SAUVCA

SOUTH AFRICAN UNIVERSITIES VICE-CHANCELLORS ASSOCIATION

Presentation to the Parliamentary Committee on Education by the South African Universities Vice-Chancellors' Association 1 June 2004

INTRODUCTION

South African universities first and foremost contribute to the development of our national skills and human resources pool by producing more than 75 000 graduates a year. In recent years, we have become a significant contributor to the development of human resources for the region and the continent, signalled by the increased enrolment of African students in our institutions to 32 000 during 2002.

Secondly, the sector remains the major contributor to research and development, thereby playing a critical role in enhancing our knowledge base and contributing to national economic and social objectives. This is in addition to the significant contributions in many different ways which are made to the communities in which institutions are located.

The university sector is committed to the continual strengthening of our teaching and research system. Our commitment to increasing access, improving quality, improving throughput rates and addressing equity has received much more than lip service in the past decade and real gains have been made in all of these areas. While it is important to recognise our shortcomings and learn from them, the strides that have been made in terms of addressing these challenges are not small.

These are complex national issues and the sector therefore relies on the strong support of national government and requires adequate resourcing. There is no question that the accountability for these funds and the efficiency with which they are used needs to be as tight as possible. However, the risks we face in terms of inadequate resources are too disastrous to contemplate.

We support national government's prioritisation of primary and secondary education expenditure over the past decade, as issues of quality and throughput in schooling directly impact on the higher education sector. However, for the sector to strengthen its outputs and enhance its position in Africa and the world, the current levels of funding require revision. We are at the beginning of a phase where several new and important policy processes have been put in place. The implementation of these process will require political management as well as adequate resources. In recent years, key international organisations like UNESCO and the World Bank have shifted their funding strategies away from funding primary and secondary schooling towards a strategy that encompasses the entire tertiary band. Likewise, the future health of the national economy will necessitate the creation of a robust higher education that is adequately resourced.

Given the policy issues, the sector has identified three priority areas for funding in the short term:

- Implementation of a sustainable funding framework
- Adequate resources for student financial aid
- Recapitalisation of institutions, including infrastructure for research

1. BACKGROUND

The Ministry of Education implemented a new funding framework for Higher Education for the financial year 2004/05. The final exposition of the new funding framework was made available to the Vice-Chancellors of the higher education institutions on 5 December 2003.

The formal funding policy framework, as published in the Government Gazette No 1791 of December 2003 was developed over the past few years, with the Finance Committees of SAUVCA (South African Universities Vice-Chancellors' Association) and CTP (Committee of Technikon Principals) offering formal and informal comments on various drafts. Some of these comments were accepted by the Department of Education (DoE), but the most important ones were not accepted.

The new funding framework was developed to meet the major objectives of Government as articulated in **Education White Paper 3: A Programme for the Transformation of Higher Education (July 1997) (WP 3)** and which were reiterated in the National Plan for Higher Education (NPHE) (February 2001). The NPHE also established indicative targets for the "**size and shape of the HE system, including overall growth and participation rates, institutional and programme mixes and equity and efficiency goals**" including benchmarks for graduation rates (NPHE: 12).

The WP3 emphasized that the new funding framework must be goal-oriented and performance-related to meet the Governmental goals for the transformation of the HE system, i.e.:

- "More equitable student access,
- improved quality of teaching and research,
- increased student progression and graduation rates, and
- greater responsiveness to social and economic needs."
  (WP3: 4.14)

SAUVCA believes that to meet the expectations that the Department of Education has for the HE system, it needs a commitment from Government to fund the HE system appropriately, taking into account the growth in student numbers, as anticipated in the NPHE, the expected improvement in throughput and graduation rates, and quality. The HE institutions, however, also recognise that the inefficiencies in the higher education system should simultaneously be addressed to minimised wasting tax payers' money.

It is the opinion of SAUVCA that the Government has appropriated diminishing financial resources for HE over a number of years and that this trend will continue in future if the Government's MTEF for the next three years is taken into account. The next paragraph presents statistical information that confirms SAUVCA's stance.

2. STATISTICAL ANALYSIS

Most of the statistical information is extracted from the document "**Information on the State Budget for Higher Education, Department of Education, August 2003**".

2.1 Subsidisation of Universities and Technikons under the SAPSE formula

The SAPSE formula was used by the Department of Education for almost 20 years to fund Universities since 1987 and also the Technikons. The formula was adjusted in 1993 to compensate for the high growth rate in student numbers during the late 1980s and early 1990s. The statistics also reflect increases in numbers in the mid-1990s due to the transfer of some HE institutions in the so-called TBVC states to the South African system. The incorporation of provincial teacher training colleges in 2001 into the National higher education system should also be taken into account when the historical trends in the funding of higher education institutions are considered.

Table 1 depicts the trend in the State allocations to HE (Universities & Technikons) according to year

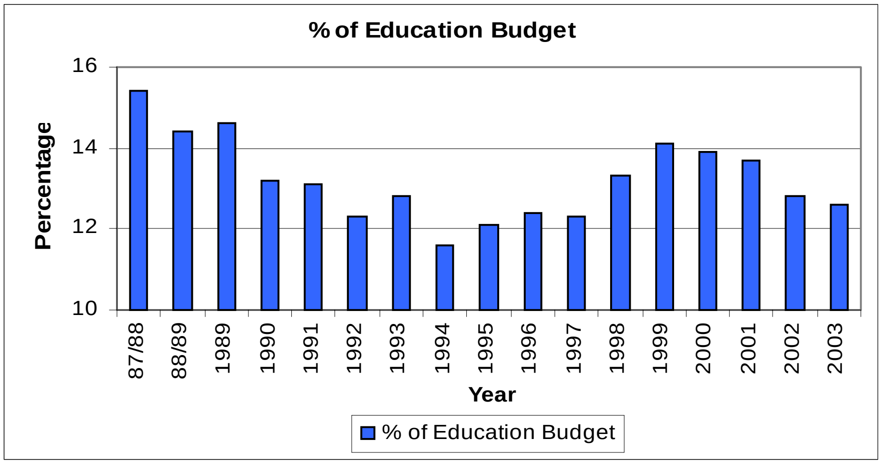
TABLE 1: State Allocation to Universities and Technikons according to year

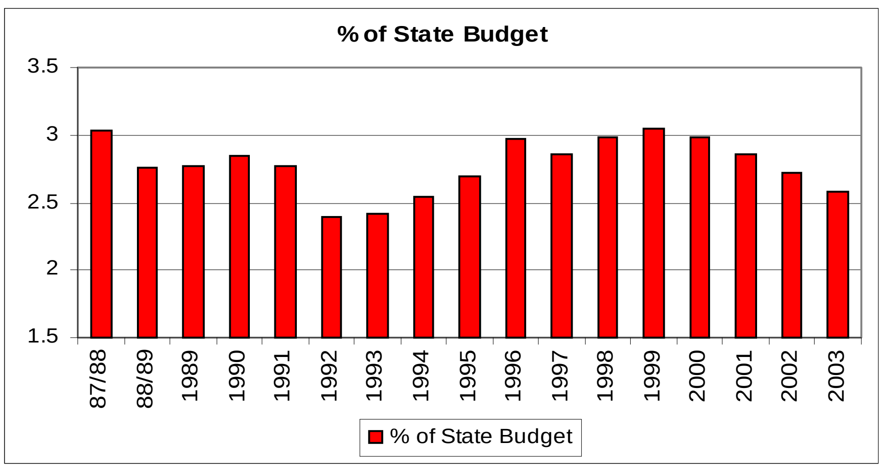
Year	State Allocation R(m)	% of Education Budget	% of State Budget	% of GDP
87/88[1]	1422.8	15,4	3,03	0.86
88/89[1]	1482.5	14,4	2,76	0.72
89/90[1]	1760.8	14,6	2,77	0.73
90/91[1]	2042.7	13,2	2,84	0.75
91/92[1]	2253.4	13,1	2,77	0.81
92/93[1]	2513.5	12,3	2,39	0.75
93/94[1]	3029.2	12,8	2,42	0.71
94/95	3313.7	11,6	2,54	0.74
95/96	4072.8	12,1	2,69	0.72
96/97	5207.2	12,4	2,97	0.82
97/98	5431.4	12,3	2,86	0.78
98/99	5999.8	13,4	2,98	0.80
99/2000	6545.1	14,1	3,05	0.81
2000/01	6977.9	13,9	2,98	0.77
2001/02[2]	7521.6	13,7	2,86	0.75
2002/03[2]	7923.7	12,8	2,72	0.72
2003/04[2]	8634.6	12,6	2,58	0.72

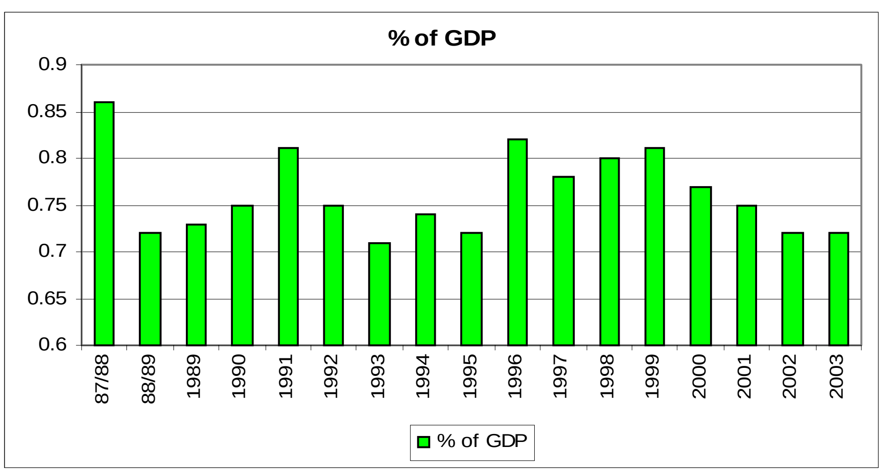
1 Amount excluding TBVC states
2 Amount includes incorporated Teacher Training Colleges

The average corresponding percentages for 18 representative countries in the world (from all continents) are 22,1% (% to education budget), 3,3% (% of state budget) and 1,1% (% of GDP), respectively, indicating a relative under-funding of HE in South Africa. (Ref: Statistical Yearbooks of UNESCO and the United Nations.) The trends of the percentages in Table 1 are graphically depicted in Figure 1.

Figure 1: Trends in the percentage allocation to HE with respect to (a) the Education budget, (b) the State budget and (c) the GDP







The following deductions can be made from Table 1 and Figure 1:

- There has been a steady decrease in the percentage of the Education budget spent on HE from 15,4% in 87/88 to an estimated 12,6% in 2003/04 (except for the period 1995 to 2000).

- There have been fluctuations in the percentage of the total State budget spent on HE but a decreasing long-term trend is noted, especially since 1999/2000.

- The percentage of GDP spent on HE fluctuates between a high of 0,86% in 1987/88 and 0,72% as estimated for 2003/04 (0,71% was calculated for 1993/94). A consistent decrease in this percentage is noted since 1999/2000.

- The fact that the figures in Table 1 initially exclude both those institutions in the TBVC states (87/88 – 93/94) and the Teacher Training Colleges (87/88 – 2000/01) serves to diminish the fall in percentages over the period under review. If the statistics were strictly comparable, the trend of decreasing funding for higher education would be accentuated.

It can be argued that the relative stability in the three percentages since 1994/95 is due to mainly two characteristics of the SAPSE formula, which was applied during the whole time period, namely,

(a) the provision of well defined cost units, which are closely related to cost inflation, and

(b) the realistic restriction on projected student numbers that was used in the revised SAPSE formula since 1994.

As a result of these two factors large fluctuations in subsidy allocations to institutions were avoided.

A further indication of the declining State subsidy for higher education can be detected in the trend of the so-called **a-value** that was applied by the DoE in the funding allocation until the financial year 2003/2004. (The a-value is defined as the percentage of the formula's 'government contribution' that is actually funded.)

Table 2 and Figure 2 depicts the average a-value for the University and Technikon sectors separately from 1987/88 to 2003/04 as well as for the system as a whole.

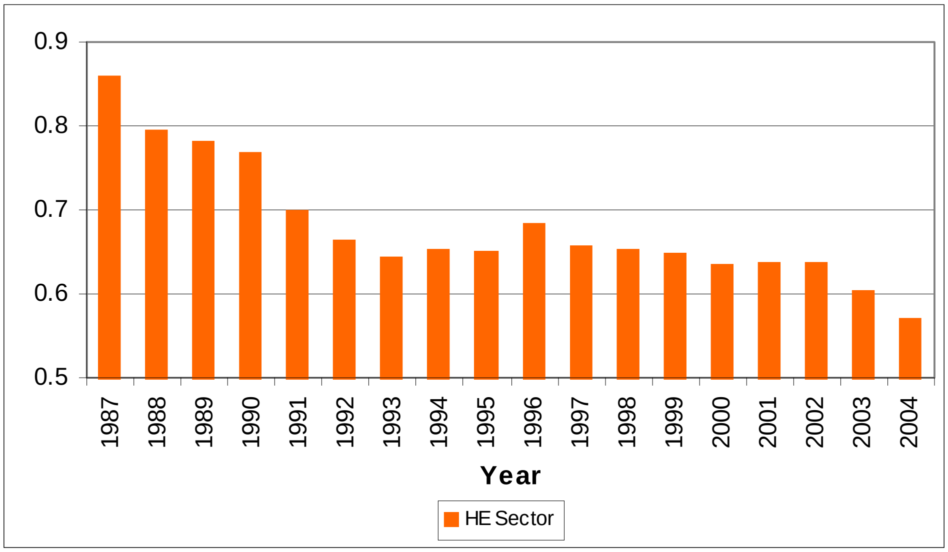
TABLE 2: Average a-value for the University and Technikon as well as the HE Sector

Year	Universities	Technikons	HE Sector
1987	0.847	0.909	0.857
1988	0.788	0.817	0.793
1989	0.795	0.715	0.780
1990	0.775	0.729	0.766
1991	0.699	0.695	0.698
1992	0.677	0.611	0.662
1993	0.667	0.564	0.642
1994	0.664	0.605	0.650
1995	0.656	0.621	0.648
1996	0.681	0.686	0.682
1997	0.659	0.646	0.656
1998	0.652	0.643	0.650
1999	0.650	0.641	0.647
2000	0.636	0.628	0.634

2001	0.638	0.629	0.636
2002	0.637	0.631	0.635
2003	0.603	0.603	0.603
2004*	0.570	0.570	0.570

* An estimated value.

Figure 2: Average a-value for the HE Sector



It is obvious from Table 2 and Figure 2 that the State cannot provide a sustainable funding regime to comply with its commitment and policies as stated in its policy documents. This statement will be re-iterated when the trend in the subsidy per FTE student is shown in Table 3.

2.2 Student numbers and subsidies per FTE

The headcount of students enrolled at higher education institutions is not the best indicator to reflect the teaching and learning activities taking place at the institutions. Part-time and occasional students, as well as some repeaters, do not constitute the same weight as full-time students for subsidy purposes. Therefore, the use of the internationally excepted FTE (Full-time Equivalent) student should be used for comparison and statistical purposes.

The process of reporting (audited) FTE enrolments to the DoE and the calculation of subsidy amounts requires that a projection formula be used for funding purposes. Table 3 and Figure 3 depicts the projected FTE enrolments for the Higher Education sector from 1993 when a restriction on growth was introduced in the SAPSE formula.

TABLE 3: Projected Student Numbers and Subsidy allocation from 1993 to 2003 to the sector according to year

	Projected student numbers				Subsidy (Rm of 1995)	Subs/FTE (R of 1995)	Subs/ESS (R of 1995)
Year	SH	SN	ESS=SH+SN	FTE			
1993	208838	101548	310386	319497	3071	9612	9894
1994	217410	106274	323683	323843	3437	10612	10617
1995	247328	114039	361367	372858	3566	9564	9869
1996	260871	118954	379826	386127	4092	10598	10774
1997	288476	124319	412796	432929	4191	9680	10153
1998	291688	129628	421316	435232	4261	9791	10114
1999	296713	134764	431479	460663	4427	9610	10260
2000	298670	141141	439811	452847	4492	9919	10213
2001	294192	146012	440204	453538	4601	10145	10452
2002	288367	147200	435567	434747	4430	10190	10171
2003	293723	156189	449912	452670	4636	10241	10304
2003[1]				437922	4636	10586	
2004[2]				454000	4769	10504	

1) Actual (unprojected) FTE student numbers for 2001 (Year n-2) used.
2) Actual (unprojected) FTE student numbers for 2002 (Year n-2) used. Subsidy allocation according to new funding framework: Blockgrant minus estimated municipal rates and car scheme contributions.

Table 3 indicates that the **real** subsidy per FTE student stayed relatively constant over a long period of time, indicating that it kept pace with **official inflation**. This conclusion is, however, misleading for a number of reasons. The first is that it should be stressed that the higher education sector operates outside of the ordinary inflationary boundaries in the sense that it is heavily dependent on highly qualified academic staff, imported laboratory and research equipment and expensive academic information material.

Secondly, as discussed in greater detail in section 3.2 below, in the late 1990s, funds that should have been allocated to capital projects, were increasingly shifted to finance current expenditures in an attempt to prevent the a-values from falling too far. Eventually the point was reached where no funds for capital were made available, a position that still holds today despite significant increases in enrolments.

It should further be noted that the projected FTE, as indicated in column 5 of Table 3, and which are used to calculate the ratio in the last column, do not take into account the separate growth rates of the social science FTEs and natural science FTEs. (See table 3, columns 2 & 3.) These growth rates are important because the two categories of FTE students were weighted differently in the SAPSE formula for funding purposes. (A ratio of approximately 1:2,7 applied.)

It can be shown that the growth of the natural science FTE grew faster than the social science FTEs over the period 1993 to 2001 which, of course, meant larger costs for institutions in terms of imported laboratory equipment. In addition it must be noted that there is a huge differential between the cost of journals in Natural and Social Sciences. This fact is not reflected in the subsidy per FTE as indicated in Table 3.

Figure 3:

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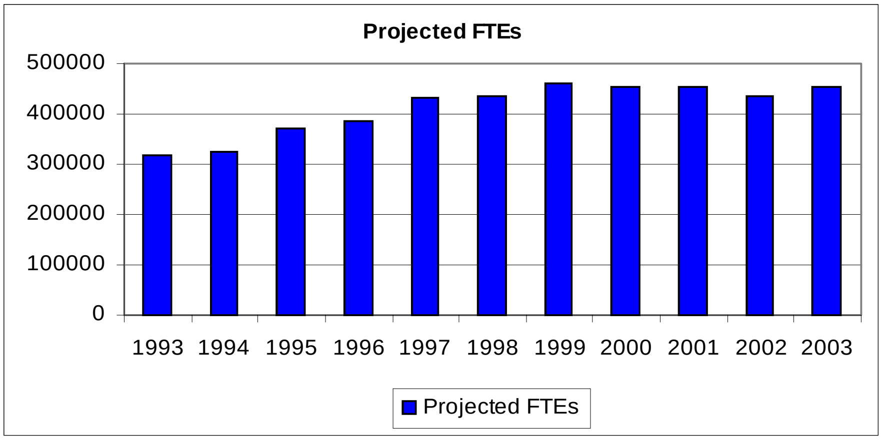

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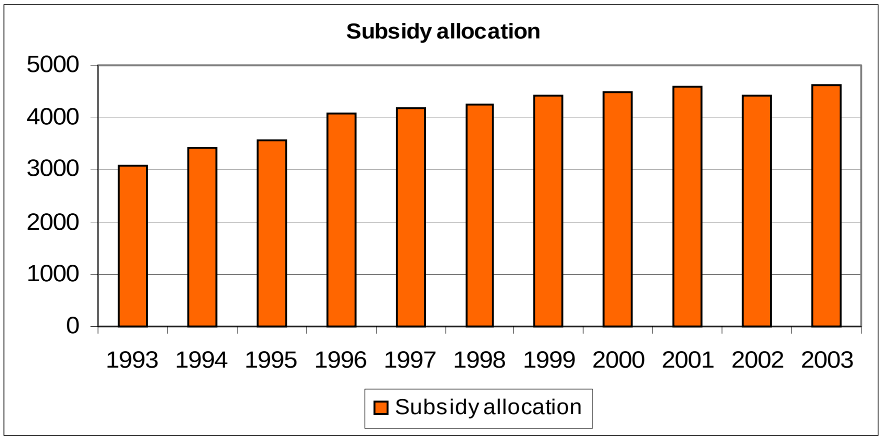

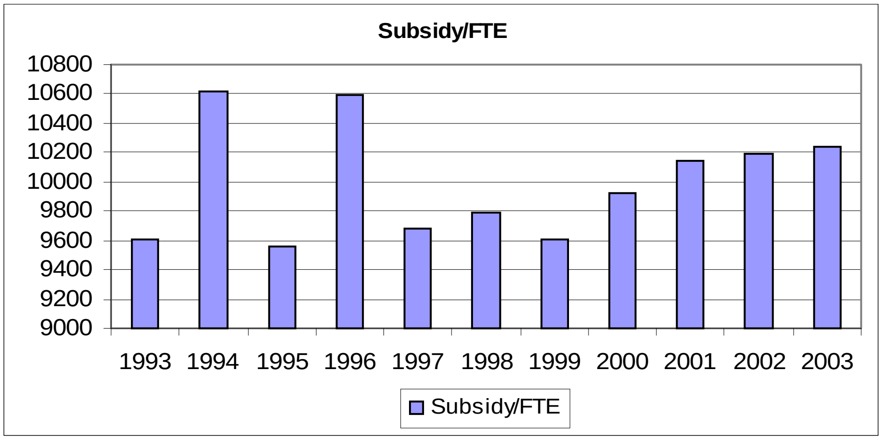

3. NEW FUNDING FRAMEWORK

3.1 Ministerial prerogative and the MTEF budgets

The new funding framework was applied for the calculation of the subsidy allocation to individual institutions for the first time for the financial year 2004/5.

The paradigm in which the new funding framework has been written, clearly indicates that the future funding of higher education will be managed very much in the same way as the funding of government departments. It is SAUVCA's opinion that the former notions of university autonomy, requiring "arms length" treatment of higher education, will cease and higher education will be treated more or less as part of the civil service.

The new framework gives the Minister of Education almost complete freedom to change the values assigned to the framework's different components. The only limiting factor is that the higher education funding will be placed within Treasury's Medium Term Expenditure Framework (MTEF), with estimates of funding published three years in advance.

The "Statement on Higher Education Funding: 2004/05 to 2006/07," made available to the Vice-Chancellors in December 2003, however, indicated that the provisional funds that will be made available to higher education for the next three years are as follows (Table 4):

Table 4: Distribution of Budget Totals for 2004/05 to 2006/07

	Budget 2004/05	Provisional MTEF Budgets			
	R'million	2005/06	% Incr	2006/07	% Incr
1 Block Grants	8 568	9 144	6.7	9 716	6.3
2 Earmarked Grants	809	860	6.3	938	9.1
3 Institutional Restructure	502	550	9.6	568	3.2
TOTAL	**9 879**	**10 554**	**6.8**	**11 222**	**6.3**

It is disturbing to note that the MTEF only makes provision for a total percentage increase in funds for higher education of 6,8% and 6,3% for the next two financial years respectively. If the inflation rate for the next two years is taken as 5% per annum (indications are that it can be higher) the increase in the nominal provision only provides for less than a 2% growth rate per annum in FTE student numbers which is unrealistically low, taking into account the expected growth patterns as anticipated in the WP3 and NPHE and recommended by the CHE (e.g. an increase of the participation rate of the age groups 20 – 24 to 20% within the next 10 – 15 years). Preliminary headcount enrolments at Universities for 2003 show an increase of 5% and at Technikons an increase of 6%. A similar growth in FTE's is therefore anticipated (SA Stats 2003, Table 7.10). It should again be stressed that growth in student numbers have a knock-on effect right through the HE system with regard to other infrastructural component over and above new buildings.

The Department of Education (DoE) has embarked upon a process for controlling the growth in enrolments at higher education institutions through only funding the numbers of student places approved for each institution. However, this policy has not yet been put into operation fully. Moreover, once it has been, it will result in higher education institutions being caught between the demands made by students (based on the expectations of increasing access created in the past) and the constraints introduced by DoE. In addition, it is expected that, once the existing matriculation process has been replaced by the Further Education and Training Certificate (FETC), greater numbers of school-leavers will qualify for admission to higher education and that therefore the pressure on institutions will increase in future.

Besides this, the above-mentioned inflation rate of approximately 5%, however, does not include items in the weighting basket that are crucial for the higher education sector, e.g., imported laboratory and research equipment and academic study material for teaching and training. The volatile exchange rate of the Rand also plays a vital role in the costing of higher education learning and training and should not be ignored in the funding of the system. The net effect of these factors is also likely to impact negatively on the real value of the sector's funding.

3.2 Funds for Capital Projects

In the SAPSE formula, provision was made for Capital projects at Universities and Technikons. The calculation of the allocation of these funds was done on the basis of a certain set of space norms and standards developed by the DoE and distributed according to the relative shortfall of building space in the programmes Educational and General and Auxiliary Enterprises, specifically for student residences. The base from which the shortfall was determined was established by a survey done by the DoE in 1988.

The amount made available by Treasury for capital projects, however, declined during the past 10 years, mainly due to the relatively large growth in the FTE student numbers. These funds were gradually channelled from capital provision to the running expenses category to help to stabilised the a-value.

Since the 1997/98 financial year no allocations have been made to institutions for new capital projects despite the large growth in the FTE student numbers. In spite of this reallocation of funds, the a-value continued to decrease gradually. The accumulated shortfall in 1997 for capital projects at higher education institutions was estimated at R1 billion for academic buildings and R500 million for student residences. This may have escalated to more than double those amounts since 1997. It should be noted that the new funding framework does not make provision for capital expenditure. In addition no provision is made for taxes (municipal and other) in the new funding framework, which were funded as an **ad hoc** provision in the old funding dispensation.

SAUVCA is extremely perturbed by the facts as stated above and would like to stress that the future of quality higher education can be compromised if these issues are not addressed.

3.3 Structural "short comings" of the New Funding Framework

SAUVCA identified a number of inadequacies in the new funding framework. Some of these inadequacies are mentioned below.

- No clear articulated, financially based, basis is provided for the new funding framework. Although in some respects, it is orientated toward the market model, particularly in its emphasis on outputs, (e.g., the graduates needed by the economy), in other respects it is simply a mechanism for dividing the pool of inadequate funds that treasury has made available for HE. None of its elements are guaranteed to be related to the actual costs incurred by a higher education institution.

- The new funding framework, and the way in which the surplus teaching output and research output funds are distributed to under-performing institutions, as development funds (unrestricted for three years) contradicts the NPHE's notion that "mission and programme differentiation" should be used as parameters and criteria to determine the allocation of funds. "*Building on their strengths (e.g. research) and responding to social and economic needs, including labour market needs*" are also not taken into account in the way the new funding framework is now applied. The present application of the new funding framework will lead to a unitary and uniform system with no distinction between the different institutional types (i.e. Universities, Universities of Technologies and Comprehensive institutions).

- It is imperative to ensure that, if the new funding framework is going to be used as a steering mechanism, the information in the Higher Education Management Information System (HEMIS) is accurate, timely and substantiated by an external audited report on an institution's

HEMIS submission. Without audited and accurate HEMIS data from all institutions the application of the new funding framework mechanism to determine the subsidy allocations to higher education institutions will be unreliable and without credibility.

- The change in the funding regime had huge consequences for some of the institutions. The Ministry provided a strategy for a phased implementation with the intention to lessen the impact on institutions. The final allocations, in spite of the immigration strategy, confirmed that large swings in funding occurred. Moreover, the allocations are misleading because the results are presented in nominal terms and the impact of inflation has not been factored in. Many institutions will be experiencing significant reductions in real terms: this at a time when government is trying to increase participation rates and factors such as computerization are increasing higher education costs.

- The move away from a cost-based system of subsidy allocations, linked to inflation adjusted cost-units, to a system where the total allocation is distributed across the HE system in a mechanistic way, remains a major concern to the Vice-Chancellors.

- The lack of transparency, on the part of the Department of Education, (e.g. not to provide the Vice-Chancellors with detailed information on how their institution's allocation for 2004 was calculated), is of great concern to the V-Cs. (This was not the case in the past and gives rise to a certain degree of distrust in the New Funding Framework and the Department of Education.

SAUVCA's detailed comments on the new funding framework are to be found in **Appendix A** below.

4. THE POSSIBILITY OF ACQUIRING ADDITIONAL FUNDING FOR THE NATIONAL STUDENT FINANCIAL AID SCHEME

The funding of higher education by government is divided between subsidies for institutions and subsidies for individual students. Although the former dominated South African history until the founding of the National Student Financial Aid Scheme (NSFAS), allocations to NSFAS over the past few years have made it possible to direct funding more specifically to indigent students identified by a means test. In principle, this is a fairer mechanism for dealing with poverty than that recently introduced in the new funding framework, which singles out certain institutions for additional funding on the basis of the predominance of specified racial groups amongst their students, and which results in poor students being treated differently at different institutions. Details of this aspect of the new funding framework are to be found in Appendix A, section 9, below.

This suggests that, if additional funding were to be available, one should consider allocating it to the NSFAS. One potential source of such additional funding is the National Skills Authority. Details of the division of responsibilities in this regard are to be found in **Appendix B** below. However, it is clear that additional funds for NSFAS would be put to good use and that, even though the allocations by government for this purpose have been increasing in recent years, the funds are insufficient to deal with the magnitude of the problems experienced by poor students.

5. CONCLUSION

The theme of this submission is that the higher education sector has increasingly come under financial pressure over the past years. The reasons for this are varied and included

- the inability of government to maintain former levels of funding to the sector,

- the ways that inflation affect the higher education sector,

- the dilution of existing funding through the incorporation of additional institutions and the former provision for capital into the general funding category,
- the expense of restructuring the sector, and
- increasing student numbers.

Although the Department of Education intends controlling the growth in student numbers in higher education in future, the provisions for additional funding in coming years, indicated in the MTEF, seem to be unrealistically low and should be reviewed critically. Furthermore, additional funding for the National Student Financial Aid Scheme is urgently required.

Appendix A

South African Universities Vice-Chancellors Association (SAUVCA)
Comments on the revised framework for higher education institutions
April 2004

1. INTRODUCTION

On Tuesday 9 December 2003 the new funding framework for higher education institutions was published in terms of the Higher Education Act, No 101 of 1997, in the Government Gazette (No 1791). The new funding framework was implemented in the 2004/2005 Financial Year. The documentation made available to Vice-Chancellors on 5 December 2003 comprised:

- Funding of Public Higher Education, the formal policy framework; and
- Statement on Higher Education Funding 2004 to 2006, which explains how the higher education budget will be divided, including an appendix indicating the implementation of the Migration Strategy 2004/05 to 2006/07.

These documents have been developed over the past few years, with the Finance Committees of the South African Universities Vice-Chancellors Association and the Committee of Technikon Principals offering formal and informal comments on various drafts, mostly jointly. Some of these comments were accepted, but others not. This paper gives a brief overview of the salient points made during interaction with the Department of Education, including comments on the final version of the framework.

2. THE NEED FOR CHANGE

The existing subsidy formula has been in existence for twenty years. It was designed for the universities falling under the so-called House of Assembly in the so-called tri-cameral government system of the 1980s, i.e. the formerly white universities, in an era when there was large-scale fragmentation of the higher education sector. It was also based on a number of assumptions that came to be questioned as the sector moved towards greater unity. The SAPSE formulas for universities and technikons were adjusted with effect from 1993 in order to eliminate some obvious structural problems in the formulas and to make it more suitable for application to the broader HE system.

Without exception, the members of SAUVCA's Finance Committee agreed with the need for an overhaul of the subsidy system; therefore, they participated willingly in a comprehensive exercise to estimate the costs of providing different forms of higher education, in the belief that realistic cost patterns should form the basis of state subsidization in future. Furthermore, SAUVCA's Finance Committee made three submissions to the Department of Education on the new funding framework and met with members of the Department on various occasions. There was also agreement that the fundamental objectives of government must be to establish a fair and efficient higher education system, one that redresses the wrongs of the past. The question, therefore, became what the best mechanisms for doing this are. SAUVCA's Finance Committee argued that, to answer this question, one has to have a clear conceptual picture of the functioning of higher education – a model of the economics of the university sector.

3. WHITE PAPER AND THE NATIONAL COMMISSION ON HIGHER EDUCATION

One of the basic assumptions of the economic model underlying the existing subsidy formula is that students are the best judges of their own welfare and therefore are best placed to decide what study programmes to follow. Accordingly, the existing SAPSE formula is enrolment driven with funds following students as they enroll at institutions of their choice. Similarly, the existing formula is based on the assumption that university autonomy is an essential ingredient of a successful higher education sector – an approach supported almost universally. The SAPSE formula was therefore constructed as a method for providing funding that would ensure an arm's length relationship between government and the university sector.

Although under 'normal' conditions this approach could be seen as desirable, there was general agreement that a degree of government intervention had become necessary to address the imbalances in the landscape left by apartheid planning. Accordingly, in the report of the National Commission on Higher Education (NCHE) in 1996 and later in the White Paper on Higher Education (1997), enrolment-driven funding was criticized as leading to unbalanced student numbers in certain fields and institutions. It was also argued that Government should be given the power 'to steer' the higher education sector through its funding mechanism. Similar sentiments were expressed in the National Plan for Higher Education (NPHE) in 2001.

In the development of the new funding mechanism SAUVCA's Finance Committee agreed that government should have greater powers to plan the sector in future, at least for a transitional period. This agreement was, however, reached tacitly within the universally accepted paradigm of university autonomy. However, the subsidy framework documents recently published by the Ministry, move university funding well beyond the traditionally understood parameters of university autonomy and place it firmly within the realm of ministerial discretion, albeit based on forms of consultation with the HE sector and after advice has been obtained from the Council on Higher Education.

4. MINISTERIAL PREROGATIVE

The new framework will give the Minister of Education considerable freedom to direct the future funding of higher education institutions. Although the documents contain a description of the framework, the Minister will, subject to having engaged in some consultative measures with the Higher education sector and subject to having sought the advice of the CHE, be given almost complete freedom to change the values assigned to the framework's different components. No specific parameters within which the Minister may exercise his discretion are given. The only limiting factor at this stage is that higher education funding will be placed within Treasury's Medium Term Expenditure Framework (MTEF), with estimates of funding published three years in advance. Fortunately for the higher education sector this does mean, however, that drastic changes will have a three-year lead time, leading to forewarning at least.

In effect, the independent formula funding of higher education will cease in South Africa in 2004 and the benefits of having a system that is certain, objective and devoid of possible manipulation, will be lost to a large degree. Furthermore, it seems as if the funding of higher education, in future, will be managed very much in the same way as the funding of government departments. Former notions of university autonomy, requiring 'arm's length' treatment of higher education, will cease and higher education, for funding purposes at least, will be treated more or less as part of the broader civil service. SAUVCA's Finance Committee has accepted the need to steer institutions in the interests of transformation, a time limit should be imposed to ensure that university autonomy is not permanently forfeited.

5. UNDERLYING LOGIC OF THE FUNDING FRAMEWORK

As mentioned above, the designers of a funding formula must do so from the perspective of how the education system functions. One possibility is, for example, that higher education institutions are part of a market economy, with labour markets providing signals to prospective students about employment opportunities, future incomes and the costs of investing in further education; another possibility is that universities are simply sections of the civil service and subject to the forms of regulation and central control normally applied to government departments. The link between these two positions is the fact that running a university entails costs and that, therefore, to be efficient, subsidies should be related to reasonable costs.

Unfortunately, no clearly articulated basis is provided for the proposed new funding framework. Although in some respects, it is orientated towards the market model, particularly in its emphasis on outputs, i.e. the graduates needed by the economy; in other respects it is simply a mechanism for dividing the pool of funds that Treasury has provided. Few of its elements are related to the actual costs incurred by a higher education institution. Similarly, SAUVCA's Finance Committee questioned the assumption of the Department of Education that the Ministry will be able to plan the country's highly skilled human resource provision efficiently by determining how many students may be admitted to which programmes within the university sector. This it intends doing by approving the numbers of new entrants per programme and institution by means of its so-called 'Programme and Qualification Mix' procedures. On the basis of many failed attempts at 'person power planning' abroad, SAUVCA expressed skepticism about how this would be done – skepticism that resulted in the Department agreeing to set student numbers in consultation with the institutions and after taking market forces into account. This compromise has been one of the positive outcomes of the interaction between SAUVCA's Finance Committee and the Department of Education. Besides creating a consultative framework for determining the levels of new student intakes (i e first time entering students) , it provides a mechanism for dealing with the growth in enrolments in an orderly fashion.

6. DIFFERENTIATION BETWEEN INSTITUTIONS

The White Paper and the National Plan for Higher Education (NPHE) both place great emphasis on the need for diversity in the higher education sector. According to the White Paper, "An important task in planning and managing a single national coordinated system is to ensure diversity in its organizational form and in the institutional landscape, and offset pressures for homogenization."(White Paper: 2.37, quoted in the NPHE, p 50.)

However, the way that, *inter alia*, research is dealt with in the proposed funding framework suggests that the concepts, propounded earlier in the White Paper and echoed in the NPHE, namely that there should be differentiation between the missions of higher education institutions, are in danger of being lost. The way that subsidies will be channeled in future will encourage all institutions, including the new universities of technology, and comprehensive institutions, to strive to become research universities, with the result that research funds will be dissipated. The warning contained in the NPHE, on page 50, that "It would not be an exaggeration to suggest that many institutions aspire to a common 'gold' standard as represented by the major research institutions, both nationally and internationally", which if unchecked, would be to the detriment of a single coherent higher education sector, appears to have been overlooked by the authors of the funding framework. The principle of mission differentiation is in danger of being overridden by the funding framework and should be reinstated.

7. FUNDING GRID

One of the main positive attributes of the new funding framework is that knowledge areas have been grouped into four categories, according to the average teaching costs in these areas. In contrast, the existing formula has just two categories. This will introduce greater differentiation and decrease (but not eliminate) the need to cross-subsidize certain costly subjects that were substantially under-funded in the past. Despite the use of costs to arrive at this classification, the Department has nevertheless insisted that costs should not be seen as a major determinant in the funding framework. SAUVCA's Finance Committee has questioned the placement of some study areas in the funding grid given the clear policy directives in, for example, the NPHE on stimulating study in science, engineering and technology. The Department has committed itself to revisit this issue in due course.

8. OUTPUT MEASURES

The framework purports to provide incentives for institutions to become efficient, namely by subsidizing the outputs of research and teaching (published articles and degrees/diplomas). This is done by setting norms for research outputs per member of staff and for graduation rates. (In fact, the percentage of funding allocated to outputs in the proposed framework is lower that that in the existing formula.) However, the way that these norms are to be applied will have the effect of neutralizing the incentives to increase efficiency. This will occur because the money not allocated to 'under-performing' institutions that have not met the norms, will be re-channeled to the same institutions in the form of development grants.

The setting of output norms therefore appears to have some effects that seem to be unintentional, and will have a detrimental effect on research institutions. With the new funding framework, the higher the norms set, the lower the amounts going to institutions that will meet or exceed these norms. Setting higher standards therefore has the inverse effect: it channels money away from institutions producing the research that the high standards are supposed to encourage.

9. INSTITUTIONAL FACTORS: RACIAL COMPOSITION

Provision is made for two 'institutional factors' in the new funding framework: subsidies will be paid according to the racial composition of an institution's student body (additional funds will be generated by enrolling more black and coloured students who are South African citizens); and according to the size of the institution (small institutions will receive more money).

While SAUVCA's Finance Committee fully supports assistance to indigent students, it believes that the degree to which this is done should not result in institutional incentives to discourage white and Indian students from enrolling. Furthermore, an unintended consequence of coupling funding to an institution's demographic composition could be that the many thousands of black students, enrolled at formerly 'white' institutions, will be funded by government at levels lower than those applicable to their peers at formerly 'black' universities. If this eventually becomes reflected in different levels of fees, the financial incentive of this element of the funding framework, on the one hand, and the stated intention to de-racialise institutions, on the other, will be in contradiction.

Soon after the advent of democracy in South Africa, government acknowledged that the optimal way to assist indigent students was to establish a National Student Financial Aid Scheme (NSFAS), through which funds are allocated to all needy students, identified with a means test and irrespective of race. It is not clear why the authors of the funding framework have deviated from this salutary principle. Unfortunately the division of the NSFAS funds amongst the HE institutions is still based on the racial composition of student enrolments at the respective institutions and not on the actual numbers of students with financial needs. This divisional mechanism needs to change.

The answer to this question is probably that the additional amounts, together with the development grants mentioned in section 7 are intended to be redress funding. SAUVCA's Finance Committee supports the principle of redress, but would prefer it to be identified directly, quantified and allocated for a specific period that is agreed to be long enough for correcting the wrongs of the past.

10. INSTITUTIONAL FACTORS: ECONOMIES OF SCALE

The second institutional factor is the supposed economies of scale that exist within universities. Although it is true that economies of scale exist in distance education institutions, and likely that some economies are to be found in residential institutions, these appear to have been drastically overestimated in the new framework. As far as the members of SAUVCA's Finance Committee are aware, no empirical work has been done to support the proposal on scale economies, the logic of which is that, purportedly, average costs decrease as the size of the institution increases. Before being implemented, cost studies should be undertaken to determine the validity of this assumption and the degree to which such savings actually occur.

In addition, as the case for scale economies is one based purely on 'costs', the incorporation of the 'economies of scale' factor into the funding framework contradicts the Department of Education's position that the funding framework should no be based on costs and is solely a mechanism for dividing an available pool of funds. The strength of the incentive to remain small, introduced in the new framework, could impact negatively on the goal, stated in the NPHE, of increasing enrolments and the higher education participation rate. It will also have a negative impact on government's language policy for higher education institutions, as it could discourage universities from providing lectures in more than one language, particularly if this attracts more students, and decreases economies of scale by forcing institutions to subdivide classed into different language groups.

SAUVCA's Finance Committee has repeatedly emphasized the need of a further institutional factor: a multi-campus factor which would apply to those institutions affected by the Government's present higher education restructuring programme whereby mergers would be creating large institutions operating on a number of campuses with consequent cost increases for them. The Department has indicated its willingness to consider developing such a factor.

11. FOUNDATION GRANTS

SAUVCA's Finance Committee welcomes the introduction of earmarked funding for the running of so-called foundation programmes although the information provided in the documentation from the Department is not altogether clear -for example, it is not very clear whether the 15% referred to in the documentation relates to individual institutions or to the system as a whole. In addition, no criteria for the allocation of these grants are provided.

The major need for foundation programmes is in the science and technology fields. It is therefore not obvious why these programmes should be funded at the minimum level of some arts programmes. No reasons for this decision are given. Because no additional funding will be provided to the higher education sector for doing work that should have been done at the secondary school level, the introduction of earmarked funds for foundation programmes in effect amounts to a decrease in funding for the sector.

12. RESOURCES AND IMPLEMENTATION

A change in funding regime can have huge consequences for the institutions involved. The Ministry provides a strategy for implementation of the new framework intended to lessen the impact on institutions. However, the allocations to institutions on the basis of the new funding framework confirm that large swings in funding will occur. Moreover, the calculations are deceptive because their results are presented in nominal terms and the impact of inflation has not been factored in. (In fact, the new framework, in contrast to the previous formula, makes no structured provision for inflation.)

The move away from a cost-based system of funding allocations for higher education institutions to a system where the total allocation is distributed across institutions has precipitated a major concern among the sector's leadership in terms of current financial resources for higher education. While the limitation of resources at a national level is recognised, it is expected that by demonstrating greater efficiencies and effectiveness, the higher education sector will be in a position to access more funds from Treasury in future.

The sector has indicated a commitment to increasing participation rates to 20% (of 20 to 24 year olds) by 2015, a relatively modest growth path. Carefully planned expansion through five-year enrolment plans, linked to the approved programme and qualification mix and aligned with resource considerations, is supported by SAUVCA. While the attainment of this goal depends on variables such as the throughputs from the schooling system and the impact of HIV/AIDS on the age cohort, the quality of higher education will be placed at risk if there is not adequate investment in the sector and its infrastructure.

The Ministry has indicated that planned growth of the system will be funded and the infrastructural needs of institutions due to backlogs will be investigated.

13. CONSULTATION

Consultation (and transparency) requires allowing all parties to have insight into the final calculations upon which the actual allocations are made. Due to the lack of clarity on detail and the fact that some values depend on the figures for the whole system, individual institutions are
not able to do their own calculations independently. The calculations should therefore be made available to all the parties.

14. CONCLUSION

The higher education sector, universities and technikons, have participated willingly in the process of developing a new funding framework for the higher education sector. Numerous comments and suggestions, many of a technical nature and thus not discussed in this memorandum , were submitted to the Department of Education over a period of several years. Some of these were taken into consideration by the Department; others were not, with the result that while the new funding framework includes some welcome and very necessary changes to the old subsidy formula, it also entails a number of risks for the higher education sector, the most serious of which relates to institutional autonomy.

26 April 2004

Appendix B

The National Skills Authority and the possibility of funding for Higher Education

Employers pay a levy of 1% of their payrolls to the State, as required in terms of the Skills Development Act, No. 97 of 1998. A second Act, the Skills Development Levies Act, No 9 of 1999, provides for how the levies due by employers should be divided. Under the Skills Development Levies Act, 20% of the funds, collected by means of the 1% levy on payrolls, is paid into the National Skills Development Fund and the remaining 80% is paid to the Sector Education and Training Authorities (SETAs) for the disbursement of grants to employers for the accredited training of their employees. This notion of imposing a levy on employers for quality assurance skills development at organisational level and in the country as a whole, has its origins in the Reconstruction and Development Programme (RDP) of South Africa. The national Human Resources Development Strategy (HRD), as one of the core RDP strategies, is an attempt to ensure that the needs of the South African economy and democratic order are met.

The HRD strategy plays two main roles. One is to ensure that the various components of the state work together in a co-ordinated manner to provide opportunities for human resources development. The second is to ensure that those people who suffered from discrimination in the past are put at the front of the queue for development in terms of the identified national priorities. The 25 SETAs are the mechanism for giving effect to South Africa's strategy for human resources development, a mechanism that is funded from the National Skills Development Fund.

The National Skills Authority (NSA) manages the National Skills Development Fund. The core functions of the NSA are to advise the Ministries of Labour and Education on, and to liaise with the SETAs regarding, a national skills development strategy and policy. Since the NSA is not an education and training provider *per se*, the Department of Labour has established a Skills Development Forum in each province to fund national training projects, in particular those projects intended for the unemployed. A certain percentage of the funds, collected by the NSA, is allocated to national projects. The balance of these funds is allocated to the 25 SETAs to seek alliances with registered education and training providers for sector training projects, in particular involving projects for the unemployed. In 2003 a sum of R108 million was allocated to one of the SETAs – the ETDP SETA – for the funding of national projects via the SETA. As universities are registered education and training institutions, applications for grants to the value of R8 million were allocated to higher education (HE) institutions in 2003 in support of national skills development projects.

It is clear that HE institutions may seek funding for developing the skills of unemployed persons, either through the Skills Development Forum of the particular province or by applying to the SETAs for discretionary funds. Application for such funds, under the rubric of national development projects, could be made from a national unemployment relief perspective rather than from the employee perspective of staff development.

As the primary task of universities is to offer accredited training programmes to students, it is proposed that students, in particular students from previously disadvantaged groups, who lack the funds needed to study for tertiary education qualifications, could receive funding for this purpose from the National Skills Authority. The allocation and administration of these funds should be done through, or in accordance with the procedures of, the National Student Financial Aid Scheme (NSFAS). This would have the dual advantage of assisting students to obtain tertiary qualifications and at the same time assisting universities to overcome the current and future financial challenges of offering tertiary education to an increasing number of previously disadvantaged individuals. The country would benefit greatly by having more trained entrepreneurs and employees with high-level skills to increase prosperity, create more employment opportunities and provide a better standard of living for all its residents.

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