available to NSFAS.

This model supposes further that universities will continue to raise funds for their financially needy students as it is possible that a new "NSFAS" model will still not have adequate funding for all students who cannot afford university.

The most important foundation of this funding alternative is the successful implementation of the new NSFAS Funding Model.

A possible negative of this model is that student debt can increase, especially if there is low economic growth and high youth unemployment, as graduates will not find employment to repay their study loans (this could be for both points 2 and 3 above).

In this model, tuition and residence fees are collected by universities at the time of study and could be funded by a loan which is repaid when a student completes his/her qualification.

Model 2

This model also supposes a combination of public and private funding, although the private funding is collected via a graduate tax once a student is employed. Thus the student does not pay during his/her studies but pays once employed. Such employment will be a part of the private good the student receives as a result of studying.

1. As detailed in Model 1 point 1 above, the current subsidy will continue as is but the imbalance between the public and private good funding should still be rectified. Thus the subsidy will have to increase to an appropriate and comparable % of GDP (see above).
2. The tuition fee part will be funded by a graduate tax. Once a student qualifies and finds employment a percentage will be deducted via the PAYE system and paid into a ring-fenced fund which is used to fund the tuition part. As per the nature of the PAYE system and being a fixed percentage, the rand amount will depend on the earnings of the student.
3. The negatives of this model may include:
    a. If the economy does not generate sufficient employment opportunities for graduates this proposal will not work;
    b. The administration of such a tax may be complicated by the fact that not all graduates are remunerated through a payroll system;
    c. The tax will only apply to graduates who earn income in South Africa.

Conclusion

The UJ accepts the reality of the current economic situation in the country, one which does not provide ample opportunity for the government to increase the tax base or to raise taxes to fund (among others) the additional funding requirement of universities.

The current uncertainties around fees, fee increases and subsidy levels creates uncertainties in the higher education sector. If this continues, it will assuredly impact negatively on the service delivery to students.

Any future funding model should provide certainty for the financial sustainability of universities and the sector. Such a model should also account for the additional costs which South African universities have to carry due to the poverty and inequality within society. If these costs are not accounted for, the students' academic progress will continue to be hampered.

Due to the level of financial resources required and the complexity of the sector, the UJ is of the opinion that a 'fee free' dispensation is not possible and not affordable. The funding of the higher education sector should be a joint venture between the state, public agencies, funding agencies, the business sector and the individual students on a cost sharing model.