

# FISCAL ANALYSIS OF COST OF HIGHER EDUCATION IN SOUTH AFRICA

17 AUGUST 2017  
2<sup>ND</sup> AN-PBO CONFERENCE

Parliamentary

Budget  
Office



# Presentation Outline

- ❑ PBO and Money Bills Act
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- ❑ **Methodology**
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- ❑ **Higher Education and Funding**
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# Terms of Reference

## Commissioned by SCOA and looks at the following:

- ❑ Identify funding options for higher education (HE) vs Post Secondary Education and Training (PSET) system ( Universities- HE, College- TVET, Community Colleges and canthers)
- ❑ Costing for free higher education for all
- ❑ Analysis of NSFAS service delivery model
- ❑ International experience on funding for higher education

# Methodology

- ❑ Study focus area is funding for undergraduate students;
- ❑ Full Cost of Study (FCS) include; Tuition fees, Registration, Residence costs, Meals and Books;
- ❑ NSFAS datasets and assumptions used for calculating funding estimates;
- ❑ Funding estimates excludes institutions infrastructure and other costs;
- ❑ Publicly available reports and research papers, from government and non-government bodies used;
- ❑ Followed the various public discussions about finding for higher education; and
- ❑ Government pronouncements on higher education funding.

# Higher Education and Development

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# Introduction

- At the core of the challenges for higher education funding is the extremely high level of inequality in South Africa
- The higher education system is representative of the larger issues regarding socio-economic development and redress of injustices
- The HE system has been significantly transformed
  - However, there are complex issues because HE institutions are heterogeneous, increasing access is costly, & transforming them while is working & evolving
- There are historical inequalities between historically black and white universities, including access to resources:
  - Few HWUs source most 3<sup>rd</sup> stream income & HBUs more dependent on government funding
  - Different levels of preparedness and race & income diversity students
- Universities have corporatized and driven to raise 3<sup>rd</sup> stream income:
  - Focus is on branding, ranking and enterprise development
  - Focus on 3<sup>rd</sup> stream income and attention to new funders and paying clients in addition to students and government
  - Outsourcing 'non-core' staff, contract lecturers and growth in administration



# Western Cape Government

Provincial Treasury

**BETTER TOGETHER.**

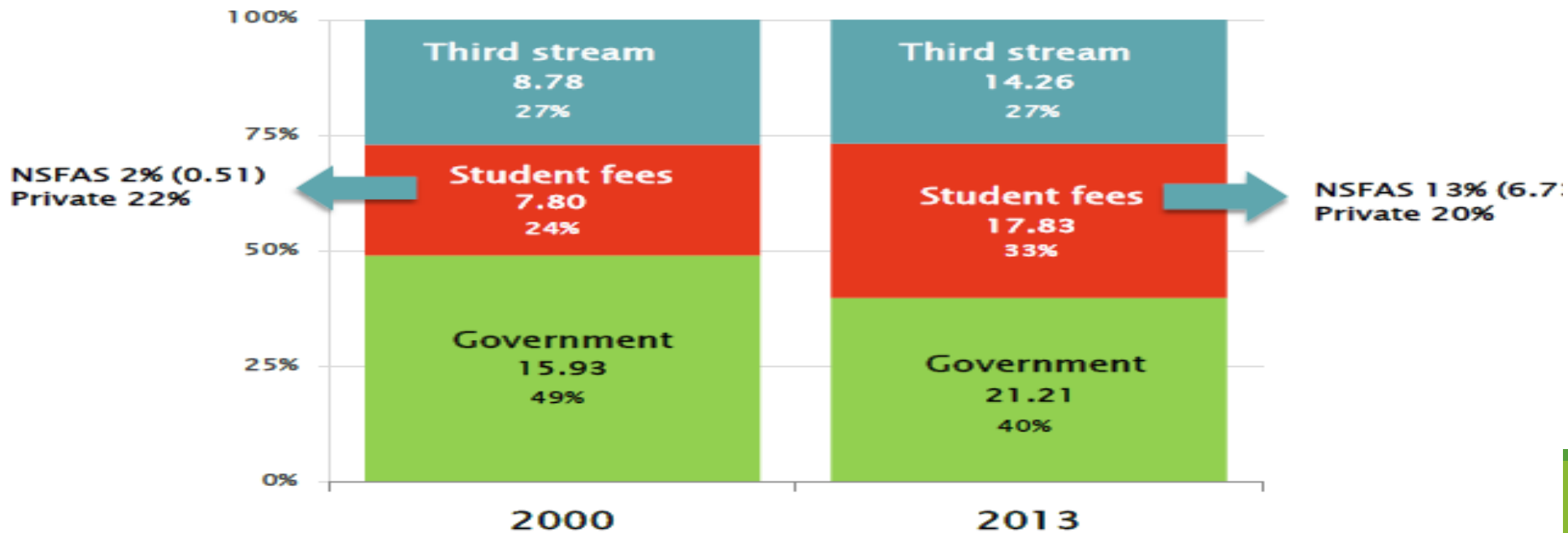
# Higher Education and Funding

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# Higher Education and Funding

- ❑ HE funding based on shared costs principle, and consists of private funding, tuition fees and public finances.
- ❑ Public finance contribute a higher proportion of more than 40%, though it has declined over time.
- ❑ Current funding framework in line with government plans of transforming the sector, economic development and support to HE institutions.
- ❑ Despite other challenges in the system, government is accused of underfunding for higher education, or hasn't kept pace with growing costs, also compared with other countries model where GDP % is used.



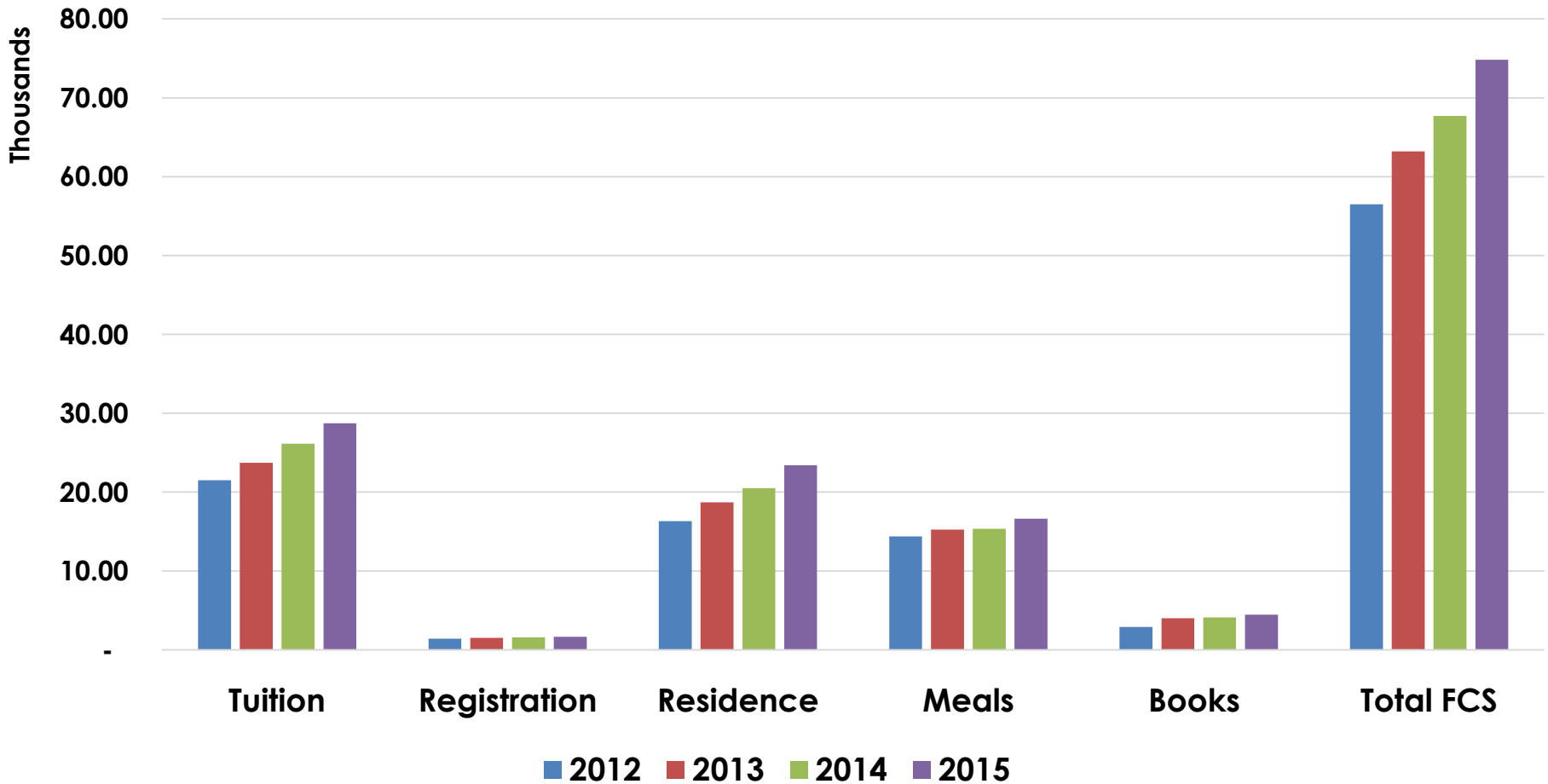
# Higher Education and Funding

- ❑ General concerns that the funding from public finances to HE is low compared to other countries, Funding as percentage of GDP;
- ❑ Public funding for HE hasn't kept with HEPI (9.8% HEPI compared to CPI 6%) fees has increased beyond the funding;
- ❑ Infrastructure and capital expenditure has also been below expectations;
- ❑ The public funding for higher education currently exclude some historically disadvantages individuals (HDI) due to complexities around the means test (missing middle);
- ❑ The NSFAS hasn't met recapitalisation expectations, due to poor debt collection, with 12% recovery rate compare to other schemes elsewhere with 44% average;
- ❑ Higher education demand increased by more > 100% between 1994 and 2015, however supply of academic staff hasn't kept up with the demand with the deteriorating lecture student ratio, 1:39 to 1:62,
- ❑ Despite decline in public financing of higher education, funding for other post schooling and education training has increased. E.g. TVET this is in line with NDP targets too,

# Higher Education and Funding

- HE cost drivers consists of the following; registration fees, tuition fees, residence, meals and text book- Full Cost of Study (FCS):

## University Fees Cost Drivers



# Higher Education and Funding

## Funding options- OVER THE MEDIUM TERM- 3 YEARS

- ❑ NSFAS 2015 datasets from universities to estimates funding options with following variables and assumptions:
  - Family income threshold of R 122 000 or R 217 000
  - 1.8 % growth in UG enrolment targets annually at entry level
  - Average Full Cost of Study of 9.8 % annually
  - Average NSFAS award at 9.8% increase annually
  - Funding options:
    - 16% Coverage of undergraduate headcount enrolments; or
    - 25 % Coverage of undergraduate headcount enrolments; or
    - 100% Coverage of undergraduate headcount enrolments
- ❑ Annual Budget allocation
- ❑ NSFAS re-injected funds from debt collections

# Higher Education and Funding

## Funding options- OVER THE MEDIUM TERM- 3 YEARS

- ❑ With assumptions remaining the same,
- ❑ Doesn't take into account other costs beyond lecture, infrastructure and so on
- ❑ Focuses mainly on undergraduate cohort at public universities;
  
- ❑ 16% Coverage of undergraduate headcount enrolments,
  - More than R 13 billion additional allocation to meet the funding needs - table 4.1
  
- ❑ 25% Coverage of undergraduate headcount enrolments
  - More than R 35 billion additional allocation to meet the funding needs - table 4.2
  
- ❑ 100% Coverage of undergraduate headcount enrolments
  - More than R 250 billion additional allocation to meet the funding needs- table 4.2

## Higher Education and Funding 16%

	2016/17	2017/18	2018/19	2019/20
<b>Assumptions</b>	<b>Estimated</b>	<b>Estimated</b>	<b>Estimated</b>	<b>Estimated</b>
<b>Family income threshold increases from R122 000 (A)</b>	R122 000	R122 000	R122 001	R122 002
<b>1.8 % Growth in UG enrolment targets (B)</b>	817 774	832 494	847 478	862 733
<b>Average FCS if 9.8% increase (C)</b>	82 155	90 206	99 047	108 753
<b>Average NSFAS award at 9.8% increase (D)</b>	40 767	44 763	49 149	53 966
<b>Number of NSFAS grant holders projected at 16% of undergraduate headcount enrolments (E)</b>	130 843.78	133 198.97	135 596.55	138 037.29
<b>Total funding needed to maintain 16% of students at FCS (F) = (C x E)</b>	10 749 485 769	12 015 388 211	13 430 368 388	15 011 982 291
<b>MTEF base line allocation (G)</b>	4 311 811 000	4 527 401 550	4 753 771 628	4 991 460 209
<b>Additional funding provided in 2016 Budget Review (H)</b>	4 882 000 000	5 555 000 000	5 832 000 000	
<b>NSFAS re-injected funds (as per NSFAS APP) (I)</b>	398 239 936	437 267 449	480 994 194	529 093 614
<b>Additional funding to maintain 16 % of headcount enrolments over the MTEF (J) = (F-G-H-I)</b>	<b>1 157 434 833</b>	<b>1 495 719 212</b>	<b>2 363 602 567</b>	<b>9 491 428 469</b>

## Average NSFAS Full Cost of Study (25.5% or 100% of student population)

Assumptions	2016/17	2017/18	2018/19	2019/20
	Estimated	Estimated	Estimated	Estimated
Family income threshold increases from R122 000 to R217 000 (A)	R 217 000	R 217 000	R 217 000	R 217 000
1.8 % Growth in UG enrolment targets (B)	817 774	832 494	847 478	862 733
Average FCS if 9.8% increase (C)	82 155	90 206	99 047	108 753
Number of NSFAS undergraduate grant holders (25.5% of student population) (D)	208 532	212 286	216 107	219 997
Total funding needed to assist all qualifying students (25.5% of student population) over the MTEF at FCS (E) = (C x D)	17 131 992 944	19 149 524 961	21 404 649 619	23 925 346 777
MTEF base line allocation (F)	4 311 811 000	4 527 401 550	4 753 771 628	4 991 460 209
NSFAS re-injected funds (as per NSFAS APP) (G)	372 702 674	409 972 941	450 970 236	496 067 259
Additional funding provided in 2016 Budget Review (H)	4 882 000 000	5 555 000 000	5 832 000 000	
Additional funding to provide FCS of 25 % (I) = (E-F-G-H)	<b>7 565 479 270</b>	<b>8 657 150 470</b>	<b>10 367 907 756</b>	<b>18 437 819 308</b>
Student Head Count @ 100% (B)	<b>817 774</b>	<b>832 494</b>	<b>847 478</b>	<b>862 733</b>
Full Cost Study @ 100% (J) = (B x C)	<b>67 184 286 056</b>	<b>75 096 176 319</b>	<b>83 939 802 427</b>	<b>93 824 889 321</b>

# In Summary

- ❑ NDP sets targets for skills and education, but also aims need to redress inequalities and other socio economic challenges;
- ❑ Demand for higher education has increased significantly over the years;
- ❑ Higher education system not kept up with demands for access and transformation;
- ❑ Unpreparedness increase challenges in the system;
- ❑ Higher education has three main sources of funding, government funding, tuition fees and private income;
- ❑ Funding for higher education is seen as main barrier to access to the poor and the 'missing middle';
- ❑ Additional funding from the fiscus will be required irrespective of the funding model to be proposed for higher education;



# In Summary (2)

- ❑ Stakeholders are suggesting different proposals to increase government revenue to fund higher education, including:
  - ❑ increase in taxes (PIT, CIT, VAT and Wealth Tax),
  - ❑ graduate tax,
  - ❑ reform to NSFAS model,
  - ❑ % of GDP spent on HE
  - ❑ reduction of HE fees

**Thank you**

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