



6 November 2017

**A Universities SA Response to the STATS SA Report on
the Financial Statistics of Higher Education Institutions 2016**

At 12.00 on 24 October 2017 Stats SA released a report on the financial statistics of higher education institutions for the 2016 financial year. While Universities SA (USAf) thanks Stats SA for producing a report that attempts to describe the financial condition of our universities, we deem it imperative to respond to the report. There are three reasons for this.

- a. The report uses a cash flow basis for the analysis of the financial condition of the universities as opposed to the accrual basis used by the sector. We have tried to understand how Stats SA has done this translation so that the conclusions of the report make sense.
- b. The report uses categories that are not usually used in the financial reporting of our universities.
- c. The report claims that the universities were cash-flushed at the end of 2016 and we think that this is an inaccurate depiction of the financial state of the universities.

Whereas it is not our opinion that the STATS SA reporting is inaccurate, it is however presented in a way that leads to conclusions which are not necessarily accurate.

THE GRANTS SYSTEM

The grants system involves different kinds of the grants.

1. **The Block Grant (BG).** The BG is the Department of Higher Education and Training (DHET) subsidy provided to the universities based on four factors:
 - The Teaching Input Grant, based on the number of students and the programme for which they are registered as students at a particular university.
 - The Teaching Output Grant, based on the number of students graduating.
 - The Research Output Grant, based on the number of research publications in accredited journals or books produced by a university.
 - Institutional Factor Grant, based on the number of students at a university who come from disadvantaged communities. For instance if 80% or more of the students at a particular university are African and "Coloured" then the Institutional Factor grant is 10% of the Teaching Input Grant.
2. **Infrastructure Grants.** These grants are for infrastructure development projects approved by the DHET.
3. **Teaching Development and Research Development Grants.** These grants are top-sliced purpose-designed grants made to universities that are for specific purposes.
4. **Clinical Development Grants.** Provided to universities who have specific programmes which require clinical training such as medicine, nursing and so on.
5. **Research Grants.** From the National Research Foundation, the Water Research Commission, the Department of Science and Technology, the Department of Trade and Industry, and so on.

Of these the only grant that is not encumbered and Council controlled and therefore for universities to deploy in their day-to-day operations is the Block Grant. The Block Grant numbers are taken from the Ministerial Statement for the relevant year.

The STATS SA report indicates that the grants received by the 26 universities in 2016 is R30.0 billion compared to R25.1 billion in 2015, giving the impression that this is approximately a 20% increase.

The table below indicates how we are to understand the Grants Received row in Table A in the STATS SA report.

Year	All Grants	Block Grants	Other Grants
2015	R25.1 bn	R19.6 bn	R5.5 bn
2016	R30.0 bn	R20.5 bn	R9.5 bn
	20% incr.	4.6% incr.	

The “Other Grants” are earmarked and are usually multi-year. What this means is that they are not available to be used by the universities for their day-to-day operations. We might refer to them as “in-and-out” grants which are usually multi-year in nature and so even though they appear here as income for 2016, they will mostly be a part of a 2-3 year- funding cycle.

The Block Grants increased *on average* by no more than 4.6% between 2015 and 2016.

HIGHER EDUCATION PRICE INDEX

Annually, USAf produces what is called the Higher Education Price Index (or HEPI). The study that produces the HEPI takes into account the particular expenditure patterns at universities. It is very sensitive to the cost of compensation to staff, to the rand-dollar exchange rate because of the importation of equipment, books and journals and finally to the heavy dependence on electricity which has been increasing at rates beyond CPI.

The HEPI, over the last 3 years or so comes out to be about 1.7% above CPI. What this says is that the Block Grant increase is insufficient to meet the needs of inflation.

CASH SURPLUS

Using the cash basis approach, one of the key findings of the STATS SA report is that universities generated a R1.6 bn cash surplus in 2016. This is accurate in a technical sense but it needs to be explained that this cash surplus does not reflect a saving on the part of the university. This ‘surplus’ represents committed funds that were received in 2016 but are already committed to be expended in the future. This ‘cash surplus’ is bespoke for in terms of the fact that a significant portion of the grants received and other receipts are held by universities for multi-year projects.

Universities SA is the representative association and voice of all 26 public universities in South Africa.

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