



BRIEFING TO THE PORTFOLIO COMMITTEE ON HIGHER EDUCATION AND TRAINING

22 August 2012

For an Equitable Sharing of National Revenue

BACKGROUND

- Annual Submission is made in terms of:
 - Section 214(1) of the Constitution (1996)
 - Section 9 of the Intergovernmental Fiscal Relations Act (1998)
 - Section 4(4c) of the Money Bills Amendment Procedure and Related Matters Act (Act 9 of 2009)
- This briefing
 - Requested by Portfolio Committee on Higher Education
 - Focuses on 2012 recommendations on higher education financing
 - Restates past recommendations and ongoing work on higher education at the FFC



2013/14 ANNUAL SUBMISSION FOR DIVISION OF REVENUE

*Portfolio Committee on Higher Education
and Training*

OUTLINE OF THE SUBMISSION

Moving People out of Poverty:
Supporting Innovation in
Intergovernmental Financing

Part I: Supporting Inclusive Growth: Jobs, Knowledge and Regional Development

- Job creation and IGFR system (Ch. 1)
- e-Education (Ch. 2)
- Budget review of public universities (Ch. 3)

Part II: Climate Change and Environmental Sustainability: Opportunities and Risks for Growth and Innovation

- Impact of climate change on rural areas (Ch. 4)
- Disaster management (Ch. 5)
- Waste management (Ch. 6)

Part III: Institutional Development for Inclusive Growth and Innovation

- Aggregate revenue and expenditure assignments and economic growth (Ch. 7)
- Alternative service delivery arrangements (Ch. 8)
- Capacity challenge in local government (Ch. 9)
- Gender-responsive budgeting (Ch. 10)

CHAPTER 3: PROPOSITION

- South Africa must transition from a low (resources, construction, services) to medium (medium-technology based manufacturing) value-added economy
- To a more knowledge-intensive economy (medium- to high-technology base and increased levels of R&D)
- Preferred economic structure combines low, medium and high-knowledge intensive productive activity, and an increase in the proportion of medium to high income jobs
- Such a transition requires
 - a strong, adequately funded, post-school education system
 - comprising colleges, vocational institutions and universities

CHAPTER 3: PROPOSITION

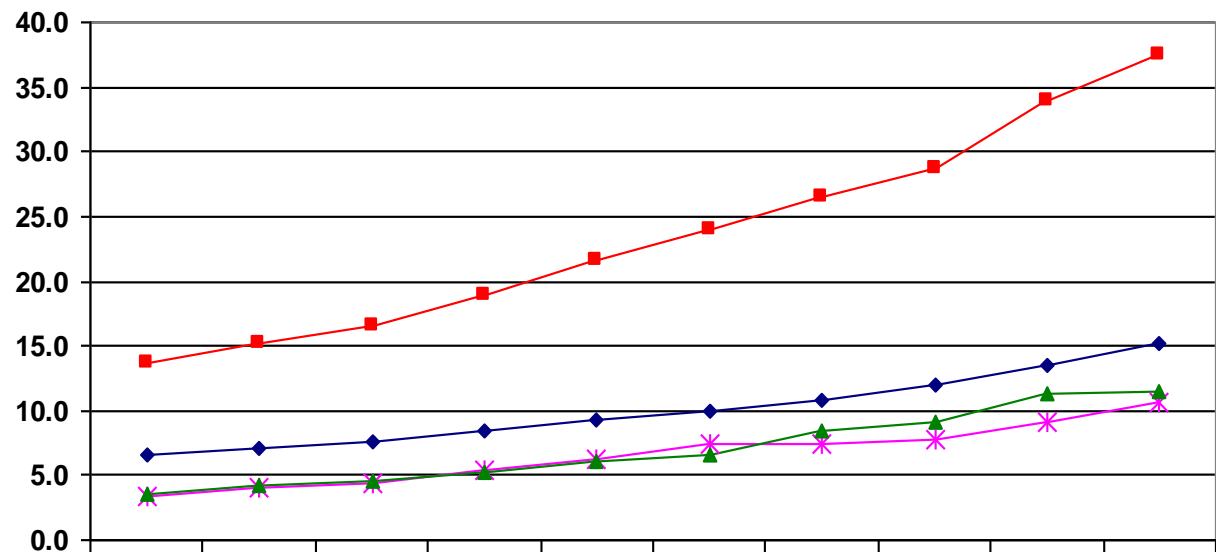
- This chapter offers a brief overview of some issues which arise in the funding of public higher education pertinent to the transition to a knowledge-based economy.
- It focuses on generic budget and funding framework issues for future financing of higher education.

FUNDING PRINCIPLES OF 1997 HIGHER EDUCATION WHITE PAPER

- ***Sharing of costs*** Cost of higher education must be shared by government, students and their families
- ***Autonomy in determining student fees*** Public higher education institutions are able to set their own student fee levels
- ***Funding for service delivery*** Government does not fund all institutional costs. Funding is linked to teaching and research activities and to the delivery of knowledge outputs
- ***Funding as a steering mechanism.*** The government funding framework is goal-oriented, designed to steer the higher education system in accordance with broad social and economic development goals

SHARING OF COSTS OF HIGHER EDUCATION (1)

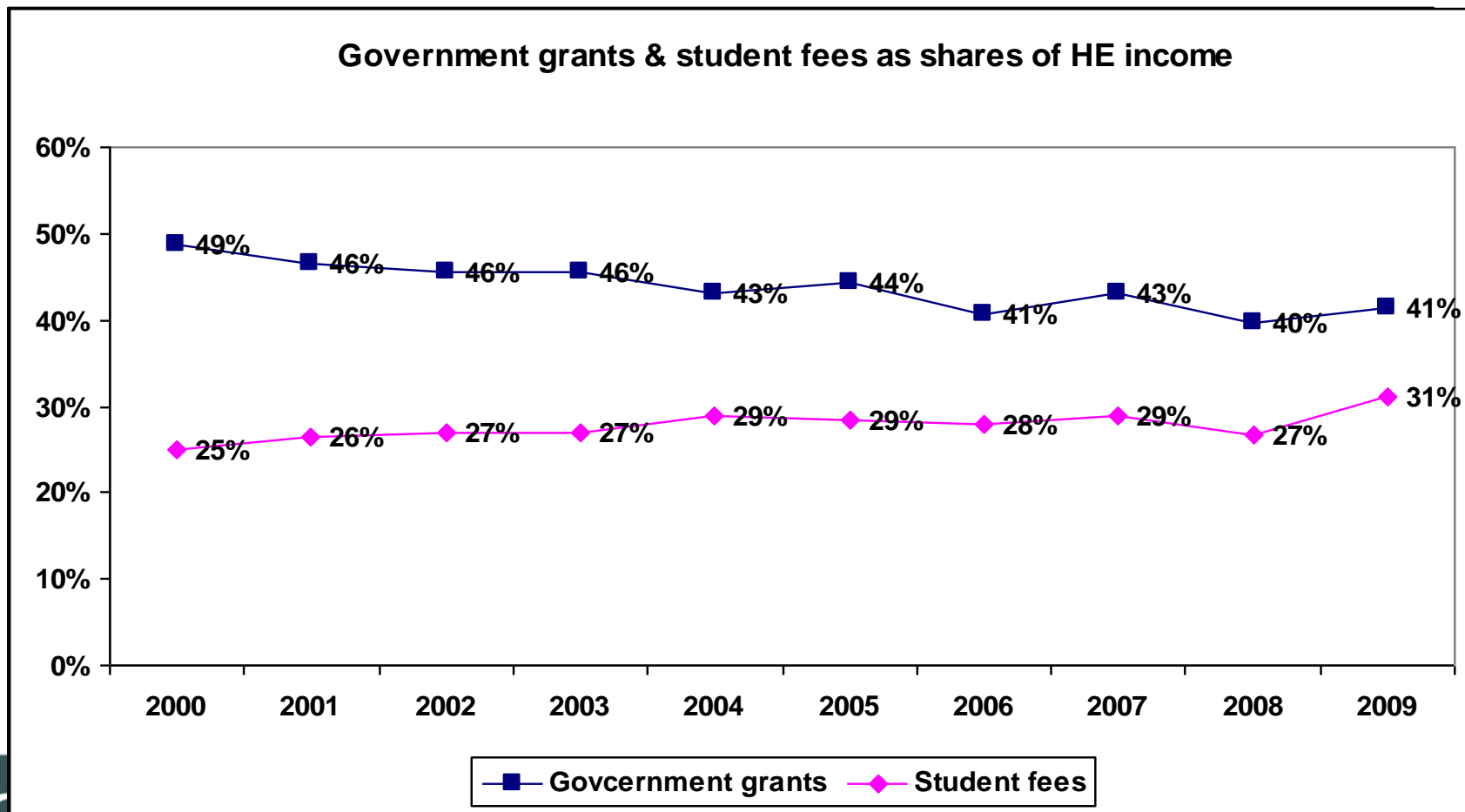
Income of higher education institutions: Rands billions



| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|-------------------------------|------|------|------|------|------|------|------|------|------|------|
| ◆ Direct government transfers | 6.6 | 7.1 | 7.5 | 8.4 | 9.3 | 9.9 | 10.7 | 11.9 | 13.4 | 15.3 |
| * Student fees | 3.4 | 4.0 | 4.4 | 5.4 | 6.2 | 7.4 | 7.4 | 7.7 | 9.1 | 10.7 |
| ▲ Private income | 3.6 | 4.1 | 4.5 | 5.2 | 6.1 | 6.6 | 8.4 | 9.1 | 11.4 | 11.6 |
| ■ TOTAL | 13.6 | 15.2 | 16.5 | 19.0 | 21.6 | 24.0 | 26.5 | 28.7 | 33.9 | 37.5 |

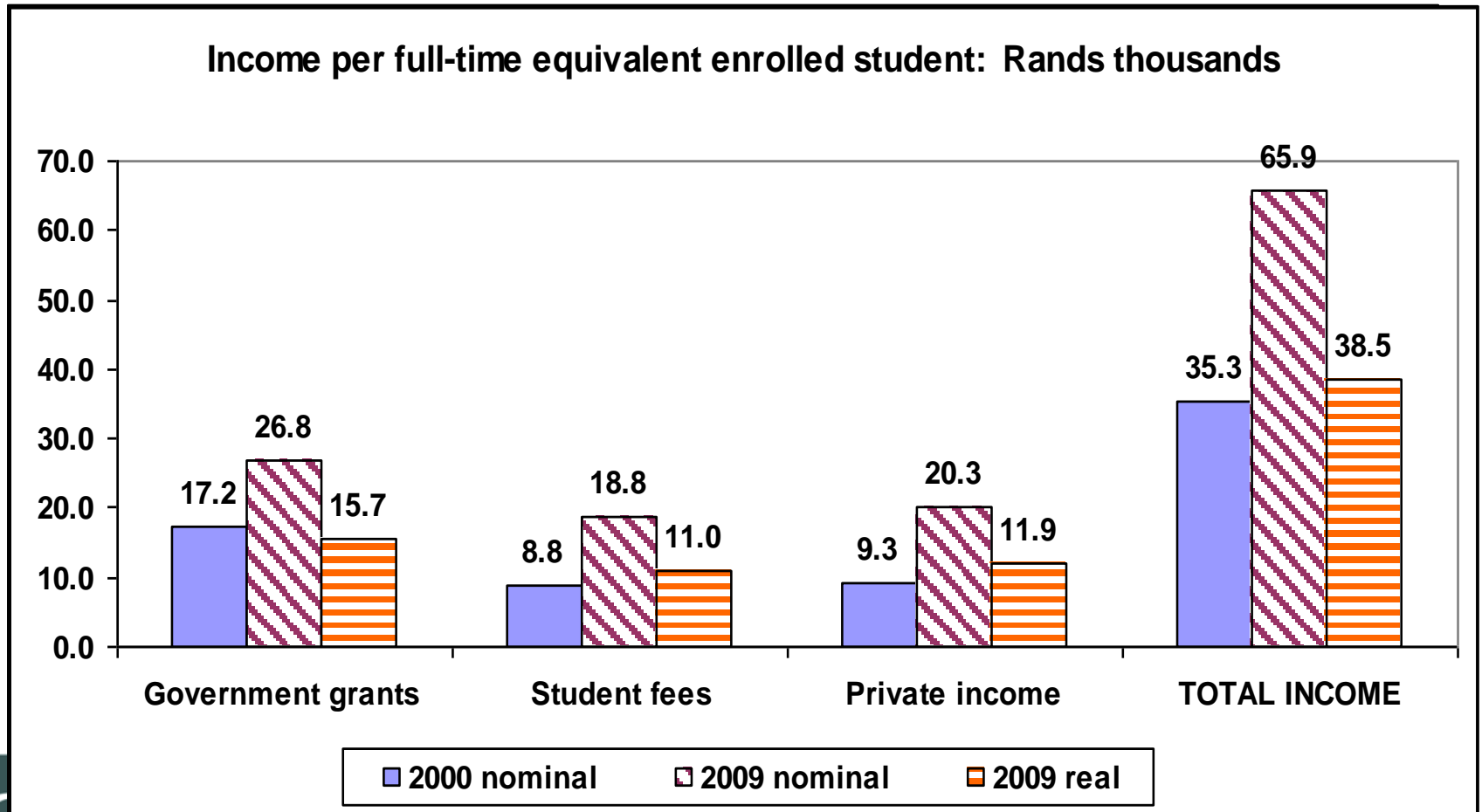
SHARING OF COSTS OF HIGHER EDUCATION (2)

Government grants & student fees as shares of HE income



AUTONOMY IN SETTING STUDENT FEES

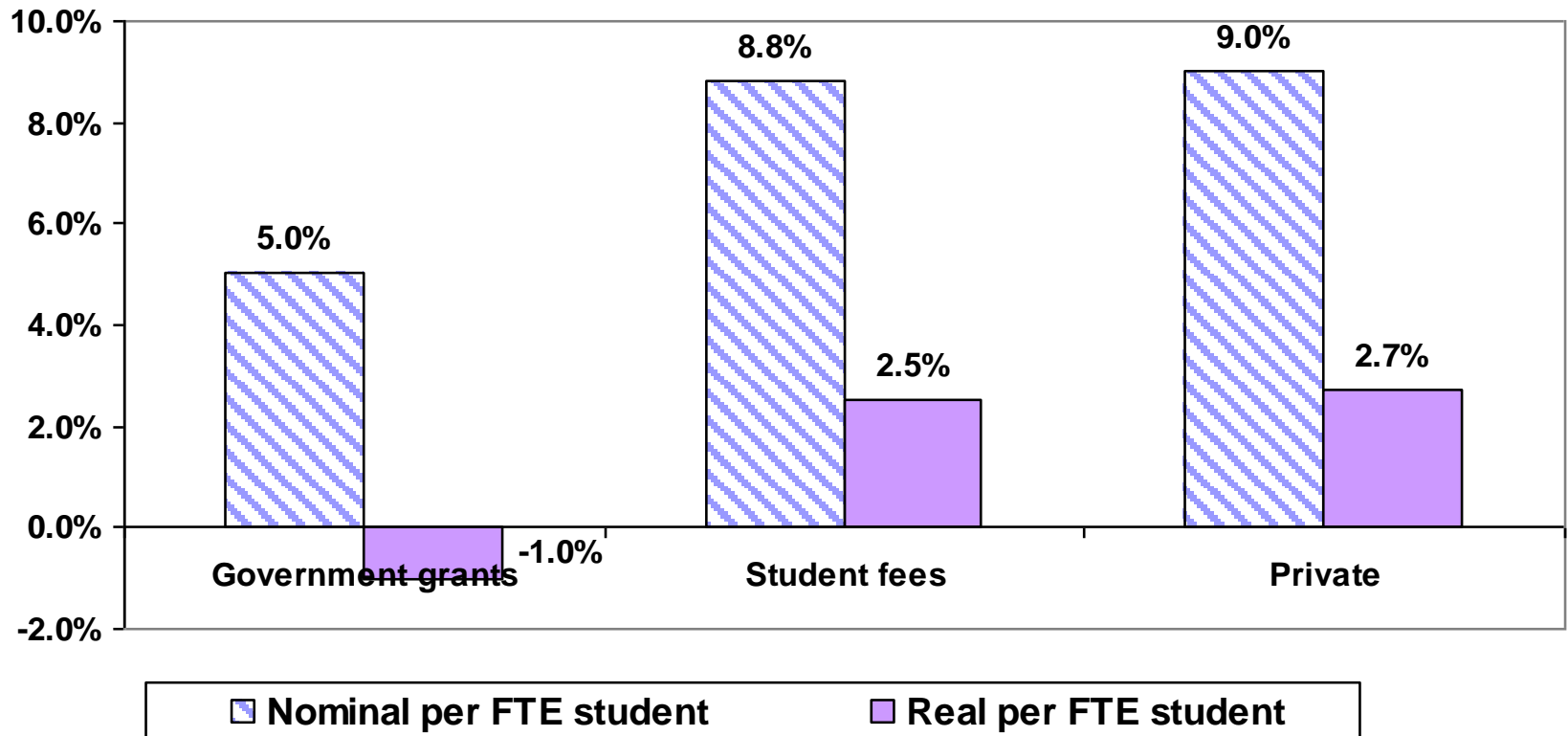
(1)



AUTONOMY IN SETTING STUDENT FEES

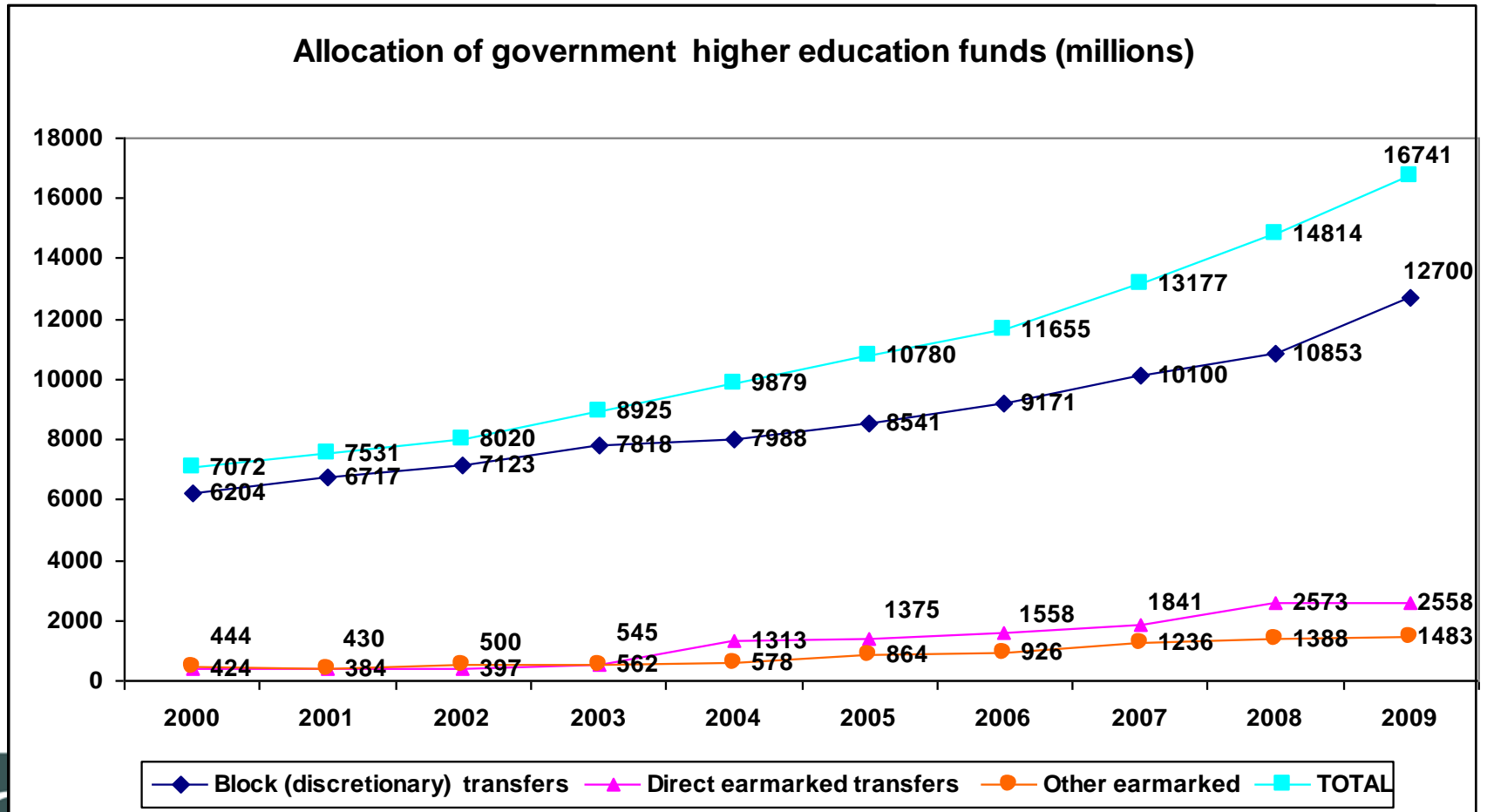
(2)

Average annual increases in income per FTE student: 2000-2009

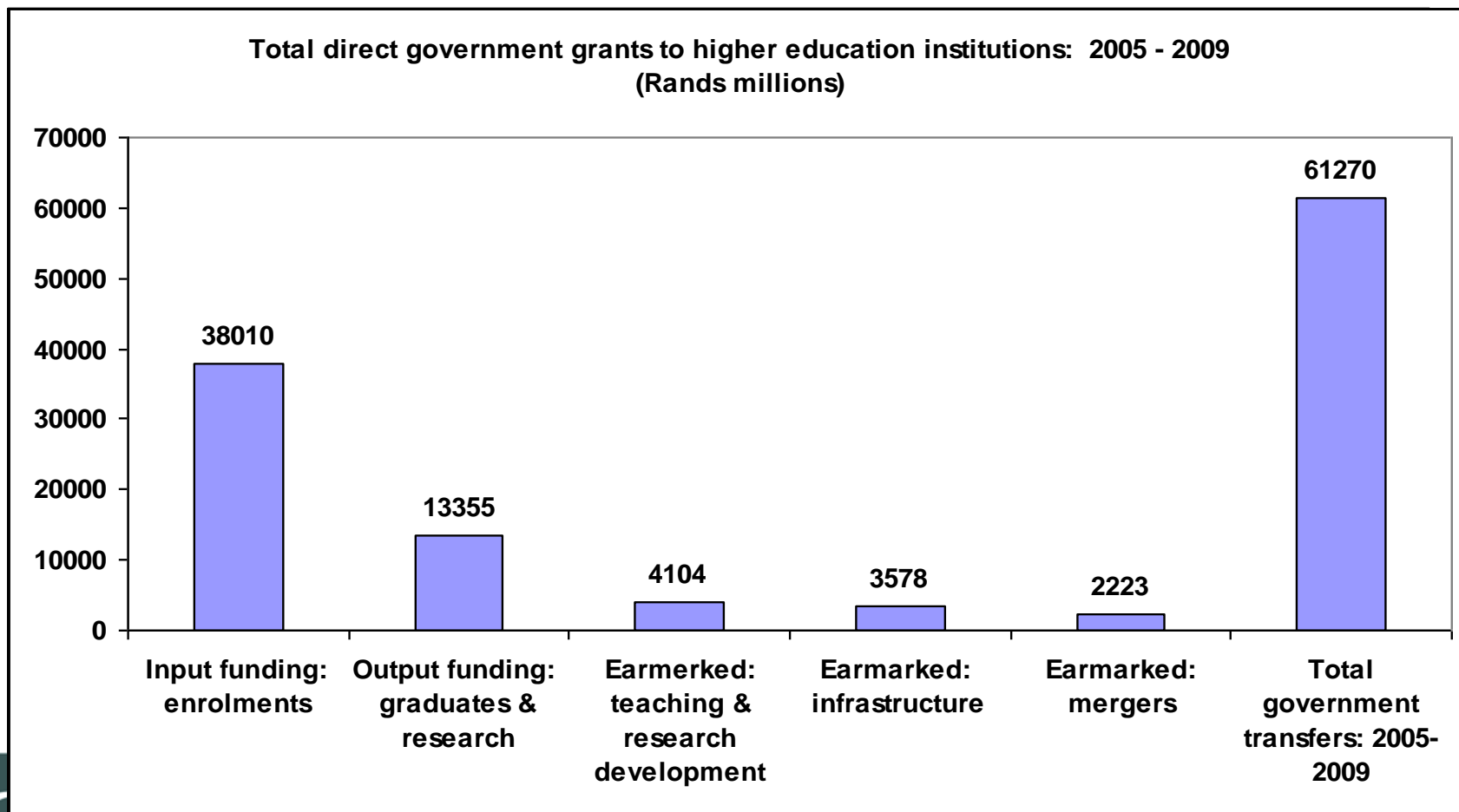


FUNDING FOR SERVICE DELIVERY (1)

Allocation of government higher education funds (millions)

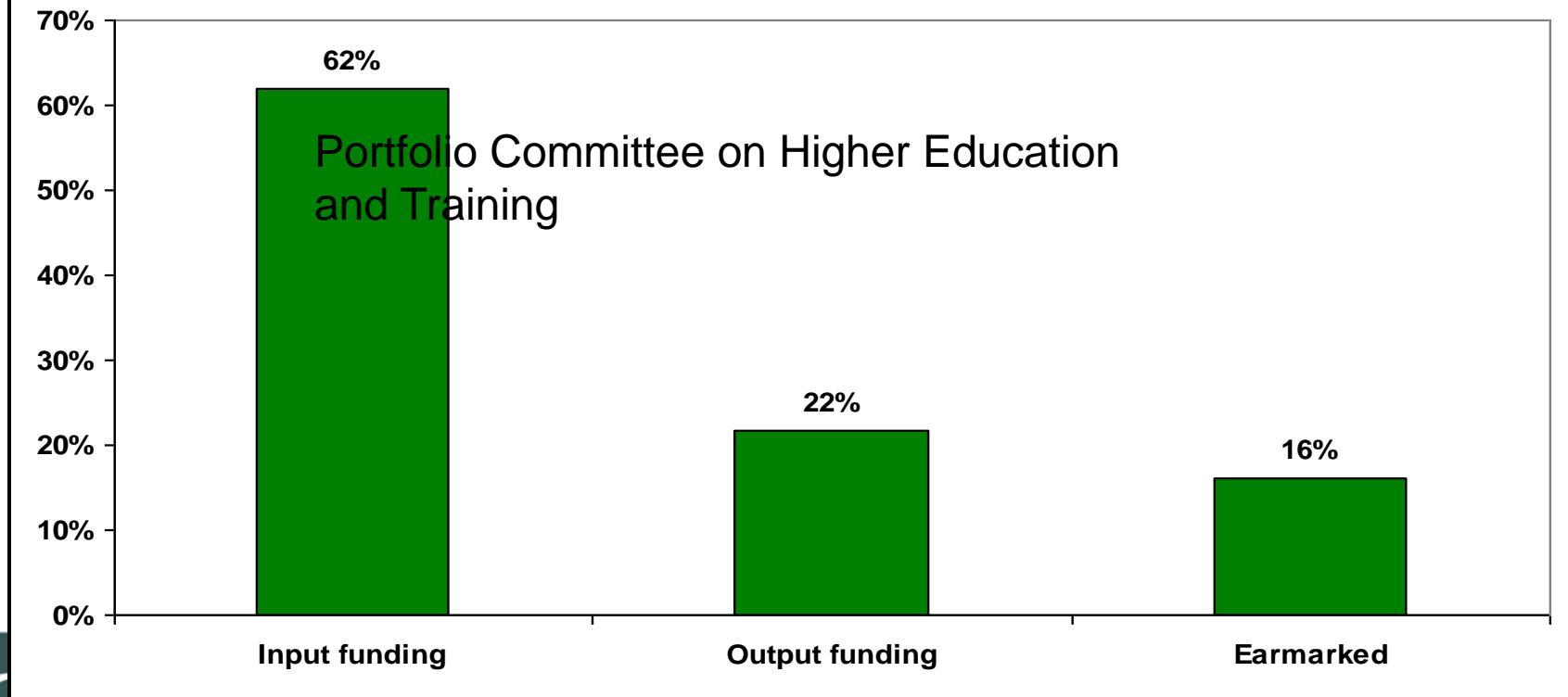


FUNDING FOR SERVICE DELIVERY (2)



FUNDING FOR SERVICE DELIVERY (3)

% of direct government transfers in each category: averages for 2005-2009



PUBLIC UNIVERSITIES CLUSTERED ON BASIS OF ACADEMIC CORE INDICATORS
**TABLE 6:
SYSTEM AND
INSTITUTIONAL
PERFORMANCE**

| CLUSTERS | Input indicators: averages for 2008-2010 | | | | | Output indicators: averages for 2008-2010 | | | | |
|---|--|--|--|--|---|--|--|--|---|---|
| | SET majors as % of total head count enrolments | BUS majors as % of total head count enrolments | Masters + doctors as % of total enrolments | % of permanent academics with doctorates | Ratio of doctoral enrolments to permanent academics | Ratio of bachelors and diploma graduates to undergraduate enrolments | Ratio of masters graduates to masters enrolments | Ratio of doctors graduates to doctors enrolments | Ratio of doctors graduates to permanent academics | Ratio of research publications to permanent academics |
| CLUSTER 1 | | | | | | | | | | |
| University of Cape Town | 41% | 23% | 19% | 61% | 1.1 | 20% | 27% | 15% | 0.17 | 1.2 |
| Stellenbosch University | 43% | 21% | 23% | 53% | 1.1 | 20% | 22% | 14% | 0.16 | 1.2 |
| Rhodes University | 24% | 18% | 15% | 56% | 0.9 | 22% | 26% | 12% | 0.11 | 1.0 |
| North West University | 18% | 12% | 7% | 49% | 0.8 | 26% | 25% | 15% | 0.12 | 0.5 |
| University of Pretoria | 36% | 14% | 13% | 40% | 0.9 | 22% | 21% | 13% | 0.11 | 0.7 |
| University of KwaZulu-Natal | 36% | 18% | 13% | 40% | 0.8 | 20% | 16% | 13% | 0.11 | 0.7 |
| University of the Witwatersrand | 45% | 17% | 23% | 53% | 1.1 | 17% | 16% | 11% | 0.11 | 0.9 |
| CLUSTER 2 | | | | | | | | | | |
| University of Johannesburg | 31% | 39% | 5% | 22% | 0.6 | 20% | 21% | 12% | 0.07 | 0.5 |
| University of the Western Cape | 33% | 15% | 11% | 49% | 0.9 | 17% | 20% | 11% | 0.10 | 0.5 |
| University of the Free State | 30% | 17% | 10% | 44% | 0.8 | 18% | 22% | 13% | 0.10 | 0.6 |
| Nelson Mandela Metropolitan University | 33% | 29% | 8% | 38% | 0.7 | 19% | 19% | 13% | 0.09 | 0.4 |
| University of Fort Hare | 24% | 18% | 9% | 33% | 0.7 | 17% | 22% | 12% | 0.08 | 0.4 |
| Durban University of Technology | 48% | 35% | 2% | 11% | 0.1 | 22% | 19% | 10% | 0.01 | 0.1 |
| Tshwane University of Technology | 39% | 34% | 2% | 19% | 0.2 | 20% | 14% | 12% | 0.02 | 0.2 |
| Cape Peninsula University of Technology | 49% | 30% | 3% | 12% | 0.2 | 24% | 12% | 10% | 0.02 | 0.2 |
| Central University of Technology | 46% | 29% | 2% | 27% | 0.2 | 20% | 13% | 7% | 0.00 | 0.1 |
| CLUSTER 3 | | | | | | | | | | |
| University of Zululand | 14% | 10% | 4% | 34% | 0.6 | 16% | 15% | 11% | 0.07 | 0.3 |
| University of Limpopo | 47% | 13% | 11% | 20% | 0.2 | 18% | 12% | 9% | 0.02 | 0.1 |
| Vaal University of Technology | 52% | 40% | 1% | 14% | 0.1 | 16% | 10% | 11% | 0.01 | 0.1 |
| University of Venda | 39% | 20% | 4% | 32% | 0.3 | 21% | 10% | 6% | 0.02 | 0.2 |
| University of South Africa | 11% | 42% | 2% | 32% | 0.6 | 7% | 9% | 8% | 0.05 | 0.5 |
| Walter Sisulu University | 26% | 29% | 1% | 11% | 0.0 | 15% | 4% | 4% | 0.00 | 0.1 |
| Mangosuthu University of Technology | 58% | 33% | 0% | 6% | 0.0 | 14% | 0% | 0% | 0.00 | 0.0 |
| CHET TARGETS FOR ACADEMIC CORE | 30% | 30% | 15% | 50% | 1.0 | 20% | 25% | 15% | 0.15 | 1.0 |

Sources: Indicators, targets and notion of academic core derived from CHET (2012), CHET (2011), CHET (2010), Department of Higher Education and Training (2000 - 2011), Department of Higher Education and Training (2000 - 2010)

PUBLIC HIGHER UNIVERSITIES BY INSTITUTIONAL CLUSTER

| Name of University | Category | History |
|---|---|--|
| <p><u>Cluster 1</u> Cape Town, Stellenbosch, Rhodes, Pretoria, Witwatersrand.</p> <p>North West, KwaZulu Natal</p> | University | <p>Historically white universities.</p> <p>Merger of historically white and historically black universities.</p> |
| <p><u>Cluster 2</u> Johannesburg, Nelson Mandela Metropolitan</p> <p>Durban University of Technology, Tshwane University of Technology, Cape Peninsula University of Technology</p> <p>Western Cape, Fort Hare</p> | <p>Comprehensive university</p> <p>University of technology</p> <p>University</p> | <p>Merger of historically white university and historically white technikon.</p> <p>Merger of historically white and historically black technikons.</p> <p>Historically black university</p> |

PUBLIC HIGHER UNIVERSITIES BY INSTITUTIONAL CLUSTER (CONT)

| Name of University | Category | History |
|-------------------------------------|--------------------------|--|
| <u>Cluster 2 cont</u> | University | Historically white university. |
| Free State | | |
| Central University of Technology | University of technology | Historically white technikon. |
| <u>Cluster 3A</u> | | |
| Zululand, Venda | Comprehensive university | Historically black university. |
| Vaal University of Technology | University of technology | Historically white technikon. |
| Mangosuthu University of Technology | | Historically black technikon. |
| Limpopo | University | Historically black university. |
| Walter Sisulu | Comprehensive university | Merger of historically black university and historically black technikons. |
| UNISA | | Merger of historically white university and historically white technikons. |

HIGHLIGHTS

- Performance analyses show that the higher education system is moving towards, but not meeting in full, its national development goals. The main concerns stem largely from unsatisfactory output rates:
 - many universities have student failure and drop out rates which are high and well above national targets
 - graduate and research output rates in all but a few universities are well below expected national targets
- Current funding mechanisms are too “blunt” to build the higher education system in effective ways. These mechanisms are being examined and reviewed by a Ministerial Committee set up by the Department of Higher Education and Training

RECOMMENDATIONS

- A new funding framework must be considered
 - The Green Paper's view of institutional differentiation would require thinking about more evolved funding principles and differentiation of the financing approach
 - FFC's concern: size, direction and impact of funding higher education and the post-school system as a whole
 - 3 major areas that require funding: higher education qualifications, further education qualifications, and research for knowledge production

RECOMMENDATIONS

- Consideration should be given to introducing a differentiated funding framework for a differentiated public university system by shifting from a unitary system to 3 funding frameworks (one for each cluster)
- A specific funding approach for each cluster, taking into account the different types of desirable outputs (graduations, research, other)
- Criteria-based funding framework, whereby institutions can move into another cluster (either up or down) depending on performance in knowledge production

RECOMMENDATIONS

- Review of the funding framework needs to be supported by research on formulating a future funding model that divides revenue into funding higher education, further education and research, in the most optimal way
- In order to better understand and analyse the performance and funding of the FET sector, the HEMIS system should be expanded to incorporate FET sector data, or a parallel system should be introduced to collect relevant data for analysis of the FET sector

NOTE ON BASIC EDUCATION PIPELINE

- Requirements of student performance at HET and FET level requires heightened capacity of students graduating from the school system
- Important focus here is how e-education can enhance the knowledge base of students in public schools



PAST RECOMMENDATIONS ON HIGHER EDUCATION AND BASIC EDUCATION

*Portfolio Committee on Higher Education
and Training*

EDUCATION RELATED RECOMMENDATIONS

2006/07

Government should review the national tertiary services and the health professions. Health Professions Training and Development Grant (HPTDG) should be retained as a conditional grant. The HPTDG framework be tightened to make sure that the grant is only used to fund accredited qualifications and training.

Government agreed with the FFC and implemented the proposal .

2008/09

There should be effective coordination of planning for the various provincial and municipal infrastructure grants should be instituted as a matter of urgency to ensure optimal outcomes from school infrastructure investment.

To address misalignment where this exists, government introduced the electricity, water and sanitation grants to ensure that municipal infrastructure supported the school infrastructure programme.



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ONGOING FOCUS ON HIGHER EDUCATION BUDGET ANALYSIS AND FINANCING

*Portfolio Committee on Higher Education
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I. IMPACTS OF EDUCATION SPENDING ON GROWTH AND POVERTY

- Heritage of the Apartheid regime on labor market and educational system
- Years after the end of Apartheid, disappointing results overall with strong inequalities in terms of educational performance across institutions
- Project investigated expected outcomes of a pro-education policy that tackles skills shortages by improving school quality
 - Used a dynamic education macroeconomic model linked to the labour market explicitly
 - Analytical goals were to (a) understand how students' decisions with respect to ongoing skills acquisition in the education system are affected by improved school quality and (b) consider interactions between education and the rest of the economy

II. BUDGET REVIEW OF SOUTH AFRICAN FET SECTOR

- Project will examine financial and fiscal issues pertinent to FET sector, namely:
- **BACKGROUND**
 - fitness for purpose and
 - performance in meeting the needs of South Africa's changing economy and society.
- Project investigates the
 - size and shape of the sector,
 - historical financial inputs over the long-term (decadal view),
 - performance outputs, and
 - contribution of the sector to the broader society.
- Project aims to shed light on strengths and weaknesses of the sector and present conclusions and ideas for budgetary reforms

III. RESEARCH AND VALUE OF SOUTH AFRICAN KNOWLEDGE BASE FOR DEVELOPMENT

- Project aims to foster continuous improvement and heightened performance of the higher education system with respect to research performance
- Research Question: What funding and financing innovations are required to increase the potency of research from the higher education sector and to take the next steps to creating significant socio-economic impact for higher education research?
- Project also analyses relevant elements of Green Paper on Higher Education, Ten Year Plan on Innovation, Ministerial Review on Science and Technology and National Development Plan



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CONCLUDING REMARKS

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CONCLUSION

- The Financial and Fiscal Commission
 - Welcomes opportunity to interact with PC on Higher Education and looks forward to continued engagement
 - Hopes the Committee will find the recommendations for 2013/14 DoR useful in carrying out its oversight role and engaging with relevant institutions of government (DoHET, DST, other)
 - Looks forward to future engagement on research on financial and fiscal matters, with respect to fostering continuous improvement and heightened performance of the higher education system and its role in broader development



THANK YOU.

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