Submission by
Stellenbosch University to the
Commission of Inquiry into
Higher Education & Training

Submission prepared by the Finance Division at Stellenbosch University

Presenters:
Prof Wim de Villiers,
Rector & Vice-Chancellor
(vc@sun.ac.za)

Mr Manie Lombard
Chief Director: Finance
(hajl2@sun.ac.za)

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1. Introduction: SU support for sectoral approach

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

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

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

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

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

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

Financial challenges in higher education are not limited to South Africa. Factors shaping the future of the sector appear to be universal, and questions regarding funding are being asked worldwide.

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

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

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

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

3. South African context

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

South Africa’s investment in education as a percentage of the Gross Domestic Product (GDP) is much lower than in many other African and BRICS countries (see graphic below).
While South Africa spends about 0.71% of its GDP on higher education, the US and the UK contribute 0.9% of GDP and Germany spends 1.1%.

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

(CPI forecast for 2017)
Nominal annual increases in the block grant from the DHET for the Higher Education sector have been consistently less than the Consumer Price Index (CPI).

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase</td>
<td>5.63%</td>
<td>5.75%</td>
<td>6.07%</td>
<td>4.58%</td>
<td>6.80%</td>
<td>6.42%</td>
</tr>
</tbody>
</table>

Annual Consumer Price Index (CPI) for period 2012 – 2017 (* forecast)

These circumstances prevail amidst pressures from the Department of Higher Education and Training (DHET) to increase the intake and the throughput rate of students (for which Stellenbosch University is mostly unfunded). In addition, there has been a steady decline in funding for higher education infrastructure in recent years.

The potential impact of the DHET’s new subsidy formulae for universities, and the timelines for the implementation thereof have created uncertainty within the higher education sector.

Problems with the administration of National Student Financial Aid Scheme (NSFAS) funds, as well as the new platform to be used, have added to the sector-wide uncertainty.

The lack of sufficient funding was exacerbated by the 0% student fee increase announced for 2016, and it will have an expected ripple effect beyond 2019.
4. The Stellenbosch University perspective

4.1 Factors leading to escalating costs

High research costs

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

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

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

This income from contract research may create an inaccurate perception of a well-funded institution. Creating an enabling environment is important to research success, and such research enablers, including world-class human resources, as well as high-end and expensive infrastructure, come at a substantial cost. Some of these funds may be allocated as bursaries to postgraduate students, but SU requires student fees to enable us to fund bursaries for poor undergraduate students. We support students with bursaries and loans which amount to more than 50% of our income from student fees.

Maintenance backlogs

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

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

Additional services

Municipalities and government departments such as the SAPS and the Department of Basic Education are not fulfilling their roles to the required levels. As a result SU has had to allocate funding to subsidise student mobility; to institute additional safety measures, and to provide substantial academic support services for first-year students who are inadequately prepared for higher education.

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

4.2 Bursaries as a strategic instrument

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

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

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

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

- Students from households with an income of R600 000 or more a year are in a better position to pay tuition fees.
- For the income group between R240 000 and R600 000 p.a. SU provides variable support.
SU offers bursaries to all students from households with an income of less than R240 000 a year, a group that is part of the “missing middle” who do not qualify for NSFAS funding.

The National Student Financial Aid Scheme (NSFAS) supports students from households with an income of less than R122 000 per year.

Statistics regarding bursaries (2015 data):

- 38% of SU’s undergraduate students receive bursaries;
- 70% of SU’s undergraduate Black, Coloured and Indian (BCI) students receive bursaries;
- Total bursaries paid by SU in 2015 amounts to R658,7 million:
  - R402,8 million from research contracts and own funds (R115 million from the main budget allocation)
  - R255,9 million as agents (including on behalf of NSFAS)

Of specific concern is the so-called “missing middle” group of students who do not qualify for NSFAS funding, but who also cannot afford university fees. The annual household income for this group ranges from R122 000 up to R600 000. SU has managed to provide bursaries for a portion of this group in the income bracket from R122 000 up to R240 000 per year. However, such initiatives would be jeopardised if SU is not in a position to increase its annual income. SU currently offers variable support to students in the income group R240 000 – R600 000 p.a.
The table above illustrates the estimated “missing middle” based on the number of applications for financial assistance received by SU. It may not reflect the actual number of students who may qualify for financial aid in any of the above categories.

Below: Undergraduate bursaries and loans to the total of R367,2 million in 2015.
As a national asset, SU makes a valuable contribution to the country. We deliver sought-after graduates, maintain a high research output, employ many rated scientists, produce record numbers of PhDs and provide innovative academic student support services.

Whereas the average first-year throughput rate in South Africa is 50%, more 86.7% of our students go on to their second year. All of this form part of SU’s value proposition. Stellenbosch University takes pride in its teaching by top experts in their fields, our excellent research output, as well as initiatives to develop responsible citizens and sought-after professionals with graduate attributes that extend beyond an academic qualification. Adequate funding is a prerequisite to sustain our academic excellence, bursaries and student support services.
5. Budget scenarios 2017

In the table below three scenarios based on the % increase in university income are presented. These include the following:

- Adjusted for macro assumptions. These are preliminary figures, and certain assumptions will still be updated/adjusted.

Main Budget 2017

Various scenarios for a possible increase in student fees are presented:

1. 0% adjustment: budgeted shortfall of R49,8 million in 2017. It should be taken into consideration that the impact of the 0% increase for 2016 is not limited to that specific year only. It will have an effect beyond 2019, and even later if SU should experience another year of no increase in annual income.

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

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

NOTE:

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

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

MAIN BUDGET 2017:

<table>
<thead>
<tr>
<th>DESCRIPTION</th>
<th>1: 0% adjustment (R’000)</th>
<th>2: Adjustment of *CPI% (R’000)</th>
<th>3: Adjustment of *CPI% + **Higher Education Sector inflation (R’000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total expected income</td>
<td>2 302 435</td>
<td>2 353 850</td>
<td>2 367 454</td>
</tr>
<tr>
<td>Total expected expenditure</td>
<td>2 352 273</td>
<td>2 363 384</td>
<td>2 366 324</td>
</tr>
<tr>
<td>Expected surplus (shortfall)</td>
<td>(49 838)</td>
<td>(9 534)</td>
<td>1 130</td>
</tr>
</tbody>
</table>

*CPI = CONSUMER PRICE INDEX  **The inflation rate in the higher education sector is some 1,7% higher than CPI as a result of expensive facilities and imported equipment as well as international research publications.
Various scenarios for a possible increase in accommodation fees are presented:

1. 0% adjustment: budgeted shortfall of R35,4 million in 2017. It should be taken into consideration that the impact of the 0% increase for 2016 is not limited to that specific year only. It will have an effect beyond 2019, and even later if SU should experience another year of no increase in annual income.

2. Adjustment equal to CPI (6.42%): budgeted shortfall of R18,2 million in 2017

3. Adjustment equal to the Higher Education Price Index (HEPI) which amounts to CPI plus 1.7%: budgeted shortfall of R13,6 million in 2017.

### ACCOMMODATION BUDGET 2017:

<table>
<thead>
<tr>
<th>Description</th>
<th>0% adjustment</th>
<th>Adjustment of &quot;CPI&quot; + &quot;Higher Education Price Index&quot;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total expected income</td>
<td>307,178</td>
<td>324,596</td>
</tr>
<tr>
<td>Total expected expenditure</td>
<td>342,542</td>
<td>342,755</td>
</tr>
<tr>
<td>Expected surplus (deficit)</td>
<td>(35,365)</td>
<td>(18,159)</td>
</tr>
</tbody>
</table>

6. Recommendations

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

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

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

<table>
<thead>
<tr>
<th>Household income</th>
<th>&gt;R600k</th>
<th>R240 – R600k</th>
<th>R122 – R240k</th>
<th>&lt; R122k</th>
</tr>
</thead>
<tbody>
<tr>
<td>Degree</td>
<td>BCom</td>
<td>BCom</td>
<td>BCom</td>
<td>BCom</td>
</tr>
<tr>
<td>Tuition</td>
<td>R41 000</td>
<td>R41 000</td>
<td>R41 000</td>
<td>R41 000</td>
</tr>
<tr>
<td>Accommodation</td>
<td>R29 000</td>
<td>R29 000</td>
<td>R29 000</td>
<td>R29 000</td>
</tr>
<tr>
<td>Additional costs</td>
<td>R2 000</td>
<td>R2 000</td>
<td>R2 000</td>
<td>R2 000</td>
</tr>
<tr>
<td>Total</td>
<td>R72 000</td>
<td>R72 000</td>
<td>R72 000</td>
<td>R72 000</td>
</tr>
<tr>
<td>Settled by Family</td>
<td>R72 000</td>
<td>R30 000</td>
<td>R10 000</td>
<td>0</td>
</tr>
<tr>
<td>Settled by Bursary: SU</td>
<td>0</td>
<td>R10 000</td>
<td>R62 000</td>
<td>0</td>
</tr>
<tr>
<td>Settled by Bursary: NSFAS</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>R72 000</td>
</tr>
<tr>
<td>Shortfall</td>
<td>0</td>
<td>R32 000</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Typical student account per combined household income per year illustrating financial aid from SU and NSFAS
FURTHER READING

- *Funding public higher education institutions* (Article published by PWC)
- *Stellenbosch University Annual Report (2015)*:
- *The flawed ideology of ‘free higher education’ by Nico Cloete*
- *The ideology of free higher education in South Africa – the Poor and the Middle Class Subsidising the Rich by Nico Cloete.*

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

**Enquiries:**
Mr Manie Lombard, Chief Director: Finance
Tel: (021) 808-4517
[enquiry email]

**Media office:**
Martin Viljoen
Tel: (021) 808-4921
[media office email]