CHE

COUNCIL ON HIGHER EDUCATION

Advice to the Minister of Higher Education and Training on Fee Adjustments at Public Universities for 2017

11 August 2016

Contents

Executive Summary

In accordance with the Council on Higher Education's (CHE) mission to contribute to the development of a transformed higher education system characterised by equity, quality, and responsiveness, as well as effective and efficient governance and management, the CHE hereby provides the following advice on university fee adjustments for 2017 to the Minister of Higher Education and Training. The 10 March 2016 request from the Minister called for advice on the development of a regulatory framework for future fee increases in higher education beyond 2017. The first iteration of that advice is planned to be completed before the end of the calendar year, contingent on the advances made in related initiatives such as the Presidential Commission of Inquiry into Higher Education and Training, the Ministerial Task Team on funding of poor and missing middle students, DHET financial modelling and enrolment planning, and the National Plan for Post-School Education and Training, amongst others.

The Council established a Task Team to carry out the necessary research and analyses and provide recommendations to the Council to inform its deliberations and advice to the Minister. In the light of the urgency of the request, and the volatility in the higher education sector triggered by the fees issue, the task was divided into two phases, one of which could be completed in the very short term, and which has culminated in this advice. Taking into account the investigations of the Task Team and the modelling commissioned, the CHE here presents its advice in relation to fee adjustments for 2017.

This document needs to be viewed as the first stage in a more complex process of engagement to develop longer-term solutions to current issues in which expression will be given to the principles of transformation and social justice that underpin the work of the CHE. Given the need for universities to determine fee adjustments for the next academic year by the end of August at the latest, this advice is necessarily short-term, focused on fee adjustments for 2017 only, and pragmatic in nature.

In the second phase of the project, mindful of the longer-term implications of potential fee increases, both in widening access to higher education for the poor in line with social justice imperatives, and the need to enhance quality in a sustainable higher education system, the CHE is currently engaging further with the request to develop a regulatory framework for future fee structures through its Task Team convened for this purpose. The CHE recognises the challenges posed by the need to balance constitutional and policy commitments to social justice, and the needs of a higher education sector differentiated by exclusionary legacies as much as by institutional type and geographical location. It also recognises the constraints of an increasingly austere fiscal climate on the achievement of education and other social development goals.

Predicated on the assumption that possible changes in future funding and student financial aid regimes would not have been effected by the start of the 2017 academic year, and that fees would still apply, an economic study of the effects and implications of different levels of fee adjustments for 2017 was undertaken. From this model, a number of different scenarios were projected and considered. The model developed took into account all available data in relation to individual universities' income and expenditure in the 2014 year, using the latest audited figures, to produce a baseline from which different scenarios for 2017 were extrapolated. The model took into account growth rates in staff and student FTEs, assuming a constant staff: student ratio; a nominal increase in wages by the rate of inflation between 2016 and 2017; growth in university non-personnel costs; and third-stream income growth. It located that growth in the context of planned government allocations to universities in 2016/17 and 2017/18 based on the Medium Term Expenditure Framework, the Ministerial Statement on University Funding and the 2016 Higher Education and Training budget. The allocations were disaggregated into all the component parts: the block grant to universities (and its constituent groups of teaching input, teaching outputs, institutional factors and research output), the compensatory grant for a 0% fee increase in 2016, and earmarked grants.

A projection of each individual university's income and expenditure was made for 2014/15, 2016/17 and 2017/18, and their operating surpluses or deficits were analysed. Historic debt was not taken into account as accounting was on an accrual basis. A further assumption was that debt relief does not affect income.

The base year for calculating fee adjustments was 2016, without an increase in registration, tuition and residence fees (effectively 2015 fees), although the full cost of study was assumed to be slightly higher to account for increases in the cost of meals and books. The full cost of study in each individual university from 2014 to 2017 was also projected. In terms of financial aid, calculations of the cost of providing all qualifying students (i.e. those passing the current NSFAS means test) a grant at the average level for each institution in 2014 were undertaken. Historic debt relief was not factored in.

The study showed that, even with a compensatory grant for the 0% fee increase in 2016 included in the teaching input grant, grants will decrease in real terms by just under 1% from 2014/15 to 2016/17 and will remain at the 2016/17 level in 2017/18. All other unit grants – teaching output, research output and institutional factors will also decline in real terms as a result of an increase in the number of units being funded. The allocations to universities per student would be declining in real terms. This is the overall context in which the different scenarios were considered.

Fee adjustments affect university income and financial aid in the main. In the projected scenarios, the two main outcomes compared were the effects of different levels of fee increase on university income, and the extent of the shortfall in NSFAS funding accompanying each scenario.

Universities were understood to be in a worse financial position if their expenditure, based on current patterns, could not be covered by their expected incomes. The results indicated that almost all universities' operating surpluses or deficits were negatively affected between 2014/15 and 2016/17; the number of universities that would have a lower surplus or higher deficit in 2017/18 than in that year under different fee adjustment scenarios was also projected. This was done for each university, and then the surpluses or deficits across the system quantified, indicating the change in the position of the sector overall.

In all scenarios there would be a shortfall in NSFAS funding were all eligible students to be funded to the average level. Different levels of fee increases affect the quantum of the shortfall however, as higher fees imply higher levels of financial aid needed. The differences in NSFAS shortfalls were accordingly compared per scenario.

In the context of declining higher education funding in real terms as the system has expanded, and overall fiscal constraints, a continuation of a 0% fee increase in 2017 (Scenario B) will have deleterious effects on the quality of higher education and of the institutions overall. University surpluses overall would have declined by R4.1 billion between 2014/15 and 2015/16 in all scenarios, but if no upward adjustment in fees were to be levied in 2017, they would decline by a further R882 million in 2017/18 and 19 universities will be in a worse financial position. The deterioration in university positions would be ameliorated best by an increase of the CPI+2% (Scenario C), but then students will be faced with real increases in fees and the NSFAS shortfall would be R400 million more than if no increase were effected.

Having considered the scenarios presented by the Task Team, the Council found Scenario A, that is, an across the board fee increase at the level of the Consumer Price Index, to be the most defensible, for the following reasons:

- There will be no real cost increase to students in Scenario A between 2016 and 2017, except possibly in respect of residence fees in some universities if the break-even principle were followed. While 10 universities would be in a worse financial position in this scenario, the universities overall would recover from the deficits of 2016/17.

  In contrast, were student demands for a 0% increase to be effected, as in Scenario B, 19 of the institutions included in the study would be in a worse financial position, and the system as a whole would see a further deterioration of nearly R900 million over and above the R4.1 billion lost between 2014 and 2016. This, given the accumulated underfunding, would threaten the sustainability of the system

- The CHE finds that a fee adjustment that is linked to the overall inflation rate in the country is more justifiable than one of CPI+2%, as was assumed in Scenario C. There are two factors that affect the Higher Education Price Index (HEPI) as it has currently been calculated; the largest proportion of university expenses comprises the wage bill, and in a deteriorating economic climate it is unlikely and perhaps undesirable that in 2017 this should increase by more than the CPI. The model assumed that 25% of non-personnel expenditure is spent on imports and is therefore subject to exchange rate fluctuations. These are unlikely to be as severe between 2016 and 2017 as in the last few years. As much research equipment is imported, higher increases in fees for postgraduate students could be considered if necessary. While Scenario C indicates a recovery of the institutions' financial position overall, 8 universities would nevertheless be in a worse financial position. While this Scenario is the one of the three presented that is in the best interests of the universities, it is also the one that proposes a real increase in fees for students, which, in the context of years of higher than inflation fee increases, is also not sustainable.

With due consideration to balancing social justice imperatives with the sustainability of the higher education system and the overall financial stability, the CHE advises the following:

1. Given that the authority for determining fee increases resides with University Councils, the CHE urges that all universities be requested to provide a firm commitment through their representative body, Universities South Africa, to adhere to the same position on fee adjustments once this has been decided. The system will not be well served by differential fee increases at this juncture. This should be agreed to between the universities and the Department of Higher Education and Training, and be fully supported by government.

2. Having considered different fee increases modelled for 2017, the CHE advises that Scenario A, which proposes a fee increase of the CPI across the board, would be the most defensible to apply under the circumstances as it balances the interests of students and the sustainability of the higher education system. An across the board increase at the same level is the preferred option, as the universities together are in a stronger position than each negotiating individual increases.

3. A second option is to regard the CPI as a ceiling increase in tuition and registration fees within which universities may negotiate a lower than CPI increase with their students, on the understanding that any concessions are for the university's account and will not be made up by an increase in the block grant. This option is less desirable, in that varied increases will make individual universities more vulnerable to pressure not to increase fees even to the level of the CPI.

4. All universities must undertake to carry out comprehensive communication and/or consultative processes with stakeholders, especially students.

5. Despite the essentially pragmatic and limited nature of this advice that is focused on the immediate sustainability of the system, the CHE's concern is to contribute to developing a higher education system in which the principle of social justice is advanced. In this regard, it recommends that efforts underway through other initiatives to find ways to develop an improved, affordable and better-funded financial aid system for the poor and missing middle be supported and expedited. Finally, it would be important for any proposed fee adjustment to be accompanied by a further measure of redress for poor students.

1. Introduction

1.1 The request for advice

In a letter to the Chairperson of the Council on Higher Education dated 10 March 2016, the Minister of Higher Education and Training, Dr BE Nzimande, requested the CHE to advise him on “the regulatory framework for managing future fee increases”. The request arose in the first instance from the report of the Presidential Task Team (PTT) on short-term solutions to address university funding challenges submitted on 30 November 2015. The PTT argued that a 0% fee increase at South African universities beyond 2016 would be unsustainable; if there were to be a continuation of a 0% fee increase in 2017, a further increase equivalent to R3.6 billion (15%) would be required for the block grant subsidy baseline.

The request noted that the exact increase in student fees per annum going forward, and to be determined, should take into account higher education inflation, which is historically higher than the general inflation index, as well as the need for growth in the system to enable the achievement of the targets set in the National Development Plan. The PTT had also recommended the development of a “regulatory framework for managing future university fee structures through which increases should be developed and agreed upon through a broad consultative process for implementation in the 2017 academic year.” The intention was that such a framework could be applied as “part of an integrated planning process built on the current process for negotiated enrolment planning” by the Department of Higher Education and Training (DHET). The Minister accordingly requested the CHE to coordinate this process through an advisory task team and to advise him on the matter.

1.2 Context

The year 2015 saw the issue of student fee escalations in excess of 10% being the trigger for mass protest action aimed at preventing fee increases at a national level and at several universities. The pressure of consistent underfunding of higher education in a context of increasing enrolment growth had led to most institutions passing an increasing burden of costs onto students through high annual fee increases. The student demands were initially for smaller fee increases, then no fee increases, and then for free higher education – in some versions, for the poor, and in other versions, implicitly for all (CHE, 2016). This rallying call coalesced into countrywide protests which enjoyed widespread media coverage and public outcry and which eventually led to the announcement at Presidential level of a 0% increase in fees for 2016 across the university sector.

Associated issues that were brought to the surface in the process were those of accumulated student debt, insufficient funding for those who were eligible in terms of NSFAS criteria but who had not received the required financial assistance, exclusions made on financial grounds, upfront payments, and the plight of the so-called ‘missing middle’, i.e. those lower middle income families who do not meet the NSFAS criteria for financial support (an income threshold of R122 000 per annum), but who are nevertheless unable to afford the costs of university education. A further concern that emerged during the protests was the plight of outsourced workers whose dependants do not qualify for study fees rebates, and their general levels of pay and lack of benefits which universities were called upon to remedy.

A series of dialogues and interventions aimed at resolving the grievances were undertaken by the Ministry of Higher Education and Training, university Vice-Chancellors, student structures, and eventually the Presidency. An intervention by the Minister of Higher Education and Training proposed a 6% increase which was agreed to, but which was subsequently followed by bolder demands by protesters for no fee increases. As tension escalated, and protest action became more disruptive at several universities, a meeting convened by the President at the Union Buildings decided on no fee increase across the sector for 2016. The 0% fee increase for 2016, although having been approved as a short-term solution, will have ongoing effects. A further repercussion of the protest movement was the demand for the insourcing of outsourced workers. This has exacerbated the funding challenges for most universities to a lesser or greater degree, with long-term implications for their budgets and escalating staffing and benefits costs. Given that high fee increases were the catalyst for escalating disruption in the university sector, and in spite of the resolution for the 2016 academic year through a 0% fee increase, the potential remains for further student unrest to unfold. Mindful of this, the Minister sought advice from the CHE on how to regulate future fee increases to avoid future upheaval in the sector as was experienced in 2015.

1.3 The terms of reference

The CHE considered the request for advice from the Minister at its meeting of 17 March 2016 and resolved that a task team under the leadership of the CEO would undertake the task of formulating advice (full Terms of Reference in Appendix A). It was agreed that economic modelling of the impact of different levels of fee increases would be commissioned to inform the task team's deliberations and recommendations. The report of the task team was considered by the Council on 30 June 2016 to inform this advice.

1.4 The Task Team

The CHE Task Team comprised the following members:

External

- Ms Nasima Badsha - CEO - CHEC
- Ms Judy Favish - Academic Planner - UCT
- Dr Lis Lange - DVC - UFS
- Mr David Maimela - Researcher - MISTRA
- Dr Charles Simkins – Academic – Helen Suzman Foundation
- Prof Tshilidzi Marwala – DVC - UJ
- Prof Pundy Pillay - Academic - WITS
- Dr Doeke Tromp – Retired - TUT

Internal

- Prof Narend Baijnath (Chair) - CEO - CHE
- Dr Marianne Engelbrecht - Manager - CHE
- Mr Michael Gordon - Analyst - CHE

- Dr Denyse Webbstock – Director - CHE

DHET

- Dr Engela van Staden – Chief Director - DHET
- Ms Pearl Whittle – Director - DHET

1.5 The project phases

Given the urgency of the need to determine what should happen with respect to possible fee increases for 2017, and the need to take into account the findings of a range of other concurrent initiatives, the work of the Task Team was divided into two phases. It was agreed that the first phase would focus attention on the immediate issue of what advice could be provided with respect to student fee increases for 2017. The second phase would take into account the outcomes of other initiatives, particularly the *Presidential Commission of Inquiry into Higher Education* which is considering the feasibility of fee-free higher education, and the review of NSFAS, in developing a process and framework for the possible regulation of student fees and fee increases in higher education beyond 2017. The need for such a regulatory framework would be predicated on the continued utilisation of student fees as part of the higher education funding regime. The outcome of the work of the Presidential Commission would therefore have a significant impact on the advice going forward, and attempts will be made to find convergence between the work of the CHE and the Presidential Commission.

1.6 The purpose and structure of this document

This document sets out three different options with respect to fee increases for 2017, based on an economic study undertaken for the purposes of informing this advice. Each option presents the financial implications of its adoption for the state, for each university, and for students. The document then also outlines the broader policy implications of each option in the short term and in the longer term.

The final section of the document puts forward a number of recommendations for decision-making with respect to possible fee increases for 2017. Finally, it points the way forward in Phase 2 of the project i.e. the development of a process and framework for the possible regulation of fees in the future.

1.7 Assumptions made

This advice takes as its starting point that as there are other structures and initiatives currently addressing the broader question of rethinking student funding models, which are outlined in Appendix B, its focus is limited to potential university fee increases in 2017. It is based on the following assumptions:

1.7.1. The outcomes and recommendations of the various initiatives that are considering the entire funding regime for higher education will not be able to be implemented in 2017, given the lead-time that government, universities and other agencies would need to be able to respond to them appropriately and to re-engineer national systems. The first assumption is thus that in 2017, university income will still be partly fee-based.

1.7.2. The second assumption is that student demands that have led to continuing protest action will continue to go beyond the provision in the Constitution which promises the right to further education "which the state, through reasonable measures, must make progressively available and accessible", to demands for fee-free higher education for all. Such demands will not be easily assuaged, and any fee increases, even a 0% fee increase, are likely to be met with resistance.

1.7.3. The current underfunding of higher education will continue in the short term. Though the CHE Task Team is cognisant that higher education inflation may be higher than the CPI, and that in the long term even inflation-based fee increases (without any linked adjustments) would have the nett effect of further eroding the funding base of institutions, the assumption is that options regarding fee increases in the very short term, i.e. 2017, need to balance student demands and the existing patterns of expenditure of universities, and be premised on maintaining the quality and sustainability of the country's universities. The further assumption is that higher education funding by the state in 2017/18 will be as stated in the Medium Term Expenditure Framework which formed part of the 2016 Budget. Funding allocated to higher education is currently (2014) 0.75% of GDP, and 2.49% of the state budget, which is low by international comparison.

1.7.4. The options presented below are predicated on the status of South African universities as independent statutory bodies, with university Councils having authority over university funding matters, including the setting of fees and fee increases.

1.7.5. Given the volatile student funding context and the potential for further upheaval that may be triggered by the announcement of any sort of fee increase, the Council advises that universities support a sector-wide approach to determining fee increases in 2017, rather than determining them individually. While unregulated fee increases were modelled in the study for analytical purposes, the results presented in this document assume the same level of fee increase levied across the board.

1.7.6. The economic outlook needs to be taken into account. Statistics SA on 8 June 2016 indicated that the Gross Domestic Product (GDP) of South Africa in the first quarter of 2016 fell by 1.2%, indicating a weakening economy. This trend is likely to continue and will reverberate throughout society as the economic pinch is felt.

1.7.7. Given that the problem of student funding is acute and determined and influenced by various factors, including socio-economic and political ones, the situation cannot be ameliorated by technical solutions alone. Though this document sets out the implications of a series of options calculated according to an economic model, implying that the resolution lies in a simple choice between them, the CHE is cognisant of the complexity of the matter and mindful of the many considerations that inform tough policy trade-offs that are not easily configurable in an economic analysis.

1.7.8. Higher education is integral to the growth and the health of the nation and to the achievement of social justice, and stability in the sector is vital to the achievement of national development goals as detailed in the National Development Plan, and a variety of Departmental planning instruments that give expression to national priorities.

2. The economic study

This section reports on the study undertaken which included the following:

- Its purpose.
- The limitations of the study.
- The key assumptions, identifying policy variables and assumptions about facts that informed the model developed.
- An account of the funds to be granted by the government to all universities in 2016/2017.
- An account of the allocation of the block grant to each university in 2016/17.
- A projection of the number of students enrolled in each university for the years under consideration, using three different measures.
- An estimation and projection of the full cost of study in each university for the three years under consideration.
- An estimation and projection of the income and expenditure of each university.
- An estimation and projection of the NSFAS budget for all universities, and a projection of the demand for NSFAS loans by students enrolled in each university.
- A report of its key results.

2.1 Purpose and structure of the economic study

In order to inform this advice, a study was carried out to project the impact of different fee increases for 2017 on the university sector, from a 0% increase, an increase that is based on the Consumer Price Index (CPI), an increase based on the CPI+2% to take account of higher education inflation, an unregulated fee increase, i.e. a range of increases according to what the universities had each planned for 2016, and an across the board increase of 10%. In doing so, the study assessed the relationship between income and expenditure in universities for the years 2014/15, 2016/17 and 2017/18, and drew conclusions about the changing financial pressures on them. It also assessed the adequacy of NSFAS funding for 2016/17 and 2017/18.

2.2 Limitations of the study

The study report noted that the estimates and projections have the following limitations, quoted below:

2.2.1 "Audited outcomes in respect of university income and expenditure, student enrolments and NSFAS funding are available only up to the end of 2014/15 year and this therefore forms the baseline year in this study. This means that these magnitudes have to be projected from 2015/16 onwards. Actual outcomes in these years will differ from the projections. In particular, aggregate actual university expenditure in 2015/16 and 2016/17 is likely to turn out lower than projected, as some universities will have been forced to curtail it. At the same time additional costs were incurred on security and damages. Essentially the projections are what would have been the case, given the assumptions. ***Nothing in this report should be regarded as a representation of any university's actual income and expenditure beyond 2014/15***.The relevant information is simply not to hand.

2.2.2. There is an awkward discrepancy between the academic year, which runs from 1 January to 31 December and the government expenditure year which runs from 1 April to 31 March. This discrepancy is overlooked in this study and two periods are regarded as aligned. Thus 2014/15 expenditure is regarded as financing 2014 activities. The only exception to this rule is the government transfer to universities in the last quarter of the

2015/16 financial year to ameliorate the 0% fee increase, which is taken into the 2016 estimates.

2.2.3. There are marked discrepancies between NSFAS allocations reported in the NSFAS Annual Report for 2014/15 and those estimated in the Report of the Presidential Task Team on University Funding of November 2015. This imparts uncertainty, particularly in relation to unfunded students in 2014/15 and beyond.

2.2.4. Sol Plaatje and Mpumalanga universities have been excluded from most of the tables, and Sefako Makgatho from many of them, the last resulting from limited information about it in 2014."

2.2.5. In addition to the above listed in the study, a further limitation is that the study focused only on one year, that is, 2017, and its parameters do not include provision for the so-called 'missing middle' students. It does, however, assume that all students who would qualify for NSFAS financial aid are funded to the maximum grant level, which is about 55 % of the full cost of study in 2017/18. Fees are here understood to include tuition and registration fees, but not residence fees or allowances for meals and books.

2.3. Assumptions of the study

Two kinds of assumptions underlie the modelling in the study undertaken: policy assumptions are those which are particular policy choices which could be changed in the model, and factual assumptions such as indices which too are subject to change.

2.3.1. Policy assumptions:

- On average, nominal wages will increase by the rate of inflation from 2016/17 to 2017/18. All calculations in the study were made on this assumption, though it may be that higher wage increases are negotiated, or lower wage increases implemented as a result of austerity measures. The wage index was then as follows:
    - 2014 100, 00
    - 2015 106, 63
    - 2016 113, 53
    - 2017 120, 65
- The student/staff ratio will remain constant from 2014/15 to 2017/18. This means that the growth rates in the numbers of students and staff will be identical.

Student FTE Index Staff FTE Index:

o	2014	100,00	100,00
o	2015	103,54	103,54
o	2016	106,31	106,31
o	2017	109,78	109,78 thus an increase of 3,54%

- Residence fees will be calculated on a break even basis. They are distinct from the tuition and registration fees considered in the model.

- The Fee Index

    - Where across the board fee increase calculations were made, the base year was 2016, with a 0% increase (so effectively 2015 fees). The baseline assumption was that fees will increase in line with the CPI for 2017, thus 6.27%
    - Unregulated fee increases are based on the individual increases universities had intended for 2016 that range from 8.0% to 13.6%.

- NSFAS loans/bursaries vary across universities. The minimum percentage of the full cost of study was assumed to be:

    - 2016/17 50%
    - 2017/18 55%

2.3.2. Factual assumptions:

- The Consumer Price Index (CPI), as projected by the IMF, will increase by 6.27% from 2016/17 to 2017/18. The CPI was then assumed to be as follows:

    - 2014 110, 256
    - 2015 115, 314
    - 2016 122, 784
    - 2017 130, 482

- Exchange rates: Dollar to Rand (IMF):

    - 2014 10,84
    - 2015 12,75
    - 2016 16,00
    - 2017 16,72

- Import content of non-personnel expenditure: 25,0%

- Price Index of non-personnel expenditure:

    - 2014 100,00
    - 2015 109,37
    - 2016 122,04
    - 2017 129,03

- Third stream income growth: CPI + staff (thus growth in number of staff plus increase in costs at CPI)
    - 2014 100,00
    - 2015 110,40
    - 2016 120,70
    - 2017 132,45

2.4 Planned allocations to universities

The study took into account the funds to be granted by the government to all universities in 2016/2017, based on:

- The *Ministerial Statement on University Funding*: 2016/17 and 2017/18;
- The *2016 Budget: Estimates of National Expenditure* – Higher Education and Training and
- The final corrected *MTEF* for the DHET.

For 2016/17:

Including a R2.3 billion grant to compensate for the 0% increase in 2016, the total funds to be allocated are in the order of R27.9 billion without the NSFAS allocation, and R39.3 billion including NSFAS.

For 2017/18:

Including a R2.56 billion grant to compensate for the 0% increase in 2016, the total funds to be allocated are in the order of R31.6 billion without the NSFAS allocation, and R41.7 billion including NSFAS.

While it is not known how the grant made to universities to compensate for the 0% fee increase in 2016 will be allocated, the study allocated it to the teaching input grant so that the allocation would be proportional to the number of teaching units agreed with each university.

The block grants for 2014/15, 2016/17 and 2017/18 were then compared with the following results:

- Without the '0% compensation grant', in current prices, the teaching input grant, institutional grant and research output grant will fall from 2014/15 to 2017/18, and only the teaching output grant would increase. If the 0% compensation grant were to be included in the teaching input grant, then the unit grant for that component would increase marginally in real terms in that period. In other words, government funding would have declined per unit for everything except the teaching output grant.
- If inflation is allowed for and the 0% compensation grant is not taken into account, the block grant overall would decrease slightly in real terms, and the components of the block grant would be spread over an increasing number of units. This indicates system expansion without an appropriate increase in the block grant to support the expansion.
- If the 0% compensation grant is included in the teaching input grant, then it will decrease in real terms by just under 1% from 2014/15 to 2016/17, and would remain at the 2016/17 level in 2017/18. This means that, while the 0% grant was intended to compensate for a real drop in fees, with the grant the universities would be where they

would have been in the following years, but it would not actually compensate for intended fee increases.

- The block grant increases in real terms with the 0% compensation grant, but all the unit grants (teaching input, research output, institutional factors and teaching output) will decline – this is as a result of an increase in the number of units being funded, i.e. student numbers increasing.
- The study also showed changes in the allocation of the block grant to each university in 2016/17.

2.5 A projection of the number of students enrolled in each university for the years under consideration, using three different measures.

The study projected the number of students enrolled in each university in terms of headcounts, FTEs and teaching input units to FTEs. In total, the numbers of all enrolled students (headcounts) would increase from 968 890 in 2014, to 1 059 900 in 2017.

2.6 An estimation and projection of the income and expenditure of each university.

The study projected income and expenditure for each university, and analysed their operating surpluses in 2014/15, 2016/17 and 2017/18, assuming an across the board inflationary increase. The projections indicated that:

- Without the 0% compensation grant, the aggregate surplus in the system would have declined by R5 666 million between 2014/15 and 2016/17. The compensation grant moderated the decline to R4 092 million. These declines are likely to be an overestimate in relation what has actually happened and what will happen, since universities, particularly those with deficits or low surpluses in 2014, will have been forced into a degree of restructuring to reduce costs. Nonetheless, the projected decline is a good indicator of financial stress in the system as a whole.
- With a continuing compensation grant in 2017/18, aggregate surplus is projected to rise between 2016/17 and 2017/18 by R404 million, undoing 10% of the decline between 2014/15 and 2015/16.
- All accounting is on an accrual basis. This means that the historic debt relief does not affect university income. Instead, it amounts to a university balance sheet adjustment on the asset side, with cash replacing the debt relieved. The counterpart for students is that their debt is now owed to NSFAS rather than to the university.
- Five universities had operating deficits in 2014/15. By 2016/17, the number would have increased to 20 without the 0% compensation, and the system as a whole would have shown an operating deficit.
- Even with a compensation grant for the 0% fee increase incorporated in the 2017/18 projection, 16 universities would have an operating deficit in that year.

For the purposes of calculating the NSFAS requirement, it was assumed that residence fees will increase by the same percentage as tuition and registration fees. The application of the income and expenditure break-even principle for residences could, however, require higher increases than assumed. This has financial implications for the students (affordability), NSFAS (grant requirement) and the university (cross subsidisation of shortfalls).

2.7 NSFAS

The study estimated the cost of providing every qualifying student i.e. those passing the current NSFAS means test, a grant at the average level for each institution in 2014.

It also set out the projected full cost of study in each university from 2014 to 2017. There is a slight increase from 2015/16 to 2016/17, despite the 0% fee increase, as that would have applied to tuition fees, registration fees and residence fees, but there would have been an increase in the cost of meals and books.

The model estimated that there will be a shortfall in NSFAS loan funding in 2016/17 (for those currently eligible) of 17.5% in 2016/17 and 12.7% in 2017/18.

3. The study's key results

The Task Team considered a range of scenarios related to fee increases produced by the study, some of which it rejected for reasons of economic viability, and presented three possible options for the consideration of the CHE.

The scenarios were modelled on the basis that:

a) most of the factors influencing costs have stayed the same;
b) the staff/student ratio is held constant;
c) there is a CPI-linked increase in staff compensation;
d) the proportion of students eligible for NSFAS funding remains constant in each university; and
e) student enrolments grow at the same average rate that they have over the past few years, i.e. that they will have grown from 968 890 in 2014 to 1 028 047 in 2017.

The state subsidy in the scenarios refers to the block grant and not to the entire subsidy which would include earmarked grants and NSFAS as well. For all scenarios, the portions of the block grant allocated to research output, teaching output and institutional factors are not directly affected by different fee increases, but they will continue to decline in real terms as they have over the last few years; only the teaching input grant to which the compensatory grants for a 0% fee increase has been allocated will stabilise.

The model took as a starting point the universities' situations in terms of income and expenditure as in 2014, and did not take their balance sheets into account. A decrease in surplus or an increase in deficit was understood to be a deteriorating position; i.e. a university would not be able to spend in the way it had in 2014 in the following years, given a decline in income. As noted above, five universities had operating deficits in 2014/15.

The model assumed that all eligible NSFAS students would be funded in terms of current NSFAS rules and means threshold, to the level of the average NSFAS grant in their institutions in 2014/15, adjusted for the increase in the full cost of study. Historic debt was not factored in, and nor was the 'missing middle', yet the shortfall in NSFAS funding as reported above pertains.

3.1 Scenario A – An across the board inflation increase in tuition and registration fees.

The first is the 'default' scenario, which sees tuition and registration fees rising directly in line with inflation, i.e. a 6.3% increase at all universities. The following results apply:

- *State subsidy*: From the block grant of R19.6 billion in 2014/15, the block grant in 2017/18 with a compensatory grant for a 0% fee increase in 2016 will be **R25.3 billion**.
- *University surpluses*: University surpluses would decline by R4.1 billion between 2014/15 and 2016/17, and would recover by R400 million in 2017/18.
- *Number of universities deteriorating in financial position between 2016/17 and 2017/18*: **10**
- *NSFAS shortfall:* R1.7 billion (17.5%) in 2016; R1.4 billion (12.7%) in 2017.

With a fee increase at the level of consumer price inflation, the university sector would recover slightly overall, although 10 individual universities would be in a worse financial position in 2017/18 than they were in 2016/17, meaning either that their deficits increase or their surpluses are reduced. The model looked at which institutions in particular would be affected, and also modelled the outcomes for three different groups of institutions: the results indicated that there was not one group of universities that is most affected, but that among the 10 affected in Scenario A are 5 comprehensives, 4 traditional universities and 1 University of Technology. Of these, half are historically disadvantaged institutions.

To reiterate the assumptions: Scenario A pertains when each university's expenditure, including on residences, continues in the same pattern, but with costs rising as indicated in the assumptions. It also assumes that the student: staff ratio at each university (and they differ widely across the system) remains constant, which means that overall, student numbers increase by an average of 3.6% (given that the student numbers are assumed to increase according to the current patterns at each institution). It assumes also that staffing will increase at the same rate and that wages will increase only at the rate of inflation (and not more than inflation as has been the case in recent years), given a more constrained economic environment. The overall implication of Scenario A, i.e. raising fees by CPI for 2017, is that, even with compensatory grants for the 0% fee increase of R3 billion and R2.6 billion, the system overall would be in a slightly stronger position than in 2016/17, but nearly half the universities would see a further deterioration in their financial position. The shortfall in NSFAS funding would be R300 million more than if there were no increase in fees.

3.2 Scenario B – 0% fee increase in tuition and registration fees in 2017.

The request for advice notes that the Presidential Task Team had indicated that a 0% fee increase was unsustainable for 2017 and beyond. This being the likely student demand, however, Scenario B models the financial implications of this scenario. The model assumes that fees would be levied at 2015 rates.

- *State subsidy*: From the block grant of R19.6 billion in 2014/15, the block grant in 2017/18 with the compensatory grant for a 0% increase in 2016 will be **R25.3 billion**.
- *University surpluses*: University surpluses would decline by R4.1 billion in 2014/16, and would decline by a further R882 million in 2017/18.
- *Number of universities deteriorating in financial position between 2016/17 and 2017/18:* **19**

- *NSFAS shortfall:* R1.7 billion (17.5%) in 2016; R1.1 billion (10.6%) in 2017.

In this scenario, the overall position of the universities would continue to decline, with 19 of them experiencing a deteriorating financial position. However, the shortfall for NSFAS funding would be R300 million less than in Scenario A, since the financial aid needed would be against lower tuition and registration fees.

3.3 Scenario C – Across the board CPI +2% increase in tuition and registration fees.

This scenario works on the assumption that inflation in higher education is higher than the rate for general households, and thus has a higher fee increase. It should be noted, however, that the Higher Education Price Index (HEPI) is a policy variable. Its most important component is the wage level in universities. If the nominal increase in the wage level can be kept to inflation, the HEPI increase between 2016/17 and 2017/18 would be close to CPI.

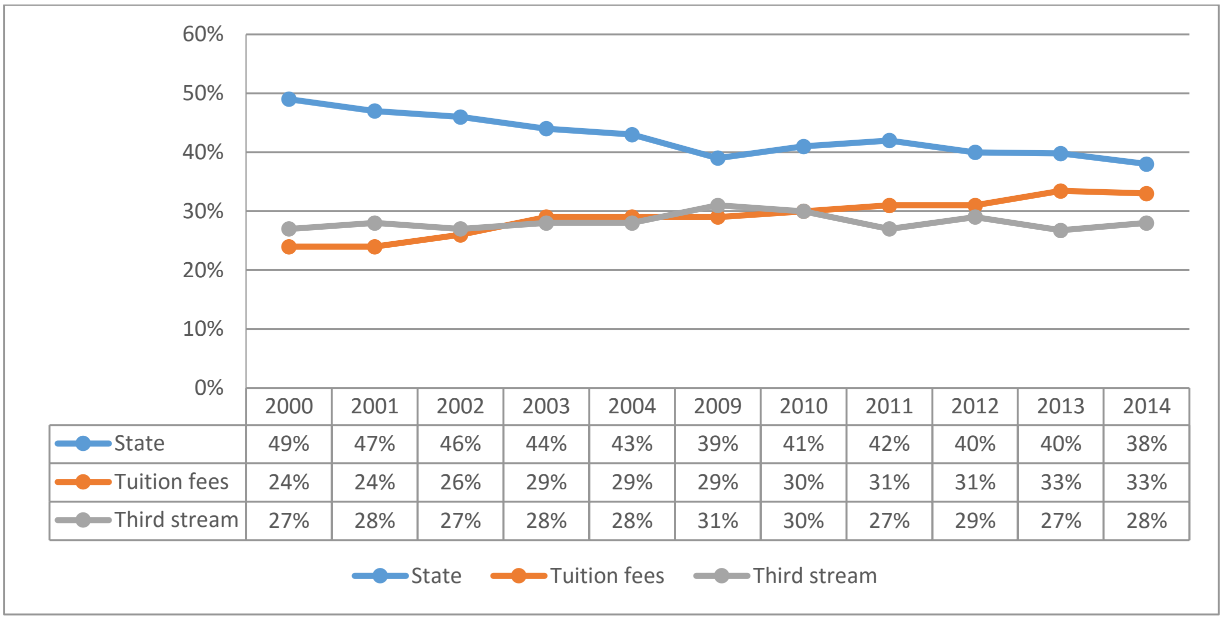
- *State subsidy*: From the block grant of R19.6 billion in 2014/15, the block grant in 2017/18 with a compensatory grant for a 0% fee increase in 2016 will be **R25.3 billion**.
- *University surpluses*: University surpluses would decline by R4.1 billion in 2014/16, and would recover by R1.2 billion in 2017/18.
- *Number of universities deteriorating in financial position between 2016/17 and 2017/18*: **8**
- *NSFAS shortfall:* R1.7 billion (17.5%) in 2016; R1.5 billion (13.4%) in 2017.

If the universities were to apply fee increases of the CPI+2% to take into account the HEPI as calculated by a USAf study in 2014, then the scenario indicates an improvement overall in financial position for the universities after a decline in 2016/17, with 8 nonetheless being in a worse financial position. The NSFAS shortfall would be about R400 million higher than Scenario B to cover the financial aid against higher fees.

4. The scenario advocated by the CHE

In the context of a weakening economy, and consistent underfunding of higher education as argued by the Ministerial Review of Higher Education Funding, all of the scenarios indicate difficult choices ahead and negative consequences for the system as a whole. It is important therefore to consider which scenario offers the system the best chance of recovery, while at the same time accommodating the need for access to higher education, and affordability for the poor. The possibilities of increasing overall income reside mostly in government subsidy or fee income. Figures 1 and 2 below show the proportion of grant funding to universities to fee income to third-stream funding in the years from 2009/10 to 2014/15, and they illustrate that weaknesses in both the grant and third-stream income have been accompanied by the increasing proportion of funding made up by fee income. The figures also indicate that third-stream income is becoming more difficult to grow, largely as a result of adverse economic conditions; shortfalls are thus not likely to be offset by sudden and large increases in third-stream income, especially not in times of adverse conditions on university campuses. In addition, these are mostly earmarked funds and are not accessible for normal operational expenditure.

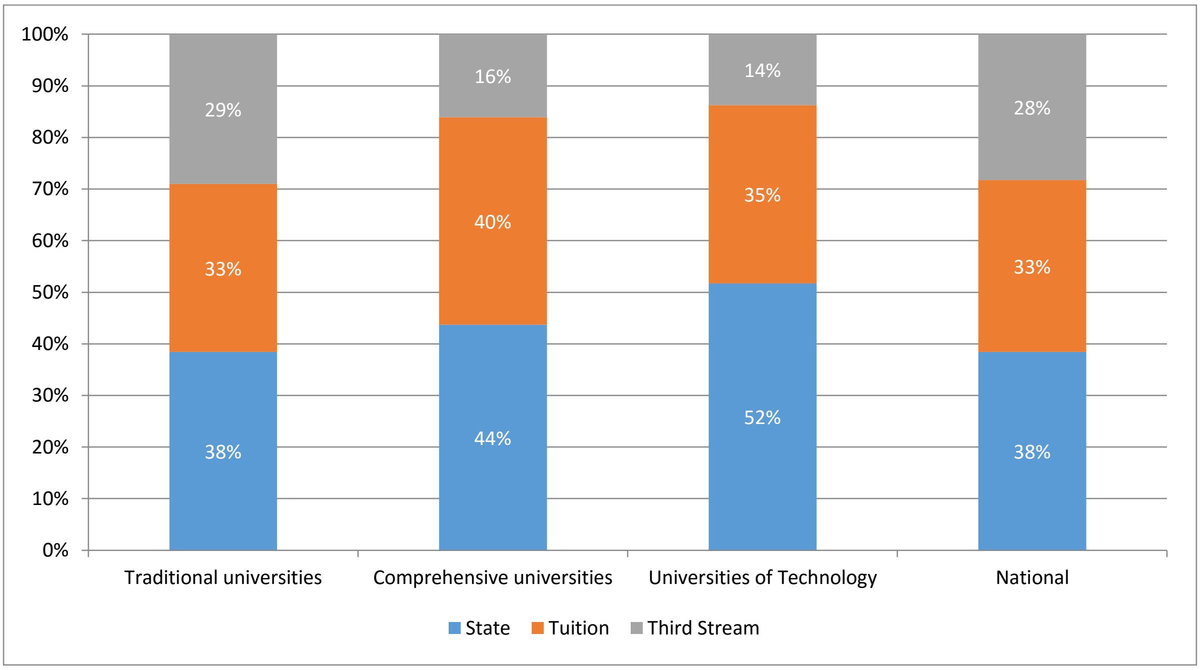
Figure 1: Proportional disaggregation of institutional funding per source from 2000 to 2014



	2000	2001	2002	2003	2004	2009	2010	2011	2012	2013	2014
State	49%	47%	46%	44%	43%	39%	41%	42%	40%	40%	38%
Tuition fees	24%	24%	26%	29%	29%	29%	30%	31%	31%	33%	33%
Third stream	27%	28%	27%	28%	28%	31%	30%	27%	29%	27%	28%

* Source: Audited financial statements of the universities for the period 2000/01 to 2014/15. Pretoria: DHET

Figure 2: Proportion of institutional funding per source and institutional type in 2014



* Source: Department of Higher Education and Training, 2015. Annual Financial Statements of Universities, 2014. The percentages are rounded up to the nearest whole number.

Given the three scenarios presented above, the CHE assessed the trade-offs between different policy goals and interests, and concluded that Scenario A would be the most defensible on the grounds that it is the one that most carefully balances the interests of students and the sustainability of the higher education system.

The reasons are the following:

- There will be no real cost increase to students in Scenario A between 2016 and 2017, except possibly in respect of residence fees in some universities if the break-even principle were followed. While 10 universities would be in a worse financial position in this scenario, the universities overall would recover from the deficits of 2016/17. In contrast, were student demands for a 0% increase to be effected, as in Scenario B, 19 of the institutions included in the study would be in a worse financial position, and the system as a whole would see a further deterioration of nearly R900 million over and above the R4.1 billion lost between 2014 and 2016. This, given the accumulated underfunding referred to earlier, would threaten the sustainability of the system.

- The CHE finds that a fee increase that is linked to the overall inflation rate in the country is more justifiable than one of CPI+2%, as was proposed in Scenario C. There are two factors that affect the HEPI as it has currently been calculated; the largest proportion of university expenses comprises the wage bill, and in a deteriorating economic climate it is unlikely that in 2017 this should, or will, increase by more than the CPI. The model assumed that 25% of non-personnel expenditure is spent on imports and is therefore subject to exchange rate fluctuations. These are unlikely to be as severe between 2016 and 2017 as in the past few years. As much research equipment is imported, higher increases in fees for postgraduate students could be considered. While Scenario C indicates a recovery of the institutions' financial position overall, 8 universities would nevertheless be in a worse financial position. While this Scenario is the one of the three presented that is in the best interests of the universities, it is also the one that proposes a real increase in fees for students, which, in the context of years of higher than inflation fee increases, is also not sustainable.

5. Insourcing

The factors taken into account in the model that produced the scenarios are subject to policy changes which, if brought about, could influence the results, for example, if higher than inflation wage increases are assumed, or that the staff: student ratio is not held constant. There are, however, further exogenous factors that may influence different universities in different ways, such as large increases in electricity bills, research equipment and rates and taxes that have not been fully taken into account, and which would exacerbate the financial position of the universities. There is also the separate demand on universities for insourcing those functions that are currently outsourced, such as gardening, cleaning and security services, to ensure better wages and conditions and study fee rebates for such workers. The model was able to factor in the cost of insourcing to calculate the effect on universities under different fee increase scenarios. It also considered wage supplements to R10 000 a month, and full insourcing, that is, including all benefits. It is evident that, assuming Scenario A, but with a wage supplement to a minimum wage of R5 000 per month but keeping these services outsourced, the overall university financial position would indicate a R16 million deficit rather than a R400 million surplus, and that 15 rather than 10 universities would have deteriorated in financial position. Similarly, if full insourcing across all universities were to be implemented, then in Scenario A, the overall position of universities would deteriorate further by R1.5 billion, and 21 universities would be in a worse financial position. The deficit could be made up either by increasing the block grant from the current MTEF levels, or be fully recovered from fees, neither of which is likely to be viable. Fee increases far above CPI in 2017 would be required, which clearly would not be acceptable or sustainable, and similarly, the MTEF levels are unlikely to be able to be increased to the levels required. The gradual phasing in of insourcing is the only possibility.

Deteriorating financial positions have implications that are not explored further here; they would include austerity measures such as retrenchments; freezing first-time entry student enrolments; curtailing improvements in infrastructure or research equipment and resources; and cutting back on student support where this has largely been provided by contract appointments - all of which would be harmful for the health and quality of the higher education system.

6. Recommendations

The following recommendations are made by the CHE:

1. Given that the authority for determining fee increases resides with University Councils, the CHE urges that all universities be requested to provide a firm commitment through their representative body, Universities South Africa, to adhere to the same position on fee increases once this has been decided. The system would not be well served by differential fee increases at this juncture. This should be agreed to between the universities and the Department of Higher Education and Training, and be fully supported by government.

2. Having considered different fee increases modelled for 2017, the CHE advises that Scenario A, which proposes a fee increase of the CPI across the board, would be the most defensible to apply under the circumstances as it balances the interests of students and the sustainability of the higher education system. An across the board increase at the same level is the preferred option, as the universities together are in a stronger position than each negotiating individual increases.

3. A second option is to regard the CPI as a ceiling increase in tuition and registration fees within which universities may negotiate a lower than CPI increase with their students, on the understanding that concessions are for the university’s account and will not be made up by an increase in the block grant. This option is less desirable, in that varied increases will make individual universities more vulnerable to pressure not to increase fees even to the level of the CPI.

4. All universities must undertake to carry out comprehensive communication or consultation processes with stakeholders, especially students.

5. Despite the essentially pragmatic and limited nature of this advice that is focused on the immediate sustainability of the system, the CHE’s concern is to contribute to developing a higher education system in which the principle of social justice is advanced. In this regard, it recommends that efforts underway in other initiatives to find ways to develop an improved and better funded financial aid system to make higher education affordable for the poor be supported and expedited. It would be important, therefore, for any proposed fee increase to be accompanied by a further measure of redress for poor students.

7. Way forward – Phase 2

The above recommendations are the outcome of Phase 1 of the CHE’s project on the regulation of fee increases for higher education in South Africa, and they apply to 2017 alone. The recommendations do not address the underfunding of higher education by the government that fee increases alone cannot improve. Nor do they consider potential regulatory mechanisms for future fee increases as this is work is yet to be undertaken and which is contingent on the outcome of the *Presidential Commission of Inquiry into Post School Education* which is investigating the feasibility of fee-free higher education. Phase 2 of the CHE’s project, as described in the attached Terms of Reference, includes a study of different regulatory mechanisms and a broad consultative process to inform its advice on a possible future regulatory framework for fee increases. This advice will be forthcoming in due course.

Appendix A: Terms of Reference

Appendix B: A map of the policy terrain

Appendix C: Documents consulted

Appendix A:

COUNCIL ON HIGHER EDUCATION

RE: ADVICE TO THE MINISTER OF HIGHER EDUCATION AND TRAINING ON A REGULATORY FRAMEWORK FOR MANAGING FUTURE UNIVERSITY FEE STRUCTURES
Terms of Reference

11 April 2016

1. Brief

In a letter dated 10 March 2016 in the above regard, addressed to the Chairperson of the CHE, the Minister requested that he be provided with advice by the CHE on a regulatory framework for managing future university fee increases, premised on a concern that a 0% fee increase year on year cannot be maintained if we are to have a sustainable higher education sector.

The following provisos were contained in the request:

- The exact increase in student fees per annum going forward must take into account higher education inflation
- The imperative of growing the system to achieve NDP targets
- The development of a regulatory framework through which increases are developed and agreed upon be conducted through a broad consultative process
- Implementation will be for the 2017 academic year
- Increases should be developed and agreed upon through a broad consultative process

The CHE considered the request for advice at its meeting of 17 March 2016. It was resolved that a Task Team under the leadership of the CEO would undertake the task of formulating the advice under the guidance of the CHE EXCO, which would also finalise the terms of reference after consultation with Council. Ideally, the research and drafting of advice, as well as consultation, should take place before the end of June 2016 to give Universities time to implement the outcomes.

2. Background

The year 2015 saw the issue of student fee escalations of in excess of 10% being the trigger for a mass protest movement aimed at preventing fee increases at several universities. The central demand of the burgeoning student protest movement was that there should be fee free higher education in South Africa. This rallying call coalesced into countrywide protests which enjoyed widespread media coverage and public outcry and eventually led to the 0% increase in fees for 2016 across the university sector.

Associated issues which were brought to the surface in the process were those of accumulated student debt, insufficient funding for those who were eligible in terms of NSFAS criteria but did not receive financial assistance, and the plight of the so-called 'missing middle', i.e. those who did not meet the NSFAS criteria for financial support (an income threshold of R122 000 per annum), but were unable to afford the costs of university education by lower middle income families. As the protests reached a tipping point, a spinoff movement centred on the plight of outsourced workers who endure low pay, poor or no benefits at all, escalating the calls to universities to remedy the ~~and~~ employment insecurity situation that has been prevalent since the mid- 1990s in the higher education sector. A very crucial question that arose was whether universities were being funded at adequate levels to be sustainable and to meet their rising costs, while remaining competitive.

As the protests escalated, there were interventions aimed at resolving the grievances by the Ministry of Higher Education and Training, university Vice Chancellors, student structures, and eventually the Presidency. The 2nd Higher Education Transformation Summit in Durban coincided with the escalation of conflict at the University of the Witwatersrand where the #FeesMustFall movement was gaining momentum. The intervention by the Minister of Higher Education and Training proposed a 6% increase which was agreed to, but was subsequently followed by heightened demands by protesters for no fee increases. The meeting convened by the President at the Union Building eventually decided on no fee increase across the sector for 2016.

The Presidential Task Team was established comprising of key stakeholders, and a number of recommendation were made that enabled the immediate challenges for 2016 to be addressed so that registrations could take place. In December 2015 the President announced that the Presidential Commission of Inquiry chaired by retired Judge Heher would be established to look into funding arrangements in higher education.

The nett effect of the interventions that have already yielded fruit are the following:

- That there would be no fee increases for 2016
- The costs for this will be covered by institutions themselves to the amount of approximately R400 million, and R 1.9 billion from government
- The Presidential Commission will examine the feasibility of fee-free higher education and make its findings known by the end of the year.

It has been anticipated that once the spectre of fee increases for 2017 rises, there is a great likelihood that it will trigger protest action again, leading to volatility and disruption at universities reminiscent of the experience last year. It is also clear that with the establishment of several political formations at universities, the potential for disequilibrium is ever-present as they exploit the grievances of students and workers for political mileage and media coverage.

Universities on the other hand, under the current funding dispensation, will not be able to meet their ongoing costs should they not be able to levy fees, for these constitute varying degrees of their income – from as low as 30% to as high as 60%. The additional burdens of insourcing outsourced workers will escalate the costs. Extricating themselves from contractual obligations linked to outsourced services will compound matters further.

There is clear potential for a recurrence of the no-fee-increase campaign in the next cycle of annual increases, with grave consequences for universities and their future sustainability.

Therefore, the request for advice from the CHE on a regulatory framework for managing future University fee structures is timely and urgent.

3. The Rationale for a Sector-wide approach

The Presidential Commission of Inquiry on university funding will during the course of 2016, be examining, among other funding related issues, the question of feasibility and impact of fee-free higher education. It is therefore imperative to avert further sustained disequilibrium and potential disruption of academic activities by engaging in a consultative process that could assist all stakeholders to come up with possible solutions to the challenges the country is facing on financing universities appropriately. There is a great likelihood that higher than acceptable fee increases for next year may trigger political action of a scale similar to that experienced last year.

It is apparent that a diversity of approaches, pricing strategies and methodologies for determining fee increases exist across the sector. In the past, any dissatisfaction by student constituencies with the rate of fee increases was usually expressed at the institutional level and resolved through internal processes of negotiation or protest action.

What was very different during 2015 was that high fee increases announced at one institution became a catalyst for protests at others, leading to the #FeesMustFall movement, requiring government intervention, and sacrifices by universities to resolve the impasse by acceding to student demands.

In the light of the above, a sector-wide approach to determining fees is desirable. Key constituencies and stakeholders will be invited to participate in the process to help determine defensible fee increases for 2017, thereby ameliorating pressure on the system as a whole.

The CHE Task Team will be carrying out its mandate at the same time that the Presidential Commission of Inquiry on higher education funding will be conducting its business. The scope of work of the Task Team is thus limited to finding potential solutions to fee regulation for the immediate future.

4. Terms of Reference

The Task Team will:

4.1 Establish the mandates and terms of reference of related national processes relating to student fees and determine whether there are any overlaps or aspects that may affect its terms of reference.

4.2 Consider various models of fee regulation, scrutinizing in particular other state sector regulatory agencies locally such as NERSA, and others abroad to examine the relative merits of self-regulation, co-regulation and full state-regulation models.

4.3 Identify the current legal provisions in terms of the Higher Education Act, and in existing statutes that affect each institution and its autonomy over the determination of fees in what is currently a self-regulation model.

4.4 Determine whether there is a case to be made for the sectoral regulation of fees for 2017, and if so, how this is to be achieved. Benchmarking lessons from other international higher education systems closer to our circumstances (e.g. Brazil and others) will be examined to inform the advice.

4.5 Model various scenarios for institutions and the sector based on different fee increases; with a determination of what shortfalls in terms of university funding might be expected.

4.6 Identify the key outcomes to be achieved by whatever regulatory process is proposed, and anticipate any potential negative consequences thereof so that they can be avoided if at all possible, or ameliorated.

4.7 Produce a draft advice document for the possible regulation of fees for 2017 for consultative purposes.

4.8 Undertake a broad consultative process through

- requesting written responses to inform the final advice document
- holding consultative fora at the CHE or selected venues in close proximity to which stakeholders are invited

4.9 Identify any legislative changes that would need to be effected to create an appropriate regulatory environment in the future if necessary.

4.10 Identify and allocate roles and responsibilities, indicate processes, and propose mechanisms for a sectoral level determination of possible fee increases for 2017.

In undertaking these tasks, the Task Team will take the following into account:

i. Other simultaneous national processes that may have a bearing on this task team's work. The Task Team will for instance examine the study prepared by UNISA for the HESA (currently USAf) on assumptions made to arrive at what could be the higher education inflation rate.

ii. The need to propose a process or framework that is fair and defensible to stakeholders.

iii. The impact of potential regulation on institutional autonomy which may be perceived as an erosion of institutional autonomy.

iv. The imperative to prevent disequilibrium in the sector that is triggered by fee increases.

v. The need to pay attention to the whole funding picture of each institution with sensitivity to contextual factors such as an institution's ability to raise third-stream income and how these differences between institutions should find expression in a model of regulation.

vi. The need to take into account the funding of higher education in its totality and be realistic in terms of proposals made.

vii. The potential impact of changes in levels of fee-income on the quality of higher education offered and the need to ensure that quality would not be compromised by implementation of the proposal developed.

5. Methodology

The Task Team will be constituted to deliberate on the matter at hand. Economic modelling of the impact of different levels of fee increases will be commissioned to inform such deliberations. A draft advisory document on the outcomes of the Task Team's deliberations will be released for public and constituency responses. The document will thereafter be revised in the light of responses received, and Council will consider the draft advice before approving it for submission to the Minister.

6. Key stakeholders to be consulted:

DHET
USAf
UCCF
SAUS
NSFAS
CHEC
OTHER IDENTIFED STRUCTURES
PROFESSIONAL BODIES SUCH AS SAICA
TREASURY
DPME
NATIONAL UNIONS serving the sector

7. Task Team

External
Tshilidzi Marwala
Pundy Pillay
Judy Favish
Quintus Vorster
Nasima Badsha
Charles Simkins
Lis Lange

Internal:
Narend Baijnath – Chair
Denyse Webbstock
Marianne Engelbrecht
Michael Gordon

DHET
Engela van Staden
Pearl Whittle

8. Key Timelines

- Constitution of task team - mid April 2016
- First task team meeting - mid April 2016
- Finalization of terms of reference - 21 April 2016 [CHE EXCO]
- Research, conceptual work, info gathering, formulation of draft advice for consultation – until 21 May 2016
- Second Task team meeting – 31 May 2016
- Consultative process – Until mid-June 2016
- Special meeting of CHE to approve advice submission – Early July 2016

Budget Elements

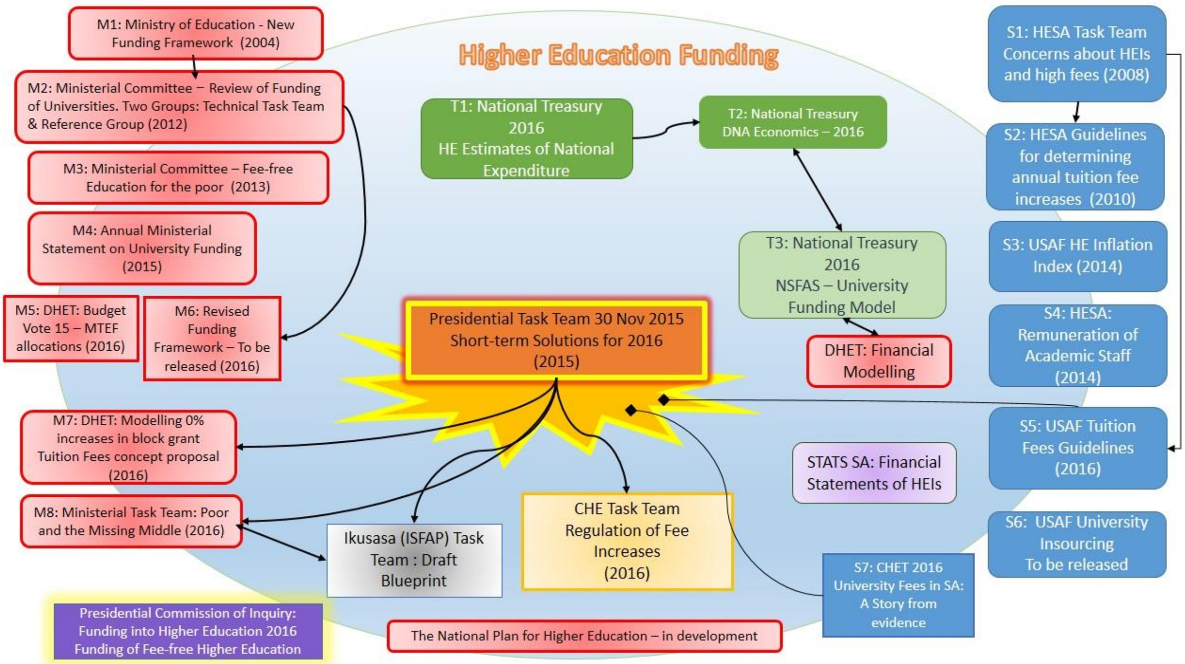
Travel and accommodation – two task team meetings for 4-5 members, with one overnight
Academic peer experts x 2 x 10 days
In-house preparation of documents and research
Institutions and other participants to cover their own costs as far is possible

Prof N Baijnath
CEO-CHE

11 April 2016

Appendix B

A Summary of the Policy Reports Related to the Funding of Higher Education from 2004 to the Present.



1. **Introduction**

This document summarises a range of reports related to the funding of higher education in South Africa that have been undertaken by various bodies in the last decade. It is not exhaustive, but it attempts to present the purposes and findings of the main documents, and to situate them in relation to each other in the document map above. Although there is a numbering system to identify each document in the map, this summary can also read in a linear fashion.

2. **Policies and reports of the Ministries of Education and Higher Education and Training**

M1. Ministry of Education – New Funding Framework (2004)

The allocation of resources in the higher education sector is underpinned by the 2004 funding framework, which is built on the principle of shared costs between (mainly) government and student fees. The Ministry began work on the development of a new funding framework in 1998 and in 2004, the Department of Education (DOE) released, '*A new funding framework: How government grants are allocated to public higher education institutions*'. The main feature of the framework was that it was a mechanism for the distribution of government grants to individual institutions, in accordance with national planning and policy priorities. It included the amount of funds made available in the national HE budget, and the approved enrolment plans of individual institutions. The funding framework was intended to be an important steering mechanism for achieving policy priorities, the most important of which was the overall transformation of the HE system. It was also expected to contribute to the realisation of equitable access, improvement of the quality of research and teaching, better student progression and graduation rates, and responsiveness of the HE system to economic and social needs.

M2. Report of the Ministerial Committee for the Review of the Funding of Universities

Various stakeholders identified a number of weaknesses and limitations with regard to the Funding Framework of 2004 and called for its review. Criticisms included that the framework distributes resources without taking into account a number of critical factors such as the cost of running certain programmes, the location of some institutions, historical legacies of the country, the resource- and revenue-raising potential of some universities, and the quality and level of preparedness of students.

It should also be noted that in 2006 the Council on Higher Education (CHE) published a *Higher Education Monitor – Impact of changing funding sources on HEIs* that provided an analysis to the higher education community and stakeholders of different sources of funding of HEIs, how it changes over time and the consequences for students and institutions. Funding, planning and quality assurance were the elements singled out in the policy-making process to help steer the higher education through its transition. It showed that the relative government funding as a percentage of GDP decreased from 0.804 in 1999/2000 to 0.680 in 2005/2006, and that HEIs were annually increasing tuition fees in real terms to compensate for the loss in state funding.

In 2012, the DHET acknowledged that the HE sector was faced with severe financial constraints and backlogs as a result of the growth and wider participation in higher education since 2004. The problem had been further exacerbated by legacy issues such as the mergers of 2004/2005 resulting in 23 public universities with varying degrees of capacity, expertise and resources. The DHET *Report of the Ministerial Committee for the Review of the Funding of Universities* was published in 2013. One of the main purposes of the review was to determine whether the 2004 funding framework exacerbated the financial challenges of historically disadvantaged universities. The work of the committee was centred on the principles of sustainability, predictability, stability and consistency. The Ministerial Committee report concluded that the current funding framework did contribute to improvements with regard to the transformational goals, taking into account that, despite being introduced in 2004/5, it only became fully functional for the period 2007/08 to 2011/12.

The Funding Review Committee recommended that the DHET establish a technical team and a reference group to model the recommendations made by the Committee and to develop a draft revised funding framework. The technical team was also tasked to determine the exact financial implications of the various recommendations on individual universities and the sector as a whole, and the most cost-effective ways of implementing several of the recommendations made in the report. The Minister approved the Draft Policy and Draft Framework on 14 March

2016. Both the Draft Policy and Revised Framework still need to be published in the Government Gazette for public comment.

M3. Ministerial Committee on the Feasibility of Making University Education Fee-free for the Poor in South Africa (2013)

In 2012, the Minister of Higher Education and Training established a Ministerial Working Group to advice on the feasibility of making university education fee-free for the poor in South Africa. Their mandate was to: (a) determine the actual cost of introducing fee-free university education for poor students in South Africa; (b) what it would cost South Africa to offer fee-free university education to cover people classified as poor; (c) suggest a working definition of poor people in South Africa; and (d) contemplate all possible implications and consequences of providing fee-free university education for the poor. It was also tasked to examine the plight of the so-called ‘missing middle’, where some families do not earn enough to be considered for loans by financial institutions but are not classified as poor, thus cannot access services directed at those classified as poor. As directed, the task team submitted its draft report for consideration at the ANC Policy Conference in June 2012. Subsequently, the conference directed that a policy for free higher education to undergraduate level students from poor and working class communities must be finalised for phased implementation in 2013.

The task team concluded that it was too expensive – not just economically, but also socially and politically – to maintain a higher education status quo characterised by low participation, high dropout rates, and a system of financial aid which, notwithstanding its many positive features, tended to favour advantaged institutions rather than disadvantaged individuals. In summary, free university education for the poor in South Africa was found to be feasible, but would require significant additional funding for NSFAS. Preliminary calculations of the actual cost of introducing free university education for the poor were estimated to be between R100 million and R1 billion in 2013 prices for the 2013 cohort of students (estimated at 163 000 students). The first year of the phasing-in of a new NSFAS system would cost approximately R5.3 billion, in addition to an estimated R4.5 billion for the existing NSFAS system in the process of being phased out, thus totalling R9.8 billion in that year. Moreover, the viability of the new system would depend critically on the sector's ability to contain fee increases, based on the assumption that the value of full-cost-of-study student loans would rise at about 1% higher than inflation per annum.

M4. Annual Ministerial Statement on University Funding (2015)

The annual Ministerial Statement deals with the funding instruments to steer the university sector, and was issued in accordance with the requirements of the Higher Education Act, 1997 (Act 101 of 1997 as amended) and the funding framework for universities (Government Gazette, No 25824 of 9 December 2003). It contains the budget allocations likely to be available for distribution to universities for 2016/17 and 2017/18, and the division of funds among various budget subcategories.

Based on the decision that HEIs would not increase student fees for tuition and accommodation for the 2016 academic year, the Minister reported that meetings had taken place between the

Directors-General and other officials from the Presidency, National Treasury and the DHET to discuss funding to enable a zero percent fee increase in early 2016. A joint sitting also took place between the Standing and Select Committees on Appropriations and the Portfolio Committee on Higher Education and Training. It was determined that R2,330 billion would be required to honour this decision, and funds would be sourced from university contributions, reprioritisation of the HDI Development Grant, and the reprioritisation of other funds within the PSET system and the National Revenue Fund (Ministerial Statement, 2015). It further states that the longer term implications for this decision and the additional funding required in the baseline to offset this is currently being quantified. A process to identify funds, with the recognition that a baseline adjustment will be required from the 2017/18 financial year onwards, was said to be underway.

M5. Report of the Portfolio Committee on Higher Education and Training on Consideration of Budget Vote 15 and Revised MTEF Allocations (2016)

The purpose of this report was to account for work done by the Portfolio Committee on Higher Education and Training during their assessment of the Annual Performance Plan (APP) 2016/17 of the Department and the entities it oversees. The report further makes financial and non-financial recommendations for consideration by the Minister responsible for the Department and the Minister of Finance. The Committee recommended that the Minister of Higher Education and Training and the Minister of Finance consider the monitoring and evaluation of HEIs and provide feedback on the ongoing forensic investigation into NSFAS administration. Dedicated interventions should be implemented to support the historically disadvantaged institutions, particularly on financial management; and the expansion of the public university system should be supported by requisite funding to eliminate future protests which impact on the academic offerings.

M6. Revised Funding Framework (to be released)

As stated before, the overall purpose of the Ministerial Committee on the Review of the Funding of Universities concluded that the current funding framework had contributed to improvements with regard to the transformational goals, taking into account that although it was introduced in 2004/5, it was only fully functional for the period 2007/08 to 2011/12. The major problems identified were concerned with the levels of funding and the perceived diminishing government financial support in the form of subsidies to universities, as well as the financial challenges faced by under-developed universities in the system. The Ministerial Committee recommended that: (a) the basic architecture of the funding framework should remain and retain its ability to steer the system (differentiation), its predictability (linking institutional and system planning to funding); and its transparency in determining institutional allocations; (b) various changes to technical aspects specifically linked to changes in various aspects of the framework; weightings in the funding grids and earmarked grants; and (c) the need to increase the funding for higher education to be more in line with international levels of expenditure and to ensure the goals of the NDP (based on its analysis that public higher education is underfunded.

The three most important changes to the framework (before the finalisation of the policy) relate to:

i. Introduction of an HDI development grant;
ii. Foundation Provision funding grid; and
iii. Acceptable variation in enrolment targets set to ensure that institutions develop effective planning in line with fiscal realities and public accountability.

It is important to note that the proposed changes to the funding framework do not affect the overall funding to the system. Instead, they focus on the way in which universities are funded, the system steered and allocations transparently made to individual institutions to ensure that the implementation of the revised funding framework does not have a destabilising effect on the HE sector. A funding migration strategy over three years, would be used to phase in major changes to the allocations of individual universities, once the final funding policy was approved for implementation.

The Policy and Framework will be published for public comment after consideration by Cabinet, together with a draft impact assessment submitted to DPME. The final policy will be published in the Government Gazette and the Framework incorporated into the next Ministerial Statement on University Funding.

M7: DHET – Modelling the R2, 330 billion for a 0% Fee Increase for 2016 in the Block Grant (2016)

The aim of this document was to provide modelling of the R2, 330 billion needed to offset the 0% fee increase for 2016/17 in the block grant. The intention was to assess the difference, per university, between was calculated and what should be allocated to each university based on their student fee income for 2016. The draft submission to the Minister on the allocation of the additional funds for the 0% fee increase for 2017/18 and 2018/19 discusses three scenarios in distributing these funds among the 4 sub-block grant categories. It suggests that any regulatory framework for student fees which proposes a 1% per annum increase in real terms would merely be perpetuating the problem of the past decade and its accumulative impact on students. The third scenario was deemed most appropriate where the shares of funds amongst sub-block grants were kept unchanged, but the increased funding for the research output sub-block grant was allocated only to the teaching output sub-block grant.

M8: Ministerial Task Team on Funding of Poor and Missing Middle Students

Recognising the work already undertaken by the Presidential Task Team and the additional NSFAS funding that has been made available, the Ministerial Task Team on Funding, which has yet to complete its work, was asked to determine and advise on alternative financing and operating models for funding poor and "missing middle" students. In developing the proposals, the task team was to determine whether the NSFAS Act, structure and mandate is still suitable to address funding, how to establish and strengthen relationships between the private and the public sector, as well as to create an efficient and robust model with appropriate internal controls.

At the same time, the Minister of Higher Education and training mandated NSFAS to explore how to fund these students. Various members from the Banking Association of South Africa (BASA), the Association for Savings and Investment South Africa (ASISA), and the legal fraternity were enlisted in the development of a blueprint. The purpose of the **Ikusasa** document is to develop a comprehensive funding and student support model for poor and "missing middle" students. The model proposes that a new "ISFAP Act" be passed to replace the NSFAS Act and a new entity established with the aim of strengthening public-private partnerships in order to raise adequate funding from the public and private sectors. The Ministerial Task Team will consider the draft and present its final recommendations to the Minister in September 2016.

M9: Report of the Presidential Task Team - Short-term Student Funding Challenges (2015)

In the wake of violent student protests and a concern about destruction of university property, leadership from the University Council Chairs Forum – South Africa (UCCF-SA) and Universities South Africa (USAf) requested a meeting with the President to discuss a range of issues challenging universities, including funding. A 12-member Presidential Task Team was mandated to develop a short-term plan to mitigate possible student protests and unrest at the start of the 2016 academic year, and to report on possible solutions to the immediate student funding challenges. The task team mandate was undertaken over a very short time, from mid-October to end of November 2015, and it identified several factors that could lead to potential protests in 2016 that HEIs needed to prepare themselves for and that the task team needed to provide recommendations on. These factors include the payment of upfront fee or registration payments, the NSFAS shortfall and related challenges, university debt, increased demand for academic spaces, and the plight of the "missing middle" students.

The report showed that the shortfall in 2016 amounted to R2.330 billion and a solution to this has been found. It also showed that a 0% fee increase year on year cannot be maintained if the country is to have a sustainable higher education sector. In 2017, if a no fee increase is implemented then an increase of 15% would be required in the block grant subsidy baseline, bringing the total block grant to R27.608 billion in 2017, which is not affordable or sustainable in the current economic climate. The report focuses on four key areas and some of the recommendations are listed below:

i. **NSFAS shortfall**: A NSFAS shortfall of R2.543 billion with respect to students who were funded inadequately or were unable to access financial aid over the 2013 to 2015 academic years, must be made available from the fiscus in the form of loans to provide short-term debt relief. A further R2.039 billion is required to ensure that currently unfunded continuing students receive NSFAS support in the 2016 academic year. The total amount of short-term debt relief of R4.582 billion must be made available by government in the 2016/17 financial Government, through National treasury must coordinate the process to deal with identifying and reprioritising funding for this purpose. The limited funds available for financial aid has led to practices of top-slicing within universities so that available NSFAS funding is distributed to more students. Therefore, the report argues that a policy decision should be made that all NSFAS qualifying students should receive funding in terms of the NSFAS means test and all top slicing should be stopped over the medium to long term.

ii. **University funding challenges**: The R2.33 billion will be covered by government (83%) and universities (17%). Upfront fee payments should be implemented across the system for those who can afford to pay and universities are given some recommendations on how to manage this without increasing registration fees. Institutions should think of strategies that prevent areas of contestation such as developing payment plans for upfront payments. It is recommended that no student who qualifies for NSFAS should be expected to pay upfront registration fees, subject to agreement.

iii. **University revenue generation and cost cutting** have to be pursued in order to render the university system sustainable in the medium to long term, to ensure that the pressure of increasing student fees is limited.

iv. **Communication and stakeholder engagement:** A communication strategy must be implemented that highlights that funding options for the missing middle are being considered. Universities should review and improve the efficiency and effectiveness of their communication system with students on NSFAS matters and contextualise the funding challenges facing universities in the short to medium term.

The exact increase in student fees per annum going forward must also take into account higher education inflation, as well as the need for growth in the system to enable achievement of the NDP targets. The Presidential Task Team also recommended that the development of a regulatory framework for managing future university fee structures, through which increases should be developed and agreed upon be conducted through a broad consultative process for implementation in the 2017 academic year. The Minister of Higher Education and Training requested the CHE to coordinate this process through a task team.

2. National Treasury

T1: National Treasury 2016 Budget – Estimates of National Expenditure: Higher Education and Training

The Estimates of National Expenditure (ENE) publications of National Treasury provide comprehensive information on how institutions have spent their budgets in previous years, and how institutions plan to spend the resources allocated to them over the upcoming three-year medium term expenditure framework (MTEF) period. This information is based on government's 2014-2019 medium term strategic framework (MTSF), particularly as it is expressed in institutional strategic and annual performance plans, and in annual reports.

T2: National Treasury − Options for Funding the PSET (2016)

At the request of the National Treasury, DNA Economics proposed options for funding the PSET sector. The project consists of five phases that include an international review, expenditure analyses, cost modelling, and funding and financing options. The comprehensive summary of all four reports was submitted to the National Treasury in May 2016. The report of the third phase's (funding and financing options) preliminary findings indicate that there are trade-offs between expanding enrolments and improving the quality of post-school education and training that will result in some difficult decisions for government. Low throughput rates remain a major source of concern, as they lead to large and systemic efficiency losses as fewer students complete their studies for a given level of funding. Funding principles therefore need to be agreed upon and they should ideally ensure that the PSET system is affordable, sustainable and incentivised correctly. The report further concludes that there are opportunities to use the funding framework to promote performance and counteract some of the unintended consequences associated with enrolment-based targets, as well as to raise additional income from the private sector and individuals. There is also potential for the income from the Skills Development Levy (R15 billion) to be used to support public PSET provision.

Furthermore, a university *NSFAS dashboard* was developed by Cornerstone Economic Research that considers various input variables in order to provide a value for NSFAS's contribution to university tuition and residences fees.

T3: NSFAS University Funding Model (2016)

NSFAS developed a university funding model that identified various growth scenarios for each of the components of university sector income. The model provides information with regard to total university income for 2030, as well as accumulatively over the period between 2016 and 2030 given the chosen growth projections.

3. Responses from the Sector

S1: HESA Report on Tuition Fees and Guidelines for Determining Annual Fee Increases (2008)

In response to the diminishing (in real terms) state funding of public higher education in South Africa, Higher Education South Africa (HESA) convened a task team in 2008 to examine the funding of higher education with specific reference to tuition fees. The report was motivated by the concerns raised by the Minister of Education regarding the levels of tuition fees charged by higher education institutions, and the measures being contemplated by the Ministry and Department of Education to control tuition fee increases. The report was based on the assumption that one of the ways South African universities have responded to the diminishing state of financial support and the increasing cost of higher education provision, was by raising tuition fees. It identified the decline of state subsidies, coupled with the increases and inadequate funding from NSFAS, as some of the major constraints in the funding of higher education.

The report recommended that a model of system-wide tuition fee regulation such as that being contemplated by the DoE should not be implemented and that HEIs, through HESA, should each be encouraged to move towards a single and inclusive tuition fee that covers both tuition and associated services. Thus, individual HEIs should therefore continue to set their own fees but should adhere to common standards of transparency. It also recommended that the existing NSFAS be strengthened considerably in order to achieve a robust and well-funded public scheme. In strengthening NSFAS, the private sector could play a fundamental role in financing higher education and government should provide incentives to encourage private sector contributions to NSFAS. In conclusion, HESA should develop a broad set of factors that could be used by institutions in determining tuition fees and tuition fee increases, as well as guidelines for establishing satisfactory processes (involving students) in determining tuition fee increases.

S2: HESA −Guidelines for Determining Annual Tuition Fee Increases in the Higher Education Sector (2010)

The report emanated from the recommendations of the 2008 HESA Report on Student Fees to develop a broad set of factors that could be used by HEIs to determine tuition fees and tuition fee increases, as well as guidelines for establishing satisfactory processes (involving students) in determining such increases. It reiterated that HEIs should be encouraged to move towards a single and inclusive tuition fee that covers both tuition and associated services. As a starting point, it recognised that a 'one size fits all' approach would not be a suitable solution as each HEI functions within a specific context. It recommended that HEIs should continue to set their own tuition fees taking into account their specific characteristics and financial needs but should adhere to some common standards of good practice and transparency. The report provided an overview of guidelines that should be taken into consideration when setting student fees, such as processes for consultation with stakeholders; consideration of financial factors such as current and expected cost structures; total cost of employment; maintenance of buildings and equipment; geographical location; multi-campuses and campus equity; and its capital expenditure programme. It was envisaged that the work of the task team be continued in the next few years and that the second phase would determine timelines (of moving towards an inclusive fee structure); a migration strategy (providing support to institutions to move to an inclusive fee structure) and an effective communication strategy (advocating the guidelines).

S3. HESA − Higher Education Inflation Index (2014)

In 2012, HESA commissioned a study to develop a Higher Education Price Index which could be used by HESA (now known as Universities South Africa) when negotiating with government "the funding needed to deliver the same level of services as before". The results obtained from the study indicated that the median price index score obtained for the 18 higher education institutions that provided the BMR with usable 2013 expenditure data was 7.62%, substantially higher than the 2013 CPI of 5.7%. This finding implies that higher education institutions should ensure that their income streams are sufficiently growing and diversified to ensure that sufficient finances are available to cover continuous above-CPI price growth.

S4: HESA− Study on the Remuneration of Academic Staff (2014)

The Funding Strategy Group (FSG) of HESA commissioned a study in 2012 to investigate the remuneration and remuneration trends of academic staff at individual South African universities, as well as for the HE sector as a whole. One of the important aims of the study was also to compare the remuneration of academic staff with the remuneration of comparable staff in the public sector and private sector. In the light of the ageing academic staff population, the report recommended that HEIs will have to improve the conditions of service of lecturers and junior lecturers drastically in order to attract the best young graduates to an academic career. Each HEI should also conduct regular studies highlighting not only changes in the retention rate of graduates (especially on the master's and doctoral levels) as academic staff members, but also all the stumbling blocks (not only low remuneration) in the retention of young graduates as academics.

S5: USAf − Guidelines in Determining Tuition Fees at Universities for 2017

USAf developed *Guidelines in determining tuition fees at universities for 2017* based on the recommendations of HESA's 2008 and 2010 reports on student fees. The document provides guidelines for determining tuition fee increases for 2017. It acknowledges that a "one size fits all" approach is not viable and recognises that HEIs differ in terms of their student composition, student numbers, extent and conditions of facilities, number of learning sites, qualification and programme mix (PQM), and geographical location. The report recommends that HEIs should continue to set their own tuition fees taking into account their specific characteristics and encourages each university to develop a comprehensive document on the setting of tuition fees for 2017 that should serve as the basis for all internal discussions and consultations on this with external parties and structures, as well as to be used for purposes of communication with the media and other stakeholders. It should be noted that the report has not yet been adopted by USAF's internal governance structures and/or HEIs. However, it suggests that as education or internal price inflation is significantly higher than average consumer price inflation (+- 2%), HEIs should calculate their education or internal price inflation as one of the pieces of information to be used in the discussions on tuition fees for 2017.

S6. USAf – Draft Working Document − University Insourcing (2016)

The student protest campaigns at the end of 2015 created an expectation of both lower student fees and the reintegration of previously outsourced operational activities. The insourcing of operational activities, previously outsourced for greater efficiency, represents an additional financial exposure for universities, which are at the same time trying to address their student fees challenges. The draft document's aims are to provide a sector-wide view on insourcing. It has three objectives; to investigate at the options open to individual institutions; and to examine the desirability of a sector-wide response. While fifteen universities provided sufficient information, it is acknowledged that in practice the calculation is not necessarily straightforward as there are many different levels of workers and a detailed calculation is based on the individual packages, hourly rates and working hours.

S7. CHET – University Fees in South Africa: A story from evidence (2016)

In response to student protests and the disruption of academic activities at HEIs across the country, the Centre for Higher Education Transformation (CHET) reflected on the government's reaction to the demand for fee-free education and reflection on future funding of higher education. The aim of the CHET report is to provide data and research evidence to inform discussion on free higher education in relation to challenges surrounding affordability. It concluded that no fees in an inefficient university system characterised by low participation and high inequality will benefit the country's elite and further dampen the contribution of higher education to development. Structural and funding reform is needed but it is acknowledged that government does not have infinite reserves. The evidence shows that what is required for equitable and sustainable transformation is a differentiated post-school system, with differentiated funding and fees; an acknowledgement of the trade-offs between participation, public investment and fees in the university system; and a coordinated effort between students and leaders from all sectors to re-establish the university's role in reducing poverty and driving development.

4. Other Initiatives

O1: DHET Financial Modelling

The Department of Higher Education and Training has been involved in several financial modelling activities such as:

- Tertiary tuition fees concept proposal (2016);
- Costing models of individual universities;
- Performance in the teaching input, output and research sub-block grant;
- University state budgets (according to individual universities);
- Full cost of study (2007-2015);
- Student national enrolment (2007-2019);
- Universities tuition and residence fees increases for 2016;
- Financial health report of individual institutions;
- MTEF allocations: 2016/17 - 2018/19.

O2: Statistics South Africa Statistical release (P9103.1)

Statistics South Africa (Stats SA) receives financial statements of higher education institutions annually from the Department of Higher Education and Training. However, the figures in this statistical release have been converted from an accrual basis of recording to a cash basis of recording. Financial statements were received for all 25 higher education institutions. The information is processed from audited financial statements of the higher education institutions. It provides financial statistics of cash transactions of higher education institutions. Cash payments converted from an accrual basis of recording for operating activities and purchases of non-financial assets for the 2014 financial year, were classified economically and functionally.

O3: Presidential Commission of Inquiry into Funding Higher Education and Training

After discussion between the President of South Africa and a variety of stakeholders in October 2015, the President agreed that the government would lead a process that will look at broader issues affecting the funding of higher education and a Commission of Inquiry was appointed in 2016. The Commission was to enquire into, make findings, report on and make recommendations on the feasibility of making higher education and training fee-free in South Africa. The Commission was instructed to complete its work within a period of eight months, which would mean a deadline of August 2016, and to submit its final report to the President.

O4: National Plan for Higher Education

The National Planning Commission (NPC) published on 11 November 2011 the *National Development Plan: Vision for 2030*. It stated that higher education is the major driver of the information-knowledge system, linking it with economic development and developing the nation. Universities play an important role in socio-economic development as they educate and train people with high-level skills for the employment needs of both the private and public sectors. The report was published during the same time period when the Ministerial Committee for the Review of the Funding of Universities commenced with its work. Subsequently, the DHET produced a White Paper on the Post-School Education and Training landscape (PSET), and a process is underway to develop a National Plan for the PSET, with one of its sub-task teams developing a new National Plan for Higher Education. Its work is expected to be completed by March 2017.

O5: CHE Task Team on the Regulation of Fee Increases

As a result of some of the recommendations by the Presidential Task Team Report on short-term student funding challenges, the Minister of Higher Education and Training requested that he be provided with advice by the CHE on a regulatory framework for managing future university fee increases, premised on a concern that a 0% fee increase year on year cannot be maintained if we are to have a sustainable higher education sector. The following provisos were contained in the request:

- The exact increase in student fees per annum going forward must take into account higher education inflation.
- The imperative of growing the system to achieve NDP targets.

- The development of a regulatory framework through which increases are developed and agreed upon be conducted through a broad consultative process.
- Implementation will be for the 2017 academic year.
- Increases should be developed and agreed upon through a broad consultative process.

The task team was convened in May 2015 and its work would consist of two phases. The short-term objective (Phase 1) is to provide advice to the Minister with regard to regulating student fees for the 2017 academic year in order to mitigate further disruptions and ensure institutional and sectoral stability. The medium-term objective (Phase 2), is to investigate the possibility of developing a regulatory framework that would assist in managing future student fee increases.

Appendix C:

Documents Consulted

- Council on Higher Education (2006) ‘The impact of changing funding sources of Higher Education Institutions in South Africa’ in *Higher Education Monitor*. Available from: http://www.che.ac.za/media_and_publications/higher-education-monitor/higher-education-monitor-4-impact-changing-funding

- Council on Higher Education (2013) *A proposal for undergraduate curriculum reform in South Africa: The case for a flexible curriculum structure* (CHE: Pretoria)

- Council on Higher Education (2015) *VitalStats 2013 (*CHE: Pretoria).

- Council on Higher Education (2016) *VitalStats 2014 (unpublished)* (CHE: Pretoria).

- Council on Higher Education (2016) ‘Student Funding’ *in Kagisano No 10.* Available from: http://www.che.ac.za/media_and_publications/kagisano-series/kagisano-number-10-student-funding

- CHE (2016) *South African higher education reviewed: Two decades of democracy* (CHE: Pretoria). Available from: http://www.che.ac.za/sites/default/files/publications/CHE_South%20African%20higher%20education%20reviewed%20-%20electronic_0.pdf

- CHET (2016) ‘University fees in South Africa: A story from evidence’ from: http://chet.org.za/files/resources/Fees%20and%20Sustainable%20funding%20PPT%20Final%2011May16.pdf

- Department of Higher Education & Training (2004) *Statement on Higher Education Funding: 2004/05 to 2006/*. Available from: http://www.dhet.gov.za/ HED%20Policies/Ministerial%20Statement%20on%20Higher%20Education%20Funding%20200405%20to%2020067.pdf

- Department of Higher Education and Training (2013) *Report of the Working Group on Free University Education for the Poor in South Africa* (DHET: Pretoria).

- Department of Higher Education and Training (2013) *Report of Ministerial Committee for the Review of the Funding of Universities*. Available from: http://www.dhet.gov.za/SiteAssets/Latest%20News/Report%20of%20the%20Ministerial%20Committee%20for%20the%20Review%20of%20the%20Funding%20of%20Universities.pdf

- Department of Higher Education and Training (2015) *Ministerial Statement on University Funding: 2016/17 and 2017/18*. Available from: http://www.dhet.gov.za/Financial%20and%20Physical%20Planning/Ministerial%20Statement%20on%20University%20Funding%202016-2017%20and%202017-18,%20November%202015.pdf

- Department of Higher Education and Training (2015) *Report of the Presidential Task Team on Short-term Student Funding Challenges at Universities.* Available from: http://www.thepresidency.gov.za/pebble.asp?relid=21258

- Department of Higher Education and Training (2016) *Budget Vote 2016/17* (Pretoria).

- Department of Higher Education and Training (2016) *Revised Funding Framework* (Pretoria).

- Department of Higher Education and Training (2016) *Terms of Reference of the Ministerial Task Team on Funding Poor and "Missing Middle" Students* (Pretoria).

- Department of Higher Education and Training (2016) *Draft Discussion for Modelling the R2,330 Billion for 0% Fee Increase for 2016 in the Block Grant: Analysis of the Student Fee Income of Universities for 2016* (Pretoria).

- Department of Higher Education and Training (2016) *Statistics on Post-School Education and Training in South Africa* (unpublished).

- Department of Higher Education and Training (2015) 'Ministerial statement on student funding' from: http://www.dhet.gov.za/ Financial%20and%20 Physical % 20Planning/Ministerial%20Statement%20at%20University%20funding;%202015-16%20and%202016-2017,%20November%202014.pdf

- DNA (2016) *Options for funding the PSET* (unpublished).

- Higher Education South Africa (2008) *Tuition Fees: Higher Education Institutions in South Africa* (Pretoria). Available from: http://www.justice.gov.za/commissions/FeesHET/docs/2008-HESA-Report-TuitionFeesInSA.pdf

- Higher Education South Africa (2010) *Guidelines for determining annual tuition fee increases in the Higher Education Sector* (Pretoria). Available from: http://www.universitiessa.ac.za/sites/www.universitiessa.ac.za/files/2010_HESA%20Tuition%20fees%20setting%20Guidelines-March%202010_0.pdf

- Higher Education South Africa (2014) *Remuneration of academic staff at South African universities: A summary report of the HESA Statistical Study of Academic Remuneration* (Pretoria). Available from: http://www.universitiessa.ac.za/sites/ www.universitiessa.ac.za/files/HESA%20Study%20on%20%20Remuneration%20of %20Academics%20_%20Final%20Report_Dec%202014.pdf

- Higher Education South Africa (2014) *Research and development of a Higher Education Price Index for South Africa* (UNISA: Pretoria).

- National Treasury (2016) *Estimates of National Expenditure* (Pretoria). Available from: http://www.treasury.gov.za/documents/national% 20budget/2016/ ene / FullENE.pdf

- National Student Financial Aid Scheme (2016) *Ikusasa Student Financial Aid Programme*: *Business Blueprint* (NSFAS: Cape Town).

- National Student Financial Aid Scheme (2016) *University funding model* (unpublished).

- South African Government (2016) *Terms of Reference of the Commission of Inquiry into Higher Education and Training* (Pretoria).

- Universities South Africa (2016) *Guidelines for determining tuition fees at universities for 2017* (unpublished).

- National Treasury (2016) 2016 *Budget –Estimates of National Expenditure: Higher Education and Training* (unpublished).

- Statistics South Africa (2016) 'The social profile of youth: 2009–2014' in *Vulnerable Groups Series I*. Available from: www.statssa.gov.za/publications/Report-03-19-01/Report-03-19-012014.pdf