Submission to the Presidential Commission on the feasibility of fee-free higher education and training

Department of Higher Education and Training

June 2016

Contents

1. Introduction

2015 saw proposed student fee escalations in excess of 10% for the 2016 academic year triggering a mass student protest movement aimed at preventing fee increases at several universities. The central demand of the burgeoning student protest movement was that 'fees must fall', which later translated into the demand that there should be free public higher education in South Africa.

The #feesmustfall movement gained momentum and was increasingly supported by academics, Members of Parliament and the population at large. The students clearly struck a chord with many South Africans.

On 6 October 2015, President Jacob Zuma met with the Minister of Higher Education and Training, several other Ministers and Deputy Ministers, and the leadership of the University Council Chairs Forum – South Africa (UCCF-SA) and Universities South Africa (USAf). The meeting was held after the USSAf and UCCF-SA Chairpersons wrote to the President expressing concern over the unacceptable levels of violence being experienced on campuses across the country. They believed that the cause of this unrest was linked to the heightened political climate in the country as a whole together with underlying historical social tensions, and were concerned that this unrest was feeding off and further fuelling a deeper societal problem of the use of violence as a means to resolve differences. The meeting discussed some of the funding challenges in the system.

Following the 6 October 2015 meeting, the President established a 12 member Presidential Task Team on short-term solutions to address university funding challenges. The Task Team was given the mandate to develop a short-term plan to mitigate possible student protests and unrest at the start of the 2016 academic year, and to report on possible solutions to the immediate student funding challenges. The Task Team reported to the President at the end of November 2015, making a number of recommendations that have since been implemented for the university sector. Some of these will be referred to later in this submission.

On 23 October 2015, President Jacob Zuma together with members of his Cabinet met with Vice-Chancellors, Chairpersons of University Councils, Presidents of Student Representative Councils and the representatives of student organizations to discuss concerns with regard to fee increases and the funding of higher learning. After the meeting, the President announced that there was agreement that there would be a 0% fee increase in university fees for 2016 only, and that government would lead a process that would look at broader issues affecting the funding of higher education.

The President subsequently appointed a Commission of Inquiry on 22 January 2016 in terms of Section 84(2) (f) of the Constitution of the Republic of South Africa, 1996. The Commission is chaired by Honorable Justice Jonathan Arthur Heher, a former judge of the Supreme Court of Appeal.

The mandate given to the Commission is to enquire into, report on findings and make recommendations on the feasibility of making higher education and training (higher education) fee-free in South Africa, taking cognizance of:

- the Constitution of the Republic of South Africa, all relevant higher and basic education legislation, all findings and recommendations of various Presidential and Ministerial Task Teams, as well as all other relevant educational policies, reports and guidelines;

- the multiple facets of financial sustainability by analysing and assessing the role of government together with its agencies, students, institutions, business sector and employers in funding higher education and training; and
- the institutional independence and autonomy which should occur vis-à-vis the financial funding model.

This submission, from the Department of Higher Education and Training (DHET), provides the Commission with a contextual understanding of Higher Education and Training (HET), how it is funded and some of the issues, which it should consider in its work. Specifically the submission locates HET within the Post-School Education and Training (PSET) system, and argues that any consideration of fee-free higher education must be considered within the broader context of the PSET system.

After providing an overview of the PSET sector, the submission reflects on the right to education as it is expressed in the supreme law of the country: The Constitution of the Republic of South Africa. Within this context the submission highlights the current funding of the provision of PSET education. The Department's current policy position on funding institutions and students in public higher education and training (university education, and technical and vocational education and training) is highlighted, as well as the current underfunding of the system, which highlights the need for investment in the sector.

The submission suggests that consideration be given to providing sufficient funding to enable affordable higher education and training for all, ensuring that sufficient financial support is provided to enable academically deserving students to access opportunities and succeed in their Higher Education (HE), and Technical and Vocational Education and Training (TVET) studies. The submission also deals with current processes underway to assist with ensuring this outcome and makes some recommendations in this regard.

2. The Post-School Education and Training System

The Department of Higher Education and Training was formed in 2009, after government made the decision to split the former Departments of Education and Labour to create separate focuses on basic education and higher education and training, and simultaneously transferred the functions of the Skills Development Act, 1998 (Act No. 97 of 1998) from the Department of Labour to the newly formed Department of Higher Education and Training. The reasoning was to strengthen the linkage between learning institutions (Universities, TVET colleges and Community Colleges) and workplaces, so that learners could obtain practical workplace based learning. Basic education, which would deal with schooling (Grades R to12), became the responsibility of the Department of Basic Education (DBE), and the Department of Higher Education and Training, which would deal with all education, skills development and training needs for citizens out of school, became the remit of the Department. The Department became operational on 1 April 2010.

The Department was therefore established to support what has since been termed the Post-School Education and Training (PSET) System. This includes Higher Education (HE), offered by 26 universities (public Higher Education Institutions (HEIs)) and 114 Private HEIs (PHEIs), Technical and Vocational Education and Training (TVET), offered by 50 public TVET colleges and 627 private colleges; and Community Education and Training (CET), offered by 9 public CET colleges, incorporating 3 276 learning centres. The Department also oversees a number of entities that support the various education and training opportunities available: the National Student Financial Aid Scheme (NSFAS) which assists academically deserving but financially needy students to access HE and TVET; quality assurance institutions, which include the South African Qualifications Authority (SAQA), the Council on Higher Education (CHE), the Quality Council for Trades and Occupations (QCTO); the Levy Grant institutions, consisting of the 21 Sector Education and Training Authorities (SETAs) and the National Skills Fund (NSF); and a number of institutions set up to support the development of the system, including the National Skills Authority (NSA), National Artisans Moderating Body (NAMB) and the National Institute for Humanities and Social Sciences (NIHSS).

In November 2013, after approval by Cabinet, the Minister of Higher Education and Training published *A White Paper on Post-School Education and Training: Building an Expanded, Effective and Integrated Post-School System*. The new White Paper provides a vision for South Africa's PSET system; one which builds opportunities for out of school youth and adults to gain the education and skills required for productive participation in economic, political and civic life. The development of the system and the provision of quality PSET education at all levels is critical for the economic prosperity of the country, a sentiment also expressed in the National Development Plan (NDP). Critically also, the White Paper and the NDP envisage substantial growth in the PSET system, significantly improving the capacity of the PSET system to provide quality education and training opportunities for larger numbers of South Africans and shifting the balance of enrolments, with considerable growth planned in the TVET college sector in particular, and also in the new CET sector.

The PSET sector is required to provide education and training opportunities for more than 18 million out of school South African citizens. Every year approximately 600 000 young people write the examinations for their National Senior certificate (NSC), and those who pass (about 70%) can further their studies either in the HE or TVET sectors, or enter the workplace. Those who do not pass (30%) mostly also need to be absorbed into the PSET system. The NSC students represent approximately half of the cohort who would have started in Grade 1 twelve years previously. In other words there are approximately another 600 000 who are either still in school having stayed back a grade, or have dropped out of school and need to be absorbed into the PSET sector, either into a CET colleges or a TVET college (if they have successfully completed Grade 9 or higher). In addition it is estimated that there are approximately 3 million youth between the ages of 16 and 24 who are not in education, in employment, or training (the so-called NEET youth), who need to be provided with opportunities within the PSET system. The system must also provide for the continuing education of adults. It is important to note here that the White Paper for PSET establishes Community Colleges as new institutional types, to provide for a range of post-school opportunities to adults. The growth of Community Colleges is critical for increasing access for a wider group of people to much-needed education and training opportunities. The adult education (and community education and training) sector and the TVET sector are key parts of an effective PSET system, and their growth will also reduce the enormous pressure on universities to create greater access to larger numbers of students.

Currently the PSET system caters for approximately 1 112 000 enrolments in higher education (970 000 in universities and 142 000 in PHEIs), 789 500 in TVET (710 500 in TVET colleges and 79 000 in private colleges), and 275 300 in CET colleges.

These background statistics highlight the mismatch between need in terms of the population who require opportunities in the PSET system, and the provision (public and private) in South Africa.

The National Development Plan (NDP) and the White Paper on PSET identified targets for the expansion of the system: 1.62 million enrolments in HE; 2.5 million enrolments in TVET; and a million in CET by 2030. In addition the NDP also advocates for increased production of post graduates, setting a target of more than 5 000 Doctoral graduates per annum (in 2014, universities collectively produced 2 258 Doctoral Graduates) and 75% of academic staff at universities to have Doctoral qualifications (in 2014, 43% of staff held Doctoral degrees). These targets, which are expected to be provided mostly by public institutions, are ambitious given current fiscal realities and funding of the system. A recent costing process conducted for the National Treasury provides some indication of the quantum of funding that would be required to meet these enrolments, and shows that any growth will need both new investment and most probably slower growth to realistically reach White Paper targets over a longer period.

In addition the NDP requires that by 2030 all students who qualify for the National Student Financial Aid Scheme (NSFAS) - that is are financially needy and with academic merit - must be provided access to full funding through loans and bursaries to cover costs of tuition, books, accommodation and living expenses (i.e. full cost of study); students who do not qualify for NSFAS on the basis of financial need, should have access to bank loans, backed by state sureties; and, both the NSFAS and bank loans should be recovered through arrangements with the South African Revenue Service. Service-linked scholarships should be available in priority areas such as nursing, teaching and social work. The NDP also suggests that consideration should be given to extending the NSFAS to qualifying students in registered private colleges. This is a reflection of government's intention to ensure broad access to higher education and training, i.e. university and TVET education.

The Department has been working to expand the sector and to ensure that it creates increasing access to PSET opportunities, and at the same time focusing on improving the quality of these opportunities and creating the conditions for success. It has expanded places in universities and TVET colleges, and has consistently worked at increasing the funds available to enable financially needy students to access higher education and TVET opportunities though the National Student Financial Aid Scheme (NSFAS). The Department is also currently in the process of developing a National Plan for Post-School Education and Training, which will give effect to the policy vision of the White Paper PSET, and which will be released in 2017. It is critical that there is alignment with this Plan and any future funding structures for the system.

The question of fee-free higher education and training, which the Department interprets in line with the Constitution, as further education (including HE and TVET), should not be divorced from other parts of the education system, including the provision of CET, basic education and preschool or early childhood education.

Whether higher education and training is offered fee-free to individuals or not, it must be funded from somewhere. Any decision to remove fees for university students as is being demanded, needs to be located within the context of the need to fund universities adequately to provide quality higher education and research; the need to expand, improve the quality of and adequately fund TVET colleges and financially support TVET students; the need to develop and expand CET colleges and fully support CET students; the need to fund practical workplace based learning for University students, TVET students and CET students; and the need to provide universal quality basic education and early childhood development. In other words it would have to include consideration of the impact such a decision would have on the quality of provision and the funding of the entire education system.

3. The right to education

The right to education has come under the spotlight since October 2015 with the #feesmustfall processes. University students have demanded that there should be free higher education, seeing this as basic right and believing it is a promise made by the democratic government that has not been met. This demand is specifically focused on university fees – calling for no fee university education. The fees included in this demand appear to be all embracing; including accommodation, food, books and tuition. It should be noted that this call is not uniform, as some groups of students (especially the ANC aligned South African Students Congress (SASCO)) have qualified this echoing government's commitment to ensure funding for the poor.

This section elaborates on government's current understanding of the right to education, which has informed its policies over the past 20+ years.

The call for fee-free higher education takes place within the context of a broader disillusionment with the state of higher education, and extends to concerns about curricula, institutional cultures and the perceived slow pace of transformation in higher education. This submission will not focus on these issues.

The Department derives its mandate from Section 29 of the *Constitution of the Republic of South Africa Act 108 of 1996*, which clearly states:

29. ***Education*** *– (1) Everyone has a right –*

(a) *to a basic education, including adult basic education, and*

(b) *to further education, which the state, through reasonable measures, must make progressively available and accessible.*

(2) Everyone has the right to receive education in the official language or languages of their choice in public educational institutions where that education is reasonably practicable. In order to ensure effective access to, and implementation of this right, the state must consider all reasonable educational alternatives, including single medium institutions, taking into account –

(a) equity,
(b) practicability and
(c) the need to redress the results of past racially-discriminatory laws and practices

In terms of the responsibilities of the Department, HE and TVET are considered as further education, whereas CET, at this stage, is understood to consist mainly of adult basic education and training, though with adequate funding, it is likely that the sector will consist of a far broader range of programmes in the future.

Section 29 (1) of the Constitution, is a reflection of the content of the Freedom Charter, which asserted:

Education shall be free, compulsory, and universal for all children;

Higher education and technical training shall be open to all by means of allowances and scholarships, awarded on the basis of merit.

A key issue is how the constitutional *right "to further education, which the state through reasonable measures, must make progressively available and accessible"*, has been interpreted.

The Department, and government generally, reads the constitution (and the Freedom Charter) to clearly articulate that basic education, including adult basic education, is a fundamental right and must be provided to all who need it; while further education, which can be interpreted as consisting of HE (university education) and TVET, is a secondary right that must be made available and accessible to those who merit it (meet the academic requirements).

To make further education available is interpreted to mean that the system must grow to provide sufficient spaces for study. To make it accessible means it should be affordable and individuals should not be denied access on the basis of financial need. Though there is little space here for the detail, access to higher education has also been understood as being about epistemological access to effective academic study. There has been significant investment in foundation provisioning at universities, and a range of related initiatives have been and are being supported, with the aim of improving the success rates of all students, and to address the well-documented "articulation" gap between school and higher education.

In the absence of sufficient student spaces, competition for admission is inevitable, and the most academically capable should gain access. However institutions should consider an admissions system which provides that learners from disadvantaged circumstances be given special consideration to ensure that opportunities are not denied on the basis of unfair prior disadvantage (whether on the basis of economic, social or cultural capital). The range of policy goals to support improved access, social redress and improved success were outlined in White Paper 3 on Higher Education, released in 1997, and have been implemented since then through a range of government-funded programmes, including considerable investment in student funding for the financially needy, through NSFAS.

These understandings of access and the right to higher education have been the basis for the current policy position of the Department and government in general.

It should also noted that various resolutions of the African National Congress (ANC) have also pronounced on this issue:

In 2007, the African National Congress at its 52nd conference resolved to: "*Progressively introduce free education for the poor until undergraduate level*".

In 2012, the African National Congress at its 53nd conference expanded on its earlier pronouncement in 2007 by noting the following:

- Academically capable students from poor families should not be expected to pay upfront fees in order to access higher education.
- Academically capable students from working class and lower middle class families should also be subsidized, with their families providing a household contribution to their studies in proportion to their ability to pay.

- The fees to be covered must include tuition, accommodation, food, books, other essential study materials or learning resources and travel, that is, the full cost of study fees.
- The upfront fees that are to be provided to enable fee-free university education for the poor and subsidised fees for the working class and lower middle strata should be made available as loans through a strengthened *NSFAS (National Student Financial Aid Scheme*). Part of the loan should be converted to a bursary for successful students.

The 53rd conference therefore resolved that:

- A newly structured national student financial aid system must be introduced to enable fee-free education from 2014 onwards.
- A policy dialogue model must be utilised to develop a fully-fledged costing model.
- The current NSFAS must be used as a basis for introducing the newly structured scheme.
- Consideration must be given to a graduate tax for all graduates from higher education institutions.

Many of these resolutions have already been implemented, as government has consistently worked to expand the system (HE and TVET), find ways to progressively support poor and working class students in higher education, and to widen access through an expanded financial aid scheme. Current work includes the development of a new model for student financial aid that will ensure access to a wider range of students including children of the poor, working class and lower middle class families. This process followed the policy dialogue that was set up after the finalisation of the Ministerial Task team report on the feasibility of providing fee-free higher education for the poor in 2013.

The discussion above has provided a broad overview of the response of government to the Constitutional provisions on higher and further education, elaborated through its own policy mechanisms, such as White Paper 3 (1997). The approach has been to increasingly improve and widen access to higher and TVET education and training by ensuring that qualifying students who are poor are funded for their studies. This took place through the establishment of a funding system that has supported students from poor families. Current work is focused on proposing a funding scheme that will also assist "missing middle" students to access HE and TVET opportunities. The enormous growth in funding to NSFAS over the years shows government's commitment to this approach.

However, at the same time as investing in student financial aid, significant student growth has taken place and the costs of provision have increased significantly. This has meant that the investment by government in universities and TVET colleges has not kept up with the needs, and university education in particular has become less affordable, as universities have increased tuition fees.

While the focus has been on creating access for the poor, the focus needs to shift to being about affordability, which is the focus of the White Paper for Post-School Education and Training particularly in the university sector. In addition, we are only beginning to understand the full effects of the under-funding of the system relative to student growth.

4. Funding Post School Education and Training Institutions and students

This section provides an overview of the current funding of the PSET system, including institutions and students. This is followed by a discussion about funding issues in each of the sub-sectors; HE, TVET and CET. The approach to each of the sub-sectors is different since they are at different stages of development. As was indicated in section 2, the public HE sector (i.e. the university sector) is the largest and most developed of the three sectors. However, the need for growth in the TVET and CET sectors is much greater and there is a major risk associated with considering funding HE students without recognising the need for substantial additional investment in the TVET and CET sectors of the PSET system, and in isolation of the need to fund institutions adequately.

4.1. Overview of PSET funding

The Department, established as part of the national reorganisation of functions during May 2009, became operational on 1 April 2010. It was formed from splitting off the HE, further education and training (now called TVET) and Adult Education functions from the former Department of Education and shifting the skills development functions from the Department of Labour. Since the first budget allocation for the 2010/11 financial year, the Department has in effect been functioning on a constructed baseline inherited as a result of the above-mentioned process and has remained minimally capacitated due to the required limitations on compensation of employees throughout government.

Furthermore, the function shift of the technical and vocational (TVET) as well as Community Education and Training (CET) sectors on 1 April 2015 to the Department, from the provincial sphere of government, had an equivalent impact on the Department's baseline allocation.

The original allocations of the Department since the 2012/13 financial year have been adjusted by National Treasury to reflect the historic data of the TVET and CET sectors in order to ensure comparison between financial years. Consequently, the allocations applicable to the Department reflect an annual average growth of 7.9% from 2012/13 to 2015/16. For the 2015/16 financial year, excluding direct charges (the skills levies payable to the Sector Education and Training Authorities and the National Skills Fund) the Department's allocation increased by 13.5% from R36.9 billion in 2014/15 to R41.8 billion. This included R26.2 billion for University Education, R6.4 billion for the National Student Financial Aid Scheme (NSFAS) and R7.9 billion for the TVET and CET sectors. This represented 96.9% of the Department's total budget for 2015/16. The total budget allocations from 2012/13 to 2015/16 are shown in Table 1 below.

The Department's baseline was substantially adjusted for the 2016 MTEF period with an amount of R17.4 billion, to support the zero percentage fee increase at universities, but mainly to contribute to resolving historic NSFAS student debt and financial support for continuing and new NSFAS students (R16.2 billion of the total). So this has been a significant injection of new funds for student funding, but is not in the main new financial support for institutions. It is also noted that this did not assist with providing any funding for TVET students or institutions. The annual average growth of the budget therefore increases to 9.8% from 2015/16 to reach R55.3 billion in 2018/19. On average, the funding share for University Education, the National Student Financial Aid Scheme as well as the TVET and CET sectors remains at approximately 97% of the total budget.

Table 1: Higher Education and Training; ENE Allocations: 2012/13 to 2015/16

	2012/13	2013/14	2014/15	2015/16
	R'000	R'000	R'000	R'000
University subsidies	20 902 860	22 388 767	24 155 093	26 243 227
National Student Financial Aid Scheme (NSFAS)	5 195 255	5 769 405	6 138 832	6 448 551
NSFAS: Administration	*82 519*	*87 676*	*116 200*	*148 878*
University Loans	*3 377 902*	*3 693 295*	*3 914 893*	*4 094 978*
TVET College Bursaries	*1 734 834*	*1 988 434*	*2 107 739*	*2 204 695*
Technical and Vocational Education and Training Colleges	4 757 271	5 462 868	5 827 173	6 179 573
TVET College Subsidies	*4 757 271*	*3 020 189*	*3 195 827*	*1 140 945*
TVET College Conditional Grant		*2 442 679*	*2 631 346*	
TVET College Compensation of Employees and Operational Costs				*5 038 628*
Community Education and Training (CET)	1 647 884	1 776 752	1 853 062	1 780 353
CET Allocation at Provincial Education Departments	*1 647 884*	*1 776 752*	*1 853 062*	
CET College Subsidies				*55 408*
CET Compensation of Employees and Operational Costs				*1 724 945*
Direct Charges: Skills Levy	9 606 148	12 403 000	13 440 000	14 690 000
Sector Education and Training Authorities (Skills Levy)	*7 684 915*	*9 922 395*	*10 752 647*	*11 752 707*
National Skills Fund (Skills Levy)	*1 921 233*	*2 480 605*	*2 687 353*	*2 937 293*
Other Operational Activities	888 582	962 608	1 014 340	1 286 096
Total: DHET Allocation	**42 998 000**	**48 763 400**	**52 428 500**	**56 627 800**

As can be seen from the table above, the majority of the funding in the system is allocated to HE transfers. Substantial funds are also available from the Skills Levy, which is collected via the taxation system and vary from year-to-year from the budgeted amounts, since they are dependent on what is actually collected. It is noted that other institutions such as the CHE and SAQA are funded through the 'other operational activities' allocations.

4.2. Skills Levy Funding for the PSET system

The Skills Levy funding is made up of two amounts, the bulk of the funding (80%) goes to the SETAs (R11.75 billion in 2015/16; projected at R12.91 billion in 2016/17) and the rest (20%) to the NSF (R2.94 billion in 2015/16; projected at R3.23 billion in 2017/18).

The allocation of Skills Levy funds that are transferred to the SETAs is distributed across a number of functions: administration; quality assurance; the mandatory grant; and the discretionary grant. Funding allocated to the SETAs makes up 80% of the total funds available. 10% of Skills Levy funding is allocated for administration and core functions of the SETAs. This funds the operating costs of the SETAs including the development of their Sector Skills Plans.

The QCTO is responsible for quality assurance of programmes leading to qualifications located on the National Qualifications Framework for Trades and Occupations. An annual allocation of 0.5% of the Skills Levy funding is provided to the QCTO to be used for the development of qualifications on the National Qualifications sub-framework for trades and occupations, and for quality assuring these qualifications. For the 2016/17 period the amount for the QCTO is projected at R 80.7 million.

The SETA Mandatory Grant is 20% of the Skills Levy. Each year employers in a particular sector submit Workplace Skills Plans (WSPs) and Annual Training Reports (ATRs) which provide information on training undertaken or planned by employers, as well as vacancies and programmes required. The mandatory funding is provided back to employers to fund training programmes in line with their individual WSPs.

The areas that are supported by the SETAs are informed by an analysis of data from the WSPs and ATRs for each sector. These are utilised to inform the scarce and critical skills required for each sector, and consolidated into PIVOTAL Lists, which set out the programmes that may be funded by the SETAs.

The SETA Discretionary Grant, which is 49.5% of the Skills Levy, is split into 2 funding areas namely the Sector Implementation Grant and PIVOTAL Grant.

The Sector Implementation Grant covers aspects related to partnerships with TVET colleges, which include the SETA offices at the colleges. The Sector Implementation Grant is also utilised to establish partnerships with Universities to undertake further research and these include the establishment of research chairs at Universities and the funding of PHD and Masters' students for specific sector topics to inform sector priorities.

The PIVOTAL Grant, an acronym which means professional, vocational, technical and academic learning programmes that result in a qualification or part qualification, is a learner focused grant (for bursaries, stipends and other support). SETAs also enter into partnership with NSFAS to allocate and coordinate bursary allocations for the sector as informed by the PIVOTAL list. There are additional programmes related to learnerships and workplace based learning programmes for university graduates, Internships for those students requiring workplace experience (both university and TVET students who require experience prior to certification or toward professional designation and registration). Employers apply for grants related to the workplace learning and learning programme related programmes as well.

The funding to SETAs is significant and assists with supporting students in the PSET system in both HE and TVET programmes. Significant amendments were made to the SETA grant regulations in 2013 in order to support the prioritisation of public PSET institutions through learner-focused grants and improving the support of public PSET institutions through levy funding. The White Paper and subsequent proposals for changes to the SETA landscape have focused on how the Skills Development Levy (SDL) institutions can better support public PSET training. As SDL funding is targeted specifically at supporting workplace training linkages between education and training institutions and workplaces, it is therefore restricted to certain aspects of public provision, and must be viewed separately. That is, although SDL funding is an important part of the system, it cannot compensate for a lack of adequate funding for PSET institutions. This is supported by the recent costing process conducted for the National Treasury indicating that the SDL itself is not sufficient to fund practical workplace based learning for all learners that may require it.

The NSF, which receives 20% of the total Skills Levy, also supports the development of skills for the country During the 2014/15 financial year, the NSF supported approximately 13 000 undergraduate students through NSFAS-administered bursaries in scarce and critical skill areas, and a further approximately 2 000 students for postgraduate bursaries administered by the National Research Foundation (NRF). In addition, the NSF supported infrastructure development targeting professions and occupations in high demand at a number of universities. In the TVET sector, the NSF also invested in infrastructure through support for the establishment of new TVET college campuses, and provided support for a range of occupational programmes benefiting around 23 000 students.

4.3. Funding of Public Higher Education Institutions and Students

4.3.1. Policy context

White Paper 3: A Programme for the Transformation of Higher Education and the promulgation of the Higher Education Act (101 of 1997) laid the basis for the development of the post-apartheid higher education sector and for the current funding model for public higher education (universities). White Paper 3 recognised higher education as both a public and a private good. While investment in higher education is of importance for the economic development of the country as a whole, it also emphasised that the knowledge and skills acquired from achieving a university qualification results in significant lifetime private benefits for successful students. It was on this basis that White Paper 3, recognising that it was not affordable nor desirable in a highly unequal society for the state to provide free higher education for all, entrenched the principle that the costs for higher education should be shared between public and private beneficiaries. However, it also stressed that finances should not prohibit students from accessing higher education. To ensure that they are not denied access to higher education, financially needy students should be supported, though loans and bursaries, to pay their upfront fees. Though the provision for fee basic education targets a much wider group of students in this sector, it should be noted, that the cost sharing mechanism also exists in the public basic education sector where there are fee paying (for the economically able) and fee-free (for the poor) public schools.

The cost sharing model that currently finances higher education includes: state subsidies to finance the indirect costs of HE (first stream income); student fees to finance the direct costs of HE (second stream income); and donor/research/other income funding from business for scholarships, research programmes, income from the beneficiation of intellectual property, university owned enterprises, etc. (third stream income). Third stream income generally finances research and development and also assists universities to balance their books and maintain affordable fee structures. Public universities, which are autonomous, must set fees in line with their missions and mandates, to ensure that the system grows and that quality higher education is available. Government trusts that fees are set by Councils, after consultation with key stakeholders, taking into account the various operational and developmental aspects of the institution. Institutions have to balance their books and ensure their sustainability, financially and academically.

The establishment of NSFAS was based on the principle of cost sharing: to provide funding to support financially needy and academically capable young people to pay their upfront fees and thus open access to higher education for those to whom it was previously denied. Funding made available through NSFAS loans and bursaries, is directed at students, and is not direct funding for HE institutions. Some of the NSFAS funds provided to students form part of the second stream income to universities (fees), the rest supports students to study successfully (by providing funding for accommodation, food, learning materials etc.).

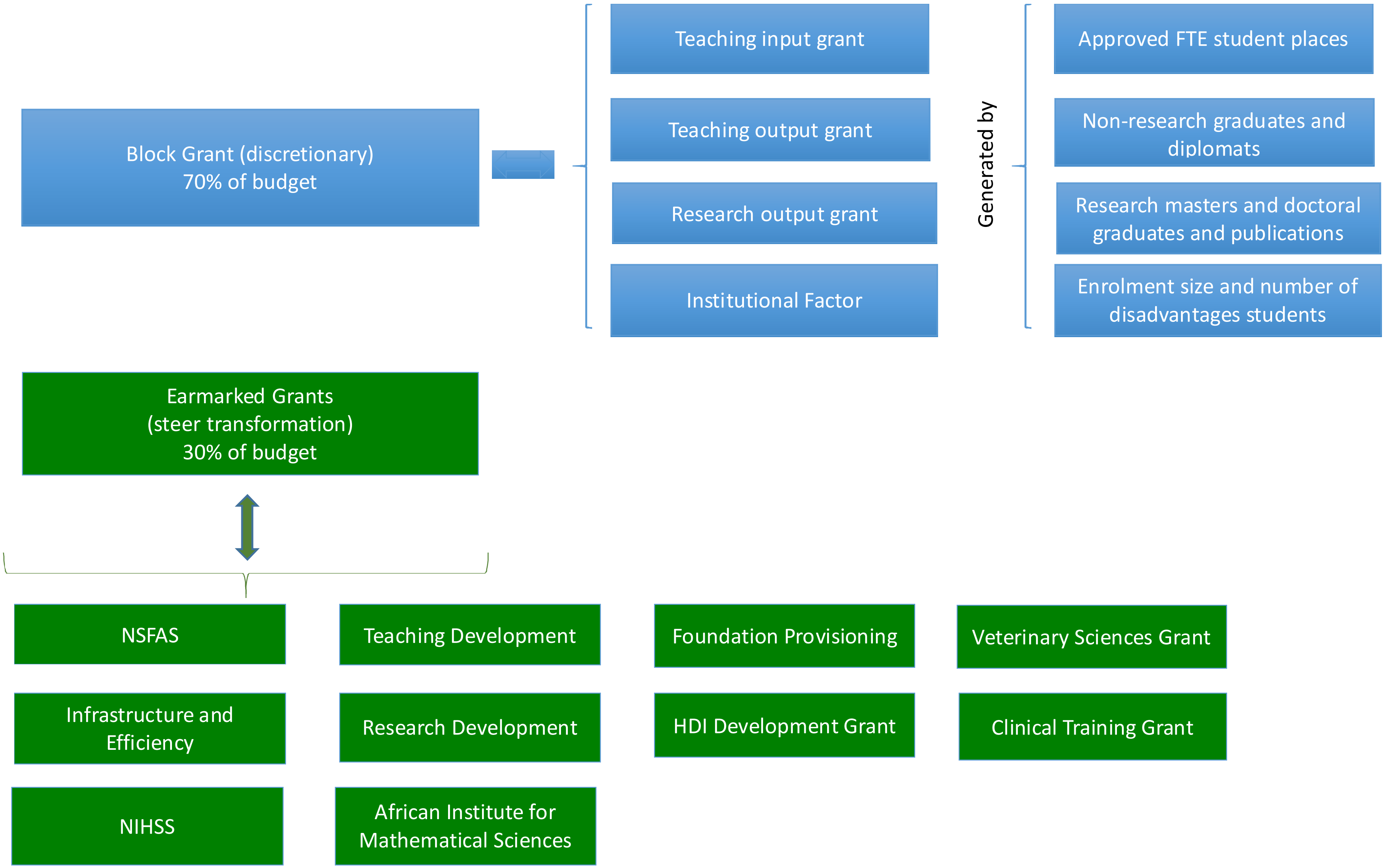
As highlighted in the Presidential Task Team report on short-term student funding challenges at universities (Presidency, 2015), the recent fee protests symbolically represent the unravelling of long standing systemic funding challenges within the higher education sector. These funding challenges have emanated from increasing numbers of students from poorer communities entering universities due to the opening up of higher education to those who cannot afford fees, in line with the constitutional imperative; the underfunding of higher education (decline in state subsidies per Full Time Equivalent (FTE) student in real terms); the increasing dependence of universities on fee income, and the degree to which this has resulted in high annual fee increments as well as universities collecting upfront payments from students in the form of administrative registration fees and/or part payment of the full cost of study, to enable them to operate effectively at the beginning of the academic year.

4.3.2. Funding of universities

Government's funding framework for universities is made up of a block grant subsidy and a range of earmarked grants (including NSFAS). Block grant funds are Council controlled funds mainly used to fund operational and teaching, and learning activities. Earmarked funds are utilised to steer developments in the system, for example access to higher education to previously excluded groups through NSFAS, and infrastructure renewal and development. Fee income paid by students supported through NSFAS is included in second stream income. The block grant allocations made to each university are linked to enrolments (teaching input), performance (teaching output, i.e. graduates; and research output), and institutional factors (such as the size of the institution and the number of students from previously disadvantaged groups). This framework is implemented to ensure that there is a transparent and equitable distribution of available funds to institutions. The framework is illustrated in Figure 1.

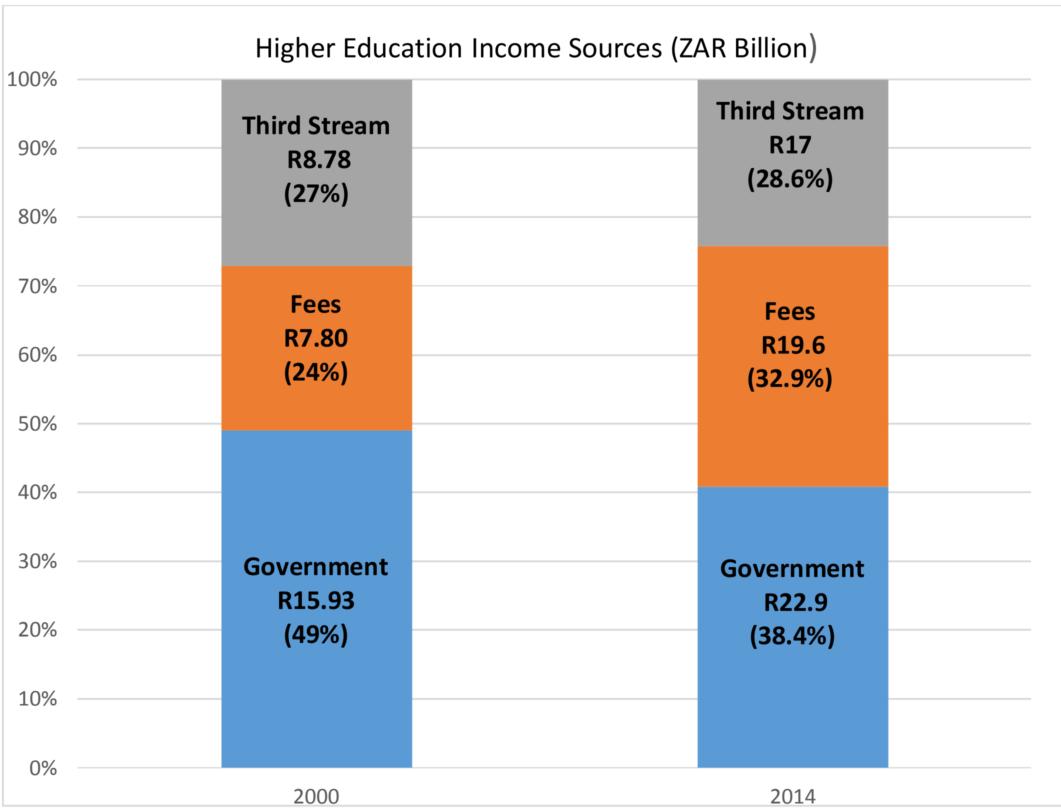
Following the Ministerial Committee on funding universities in 2013, the Department set up a process to model its recommendations and review the current funding framework. A revised policy and framework have been approved by the Minister and are ready for publication for public comment once they have been considered by Cabinet.

Figure 1: Framework for university funding



An analysis of baseline funding to universities per FTE student shows that it has been declining in real terms over the past ten years. This has resulted in pressure on universities to increase their fees to keep up with their mandates to offer quality under and post graduate higher education, to undertake research and to fulfil their community engagement responsibilities. On average, Departmental funding is currently estimated to account for 38.4% of the universities' income. Other funding sources for universities include tuition fees, accommodation fees, research income and donor funding. Figure 2 provides a comparison of university income sources between 2000 and 2014. Income from government in the figure includes block grant subsidies and earmarked funds, excluding NSFAS.

Figure 2: Comparison of university income sources 2000 and 2014



Source: Data collected from University Annual Reports (2013 and 2014) and DHET financial analysis reports

Figure 2 clearly shows the increasing dependence on university fees (in 2000 fees accounted for 24% of university funding on average, and this increased to 32.9% by 2014). A major factor in this is that while university subsidies have grown in real terms, enrolment growth has increased at a much higher rate, resulting in the subsidy per Full Time Equivalent (FTE) student declining. Income from government (first stream) has therefore declined from 49% in 2000 to 38.4% in 2014. The proportion of funding from third stream sources has also declined, with some universities finding it very hard to attract such funding

Given the current economic climate, and other needs within government for the post-school education and training system, including the development and expansion of TVET colleges, and the establishment of the Community Education and Training (CET) college system, it has proven extremely difficult to secure sufficient increased funding for universities. However, within the 2014 and 2015 Medium Term Expenditure Framework (MTEF) budget cycles, the Department managed to prevent budget cuts to the universities' budget allocation. After the publication of the Presidential Task Team report in November 2015, substantial new funds, amounting to R16.2 billion over the 2016 MTEF, period mostly to NSFAS grants, were made available. It must be noted however, that although this is a substantial amount allocated to the university sector, it is primarily for fees in the form of NSFAS funding and an adjustment to institutional funding to deal with the carry through effect of the 0% 2016 increase, however it does not represent new fiscal allocations to universities. This means that while it helps to address student access, it does not address the systemic funding issues in higher education. Another year of a 0% fee increase, without significant further investment in the university sector, starts to dangerously push the university system into possible serious deficit spending patterns to keep up with current demand, and prevents any growth.

The trends in block funding between 2004/05 to 2015/16 are highlighted in Table 2.

Table 2: Block grant allocations to universities from 2004/5 to 2015/16

Year	Block grant for universities in nominal terms (R 'million) (A)	Growth in nominal terms (%)	Inflation (CPI)*	deflator (B)	Block grant for universities in real terms (R 'million) (C) = (A/B)	Growth in real terms (%)	HEMIS Student FTEs (D)	Per capita in real terms using FTE students (Rands) (C/D)	Per capita growth in real terms (%)
2004/05	8 568	-	2.0%	1.00	8 568	-	505 473	16 950	-
2005/06	9 145	6.7%	3.6%	1.02	8 966	4.6%	500 931	17 899	5.6%
2006/07	9 956	8.9%	5.2%	1.06	9 421	5.1%	497 772	18 926	5.7%
2007/08	10 234	2.8%	8.1%	1.11	9 205	-2.3%	518 560	17 751	-6.2%
2008/09	11 550	12.9%	11.2%	1.20	9 614	4.4%	538 457	17 854	-0.6%
2009/10	12 701	10%	6.9%	1.34	9 511	-1.1%	569 708	16 694	-6.5%
2010/11	14 533	14.4%	3.8%	1.43	10 176	7.0%	600 002	16 960	1.6%
2011/12	16 387	12.8%	5.6%	1.48	11 051	8.6%	628 409	17 586	3.7%
2012/13	17 434	6.4%	5.6%	1.57	11 134	0.7%	634 548	17 546	-0.2%
2013/14	18 439	5.8%	5.8%	1.65	11 151	0.2%	665 856	16 747	-4.6%
2014/15	19 561	5.6%	5.6%	1.75	11 181	0.3%	668 705	16 721	-0.2%
2015/16	20 538	5.4%	5.4%	1.85	11 117	-0.6%	678 821	16 377	-2.1%
Net % change in nominal terms in block grant from 2004/5 to 2015/16		139.7%	Net real change in block grant			29.8%	Net change in per capita FTE student allocation		-3.4%

Source, DHET, June 2016

The shaded columns are revealing and indicate that:

- The block grant allocation to universities increased by 139.7% between 2004/05 and 2015/16 in nominal terms;
- However, the eroding effect of inflation meant that this translated into an increase of only 29.8% in real terms; and
- The effect of inflation, and substantial student growth in universities over the last eleven years actually resulted in a net decrease in the per capita Full Time Equivalent (FTE) student allocation of -3.4% over the eleven years under consideration.

It is noted that these calculations utilise the official CPI. However, it has been argued that higher education inflation has been running at a higher rate than CPI, and this is one of the factors that has forced universities to increase fees above CPI. A Higher Education South Africa (HESA) study showed that HE inflation is estimated on average to be approximately 2% above CPI. If this is taken into account, calculations show that the eroding effect of inflation (set at CPI + 2%) would have meant that the 139.7% nominal increase in the block grant from 2004/05 to 2015/16, would translate into 5.6% in real terms, and a net decrease in the per capita FTE student allocation of – 21.4% over the eleven year period. This is shown in detail in Table 3 below.

Table 3: Block grant allocation growth to universities from 2004/5 to 2015/16, using CPI plus 2% university inflation

Year	Block grant for universities in nominal terms (R 'million) (A)	Growth in nominal terms (%)	Inflation (CPI)*	deflator (B)	Block grant for universities in real terms (R 'million) (C) = (A/B)	Growth in real terms (%)	HEMIS Student FTEs (D)	Per capita in real terms using FTE students (Rands) (C/D)	Per capita growth in real terms (%)
2004/05	8 568	-	4.0%	1.00	8 568	-	505 473	16 950	-
2005/06	9 145	6.7%	5.6%	1.04	8 794	2.6%	500 931	17 554	3.6%
2006/07	9 956	8.9%	7.2%	1.10	9 065	3.1%	497 772	18 210	3.7%
2007/08	10 234	2.8%	10.1%	1.18	8 692	-4.1%	518 560	16 761	-8.0%
2008/09	11 550	12.9%	13.2%	1.30	8 913	2.5%	538 457	16 552	-1.2%
2009/10	12 701	10%	8.9%	1.47	8 661	-2.8%	569 708	15 203	-8.2%
2010/11	14 533	14.4%	5.8%	1.60	9 097	5.0%	600 002	15 162	-0.3%
2011/12	16 387	12.8%	7.6%	1.69	9 693	6.5%	628 409	15 424	1.7%
2012/13	17 434	6.4%	7.6%	1.82	9 584	-1.1%	634 548	15 103	-2.1%
2013/14	18 439	5.8%	7.8%	1.96	9 420	-1.7%	665 856	14 147	-6.3%
2014/15	19 561	5.6%	7.6%	2.11	9 271	-1.6%	668 705	13 864	-2.0%
2015/16	20 538	5.4%	7.4%	2.27	9 046	-2.4%	678 821	13 326	-3.9%
Net % change in nominal terms in block grant from 2004/5 to 2015/16		139.7%	Net real change in block grant			5.6%	Net change in per capita FTE student allocation		-21.4%

Source, DHET, June 2016

Table 2 and Table 3 clearly show that, whether CPI or higher education inflation are used, the block grant allocation to universities has not kept pace with inflation and student growth.

Enrolment growth, of approximately 1.8% per annum is required to reach the expected targets of 1.6 million students in public higher education by 2030 set by the National Development Plan (assuming that 200 000 students would be enrolled in PHEIs). Significant additional funds will be required for public universities to enable this growth.

National Treasury has undertaken a recent study to model the cost implications of expanding public HE, within the PSET sector, to meet the NDP targets by 2030. This has been done on the assumption of a cost sharing model. It is expected that National Treasury will provide a submission to the Presidential Commission showing the cost implications of growing the sector as suggested in the NDP.

High level policy decisions and commitment are required to adequately fund universities to ensure the sustainability of a quality system to enable the constitutional commitment to making HE available (growth) and accessible (affordable) to those who earn the right to HE. However, with current rates of funding, it is clear that government on its own cannot be responsible for the full cost of public HE, and this will require the continuation of a cost sharing model, with substantial commitment from the private sector. Should a decision be taken to provide for fee-free higher education (by whatever mechanism), the funding of the total system has to be taken into account, and the implications of the continued erosion of real funding increases for expected growth on the sustainability of institutions must be considered.

The underfunding of the university system, illustrated in Table 2 and Table 3, was affirmed in the *Ministerial Committee Report on the Funding of Universities* (DHET, 2013). The report indicated that in 2011 South Africa's state budget for universities, including funding for NSFAS, as a percentage of the Gross Domestic Product (GDP) was at 0.75%, which was just less than that of Africa as a whole (0.78%). In 2015/16, South Africa's state budget for universities, including funding for NSFAS, is 0.72% of the GDP, lower than it was in 2011. If the NSFAS grant is excluded from this figure, as it supports poor students and is therefore not university subsidy funding, the figure reduces to 0.62% of GDP. This is significantly lower when compared to 2011 figures of African countries (0.78%), Organisation for Economic Cooperation and Development (OECD) countries (1.21%) and the rest of the world (0.84%).

In 2011, South Africa's estimated higher education expenditure as a percentage of education (including NSFAS) was approximately 12%. This is significantly lower when compared to the higher education expenditure as a percentage of education for Africa (20%), OECD countries (23.4%), and for the world (19.8%) in 2006. If South Africa in 2011 spent the same percentage on higher education as the world did in 2006, the state budget for universities would have been R37.422 billion, which is R15.425 billion more than the amount that was set aside in 2011 amounting to R21.997 billion.

This raises the broader political issues about the implication of any fee-free decision for higher education. It relates to a much broader set of questions about how the country funds its education system and in what proportions.

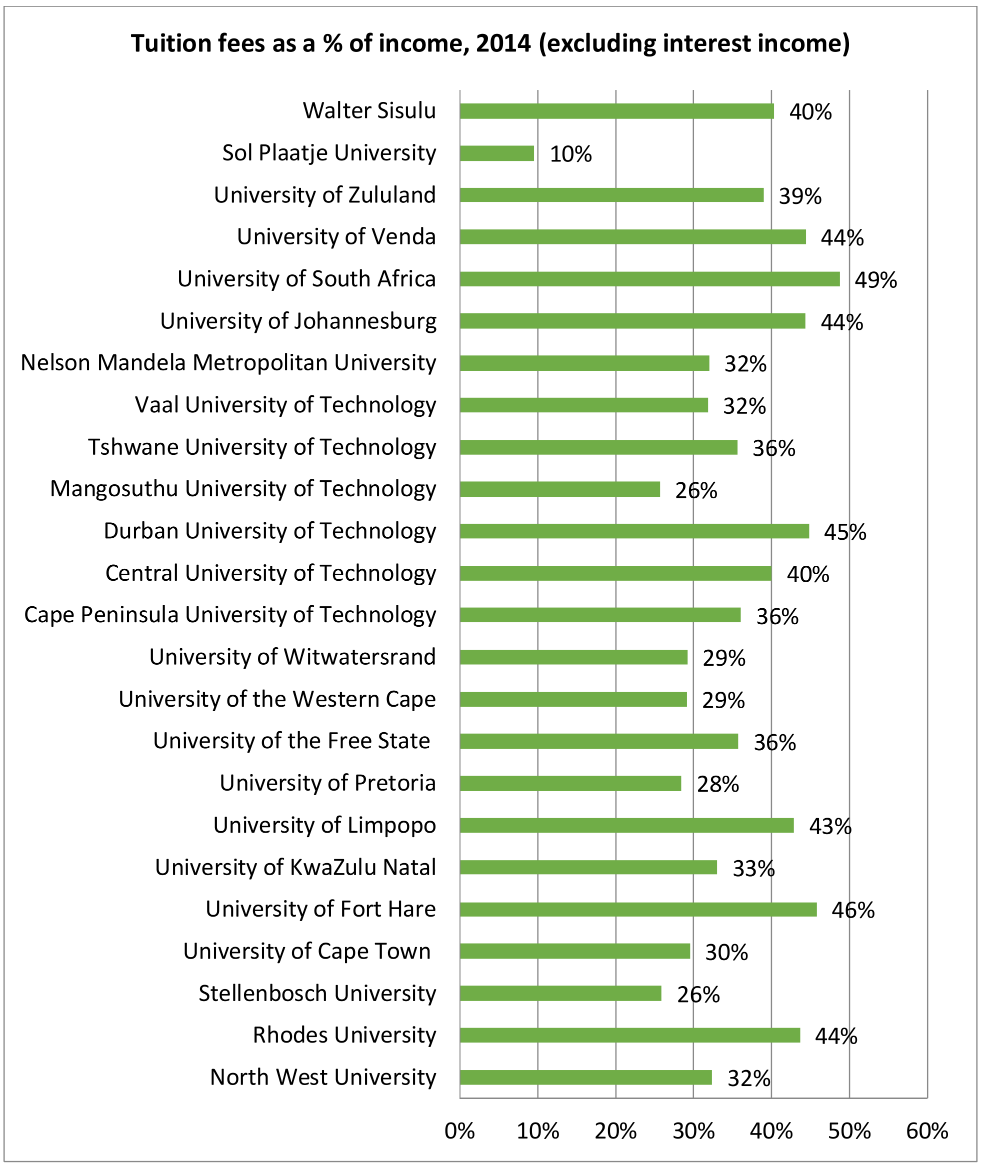
4.3.3. Financial health of the university sector

A Report on the financial sustainability of public higher education institutions conducted for the Department of Higher Education and Training in 2012 defined financial sustainability as *"having secure, stable and sufficient financial resources (free cash) which can be allocated in a timely and appropriate manner to ensure that the organisation is managed effectively and efficiently"***.** Within the Higher Education Institutions (HEI) sector this would include the general operations of the institution, including capital expenditure, after having made adequate provision to maintain existing infrastructure while meeting the growth needs of the university community and of the country**.** Currently university finances are in a precarious position and their sustainability is under threat.

An analysis of the 2014 annual financial statements as provided in the annual reports of universities showed that government grants remain the single largest source of income for the sector, constituting 38.4% (39.7% in 2013) of total university income. However, there is a significant variation when one looks at traditional universities (34.7%), comprehensive universities (40.5%) and Universities of Technology (UOTs) (51.2%). UoTs are the most heavily dependent on government funding.

Tuition fees remain an important source of funding for universities constituting 32.9% (2013: 33.5%) of total income. Tuition fees' contribution to the combined revenue of all universities increased from R15.411 billion in 2012 to R19.589 billion in 2014 representing an average annual increase over the three years of 9.03%. The contribution of tuition fees to total university income for traditional universities is 29.1%; comprehensive universities (41.5%) and UOTs (34.7%). Twelve institutions' reliance on fees for their income exceeded the 32.9 % national average in 2014 ranging from 34% to 49% in 2014, as shown in **Error! Reference source not found.**.

Figure 3: Reliance of universities on fees for their income



In 2014 third-stream income constituted R17 billion (28.6%) of the sector's total income (2013: 28.7%). Third-stream income contributed 36.2% of total revenue at traditional institutions, 18% at comprehensive universities and 14.1% at UOTs. Traditional universities have been more successful at generating third-stream income (as a result of their greater focus on research, for which proportions of third stream come) compared to comprehensive universities and universities of technology. Eighteen universities reliance on third-stream income was less than the 28.6% national average in 2014 ranging from 6% to 25.4% in 2014.

Expenditure by the universities increased from R45 billion in 2012 to R54.4 billion in 2014, a 20.8% increase. Total personnel costs increased from R24.6 billion in 2012 to R25.6 billion in 2014, an increase of 17.1%. Personnel costs amounting to R28.856 billion and operating expenditure amounting to R25.572 billion constitutes 53% and 47% of the sectors' total expenditure respectively in 2014. The greater amount being spent on staffing, however, has to be balanced with the qualitative picture, which is that staff-student ratios have worsened as staffing has not kept pace with student growth, and there has been a growth in the proportion of temporary to permanent academic staff members overall. This is just one example of the need to support information from financial statements with other kinds of data.

The Ministerial Committee on the Review of the Funding Framework has recommended that all universities should be encouraged to build reserves for the planned future replacement of equipment and renewal of infrastructure. Universities increasingly are also supplementing funding for financial aid from their own coffers. Operating surpluses as a percentage of income were 9% in 2014 compared to 7% in 2013. A significant proportion of these surpluses are generated in only two universities.

Five institutions (NWU, UFH, UNISA, CUT and MUT) incurred operating deficits in 2014. NWU, RU, UFH, UKZN, UNISA, CUT and MUT incurred operating deficits on their Council controlled funds in 2014. Four of the universities (NWU, RU, UFH and UKZN) generated Council controlled operating deficits in 2013. UKZN has incurred Council controlled operating deficits for three consecutive years.

The effect of the 0% increase and the demand for insourcing of workers at universities still remains to be seen, but it is likely that individual submissions from universities will provide more detail about the effects of these factors over the past year and projected for the immediate future. There is growing concern about the financial sustainability of the sector as a whole in the face of an inability to charge student fees, significant student debt (described below) and a lack of substantial further investment in the sector. Some universities are under severe pressure currently.

The financial reserves of universities, which are being eroded, must be understood in a broader context. Many include earmarked funds for research or infrastructure projects, and include a range of strategic allocations for future development. In addition, maintenance backlogs in the system as a whole, as a result of persistent deferred maintained, have been identified as being in the region of about R25 billion (in 2015), and there are growing numbers of institutions with operating deficits. More detailed information is provided in the attached report on the financial health of institutions from 2014. However, given recent changes, it will be necessary to do more in depth investigations into the financial situation of public universities. This has to be balanced with other information, such as performance information. There is also a need to determine the healthy level of reserve necessary for the stability of such important public institutions.

4.3.4. Student Debt

In 2000, income from tuition fees constituted R7.8 billion (24%) of total income and has grown to R19.589 billion (32.9%) in 2014. Tuition and accommodation fees are an important source of income for universities and are an important component of a university budget to recover.

Student debt is a product of a set of factors, one of which is the fact that there are a large number of students who do not have the resources to finance their studies. Gross student debt expressed as a percentage of tuition fees measures the risk associated with non-payment of student fees. Student debt before provision for doubtful debt was 27.8% of income from tuition fees in 2014, increasing from R3.617 billion in 2012 to R5.451 billion in 2014, an increase of 50.7%. The debt considered here does not include loans to poor students from the National Student Financial Aid Scheme.

Thirteen universities' gross student debt as a percentage of tuition fees is above the sector average of 27.8%: University of Fort Hare (54.7%), University of KwaZulu-Natal (47.4%), University of Limpopo (76.5%), University of the Western Cape (51%), University of Zululand (43%), Walter Sisulu University (64.3%), University of Venda (42.3%), Cape Peninsula University of Technology (32.9%), Central University of Technology (96%), Durban University of Technology (70.5%), Tshwane University of Technology (30.5%), Mangosuthu University of Technology (85.9%), Vaal University of Technology (a shocking 102.8%). It should be noted that of the thirteen universities, high gross student debts are more prevalent at our historical disadvantaged universities and Universities of Technology.

Provisions against these student receivables and deemed to be irrecoverable, increased from R2.117 billion in 2012 to R2.982 billion in 2014, an increase of 40.7%. Debtors' provisions at individual universities range from 2.7% to 71.7% of the student fee receivable balance in 2014. At 35.6%, student debt provisions are highest at Universities of Technology, followed by traditional universities (8.4%), while the lowest provisions are at the comprehensive universities at 8.4%. Net student debt after impairment accounts for R2.470 billion (12.6%) (2013: R2.459 billion (13.8%)).

It is likely that in 2016 student debt will increase – universities are reporting anecdotally that in the wake of the #feesmustfall campaign they are finding it harder to recover fee payments from students. However, the effect of this can only be analysed once the 2016 Annual reports are published in June 2017.

Part of the Presidential Task Team's work was to quantify the debt that NSFAS qualifying students, who were either unfunded or underfunded in the 2013, 2014, and 2015 academic years, owed to universities. These students had somehow managed to scrape together sufficient amounts to be allowed to register, and some universities had allowed them to continue studying despite the debt they were raking up. The Presidential Task Team report showed that there were 71 753 students in the system that owed a total amount of R2.543 billion to universities. Government made this amount available in 2016, as a once off amount to NSFAS, to enable these identified student to take NSFAS loans to pay off their university debt.

In addition government allocated an additional amount of R8.044 billion over the 2016 MTEF period to enable those of the 71 753 students still in the system to continue with and complete their studies. This additional funding in the NSFAS baseline for loans to poor students, also was intended to cover some new first time entry students into the system.

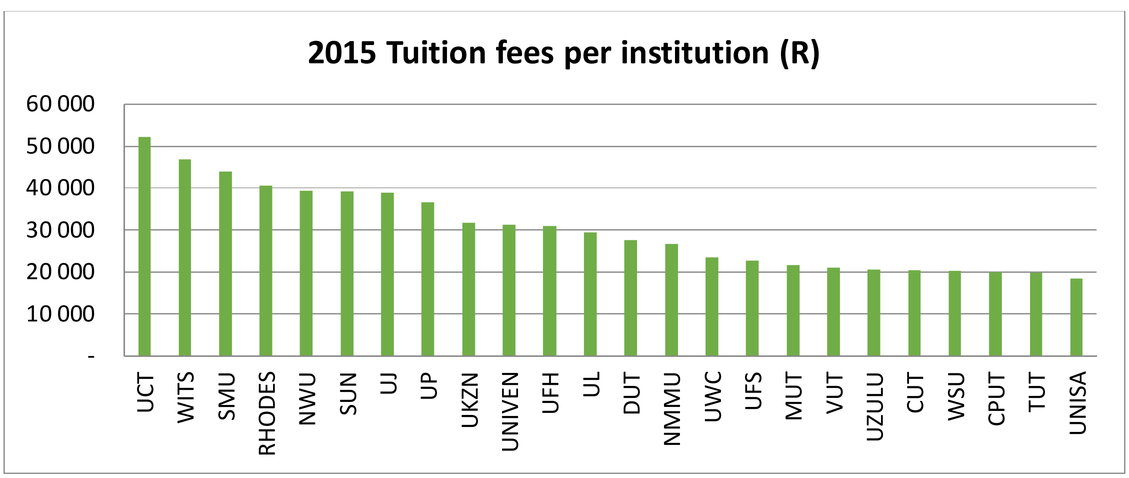
At the beginning of the 2016 year, in the wake of the various protests and disruptions at universities, a commitment was made to allow all first year students qualifying for NSFAS to register, regardless of whether they were covered by the additional funds or not. An exercise has now been done which has quantified the new group of NSFAS qualifying students allowed to register in 2016, but for whom there is no identified funding – they constitute a new group of students who will have raked up university debt. A total of 55 235 unfunded first year university students who qualified for National Student Financial Aid Scheme (NSFAS) funding and were allowed to register in 2016, constituting a new student debt (or NSFAS shortfall in the 2016/17 NSFAS allocations) of R 2.203 billion. It is estimated that approximately R500 million of the funds for loans to continuing and first year NSFAS qualifying student can be used to pay this debt. This leaves a significant amount of approximately R1.7 billion that these students will owe institutions, if additional funding is not found to support them.

4.3.5. Funding university students and the question of student fees

The current approach is in terms of the cost sharing model expressed in White Paper 3. Currently university students do pay fees, and as shown earlier in Figure 2, student fee income in 2014 made up 32.9% of the university system's income, and **Error! Reference source not found.** illustrated the differing reliance on fee income of various universities across the system. It is clear from this that any solution that includes no fees, would require substantial additional funds to be made available to fund universities directly, without which, we would argue, there could be dire consequences for the system as a whole.

The #feesmustfall campaign highlighted the cost of university education saying that it was unaffordable and very expensive for individuals and their families. University fees in South African universities do vary across the system – with some university fees being substantially higher than others. Figure 4 provides a comparison of average university tuition fees across the different universities.

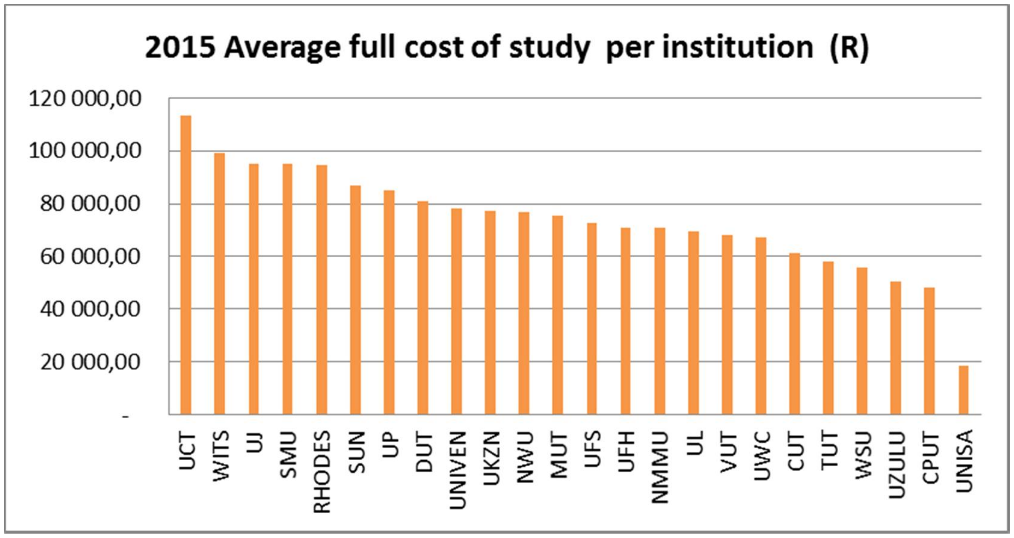
Figure 4: Comparing average university tuition fees in 2015



Source: Data provided to the DHET by universities and signed off by their VCs, October 2015

It is noted that in comparison to the cost of fee paying public secondary schools in South Africa, the cost of higher education at most institutions would be considered relatively reasonable. It is when the cost of living is added in terms of accommodation, food and other expenses, that the average cost of study becomes more unaffordable, especially for students from poor, working class and lower middle class families, who are unable to access funding to support their studies. Figure 5 shows the average full cost of study at the different institutions, which includes tuition, accommodation, food, and books.

Figure 5: Comparing universities' full cost of study fees, 2015



Source: Data provided to the DHET by universities and signed off by their VCs, October 2015

The key issue therefore becomes: how do financially needy students get supported into higher education?

In 2012, the Minister appointed a working group to consider the feasibility and cost of fully implementing fee-free higher education for the poor up to undergraduate level. The working group report suggested that fee-free education for the poor was feasible, but that it would require substantial amounts of additional funding to implement. The quantum of funding would be dependent on a number of parameters, not least of all agreeing on a definition of poverty. It recommended that a policy dialogue be entered into to get agreement and understanding of these terms and to set the parameters before any policy statement could be published. A policy dialogue process was started, but was later replaced by the process currently underway led by a Ministerial Task Team for the development of a funding model for funding poor and "missing middle" students which is discussed in section 4.3.7 of this submission.

The working group report (completed in 2013) affirmed the current cost sharing model implemented by NSFAS was an appropriate vehicle for the full implementation of fee-free higher education for the poor and financially needy.

It should be acknowledged that the NSFAS is already implementing fee-free higher education for the poor, albeit that there is insufficient funding to cover all qualifying students. Firstly, a student entering university is provided with an up-front fee through an *interest free loan* while they are studying. The interest only kicks in one year after they have successfully completed their studies, at which time they become a debtor. The interest calculated is significantly below the commercial lending rate. In addition, if a student is successful and completes in minimum time, then 60% of their loan is effectively converted into a bursary. Furthermore if the student never actually benefits from the goods of university education, that is, they never find themselves in productive employment, and they remain poor, they never pay back their loan and would in effect receive their entire university education free (paid for by the state).

This is what in the end is seen as providing free university education for the poor. The poor are supported upfront with the direct costs of study, they accrue no interest on their loan while studying and a significant proportion of their loan is converted to a bursary, and if they do succeed and are therefore able to move their personal economic position out of poverty, they pay back part of their university costs (outstanding loan, potentially 40% of the direct cost) when they are no longer poor. Those who remain poor and do not reap the private benefits of a HE receive their HE free.

The Working Group supported that students should be supported though full cost of study, i.e. for tuition, books, accommodation and food, to ensure success. It also suggested that some hard policy decisions have to be made in order to extend the scheme to cover poor, working class and lower middle class students, who could all be defined as financially needy in the sense that their families cannot easily fund their HE studies. Issues such as the definition of the poverty threshold (poverty is a relative concept); what should be covered (full cost of study or only tuition and books); the amount of the loan that should be converted to a bursary; the interest rate to be charged once the student has completed; the % of monthly income that should be paid back into the scheme once the graduate is successfully employed; as well as the definition of academic progress. Depending on how these parameters are set, the scheme would support more or less students. A broad policy dialogue was suggested to deal with these policy issues, and should lead to changes in the rules regulating the NSFAS and the review of the NSFAS Act if required.

Prior to the #feesmust fall campaign and the response by government after recommendations of the Presidential Task Team report, the earmarked NSFAS grant for university student loans covered 16% of undergraduate enrolled students in universities. All NSFAS managed funds (including funds provided by the NSF, through the DBE's Funza Lushaka programme, SETA funds, and others) supported a total of 23% of undergraduate enrolments.

Government responded to the recommendations of the Presidential Task Team report by reprioritising funding, amounting to R2.039 billion, into the NSFAS baseline to support continuing and new NSFAS qualifying students in higher education. With the additional amounts provided for university students through NSFAS in the 2016 MTEF period, calculations show that if the loan scheme was extended to include 25.5% of the undergraduate university student enrolments at full cost of study, then an additional amount of about of R29 billion would be required over the 2016/17 to 2018/19 MTEF period. This amount would substantially cover most poor students accessing universities, however it would not be sufficient to support students from the so called "missing middle" – students from families who are not poor enough to qualify for the NSFAS in terms of the threshold, but are not able to finance higher education by other means. The NDP suggests that these students should be covered by loans underwritten by state sureties. The Minister has appointed a task team (discussed below) to find a sustainable model for supporting poor and "missing middle" students in HE and TVET.

To provide free higher education for all at the undergraduate level, would require that government provide full funding for all undergraduate students, including those able to pay for themselves. This would have an estimated financial implication of approximately R70 billion per annum to fund the system (as it currently is), which is an additional amount of approximately R 42 billion per annum on top of the current budget. This would have to increase year-on-year to match higher education inflation as well as the growth in the system to meet the NDP targets (at approximately 10% per annum, year on year going forward). However, this only refers to support for student fees, and does not reference the erosion of systemic funding, which is equally important for the system to remain sustainable let alone to grow and improve.

A consequence of this is that current funding for scholarships into higher education from private and other donors would decrease substantially, and government would have to carry the cost of all investments into the system. The post-graduate sector of higher education would still require fees and other funding support to grow and thrive in line with the NDP targets to produce more than 5 000 Doctoral graduates per annum by 2030. The Department of Science and Technology has done some modelling of these NDP targets. The amounts above only reference undergraduate education, and so it is important not to ignore the DST modelling. The increased provisioning for postgraduate education is critical for the growth of research and innovation through higher education, as well as for sustaining the staffing of universities and other PSET institutions.

This is not affordable within the current fiscal climate, nor is it desirable. The importance of private sector inputs into the system and for shared responsibility for what is clearly both a public and a private good should be upheld.

Government remains committed to provide fee-free upfront higher education for the poor and to extend loans to the working and lower middle classes, who cannot reasonably be expected to provide the upfront funds required to fund their participation in the higher education system. The modalities and the quantum of funding required to enable this is significant and will require some hard policy decisions at the highest level. The least of which is to recognise that investment in higher education is not a simple consumption cost or a liability but that it is an investment in our youth and the future of the country to ensure a productive and growing economy.

4.3.6. Ensuring affordable higher education and support for financially needy students

In order to ensure that HE is affordable, it will be necessary for both government and universities to find solutions to the funding challenges identified above and for the private sector to become more actively involved.

Government should consider improving baseline funding to the system to ensure continued growth. In addition it requires universities themselves to become more efficient in utilising the funding in the system including finding mechanisms to: improve collaboration and sharing resources across the system; improving internal efficiencies in their operations; improving student success and ensure less wastage in the system; find ways to be more entrepreneurial to enable additional funding that can be reinvested into the institution to enable financial sustainability; and improved private sector investment (in students and in research and innovation). However, all of this will not be sufficient unless a solution is found to financially support all students who need it.

The Presidential Task Team report (2015), clearly indicated that the cost sharing model should be retained and that university fees should remain a feature of the system. It however recommended that to ensure a sustainable higher education sector going forward two further issues needed to be dealt with over the medium to long term:

- a model for student financial aid that included the “missing middle” students should be developed and piloted in the 2017 academic year, with a view to fully implementing it in the 2018 academic year (should all legal and operational aspects be in place); and
- a regulatory framework should be developed for managing the setting of fees and fee increases in the future.

It is recognised that the Commission may only complete it work in the 2017 calendar year, and that its recommendations, once considered by the President and Cabinet may take some time to implement. Given the current pressures, the Department has had to start work on these issues, with the understanding that should the Presidential Commission make recommendations that would fundamentally change the policy direction (for example that all public education is to be fee-free), then these initiatives would need to be adapted/or abandoned.

Therefore, in the context of the current challenges, and recognising the work of the Presidential Commission and the time frames involved, the Department has, parallel to the work of the Commission set in place processes to enable these two important projects to proceed. This should also be seen in the context of the White Paper targets, and the development of a National Plan for PSET which needs to explore the above, but also how the growth and strengthening of the CET and TVET college sectors can be supported.

4.3.7. Ministerial task team to develop a funding and support model for poor and “missing middle” students

Despite the significant funding which has been made available by government to support poor students at the institutions of higher learning, the so-called “missing middle” students who are mostly the children of lower-middle income families that are excluded from qualifying for financial aid as their household income is above the R122 000 per annum qualification threshold, and are too poor to be funded by their parents or access commercial bank funding, face severe challenges in raising funding to access higher education. The funding difficulties faced by these “missing middle” students were a significant factor driving student protests in 2015 and will continue to be so in the future unless a solution is found.

The Presidential Task Team recommend a process to develop a new funding model that would provide loans for students that do not meet the NSFAS criteria, but who require financial assistance to access higher education. Subsequently the Minister of Higher Education and Training established a Ministerial Task Team to determine and advise on alternative financing and operating models for funding poor and “ missing middle” students.

The Departmental Ministerial Task Team, with a mandate to determine and advise on alternative financing and operating models for funding poor and “missing middle” tertiary students, was formally established in April 2016 with Sizwe Nxasana as its Chairperson. The Ministerial Task Team’s mandate is to address a number of issues including whether or not the existing NSFAS Act, structure and mandate is still suitable to address the funding and other forms of support to poor and “missing middle” students as well as finding a solution to fund poor and “missing middle” students at universities and TVET colleges.

The Minister also appointed a Reference Group constituted of various stakeholders, including National Treasury, the Department of Trade and Industry, the National Credit Regulator, key student organisations, universities and the Council on Higher Education. The Reference Group is to interrogate the findings and recommendations coming from the Ministerial Task Team in order to provide feedback, comments and suggestions into the re-imagined financial aid scheme.

The Task Team has produced a blue print, the Ikusasa Student Financing and Aid Plan (ISFAP), which is currently in the process of being consulted vigorously with the Reference Group and other key stakeholders.

The ISFAP blueprint has been produced through workstreams of professionals from the financial services industry (Banking Association SA – BASA), the savings and investments industry (Association for Savings and Investments SA – ASISA) and the legal fraternity, with the vision to financially and socially support students in tertiary education in order to increase and maximise graduation rates and subsequent employment in line with the needs of the country (as per the HRDCSA occupations of high demand), within a sustainable public/private partnership.

The blueprint is currently being refined through engagement with multiple stakeholders (including student organisations, government – including National Treasury and DHET, the private sector and higher education institutions). The solution is planned for piloting in 2017, with full implementation in 2018. Thus current work is focused on a detailed design implementation with the appropriate resources being seconded full time through BASA and ASISA, along with the selection of occupations and universities to take part in the pilot using funds that are being raised from government and the private sector.

The commission could call the Chairperson of the Ministerial Task Team to provide a full presentation on the model at an appropriate time.

4.3.8. Development of a regulatory framework for setting university fees

The Presidential Task Team on short-term solutions to address university funding challenges pointed out that a nominal 0% fee increase year-on-year cannot be maintained if the country is to have a sustainable higher education sector.

The Department has calculated that should a second nominal 0% increase be implemented in the 2017 academic year, as is being currently demanded by students, an additional increase equivalent to R3.6 billion (15%) in the 2017/18 financial year would be required in the block grant subsidy baseline, on top of the additional funding already provided in the 2016 MTEF period. This is not seen as possible within the current fiscal climate, nor is it desirable, as it would once again overemphasise HE at the expense of TVET and CET within the PSET system, and, in the current context, other critical social spending.

The Presidential Task Team recommended the development of a regulatory framework for managing future university fee structures through which increases should be developed and agreed upon through a broad consultative process for implementation for the 2017 academic year.

In early March 2016, after agreement with Universities South Africa (USAf), the Minister of Higher Education and Training requested advice from the CHE on the development of a regulatory framework for managing future university fee structures and increases. The CHE has been requested to take into account higher education inflation and the imperative of growing the system to provide opportunities for academically capable students exiting the schooling system.

The CHE Task Team (CTT) decided to split the work into two phases. Firstly to consider a short-term agreement for the 2017 academic year, since this is the most pressing issue given that universities must set their fees and communicate them to students by September 2016 at the latest.

The CHE has invited key constituencies and stakeholders to participate in the process to help determine defensible fee increases for 2017. Economic modelling of the impact of different levels of fee increases has been commissioned to inform the deliberations.

The second phase would involve the development of a regulatory framework for managing student fees into the future. Such a regulatory framework would have to take into consideration the importance of finding a balance between affordability and sustainability. This framework would also be finalised after the work of the Presidential Commission is complete, and will at that time be aligned to any decisions that are made in the light of the Commission's recommendations.

A draft advisory document on the outcomes of the CHE Task Team's deliberations will be released for public and constituency responses. The document will thereafter be revised in the light of responses received, and Council will consider the draft advice before approving it for submission to the Minister by 31 July 2016.

The Minister, together with USAf and the UCCF-SA will consider the advice and lead a nationwide process to get agreement on fee increases for the 2017 academic year by October 2016.

4.4. Funding public TVET colleges and TVET students

4.4.1. Policy context

The Minister of Higher Education and Training has stressed the need to increase access to and success in TVET colleges in all the Ministerial approved programmes as well as occupationally directed programmes offered in TVET colleges. The system is currently skewed towards university education, and will not self-correct. It requires a massive focus on TVET in order to develop the system, change perceptions and culture and make TVET colleges attractive institutions of choice as envisaged in the White Paper on Post-School Education and Training.

The Departmental Strategic Plan aims to increase the number of skilled youth by expanding access to and success in TVET college programmes for the youth as well as to adequately capacitate individual institutions for effective teaching and learning.

While the Strategic Plan sets a projected target to increase student enrolment from 829 000 in 2016 to 1.238 million in 2019, the White Paper for PSET projects 2.5 million by 2030. It must be noted that these targets cater for both Ministerially approved programmes as well as occupationally directed programmes. The Department is responsible for ensuring that the required resources to maintain the current student enrolment and projected growth for all the Ministerially approved programmes funded by the state (80% programme funding) are made available. However, the available budget is not sufficient to maintain current enrolment and the projected student enrolment target for Ministerially approved programmes.

The White Paper on PSET stipulates that the TVET college sector should enroll 2.5 million students by 2030. Based on the current enrolment of 709 535 enrolments, it is envisaged that the system should expand on average by 14.4% per annum until 2019/20 to meet the Strategic Plan target of 1.238 million enrolment, followed by a reduced expansion of 6.6% per annum until 2029/30 in order to reach the White Paper on PSET target of 2.5 million. Recent costing by National Treasury predicts that enormous funding increases would be required for this kind of growth, particularly given the current under-funding of existing enrolments shown below. However, there are also capacity arguments for a slower growth trajectory to 2030, given the need to focus on and invest in improved performance of TVET colleges.

The NDP indicates the need to develop the technical and vocational training sector in order to produce needed mid-level and artisan skills, which the country requires. The development and strengthening of the TVET system is critical for the creation of opportunities for the greater population who are not able to access the limited university opportunities. It will also provide much needed skills required by the economy.

4.4.2. Funding of TVET colleges and TVET students

Funding approach

The TVET colleges funding model is a programme funding approach focussing on funding learning programmes, which have to be costed in order to determine allocations to individual TVET colleges. Programme funding requires funding students using a Full Time Equivalent (FTE), which is basically the weighted number of headcounts that constitute a programme. Programme costs are adjusted yearly using CPI rates as determined by the National Treasury. In policy, the state covers 80% of the total programme cost and 20% is the fee portion of which students who are financially needy and academically capable may receive bursaries to cover such fees.

NSFAS funding for TVET qualifying students is provided as a full bursary and not a loan as with university students. Thus, TVET students who qualify for NSFAS funding are already receiving free higher education, and are not expected to pay back any portion of the direct costs after they are productively employed.

The scope of the funding norms

The funding norms for TVET colleges cover three categories, which are Personnel, Operational Costs and Capital replacement (which is mainly for maintenance and replacement of furniture and equipment). For TVET colleges Personnel is allocated at 63% of the full programme cost, Operational Costs 27% and Capital infrastructure replacement 10%. Other college funding needs such as new infrastructure or expansion should be funded either through conditional grants from National Treasury and/or other sources of funding.

Funding procedure

Since this is programme funding, the Department receives enrolment figures from colleges, which are converted into FTEs then multiplied by the programme cost to determine college budgets. The Department will then retain 63% to pay college staff (who are DHET employees on PERSAL) and transfer the remaining to the colleges.

Programme costs vary according to the programme offered and can vary between R13 000 for a trimester (NATED) programme and R96 000 for a National Certificate Vocational (NCV) programme per annum.

Enrolments have increased from 345 000 students (headcount enrolment) in 2010 to 709 535 in 2015. In terms of the fully costed funding norms, the number of headcount enrolments funded in the Ministerially approved programmes is approximately 429 638, as compared to the approximately 709 535 enrolments in the system.

The increase in enrolment was to ensure that the 2030 target of 2.5 million enrolments is met. The figures indicate that in real terms TVET college students are funded at 60% of the required 80% programme funding from the state. In 2012, the unfunded enrolments were funded through the National Skills Fund (NSF) for a period of three years. The NSF funding lapsed after the three years, however not all students funded through the NSF have exited the system and the colleges are expected to carry the cost.

The prevailing funding pressures have further placed pressure on the personnel budgets of the colleges, which in turn has drastically affected the goods and services budges of the colleges, which is intended to cater for the college operations, students' textbooks, protective clothing and other related teaching and learning material.

NSFAS bursaries were previously never available to TVET college students. Today R2.3 billion has been allocated to poor students which funds tuition fees (i.e. 20% of the total programme cost of 229 000 beneficiaries, as well as to provide accommodation and or travel allowances to the needy students who are staying ten (10) kilometres away from the teaching and learning institutions. There is an expectation that the colleges should recover 20% of the programme costs from students that do not qualify for NSFAS bursaries, however due to the no fee increase in universities, colleges have not been able to recoup these funds. These funding pressures have resulted in a real decrease in funding for student travel and accommodation allowances as colleges opt to prioritise the tuition fees from the limited funding that they have.

While significant progress has been made in the NSFAS funding, this remains one of the biggest flashpoints in colleges, as there simply is not enough funding to support all poor students. With enrolments that have doubled, the pressure on the examination system has in turn also doubled.

In the absence of an increase in the baseline funding for enrolments, the Department will have no option but to review its enrolment targets for 2017 downwards in order to maintain and improve the provision of quality teaching and learning in colleges within the limited funds.

The migration of the TVET college function to the Department in April 2015 also saw the Department experiencing difficulties in managing the personnel budget due to system issues. This resulted in an under expenditure of approximately R178 million in personnel expenditure and since the funds were not transferred to colleges, colleges had to prioritise their funds and surpluses at their disposal to meet their staffing needs.

In terms of the funding norms, any unspent personnel funds for the colleges, must be transferred to colleges at the end of the financial year. The difficulty is that these funds are part of the Compensation of Employees of the Department, which requires the approval of the National

Treasury before they can be transferred to the colleges. The Director-General of the Department will be engaging with the Director-General of National Treasury to address this blockage.

4.4.3. Current underfunding of TVET colleges

The following costing exercise has been performed to quantify the additional funds that are required to achieve the White Paper and NDP targets for Ministerially approved programmes. The costing exercise took into account the current funding (baseline) for the TVET college system for both the 80% programme funding by the state and the 20% funding to cover student fees.

The costing has been developed to cover the following two (2) scenarios:

1. Funding of the system linked to the NDP and White Paper Targets for 2030; and
2. Maintaining the 2015/16 reported enrolment of 709 535 over the MTEF period.

Programme and NSFAS funding (bursaries) for TVET students

Scenario 1: Funding the system linked to the NDP and White Paper Targets for 2030**Funding Categories**	**2016/17**	**2017/18**	**2018/19**	**Total Shortfall: 2016 MTEF Period**
	R'000	**R'000**	**R'000**	**R'000**
Budget Requirement	19 298 922	23 197 014	27 946 859	70 352 795
Less: Baseline	(9 072 217)	(9 566 898)	(10 087 136)	(28 726 251)
Total Projected Shortfall	**(10 226 705)**	**(13 630 116)**	**(17 859 723)**	**(41 626 544)**
Shortfall breakdown:				
80% Programme Funding	*(4 731 694)*	*(6 749 262)*	*(9 231 419)*	***(20 712 375)***
NSFAS	*(2 488 998)*	*(3 382 540)*	*(4 456 520)*	***(10 328 058)***
DHET Goods and Services	*(3 006 013)*	*(3 498 314)*	*(4 081 784)*	***(10 586 111)***

For the 2016/17 financial year, the system is already experiencing a funding shortfall amounting to R4.731 billion on the programme funding (80%) and R2.488 billion on the National Student Financial Aid (NSFAS) between the current system demand and available funding, which indicates that further expansion will not be possible without additional funding.

The total estimated budget required to service the TVET college system for the 2016/17 financial year amounts to R19.298 billion, resulting in an estimated budget shortfall of R10.226 billion, based on the current baseline allocation of R9.072 billion. The estimated total shortfall over the 2016 MTEF period is R41.626 billion.

In order to meet the target of 2.5 million enrolments by 2030, the system would require an additional programme funding allocation amounting to R60 billion in addition to the projected baseline amount. For the NSFAS allocation, an additional amount of R26.3 billion in addition to the projected baseline amount would be required to meet the 2030 projected target. For both the programme funding and NSFAS funding, the total projected additional budget required by 2030 amounts to R86.3 billion.

Scenario 2: Maintaining the 2015/16 reported enrolment of 709 535 over the MTEF period

Funding Categories	2016/17	2017/18	2018/19	Total Shortfall: 2016 MTEF Period
	R'000	R'000	R'000	R'000
Budget Requirement	19 298 922	21 404 966	24 028 891	64 732 779
Baseline	(9 072 217)	(9 566 898)	(10 087 136)	(28 726 251)
Total Projected Shortfall	**(10 226 705)**	**(11 838 068)**	**(13 941 755)**	**(36 006 528)**
Shortfall breakdown:				
80% Programme Funding	*(4 731 694)*	*(5 555 496)*	*(6 649 761)*	***(16 936 951)***
NSFAS	*(2 488 998)*	*(2 784 258)*	*(3 210 210)*	***(8 483 466)***
DHET Goods and Services	*(3 006 013)*	*(3 498 314)*	*(4 081 784)*	***(10 586 111)***

If the current enrolment is maintained at the 2015/16 reported enrolment of 709 535 the estimated total shortfall over the 2016 MTEF period is R36.006 billion. It must be noted that the current available funding is only sufficient to cover approximately 429 638 of the current 709 535 reported enrolment which represents a 60% funding level.

In real terms, the system is already underfunded by 40% in terms of the reported enrolment. The ability of the Department to implement its oversight role is also being seriously compromised due to the inadequate funding.

The servicing of the TVET college system by the Department is critical for the skills development drive of the country and to achieve the targets of the NDP. However, providing services at national level requires additional funding in order to ensure that the service is effectively provided and the credibility of the sector including the TVET institutions is assured. This is to avoid student unrest at TVET colleges, similar to those seen at universities. In addition, it has been recognised, that growing the TVET sector must be accompanied by significant improvements in performance and student success. Initiatives to support this are in place, but greater investment is also required to shift areas of poor performance and provide improved quality TVET programmes across the public TVET sector. This is being thought through in several ways including in developing the National Plan for PSET.

4.4.4. Funding a 0% Increase in fees at TVET colleges

In the wake of the protests at universities, and the pressure currently being felt at TVET colleges, an exercise has been done to qualify the impact of a 0% increase in fees for TVET students in the 2017 year.

As the state is liable to provide 80% programme funding and the student is only liable for 20% of the fees, the impact of a 0% fee increase for the TVET system is not as significant as with the university system.

The costing has been developed to indicate the financial impact with regards to the following three (3) scenarios:

1. Funding of the system linked to the NDP and White Paper Targets for 2030;
2. Maintaining the 2015/16 reported enrolment of 709 535 over the MTEF period; and
3. Reducing the TVET system to only cater for the 2016/17 funded enrolment of 429 638 students over the MTEF period.

Scenario 1: 0% Fee impact linked to NDP and White Paper Targets

Funding	2016/17 (R '000)	2017/18 (R '000)	2018/19 (R '000)	Total (R '000)
0% Fees	173 707	209 853	253 180	**636 741**

Scenario 2: 0% Fee impact maintaining the 2015/16 reported enrolment of 709 535 over the MTEF period

Funding	2016/17 (R '000)	2017/18 (R '000)	2018/19 (R '000)	Total (R '000)
0% Fees	173 707	172 736	182 375	**528 819**

Scenario 3: 0% Fee impact limited to 2016/17 funded enrolments of 429 638 over the MTEF period

Funding	2016/17 (R '000)	2017/18 (R '000)	2018/19 (R '000)	Total (R '000)
0% Fees	98 849	104 595	110 432	**313 877**

The consequences of reducing the enrolments of TVET students in the system would be dire given the need to improve and develop this sector and given its overall importance to the development of an effective and responsive post-school education and training sector. The policy goals of the NDP and the White Paper on PSET cannot be achieved without a significant focus on TVET colleges.

4.5. The Community Education and Training Sector

The CET sector has recently been incorporated into the remit of the Department. In order to develop the system, 9 CET colleges have been established which incorporate approximately 3 200 Community Learning Centres (previously called public Adult Learning Centres) from across the Provinces. The current funding model(s) have been inherited from the Provincial Education Departments (PEDs). Therefore a decision has been made to continue with funding Community Learning Centres (CLCs) in the manner they were previously funded, which was different across the

PEDs, while a process for developing a single funding model is developed. A Task Team is currently working on developing such a model for funding the CET sector.

4.5.1.Funding requirements for the community college system

The focus of the CET sector is on the needs for adults and out of school youth including the young people who are not in education, employment or training (NEET youth).

The Report of the Task Team on Community Education and Training colleges recommends the establishment of Community Colleges to address programmes for adults and out-of-school youths. The vision for Community Colleges as well as the mission of responding to community needs require institutions that are stable, well governed and have appropriate capacity. Community Colleges will be differentiated by programme offerings as well as community location and specific community needs. Significant attention is currently being paid to the future growth of the CET sector through the work being conducted for the National Plan for PSET, as well as through a range of linked processes, including the development of pilot partnerships to develop and grow the CET sector over time.

The 2015 General Household Survey report published in June 2016 shows that there are 18.857 million South Africans who are 20 years of age and older, who could benefit from the expansion and quality provision of community education and training programmes. The permutations of the figure of 18.857 million are disaggregated below:

a) 1.711 million (9%) have no formal school education at all;
b) 3.478 million (18.4%) have some primary schooling;
c) 1.6 million (8.4%) have completed primary schooling; and
d) 12.079 million (64%) who have some secondary education but did attain a Grade 12 equivalent qualification such as the Senior Certificate, National Senior Certificate or National Certificate (Vocational), qualifications at Level 4 of the NQF.

Interpreted in the context of the obligations imposed on the state by the South African Constitution, it means that the state has failed to provide basic education including adult education to 5.189 million of its people; neither has it been able to progressively provide further education and training through reasonable means to 13.079 million of its people.

The above data indicate that there are therefore 18 million potential learners to be served by the Community College system. This is exacerbated by the fact that the Kha Ri Gude project, a programme in the Department of Basic Education focused on providing Adult Basic Education to the large numbers of adults with low levels or no education, is closing down at the end of 2016. It is therefore critical that over the next fifteen years, a significant dent is made in relation to the above-mentioned figures. The Community College system is meant to play a pivotal role in responding to the education and training needs of a significant number of poor and working class adults and youth.

The recognition that skills are enablers in resolving the triple challenges of unemployment, poverty and inequality means that appropriate institutional mechanisms must be found to respond to these challenges. Expanded, differentiated and quality provision will be possible if strong institutions are set up. The Community College system is meant to be an instrument to address the sometimes daunting challenges faced by communities. The Task Team report on Community Education and Training Centres emphasises the importance of the role of communities in being enabled to address their challenges. Specifically, the role of these types of institutions appropriately set up in their management, governance and programme and qualifications mix, will contribute significantly to community empowerment. However, they require a solid foundation in their conception. Funding is one such critical factor.

The *National Policy on Community Education and Training Colleges* calls for pilots in the establishment of a Community Education and Training college system. Through partnership with a range of organizations (faith based organizations, TVET colleges, schools and universities) access to physical facilities for the provision of Community Education and Training college programmes is made possible. The Department would utilize this infrastructure for the piloting of Community Colleges in relation to the management and governance model, the nature of programmes, student support systems, staffing and employment of personnel in the college and how the college is to be funded. The pilot process, underpinned by research from the partnership with universities, engagement with stakeholders in the Community and Adult Education sector and the establishment of a robust model of monitoring and evaluation, will be undertaken for pilot Community Colleges. It is envisaged that the pilot process will provide lessons in the scaling up of the establishment of Community Colleges in district municipalities.

The function of the previous Adult Education and Training programme and the public Adult Learning Centres has been shifted to the Department of Higher Education and Training. The rationale for the shift is that the previous AET sector would be transformed into Community Education and Training colleges and Community Learning Centres. In the absence of appropriate funding, the previous AET system and its institutions will not be wholly transformed and therefore no discernible impact for out-of-school youth and adults. Funding for the pilots is therefore critical to ensure that education and training delivery is made possible. Over the 2017/18 MTEF period, the budget requirement for the piloting of the Community College system is R400 million**.**

4.5.2.Expansion and quality improvement in the Community College system

In terms of the National Development Plan, Strategic and Annual Performance Plan of the Department which are informed by the targets set in the *Medium Term Strategic Framework,* the increase in enrolment in the Community Colleges is targeted to reach 1 million by 2030. The Community College sector faces the dual challenge of meeting the demands of current enrolment, quality improvements and the projected enrolments over the MTEF period due to the insufficient funds.

It is therefore critical to understand that the funding requirements also include paying attention to the unfunded current enrolment, the quality of provision, as well as covering projected enrolment costs to meet the MTEF enrolment target of 398 439 in 2019 increasing from 310 000 in 2016.

The main objective is to effectively respond to the educational needs of those who never completed or attended school. During the 2016/17 financial year, there are 3 276 Community Learning Centres servicing almost a quarter of a million learners through NQF Level 1-4 programmes and other non-formal skills development programmes. Over the 2017/18 MTEF period, the budget requirement for expansion of enrolment, as well improving the quality of provision in Community Colleges is R38 billion.

4.5.3.Implementation of the National Senior Certificate for Adults

As alluded to above, the *2015 General Household Survey* report published in June 2016, shows that 12.079 million people over the age of 20 and above have some secondary education but did attain a Grade 12 equivalent qualification such as the Senior Certificate, National Senior Certificate or National Certificate (Vocational), qualifications at Level 4 of the NQF.

The availability of second chance provision for adults and youths who do not hold a senior certificate has been identified as one of the priorities of the Department of Higher Education and Training. A study (2007) funded by the Ford Foundation quantified the challenge of the youth who are not employed, not in education and not in training (NEET). The study identified a cohort of the 18-24-year-old youth who could be served by the availability of a second chance Matric-equivalent qualification. The study identified 508 597 learners between the ages 18-24 years with secondary education but less than Grade 10 and 990 794 learners with Grade 10 or higher but less than grade 12. Therefore, by 2011 there were already more than 2 million youth in the 18-24 age cohort who required an alternative qualification to complete their Matric.

Recognising that the teaching and learning modes of adults and out of school youth are different from those of school-going learners, as part of Outcome 5 commitments, the Minister committed to developing a Matric-equivalent qualification to serve the needs of people who do not have a Matric-equivalent qualification. The commitment was also motivated by the recognition that the acquisition of a Senior Certificate continues to be a valued qualification for citizens in this country. A Senior Certificate opens up educational opportunities for individuals in further and higher education sectors, as well as participation in occupational programmes.

The development of the National Senior Certificate for Adults has been concluded including the publication of the Curriculum Statements as a National Policy by the Minister. The South African Qualifications Authority (SAQA) has registered the qualification in December 2013. The development and implementation of the National Senior Certificate for Adults is meant to unblock opportunities for further learning for this cohort of learners cited above whether within the NEET or 20 year-olds and above categories.

The challenge that has confronted the Department with regard to the implementation and rollout of the qualification is lack of funding. The funding is required to subsidise learners as it is envisaged that the learners will not be expected to pay any fees. The funding is therefore required for preparation of the system, compensation of employees, purchasing books and other learning and teaching support material for learners and teachers, centre operational costs and maintenance, as well as the development, administration, management, monitoring and support of examinations. 10 000 Students are targeted for the initial rollout of the qualification.

The problem of not acquiring a Senior Certificate by a large population in society has socio-economic consequences for individuals and the labour market as employment conditions increasingly require individuals who have acquired a ‘basic’ education level; it continues to entrench inequality; it also has social costs as some individuals are limited by their low levels of education in accessing vital political and social information for full participation as citizens. It is therefore strategic for the Department to provide educational opportunities to those who, because of their personal circumstances and life detours have not completed their basic education, and can no longer be served by the basic education system. Over the 2017/18 MTEF period, the budget requirement for preparation of the system, compensation of employees, purchasing books and other learning and teaching support material for learners and teachers, centre operational costs and maintenance, as well as the development, administration, management, monitoring and support of examinations is R1.3 billion**.**

As is shown above, adequately funding the CET sector at this moment in time, to meet the constitutional obligation will require approximately R40 billion additional funding in the PSET system.

5. Some considerations for enabling a financially sustainable and quality PSET system: the context for fee-free higher education.

The question of whether it is feasible to provide fee-free higher education (defined as HE and TVET education and training) is as much a political question as it is a technical one. It therefore cannot be answered by technical contemplations alone. It has to be considered within the broader context of the funding of education, of post-school education and of higher education in relation to the policy expectations set out for the country.

Through public protest, university students have drawn attention to a critical issue facing the country: how to provide affordable and quality post-school education to South Africans? They have raised issues about what constitutes quality, and what constitutes affordability, and they have forced a confrontation with the very real context of limited student funding, increasingly unaffordable student fees in universities, and the erosion of real funding to PSET institutions despite the massive expectations of growth. As this submission shows, the Department has been confronting these challenges for some time, and has been working on solutions. However, the current period is uncertain, and the recommendations of the Presidential Commission are eagerly anticipated by all. The feasibility of fee-free education is only one question located in a much larger set of questions about state funding of post-school education.

This submission has focused on providing as much detail as possible to the Commission about the current funding regime for the PSET system, and how financial access to higher education has been conceptualised in relation to the South African constitution and post-1994 policy. The submission reflects on the current approaches and mechanisms to provide a context for understanding the pressures that have led to the recent protests and the establishment of the Presidential Commission. As is shown in this document, a number of linked projects are underway to improve the affordability of higher education, including the proposals to develop a funding mechanism for the “missing middle” students, the discussions about regulating fees, and the improvement of debt collection of NSFAS. This work is based on the current cost sharing mechanism in the system.

The submission does this for all the PSET sectors, in order to show that university education must be seen within the context of a broader PSET system, and any funding considerations relating to university education cannot be isolated from those of the whole system. Similarly, student fees cannot be conceptualised outside of the context of the broader funding of the university and broader PSET system. The PSET system includes learners other than traditional university students, and this needs to be recognised. We have to balance the importance of a strong university sector with the serious need for growth in other parts of the system.

Affordability of higher education has been under severe strain, and despite significant investments in student financial aid for university and TVET colleges, NSFAS funding still falls far from the funding needs. The submission shows that the funding of the HE system has not kept pace with student growth, resulting in higher student fees, and this has put the financial health and sustainability of the university system at risk.

The greater amount of data provided in respect of the university system should not crowd out the important points being made about the funding of PSET overall.

As shown in the submission, the TVET sector, where most growth is envisaged in current policy, is grossly under-funded, even for current enrolments. Growth and quality improvement in this sector will not be possible without significant new investment. The importance of the TVET sector to the growth of the economy is outlined in the NDP and the White Paper PSET and is seen as critical for the development and improvement of the PSET sector.

The CET sector is relatively new but incorporates a chronically under-funded adult basic education sector. Current funding is also not adequate for existing provision, let alone for the development of pilot colleges and partnerships and very far from the planned vision of a growing Community College sector. Community education and training will need, in large part, to be free, to meet the vision of an open access sector, providing opportunities for the large numbers of youth and adults who have education and training needs not currently met by current PSET provision. This is a sector with significant implications for addressing social justice and providing an important range of opportunities in the public good.

The approach of the Department in this submission has not been to point to a Departmental position on the feasibility of fee-free education, but rather to provide the necessary contextual information that will allow the Commission to openly explore a range of options. It is this contextual information that the Department would like to emphasise the most. Student fee arrangements cannot be de-linked from the overall funding of the higher education system, and university funding cannot be de-linked from the funding necessary for supporting a viable PSET system.

National policy, as outlined in the National Development Plan envisages a significant role for the PSET sector in the economic, social and political development of South Africa. Each sub-sector has its own role to play, and universities have a key role to play in the development of the other parts of the system.

The demand for various forms of PSET education far outstrips the availability of places and funding to study, at all levels. Addressing this has been identified as a national priority. However, the goals of the sector cannot be met without greater investment. Hard choices will also need to be made about where and how to prioritise funding. The feasibility of fee-free education also has to be considered in this context. As a system it is also necessary for us to look more closely at mobilising resources from the private sector and other government sources.

The Department recommends that the Presidential Commission give consideration to the full implications of implementing fee-free higher education and training within the context of the PSET and broader education system. There are many possible models under discussion that can be considered by the Commission within this broader context. The Department of Higher Education and Training supports that these ideas be fully explored by the Commission.