

# The future funding of higher education

A University of Cape Town submission

6 September 2016

Dr Max Price

**Vice-Chancellor**

University of Cape Town



UNIVERSITY OF CAPE TOWN  
IYUNIVESITHI YASEKAPA • UNIVERSITEIT VAN KAAPSTAD

## 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

## Our ideal position

### **Universal fee-free education**

If South Africa was a rich country with little inequality and if it was 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**

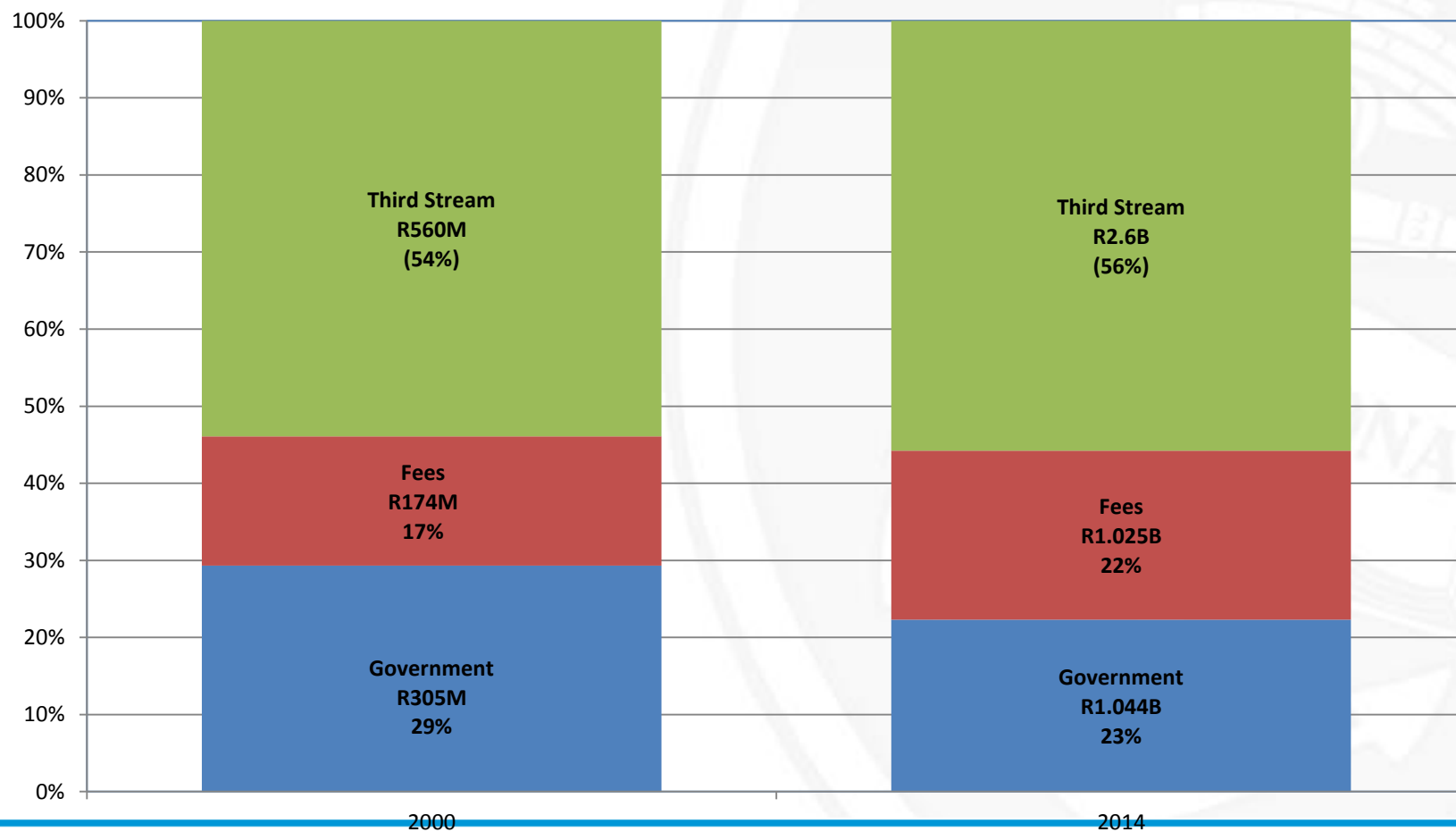
South Africa has significant inequality and rationed public resources and low to middle income; in the next 30 years, higher education will not be the highest priority such that it commands the resources from public funding needed to cover its full costs.

# For the foreseeable future ...

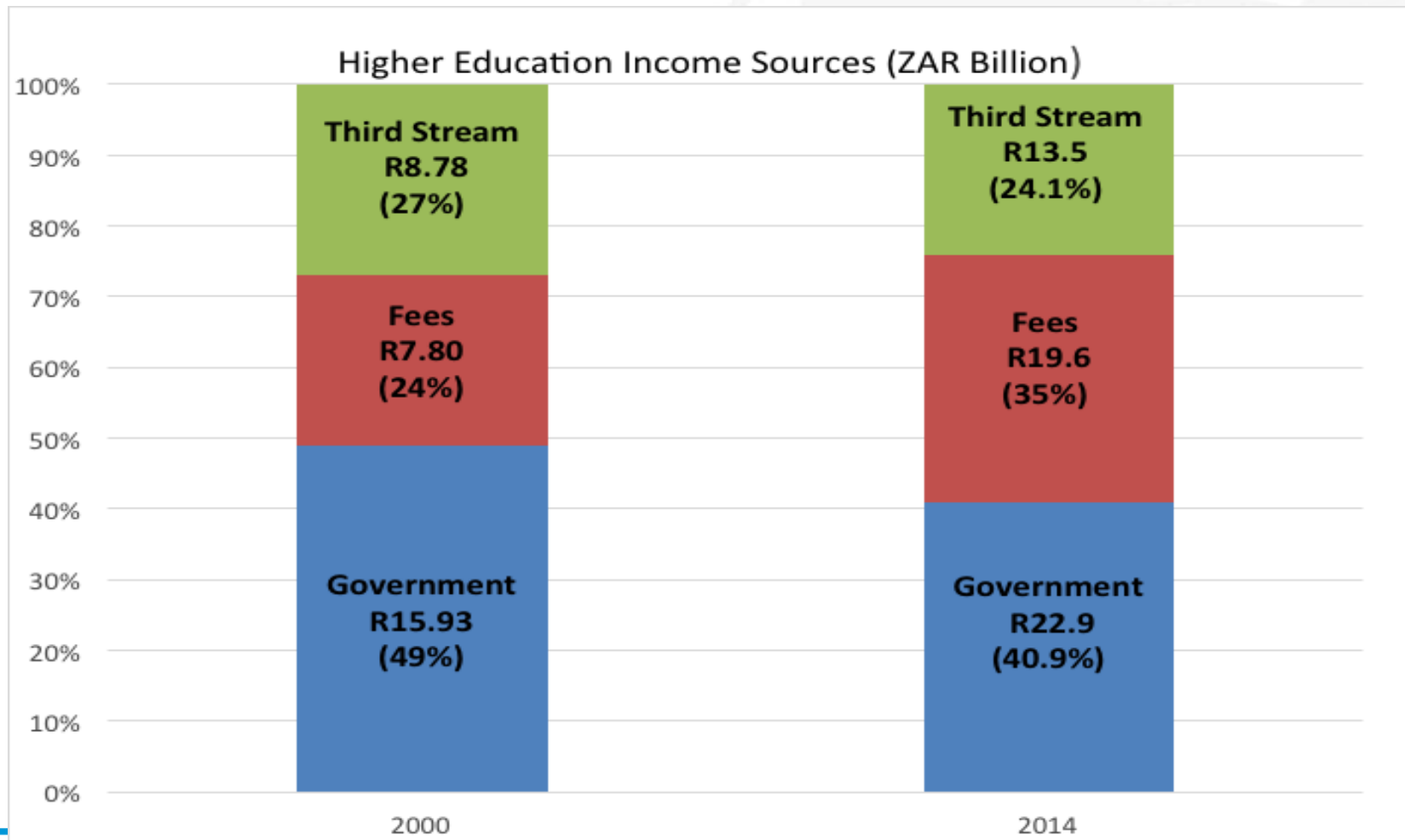
Higher education should be funded by  
**government grants and tuition fees**

## What about third-stream income?

# 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 R20m 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
- “Public benefits” vs “Private benefits”
- Fairness: Everyone pays tax that helps fund higher education, but 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-free) is unfair to those near the cut-off
  - Sliding scale fees are an administrative challenge; and still need a financial aid system for non-fee costs
- 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?

# 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-free) is unfair to those near the cut-off
  - Sliding scale fees are an administrative challenge; and still need a financial aid system for non-fee costs
- 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 approach

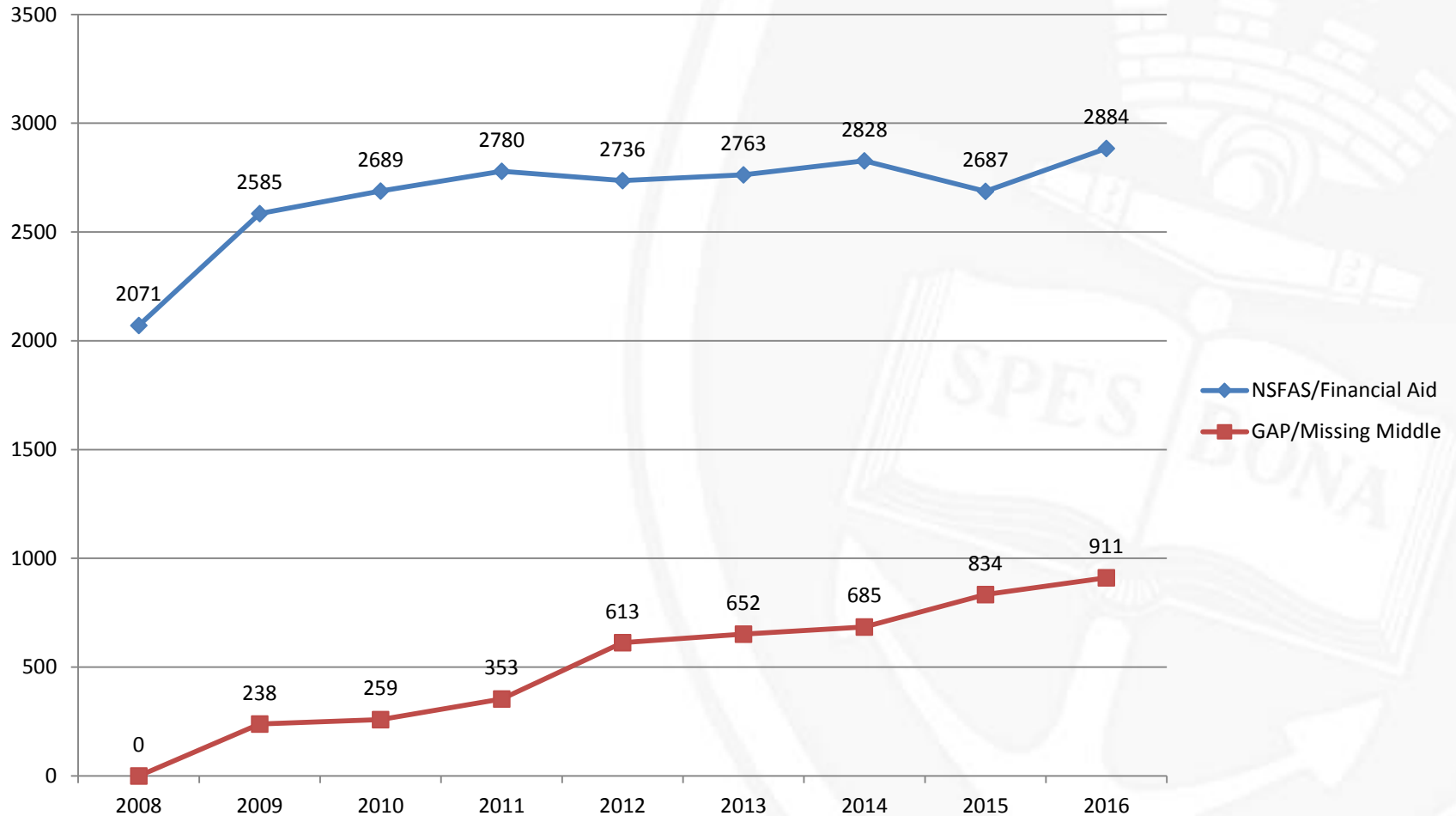
- UCT prides itself on how it provides financial assistance to deserving students
- All eligible students guaranteed financial assistance
- NSFAS eligibility R0 –R230 00
- Students above the NSFAS threshold provided with GAP Funding
- GAP funding eligibility is between R230 000 and R550 000
- Awards for GAP on a sliding scale depending on household income



# UCT Financial Aid and GAP funding

- UCT Loan recoveries from NSFAS about 4%
- 90% of UCT NSFAS beneficiaries Black (African, Coloured and Indian)
- 79% of GAP beneficiaries Black
- Students from poor and middle class families receive the full cost of study depending on household income (sliding scale)
- UCT budget for financial assistance to students is R124 million but current commitment for 2016 is now projected at R144 million (shortfall of R24 million)
- VC initiated a funding campaign to raise R30 million to cover the shortfall
- UCT Financial Assistance funding models has been driven through cross subsidisation, fee increases have played an important role
- Escalating demand for financial assistance as reflected in the next slide

# 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); no fees or grants for lower-income students means there's no incentive to give

# 2015 UCT Fees – who paid!

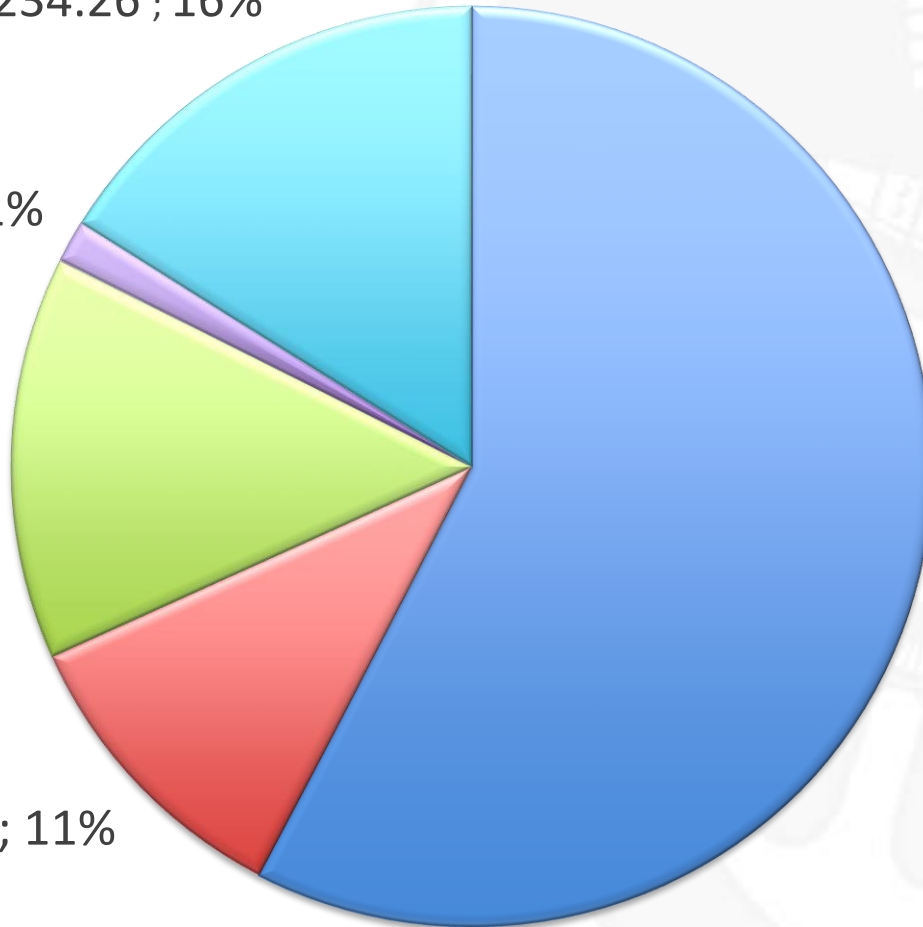
Corporate Aid ; R234.26 ; 16%

Bad Debt; R22.16 ; 1%

UCT's own funding  
and other; R205.78 ;  
14%

NSFAS; R154.03 ; 11%

Other Payments;  
R839.44 ; 58%



# 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
  - 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