Box 4 Financing of tertiary education

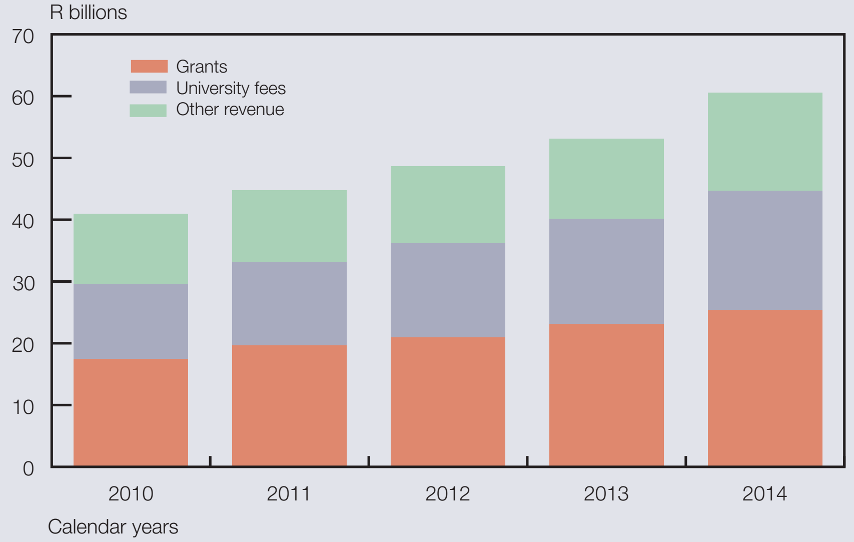
Widespread disruptions at tertiary education institutions in the country most recently in support of lower student fees have focused attention on the financing of tertiary education and trends in tertiary education costs.

In terms of the Higher Education Laws Amendment Act 26 of 2010 and individual institutional statutes, the mandate of approving tuition fee increases resides with the Council of a tertiary education institution. In order for a higher education institution to formulate and develop a proposal on fee increases to be submitted to its Council, an appropriate internal consultation process normally takes place. Tuition fee increments should be congruent with the goals and strategic plans of the specific institution towards ensuring financial sustainability.

Tertiary education institutions take into account all relevant internal and external conditions, challenges and cost pressures in arriving at an appropriate tuition fee. Factors which are generally considered in arriving at an appropriate fee may include: total cost of staff employment; maintenance of buildings and equipment with consideration of its replacement cycle; undergraduate and postgraduate financial aid commitments; capital expenditure programmes; the need for support programmes; municipal rates (electricity, sewerage, refuse removal and water); library acquisitions; professional registration requirements; competitor behaviour; cleaning services; campus development plans; teaching ratios; the availability of financial assistance, be it from government grants or private sources; security services costs; and extraordinary expenses.

Government assistance is an important factor in the financing of tertiary education and therefore in deciding on tuition fees. Of the three financing pillars of tertiary education – government grants, student fees and private sources – government grants constitute the largest single component, as depicted in the accompanying graph.[1]

Revenue of tertiary education institutions



In 2014 government grants to tertiary education institutions amounted to R25 billion, or 5 per cent of total consolidated general government expenditure, and constituted 42 per cent of these institutions' total revenue. The financial contribution from national government towards tertiary education is divided into a so-called block grant and an earmarked grant. Tertiary education institutions generally have the leeway to allocate block funds as they see fit, while earmarked grants have to be utilised for specific expenditures related to infrastructure, training and the National Students Funding Aid Scheme (NSFAS), among others. The block grant forms the largest part of government's contribution to tertiary education at around 81 per cent of the total most recently, with the NSFAS component having grown to 14 per cent and other earmarked funds accounting for the remaining 5 per cent.

University fees in 2014 constituted approximately 32 per cent of the total revenue of higher education institutions. With the increase in fees capped, tertiary education institutions would obviously become more reliant on government grants and private sources.

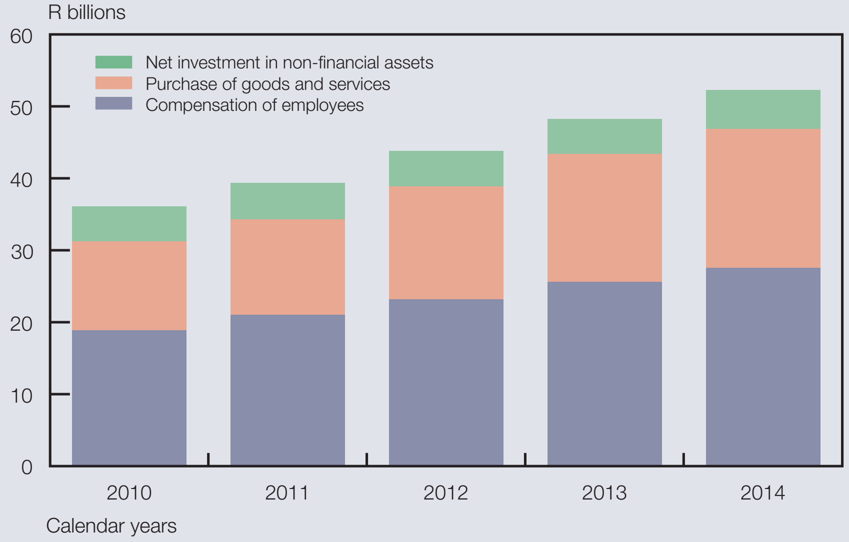
On the expenditure side, higher education institutions spend approximately half of their total outlays on compensation of employees, as shown in the graph on the next page. Purchases of goods and services constituted a further 35 per cent of the total in 2014, and net investment in non-financial assets (capital spending) approximately 10 per cent. Capital spending stagnated from 2011 to 2013, but was stepped up in 2014.

Tertiary education fees carry a weight of 1,23 per cent in the headline consumer price index (CPI) as compiled by Statistics South Africa.[2] The statistics on tertiary education fees are collected in March each year from state-funded and private tertiary institutions within the CPI collection areas by means of a postal and e-mail collection process, and include the fees attached to the top ten subjects or degrees, based on the frequency of registered students.

1 While these aggregate statistics provide a high-level overview of the finances of the tertiary education institutions, circumstances vary considerably from institution to institution

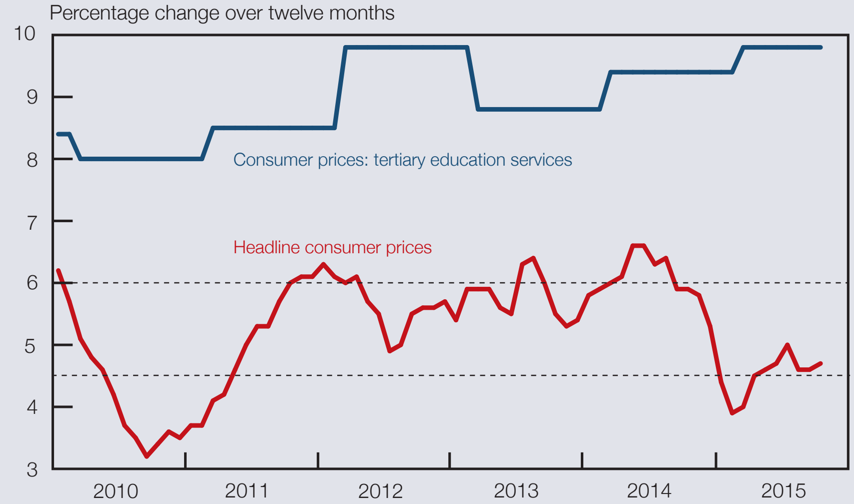
2 Pre-primary and primary education, secondary education and tertiary education respectively comprise 0,98 per cent, 0,74 per cent and 1,23 per cent of the total index. In addition, the category for university boarding fees with a weight of 0,06 per cent is included under the restaurants and hotels category in the CPI.

Expenditure by tertiary education institutions



As indicated in the accompanying graph, inflation in tertiary education services costs has far exceeded that in the general level of consumer goods and services prices as measured by the Headline CPI. In fact, tertiary education fees on average have increased by as much as 9,0 per cent per annum over the period from January 2010 to October 2015, whereas overall consumer prices have risen by 5,6 per cent per annum over the same period. The gap between headline CPI inflation and tertiary education services cost inflation became most acute during the past year as tertiary education services cost inflation accelerated further. However, fee increases are likely to be close to zero in 2016.

Headline consumer and tertiary education services price inflation



It is desirable for tertiary education institutions to constantly improve the quality of education services rendered to remain internationally competitive. This drive, however, comes at a cost and impacts on tertiary education fees; difficult trade-offs have to be faced.

In summary, rampant increases in tertiary education costs, as brought to the fore by recent student protests, would remain high on the agenda of policymakers as new and innovative ways would have to be found to contain these cost increases. Additional revenue sources would also need to be developed to continue financing a reputable tertiary education system in the country.