

The future funding of higher education

A University of Cape Town submission*

6 September 2016

Dr Max Price

Vice-Chancellor

University of Cape Town

*A university is unlikely ever to have a single view on a contentious issue such as this. This presentation reflects the views of the Vice-Chancellor and most members of the senior executive. It has not been approved by the Council of the university nor the student body, and we recognize there are other views.



Higher education in context – Endorse USAf submission

- Higher education has a vital role to play in a developing knowledge economy
- The last 20 years in higher education are a success story

However ...

- Students coming out of the school system are underprepared
- Chronic underfunding has resulted in higher fees, making university education unaffordable – creating risk and instability
- The higher education price index at UCT has run for many years at 2% above CPI
- Government should be spending 1% of GDP on higher education (0.76% in 2012, 0.64% in 2014)
- Block grants per student are decreasing (in real and nominal terms)
- Minimum wage increases (with or without in-sourcing) means more funding is needed to keep up operations at same level

Our ideal position

Universal fee-free education

If South Africa were a high income country with little inequality, already providing universal fee-free quality primary and secondary schooling, universal access to early childhood development centres, healthcare, social welfare support for all elderly and unemployed, we would support a system of no-fee higher education.

A more real position

South Africa has significant inequality and rationed public resources and low to middle income; in the next 30 years, higher education is unlikely to be the highest priority such that it commands the resources from public funding needed to cover its full costs.

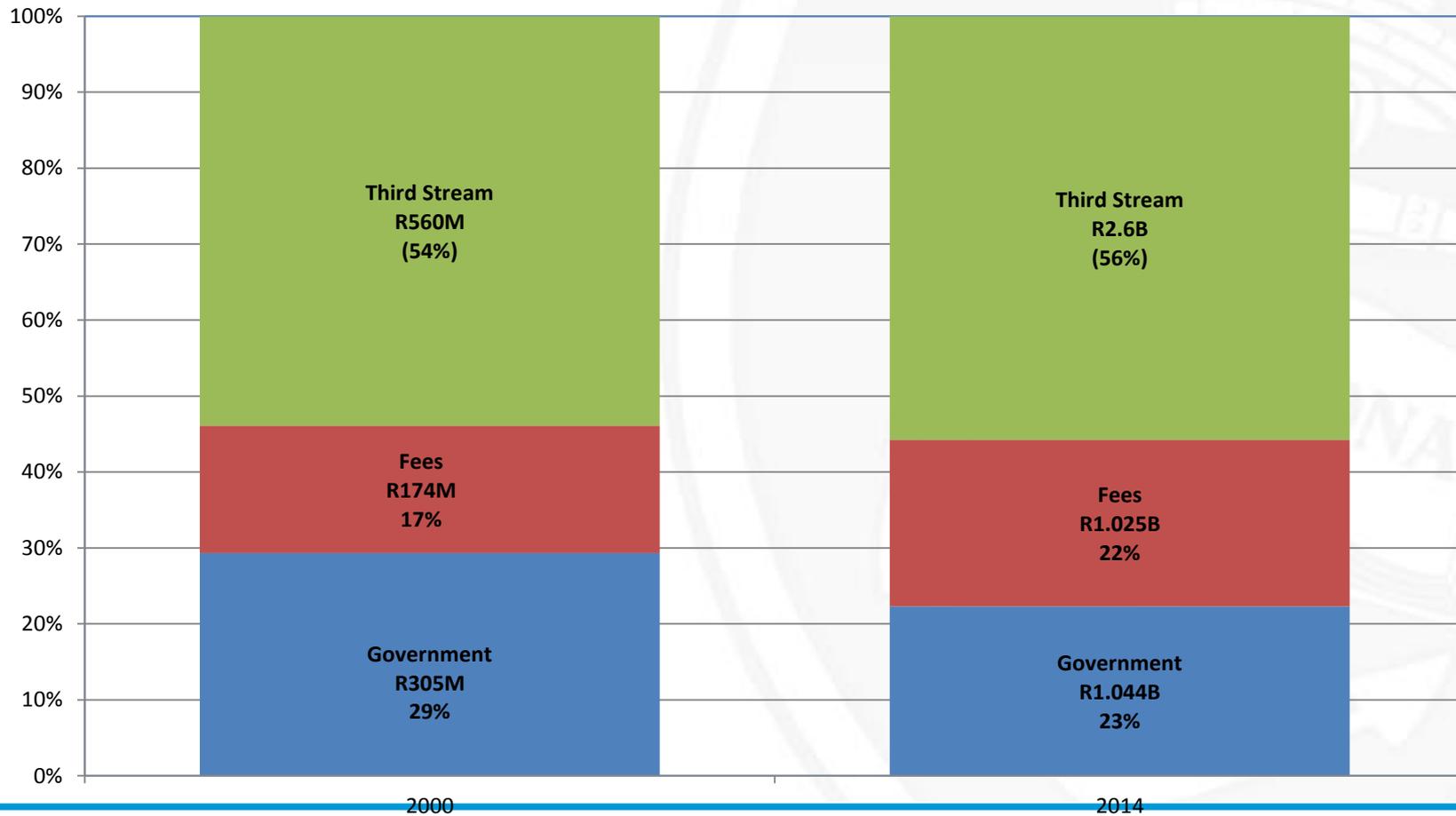
For the foreseeable future ...

Higher education should be funded by **government grants and tuition fees**

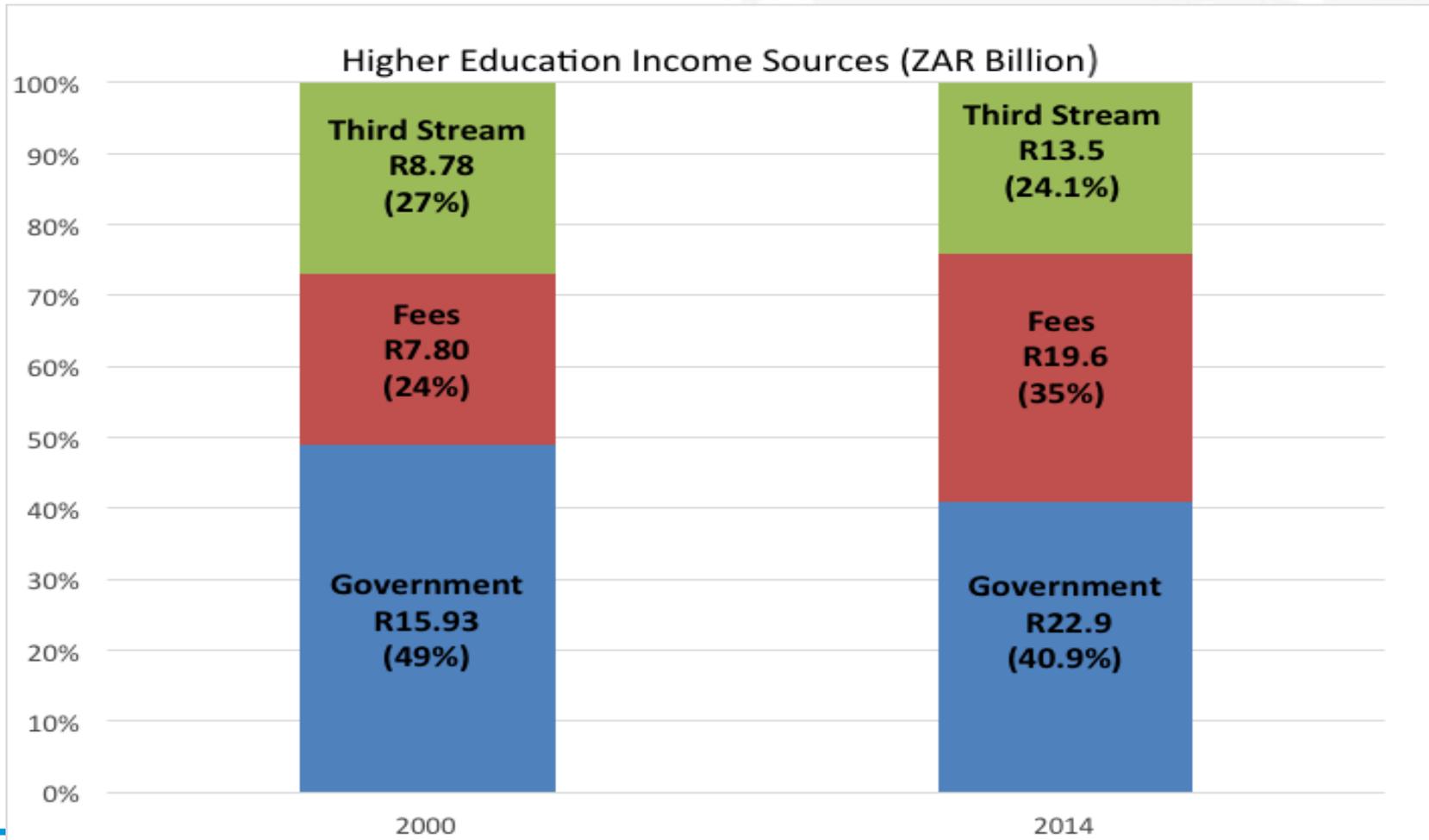
What about third-stream income?

In the last decades, universities have been working hard and with considerable success to generate 3rd stream income

Funding of UCT



Funding of Higher Education



Third stream income does not cover core costs

- It's ring-fenced – research, bursaries, prizes, chairs
- It's variable and unreliable
- “Free” endowments are small – at UCT annual income from unrestricted endowments is R25m out of R2.8bn = 0.6%



Co-funding from fees is necessary and desirable?

- Generate more funding for the system
 - The government subsidy isn't enough even if reaches 1% of GDP
 - Many South Africans are willing and able to pay more for a good education – this revenue would be lost
- “Public benefits” vs “Private benefits”
- Fairness: Everyone pays tax that helps fund higher education, but currently university is only accessible to about 10% of households (who are already relatively privileged)
- Regressive use of public funding for private goods
- Fees allow for additional funding required for research universities

How do we ensure equal access and affordability?

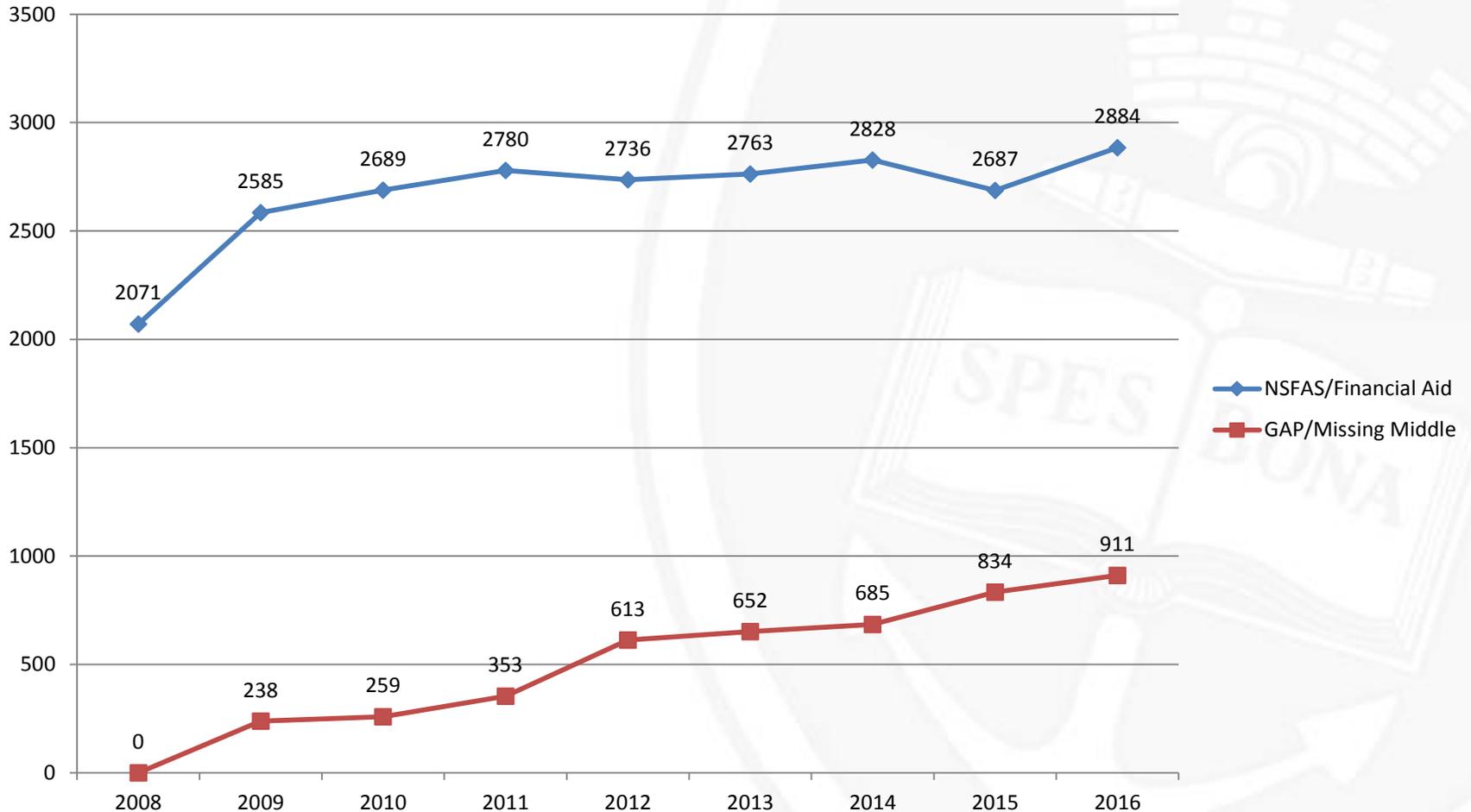
- Society is not divided into “the rich” and “the poor”
- There’s a continuum of income and a continuum of affordability

3 ways to achieve equal access if fees are a necessity:

- Free education for the very poor, mid-level fees for lower income households and higher fees for the rich
 - Two levels of fees (free and full-fee) is unfair to those near the cut-off
 - Sliding scale fees are fairer but an administrative challenge; and still need a financial aid system for non-fee costs (e.g. accommodation, books) so results in duplication of systems
- Bursaries for lower income students
- Loans for lower income students

One tuition fee for everyone, with personal bursary support (on a sliding scale) for those who need it –simpler, fairer and more efficient solution

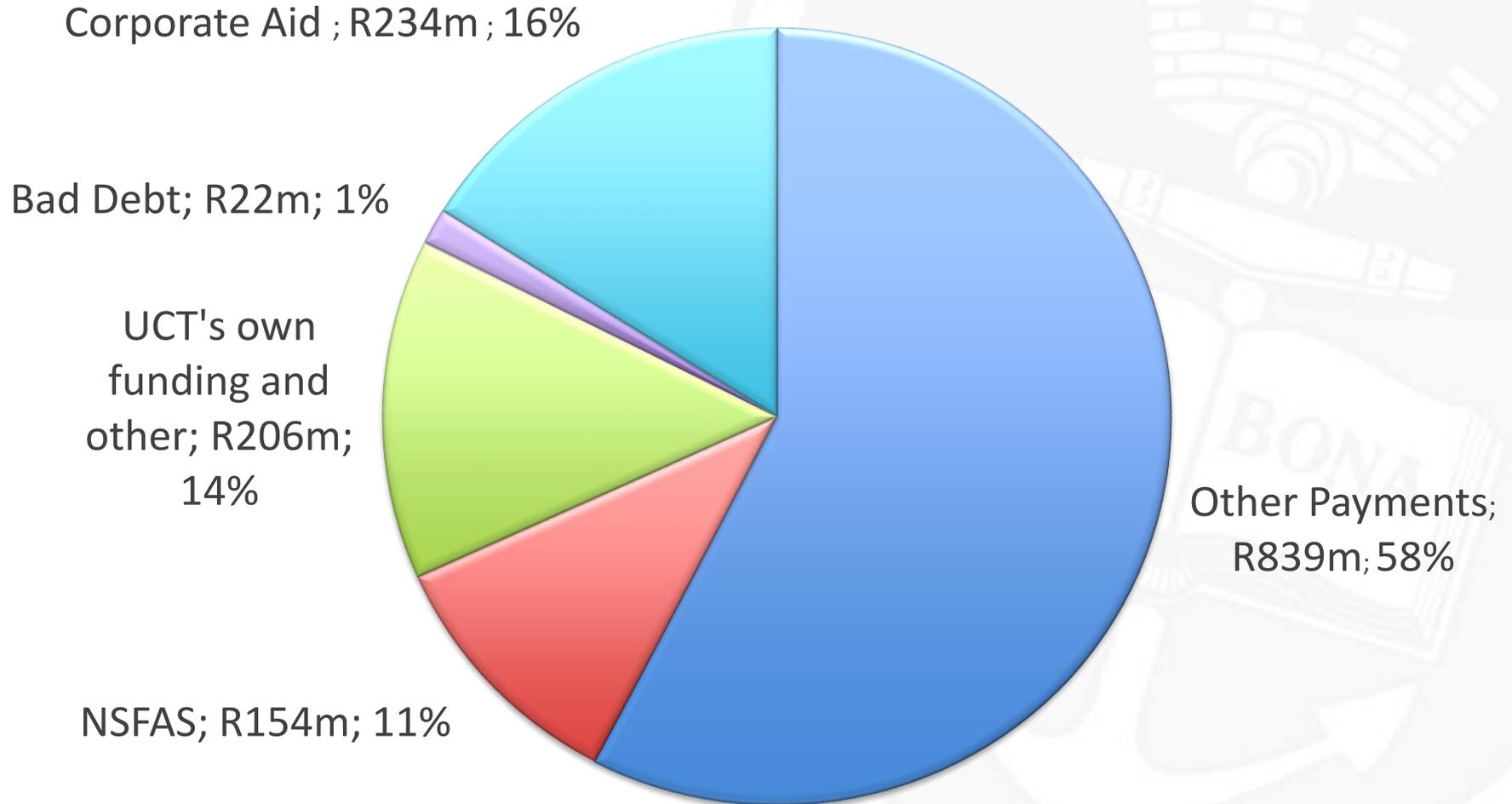
UCT Financial Aid and GAP funding



Should financial aid be a grant or a loan?

- Success of providing access and success for lower income students is adequate capitalisation (downfall of current system)
- Loans return money to the system and either reduce the fiscal burden or allow more money into higher education
- Loans enable banks to participate – capital and cash flow
- Universities generate funding from private sources (corporate and philanthropic) to pay fees; no fees or grants for lower-income students means there's no incentive to give

2015 UCT Fees – who paid!



Should financial aid be a grant or a loan?

- Rich and poor gain the private benefits of higher education
- Loans penalise the poor – consider grants for this group
- Indebtedness at graduation – need income contingent loan system
 - Good vs bad debt



Summary

- Co-funding plus Subsidy 1% of GDP
- Fees add revenue and funds differentiation
- Differentiated fee administratively difficult
- Poor can be fully protected with grants & loans
- Loans recycles and works for banks
- Adequate capitalisation and “good” loans