RHODES UNIVERSITY

Transformation Summit

July 2017

Student fees

Professor Matthew Lester

Contents

Chapter 1
Introduction

Section 29 of the constitution of the Republic of South Africa provides that

> *Everyone has the 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.*

At a meeting of the Rhodes University Council in May 2016 it was agreed to convene a transformation summit towards the end of 2016.

The council agreed further that planning of such a summit / conference should not be left with Management alone. It was felt that the process should be inclusive, consultative, that the summit should be carefully planned, systemic, open and publicized. The need for people to know that the University is serious about these matters and that the community was being empowered to look at their own problems was expressed. The summit would be the start of a process of engagement with all issues in an intelligent and respectful manner.

Council acknowledged that the summit should be inclusive, properly organized, taking into account all constituencies and role players of the University.

High on the agenda of transformation summit must obviously the issue of the student fees crisis.

The purpose of this document is to act as a framework and discussion document covering the complex and controversial issues surrounding student fees at Rhodes University. It seeks to do no more than identify the many issues and facilitate further engagement and debate within the University community.

Specifically, this document does not constitute any form of policy of the university or any decision of the Rhodes University Council.

Chapter 2
A graphic synopsis of the primary problems relating to student fees at National level

South Africa's university student population represents a small proportion (5%) of the total population within education.[1]

Percentage of persons aged 5–24 attending an educational institution by type of institution

Institution	2001	2011	2016
School	92%	93%	93%
University / University of Technology	2%	3%	5%
College	1%	3%	1%
Other	5%	2%	1%
Total	100%	100%	100%

Source: Census 2001, Census 2011 and Community Survey 2016; percentages are rounded off

STATS SA
STATISTICS SOUTH AFRICA

THE SOUTH AFRICA I KNOW, THE HOME I UNDERSTAND

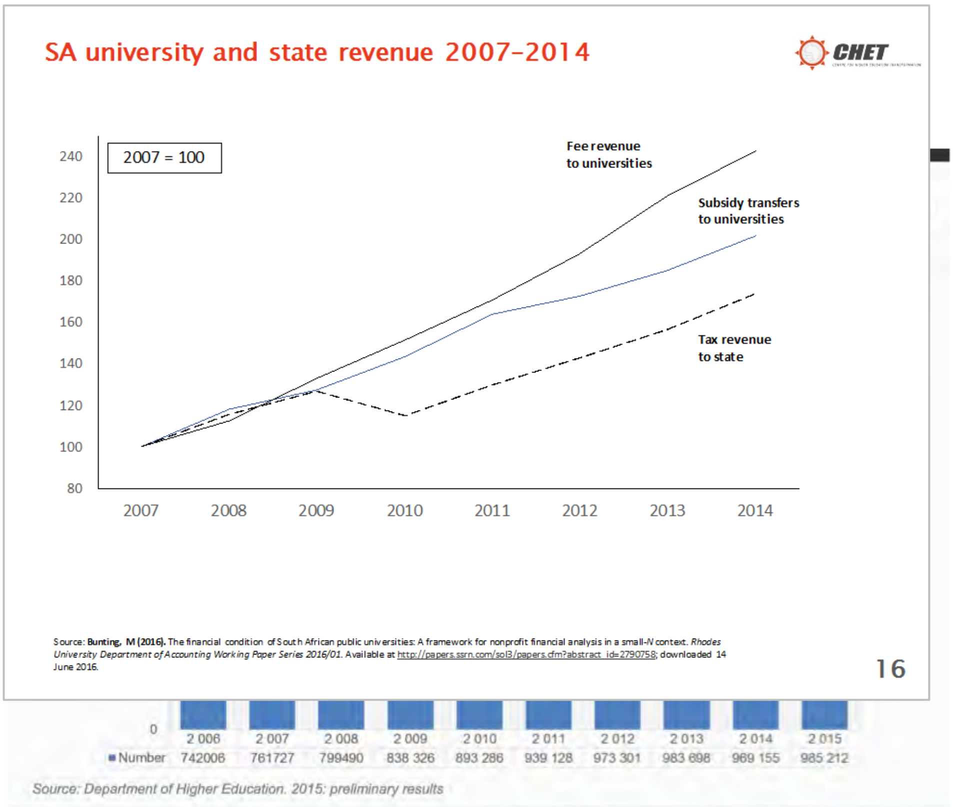
South Africa's student population has grown substantially since 2006.[2]

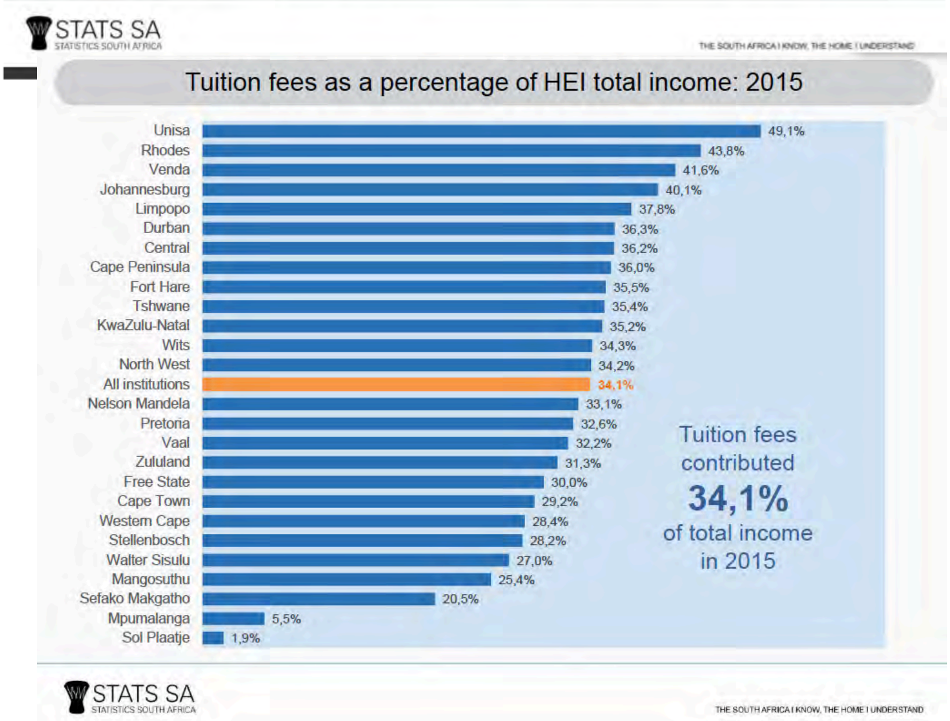
[1] *STATSA Financial statistics of higher education institutions 2015 Released 25 October 2016*

[2] *STATSA Financial statistics of higher education institutions 2015 Released 25 October 2016*

During the period 2006 to 2015 government Grants/ Subsidies to HEIs increased by 144%.

There can be no doubt that State subsidies to universities have increased, even beyond State tax revenues. HOWEVER, State subsidies have not kept pace with inflation <u>and</u> the growth in student numbers.

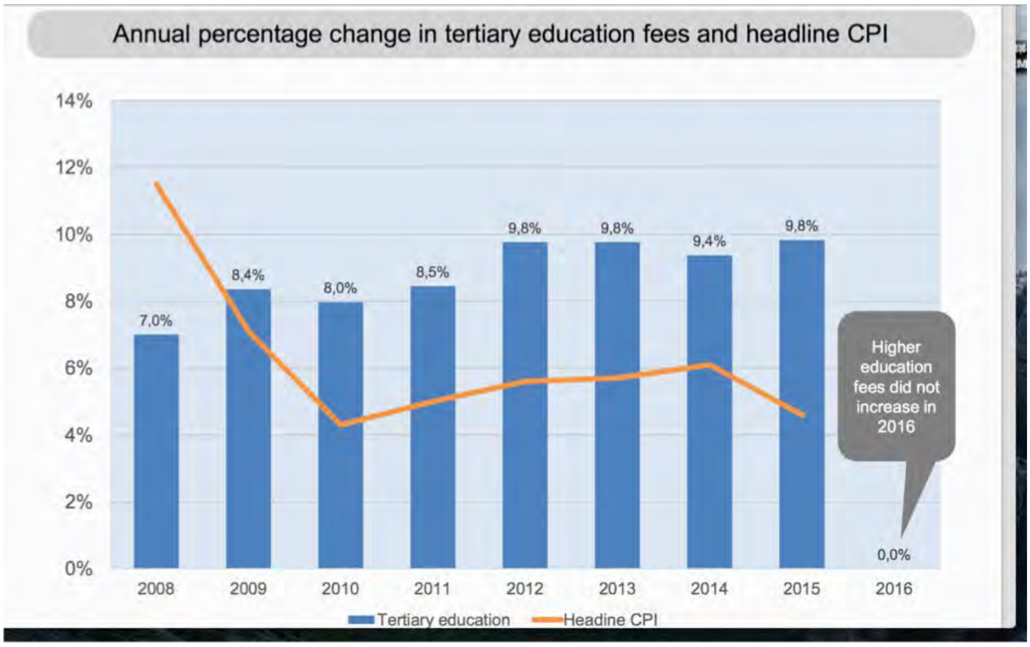




The inevitable result was that during the period 2007 to 2014 student fees increased by more than the inflation rate as universities struggled to balance their budgets. By 2015 South Africa's university tuition fees comprised 34% of the total university budgets.

The extent of reliance on tuition fees ranges widely between the universities. In 2015 Rhodes University was the second most dependent university on the tuition fees in South Africa.

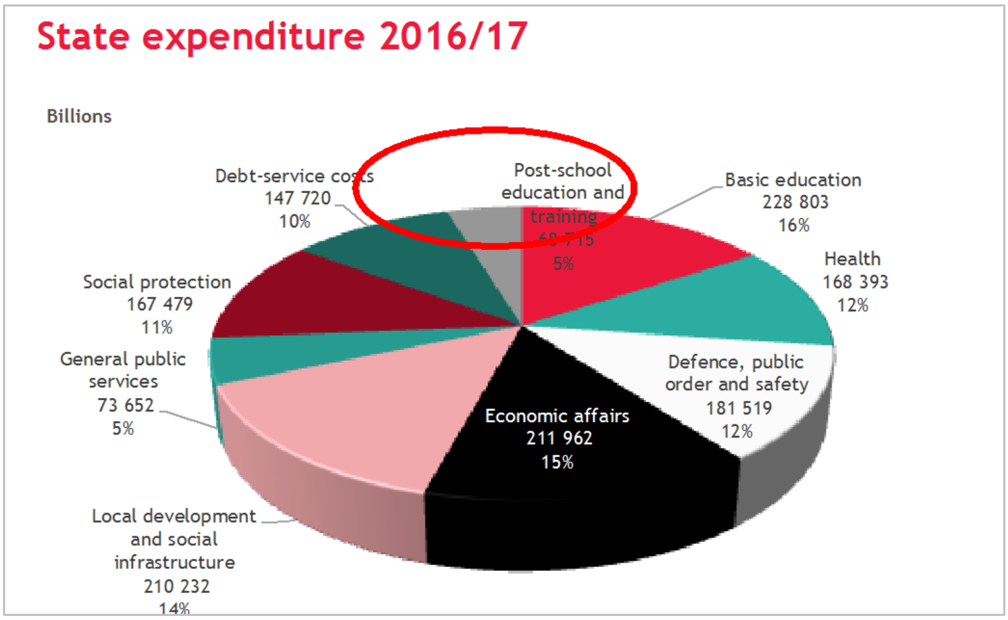
Despite the substantial increase in grants to HEIs student fees have increased by more than the inflation rate for the period 2006 to 2015.



The above situation was clearly not sustainable and is the primary cause of the student fee crisis. This culminated in the zero percent fee increase for the 2016 academic year and the restriction of an 8 percent maximum fee to students with a family income of above R600 000 per annum in 2017.

The solution path at National Level

Although education accounts for more than 21% of SA's government expenditure, it is important to distinguish between Basic education (16% of consolidated general government expenditure) and Post School Education and Training (5%.)



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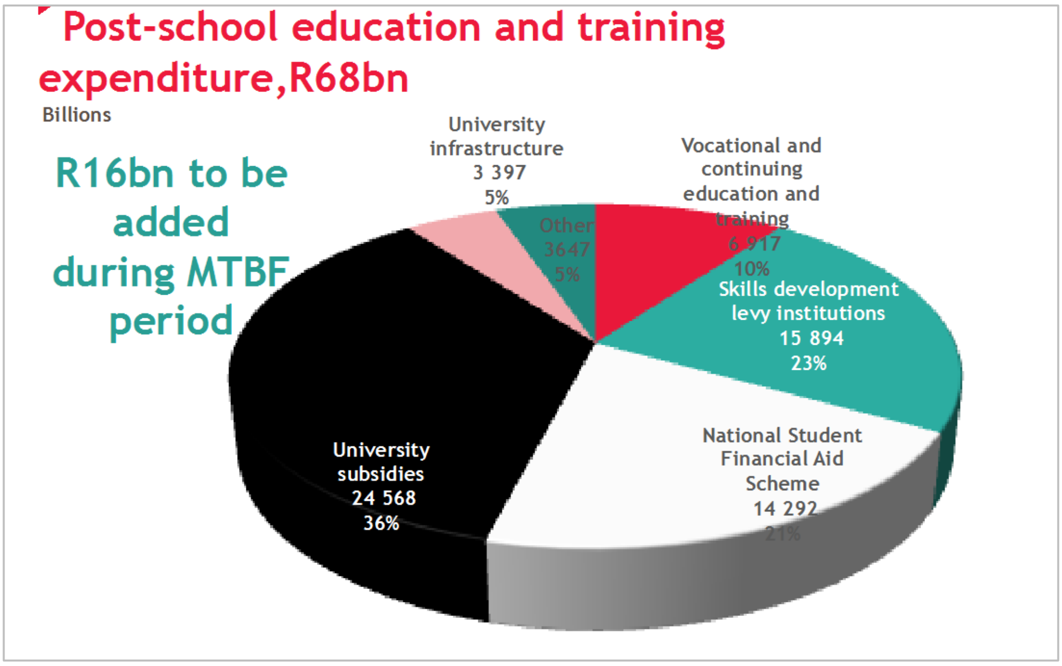
It is important to analyse the components of the higher education budget as it forms part of the greater 'post school education and vocational training budget.'



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[3] *National Budget Review 2016/17. Graph compiled by Professor Matthew Lester*

[4] [4] *National Budget Review 2016/17. Graph compiled by Professor Matthew Lester*

The post-school education and training budget is divided primarily between

- Vocational training and Skills development levy institutions, 33% or R23 billion, and
- University subsidies and NSFAS, 57% or R39 billion
- University infrastructure and other 10% or R7billion

University subsidies and the NSFAS scheme (R39billion) represent just 2,6% of the R1,46 trillion National State expenditure or 0,7% of GDP.

The Commission of Enquiry 'COE' into Higher Education and Training states

As a matter of comparison with state funding spent by other countries in the developed and developing world South Africa`s expenditure on higher education as a percentage of GDP (±.71%) ranks low. The percentage should be at least doubled to enable higher education institutions to fulfill their mandate.[5]

If, SA's universities have an integral contribution to make in securing a better future for all South Africans and the achievement of the objectives of the national then the budget allocation must surely be questioned.

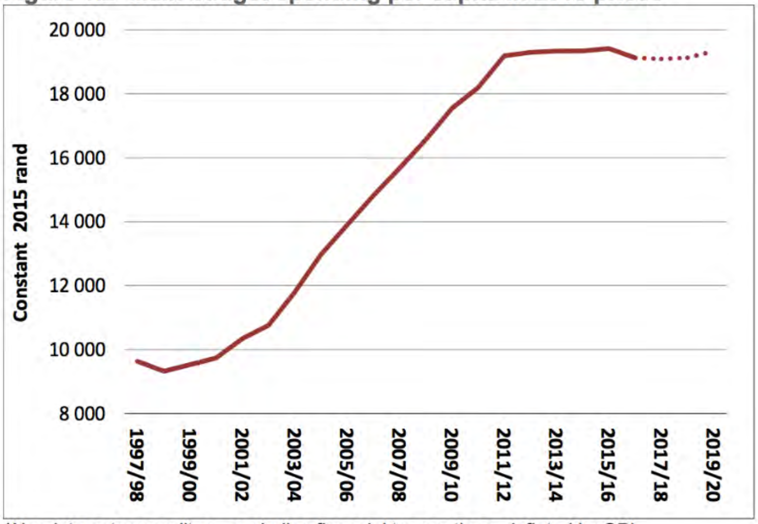
Estimates vary widely. If, as suggested by the COE, the higher education budget is to be 'at least doubled' as suggested the cost thereof would be in the order of R60 – R80 billion per annum.

Given current fiscal constraints, an additional budget allocation of R60 – R80 billion per annum (in 2016 terms) may well take years to achieve.

At the same time it is important to acknowledge that real per Capita spending for ALL SOUTH AFRICANS is hardly increasing.

[5] *INTERIM REPORT OF THE COMMISSION INTO THE FEASIBILITY OF FEE-FREEHIGHER EDUCATION AND TRAINING: 2 November 2016*

Figure 1.2 Main budget spending per capita in 2015 prices*

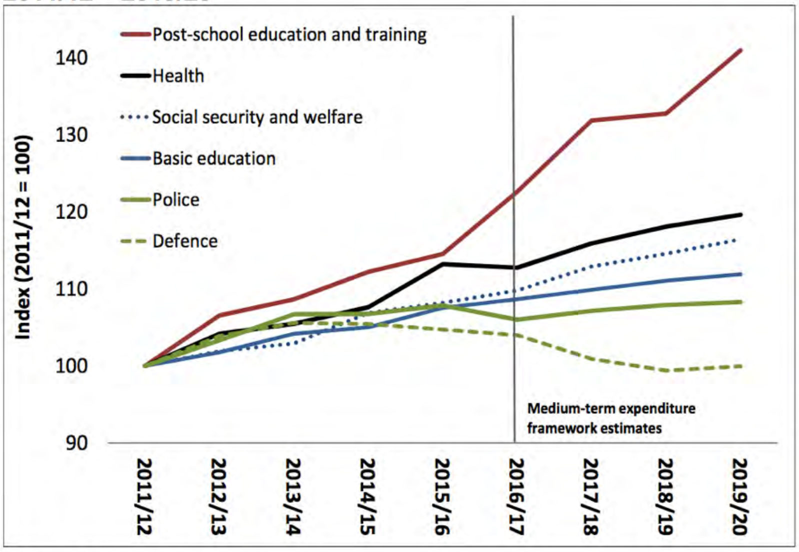


*Non-interest expenditure, excluding financial transactions, deflated by CPI
Source: National Treasury

In the 2015/16 MTBPS, in spite of having very limited fiscal space National Treasury allocated an additional R16 billion towards the Higher Education fee crisis over the MTBPS period. This translates into additional funding of approximately R5 billion per annum (refer Chapter 3).

However, the post-school education budget will increase at 9,2%, substantially above the national average. [6]

Figure 1.3 Index of budget allocations in real terms,* 2011/12 – 2019/20



*Deflated by CPI inflation
Source: National Treasury

[6] MTBPS 2016/17

The MTBPS 2016/17 proposes to accelerate the growth of spending on post-school education. Despite fiscal constraints, subsidies to universities[7] grow at 10.9 per cent each year and transfers to NSFAS grow at 18.5 per cent.

NSFAS received additional funding of R10.6 billion over the 2016 MTBF period. Of this amount, R2.5 billion was allocated in the current year for short-term debt relief for 71 753 unfunded or inadequately funded students who were at universities in the 2013, 2014 and 2015 academic years. The remaining R8 billion was for unfunded new and continuing students for the 2016 academic year and beyond. [8]

In the 2017 government will fund the increase in fees at higher learning institutions for the 2017 academic year, up to a maximum of 8 per cent, for students from households earning up to R600 000 per year. Significant top-ups are also made to NSFAS.[9]

Conclusions

It is the aim of this report to identify the impact of the above on the issue of student fees at Rhodes University so that sustainable and targeted measures may be pursued to make a meaningful difference to students.

Based on the 2011 Income and Expenditure Survey, the World Bank[10] and van der Berg[11] both estimate that as much as half of the university funding in South Africa accrues to the richest 10% of households. As van der Berg notes, this constitutes an “extreme bias towards spending on the rich if all students are equally subsidised.” Thus it is imperative to highlight the regressive, pro-rich nature of a ‘no-fee-for-everyone’ type policy. The above rebuttals do not apply to a “no-fee-for-the-poor” option. [12]

Fee-free higher education for everyone (including the wealthy) is not economically financially possible or desirable in the short to medium future in South Africa. With an understanding of the budgetary realities in the medium term expenditure framework, it is simply not possible to find the additional funding without massive re-prioritisation or large-scale additional borrowing. Thus, whatever additional funds can be raised and ring-fenced for higher education should be allocated in an explicitly pro-poor fashion. [13]

A ‘no-fee’ policy (apart from being infeasible) cannot possibly be pro-poor in South Africa.

A blanket ‘fee-free’ policy is clearly regressive and amounts to a large additional subsidy for the rich and goes against the grain of the progressive commitments of the Constitution.[14]

7 MTBPS 2016/17

8 MTBPS 2016/17

9 MTBPS 2016/17

10 World Bank (2014) South Africa economic update: Fiscal policy and redistribution in an unequal society, p. 48, footnote 44.

11 3 Van Der Berg, S (2016) The nature of university education: Merit or Private Good? KagisanoAvailable:http://www.che.ac.za/sites/default/files/publications/Kagisano%20Number%2010%20-%20Student%20Funding%202016%20-%20electronic.pdf

12 Davis Tax Committee 2016

13 Davis Tax Committee 2016

14 Davis Tax Committee 2016

The above leaves Rhodes University in an extremely exposed position. There is a general consensus that a no-fee policy or even the extension of the university subsidy is not the solution.

Meanwhile Rhodes University is the second most dependent university in South Africa on the tuition fees.

Chapter 3
A graphic synopsis of the primary problems relating to student fees at Rhodes University

(A) Introduction

To better understand Rhodes' future budgetary constraints, it is useful to start with a brief overview of expenditure and revenue in recent years.

Figure 1: Income & expenditure 2016 (R '000)

- Expenditure is on the left and income on the right of the circle. Income for, and expenditure on, residences is not included in any of the numbers.

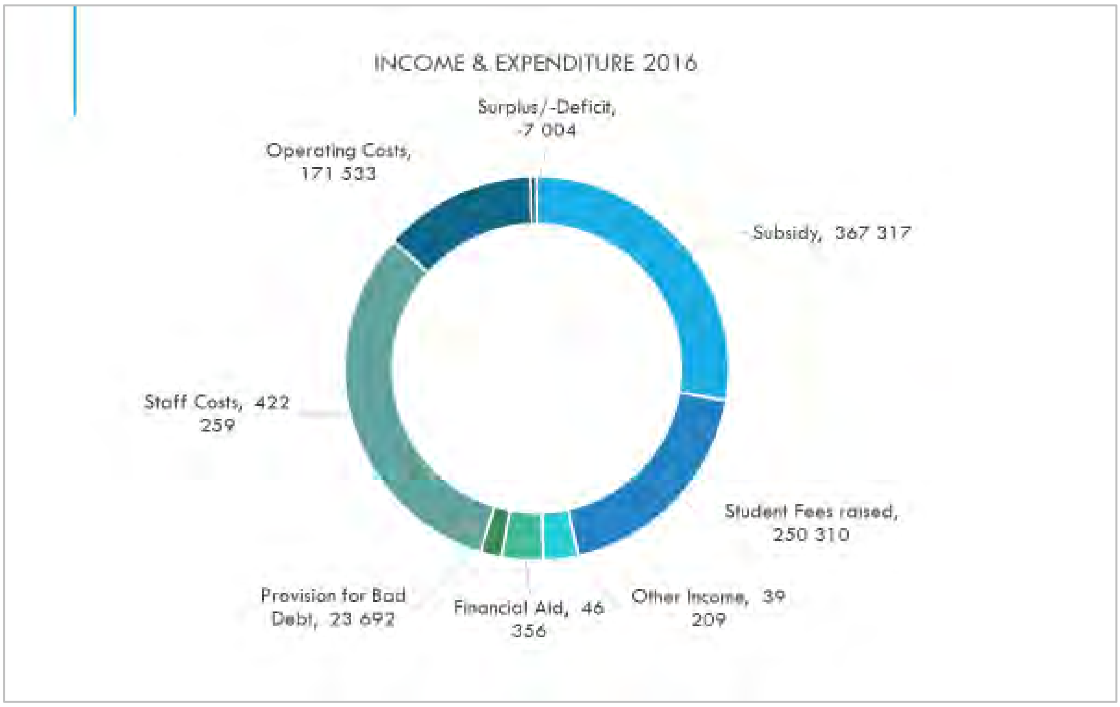


Figure 1 shows the actual position in 2016:

- Expenditure in 2016 exceeded revenue by R7.0 million.
- This is after a provision for bad debts (unpaid fees) of R23.7 million.
- The University's sources of income in 2016 were:
  - Government subsidy R367.3 million (56%)
  - Student fees R250.3 (38%)
  - "Other" (3rd stream) income R39.2 million (6%).
- Expenditure in 2016 can be divided into:

- Staff costs R422.3 million (64%[15])
- Operating costs R171.5 million (26%)
- Provision for bad debt R23.7 million (7%)
- Financial aid R46.4 million (4%).

- Expenditure did not include significant underspend on maintenance, where the university has an estimated backlog of more than R1 billion.

Figure 2: Income & expenditure 2007 & 2012-2016 (R '000)

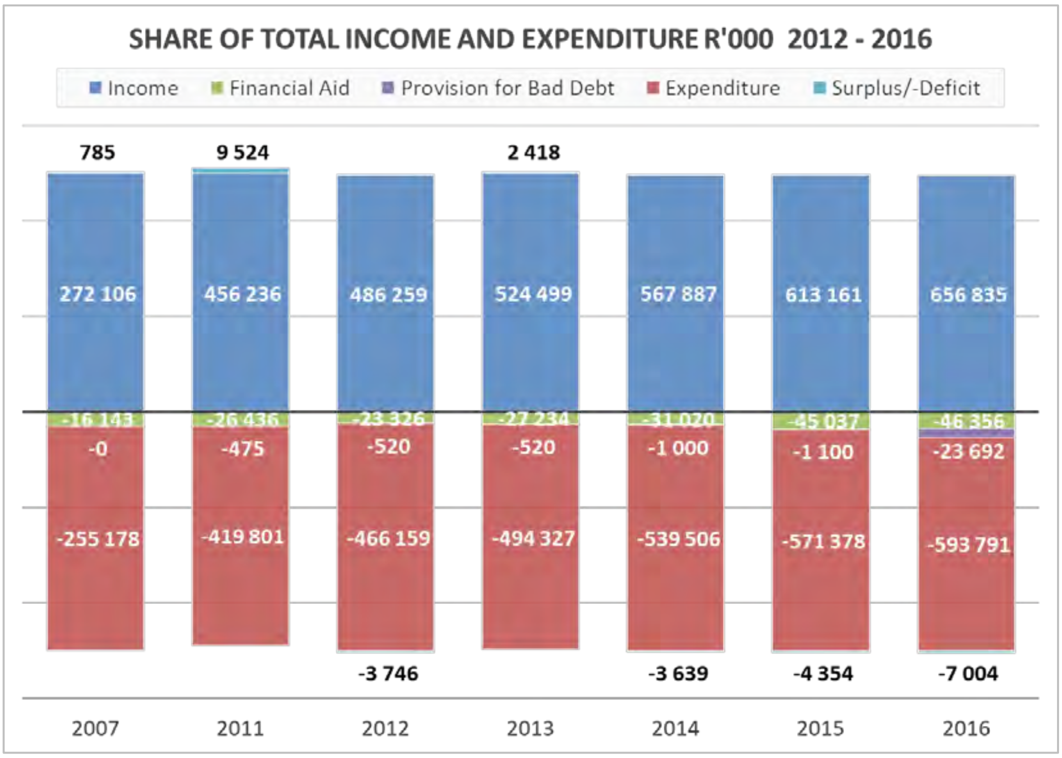


Figure 2 illustrates the evolution of spending and revenue since 2007. It shows:

- Between 2007 and 2016 income increased from R272 million to R657 million (+141%), while expenditure (excluding financial aid and bad debt) increased over the same time from R255 million to R594 million (+133%). Including Financial aid and bad debt, expenditure rose from R271.3 million to R663.8 million (+145%).
- The University ran small surpluses in 2007, 2011 and 2013, but deficits in 2012, 2014, 2015 and 2016.
- Rhodes University has run an increasing deficit each year since 2014.
- This deficit was funded from reserves or borrowings so is not sustainable in the medium and long-term.

[15] *Note that expenditure includes Financial Aid and Provisions for bad debt. When total costs are defined as staff and operating costs in Figures 7 and 8, staff costs are 71% of total costs.*

(B) Revenue

Revenue received in 2007 and 2011-2016 is shown by source in Figure 3 in Rand ('000). Figure 4 shows the relative share of each source of revenue in percentages.

Note that "net student fees" is fee income after subtracting Financial Aid and Provision for bad debts (unpaid fees). The importance of the subsidy and unpaid fees for net fee income is demonstrated further in Figure 5.

Figure 3: Income by type, 2007 & 2011-2016 (Rand '000)

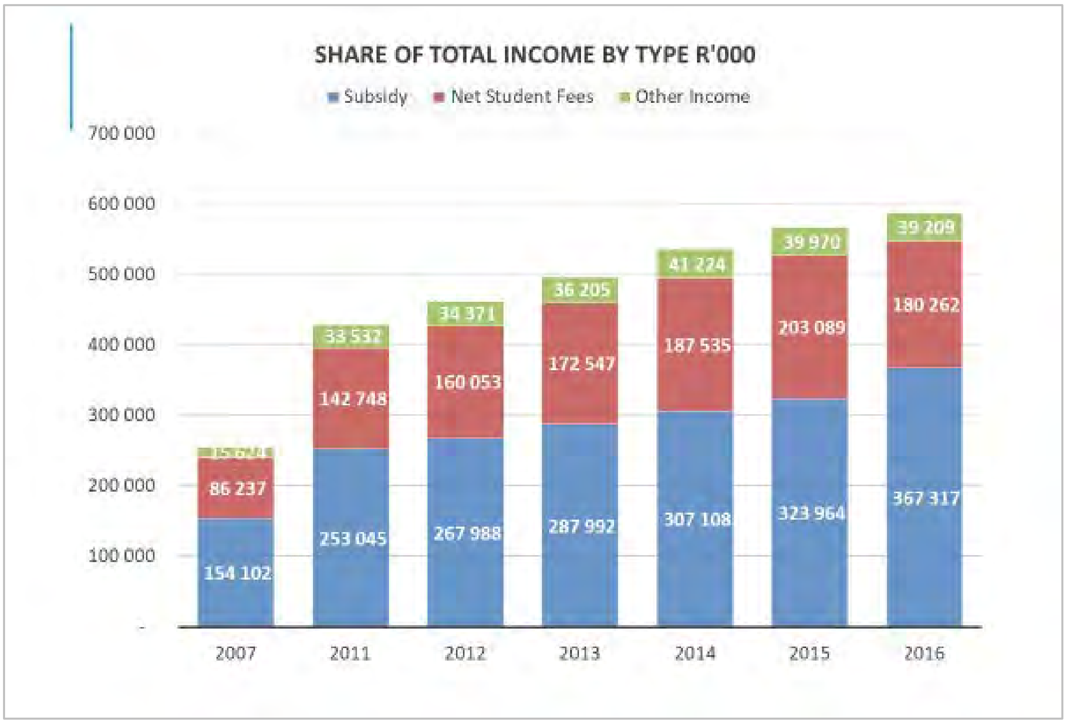
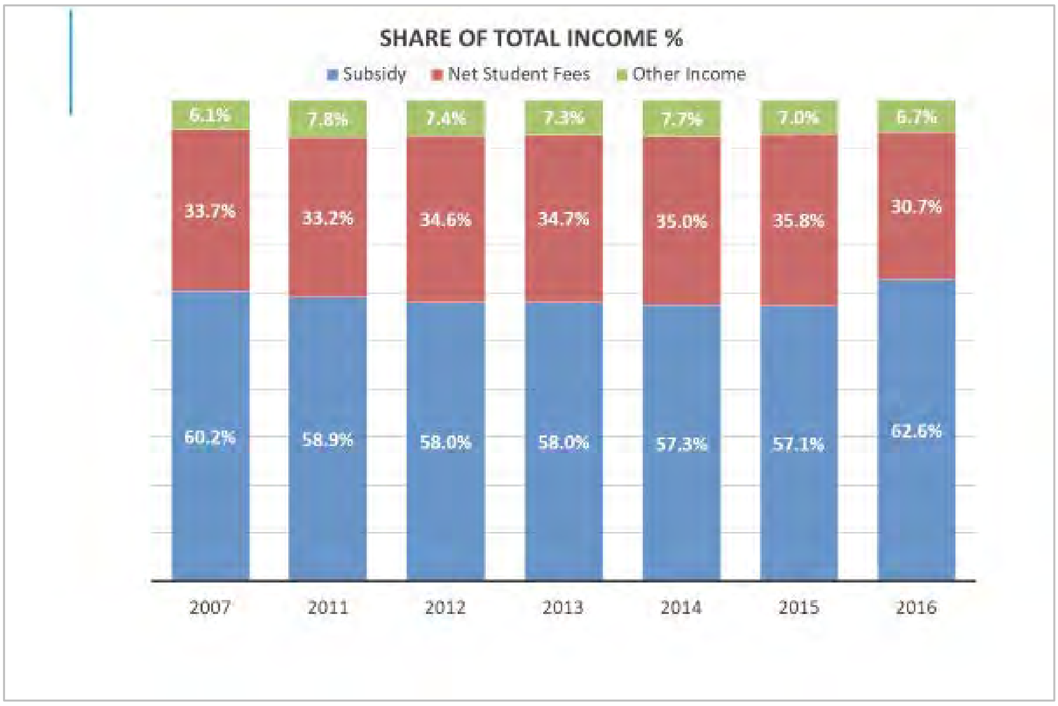


Figure 4: Income by type, 2007 & 2011-2016 (%)



Figures 3 and 4 illustrate important changes over time. These are examined first for the period 2007-2015 and then 2007-2016 to allow for the impact of the freezing of student fees (and the resultant increased subsidy from government) in 2016.

2007-2015

- The share of net student fees rose from 33.7% of income in 2007 to 35.8% in 2015. This is because income from student fees grew faster than subsidy income. Government subsidy contributions are calculated on data from earlier years and so "catch up" for increasing student numbers is often delayed.
- Other income rose from 6.1% in 2007 to 7.7% in 2014, but fell to 7.0% in 2015.
- Government subsidy's share of income fell from 60.2% in 2007 to 57.1% in 2016.
- Rhodes University therefore relied increasingly on student fees for its income over this period.
- To put the changing sources of income into perspective, it must be noted that:
  - Prices as measured by CPI rose 61% from 2007-2015.
  - Rhodes University's total income rose by 122% (almost double inflation) over this period.
  - Government subsidy received by Rhodes University rose 110% from 2007-2015 (nearly 50% more than inflation). This was insufficient to meet rising costs.
  - Other income rose 156%.
  - The fastest growing source of income was student fees (+136%).
    - Increased student numbers account for a substantial part of the increase in fee income in real terms.
    - But above-inflation fee increases also increased income. Fees for a fulltime BA student, for example, rose from R19 140 in 2007 to R37 200 in 2015 (+94%). Most of the increase in fee income above 94% must therefore have been because of increased student numbers.

Increases in income were insufficient to prevent Rhodes running a deficit.

2007-16

Shares of income change substantially in 2016 when fees were frozen:

- Government's share of income in 2016 now exceeded that of 2007. This is partly due to the subsidy calculation reflecting the growth in student numbers of previous years. In addition, government compensated Rhodes for the frozen portion of student fees.
- Student fees in 2016 were now a smaller share than in 2007. This is due to the increase in subsidy taking up a larger share. In addition, net income from student fees fell in rand value in 2016 to below levels received in 2014. This was due to the ballooning of contributions made to student Financial Aid and Bad Debt in 2016.
- Comparing 2007 and 2016, the freezing of student fees produces the following outcomes:
  - CPI +72%

- total income +129%
- subsidy +138%
- net student fees +109%
- other income +151%.

- These substantial increases in income in real terms were insufficient to pay for substantial increases in expenditure in real terms that are discussed in the Section C.

Figure 5: Net student fees 2007, 2012-16 (R '000)

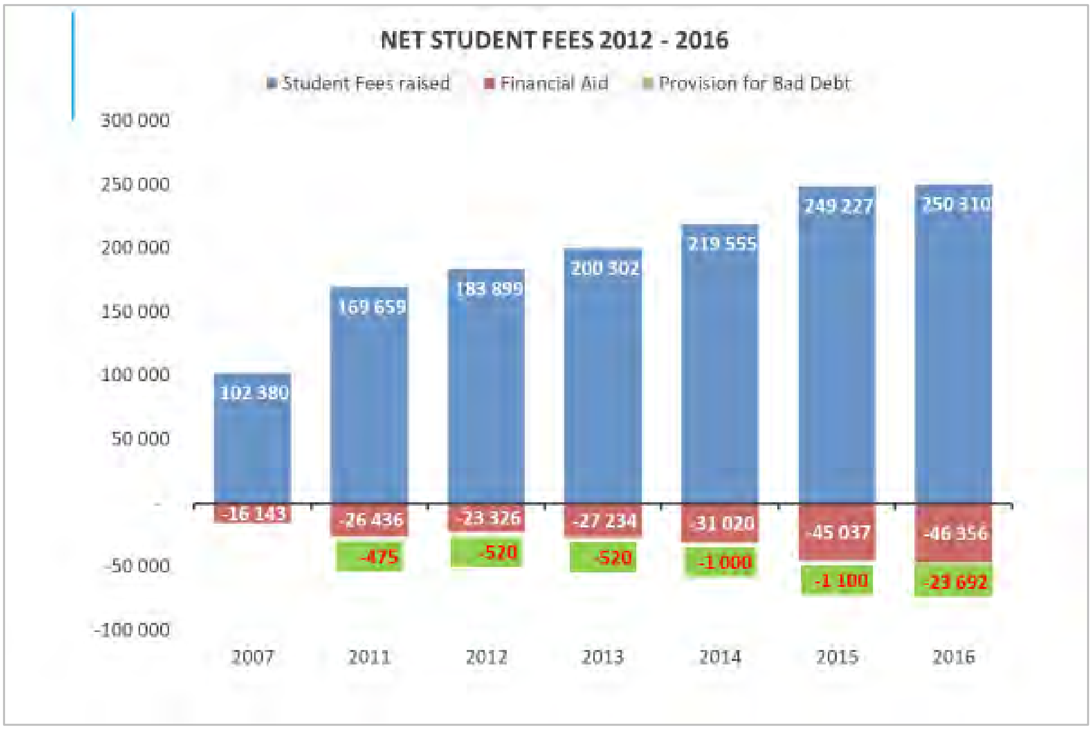
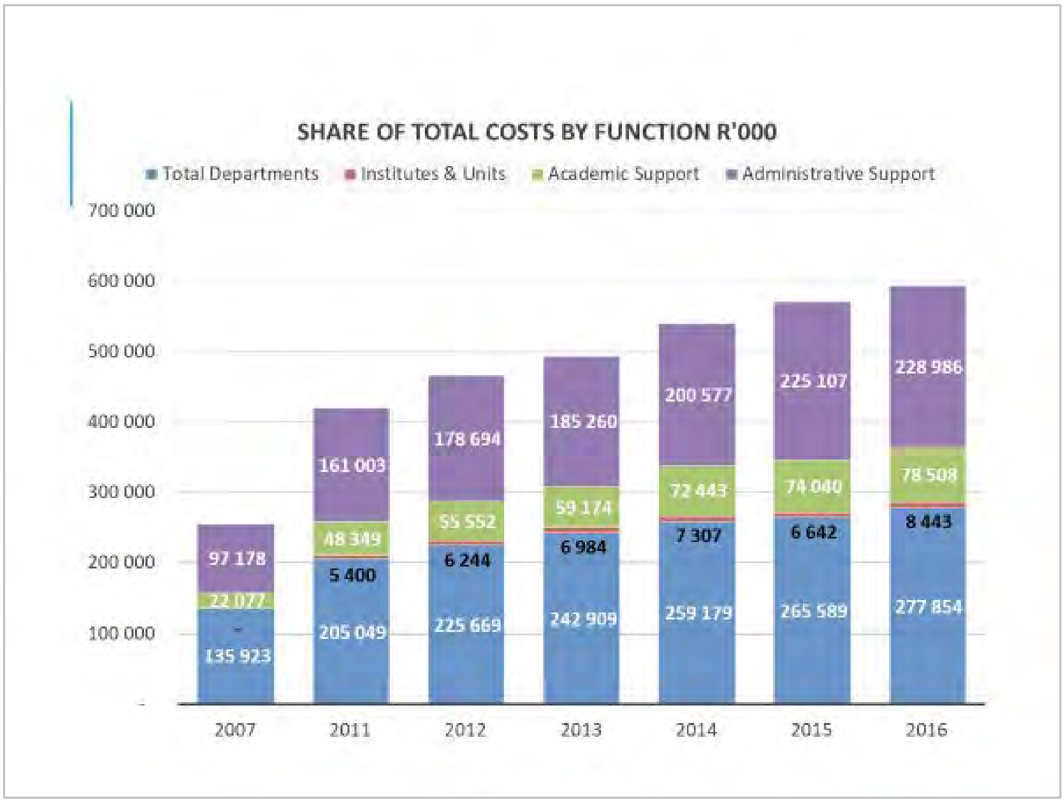


Figure 5 shows the calculations of the net student fees used in Figures 4 and 5.

- Financial aid rose from R16.1 million (15.8% of fees paid) in 2007 to R46.4 million (18.5% of fees paid) in 2016.
- Financial aid jumped 45% in 2015. Half the increase in fees in 2015 went to assist students who could not pay fees. This demonstrates the growing squeeze on students which led to the #feesmustfall campaign in the same year.
- A substantial part of the student body either could not, or would not, pay the fees charged in 2016 even though they were unchanged from 2015's levels.
- Together with the freeze on fees, the jump in Provision for bad debt in 2016 meant net fee income received fell R23 million from 2015-16 to a level lower in rand terms than in 2014.

(C) Costs

Figure 6: Total costs by function 2007, 2011-16 (R '000)



- Total costs rose 133% from 2007-2016 (versus 72% rise in CPI).
- The breakdown of costs per function shows:
  - 104% increase in academic department costs
  - 136% increase in administrative costs
  - 255.6% increase in academic support costs.[16]
  - It is not possible to compare Institutes and Units as no cost figure is given for 2007.

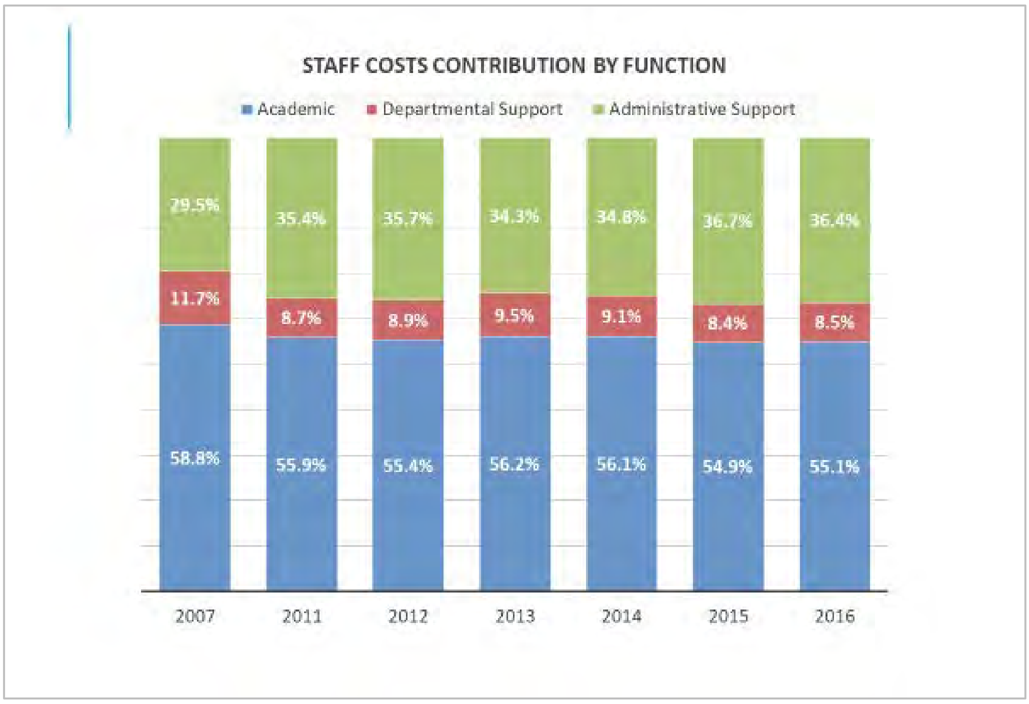
Figure 7 examines the rise in costs by function in Rand terms.

Figure 8 shows the contribution of rising staff costs by function.

[16] *This shows what is always the arbitrary nature of comparing just 2 years – in this case 2007 and 2016. Probably academic support costs were much too low in 2007 and had to be substantially increased. However, from 2011-16 academic support rose from 11.5% of total costs to 13.2%.*

Figure 7: Share of total staff costs by function 2007, 2011-2016 (R '000)

Figure 8: Share of total staff costs by function 2007, 2011-2016 (%)



Total staff costs increased from 2007-16 as follows:

- Total staff costs rose +138%
- Academic staff costs rose +123%
- Departmental support staff costs rose +73%

- "Academic and Admin support" staff costs rose + 193%. It is unfortunate that the figures do not separate administrative staff and academic staff costs.
- As a share of the University's total costs, staff costs rose from 69.7% in 2007 to 71.1% in 2016.
- The much higher than inflation rise in staff costs across all functions except Departmental support means that either staff numbers rose, or above inflation salary increases were awarded to existing staff, or new appointments were made to existing positions at higher salaries[17].
- Academic staff costs fell from 58.8% of total staff costs in 2007 to 55.1% in 2016. Departmental support fell from 11.7% to 8.5% and Academic and Administrative support rose from 29.5% to 36.4%.

Some tentative conclusions

A key conclusion of this analysis is that Rhodes' current financial situation cannot be blamed solely on inadequate income (from fees, or government).

The fact that costs – including staff costs - rose by almost double inflation over the period 2007-16 is noteworthy. The current financial problems are not just about constrained revenue; they are also the consequence of rising costs.

Rising student numbers added to costs, but should also allow economies of scale such as:

- Increasing class sizes
- Increased ratio of fees or registrations per administrative employee.
- It seems that Rhodes has been unable to benefit much from the cost savings per student that rising numbers should generate. Such savings are not apparent in the globular cost numbers.

Academic and Administrative have been the fastest growing source of costs. But Academic staff costs have also risen much more than inflation.

The sources of continuous above-inflation cost increases in Academic and Administrative support and Academic staff need to be rigorously analysed.

The fact that staff costs rose as a share of total costs is significant. This means that rising costs overall cannot be blamed on the rising operating costs - for example such as the cost of Library subscriptions because of the weakening of the Rand exchange rate.

Rising administrative and academic support costs are distorted by the sharp growth in academic support costs highlighted in Figure 6. It would be useful to have a separate breakdown of administrative costs and whether the increases experienced are affordable.

Should one be concerned that Academic staff costs (+123%) have risen more than Department costs (104%) and that Departmental support costs have fallen as a share of total staff costs? This may suggest that as the workload of tutors and back up staff have increased due to increased student numbers, there has been less and less capacity at the

[17] *A breakdown of staff numbers by function would allow a clearer conclusion to be reached.*

Departmental level to provide support to the academics teaching the growing number of students.

Are rising academic staff costs being accommodated at the cost of lower spending in other areas of Departmental spending – possibly tutors, computers, technical equipment, etc.

Central to Rhodes University historical financing model was that costs, including residence, exceed the NSFAS funding available to our poorest students. Rhodes University has traditionally charged higher fees than most other universities, which has meant that the contributions from NSFAS to students qualifying for support were never enough to cover the full cost of their study and accommodation.

To achieve the essential goal that Rhodes University should be accessible to all who qualify academically to attend, this required that additional fee income be generated to provide additional financial aid to “top-up” NSFAS funding. So, there was an added imperative to keep fees above national averages.

At the same time however, total income needed to rise to meet costs that were rising much faster than inflation.

As a result, fees rose much faster than inflation.

But this meant that more and more students who did not qualify for NSFAS (the “missing middle”) could not afford fees.

This further increased the need for the University to provide additional financial aid for increasing numbers of students, both those in the “missing middle” and those qualifying for NSFAS funding.

Frozen fees, higher levels of bad debt (and possibly a greater proportion of poorer and “missing middle” students), mean the historical funding model is no longer sustainable. This is shown very clearly in the statistics for 2016.

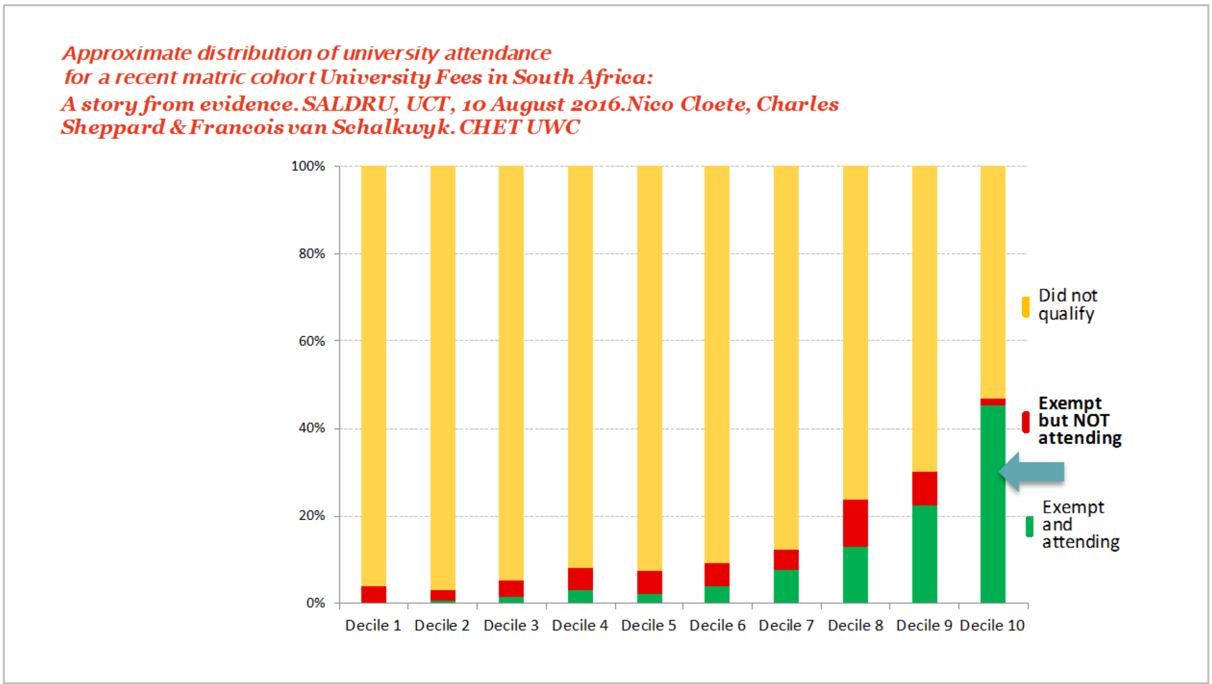
All these numbers exclude massive maintenance backlogs and the fact that the residences in 2016 also ran at a loss.

The challenge is now urgently to find both funding and cost-related solutions to ensure Rhodes University remains financially sustainable in the future.

Chapter 4
The NSFAS intervention

Chapter 2 has concluded that Government clearly favours the extension of the NSFAS intervention over a No-Fee policy and/or the extension of grants to universities. To this end the additional government funding that is available will be targeted through NSFAS.

In the student fee debate it is important to understand the basic philosophy of the NSFAS Intervention.



The above estimates reflect that

- The vast majority of South Africa's matric cohort (Yellow) do not qualify for admission to university on academic grounds alone.
- Of those that do qualify for University admission approximately 57% come from families within the Top 10% income decile of South Africa (Green).
- Those who qualify to attend university but are not attending are represented in red.

The income deciles of South Africa were extensively analysed in the work of Alvarado and Atkinson, 2007.[18]

[18] *Facundo Alvaredo and Anthony B Atkinson's paper 'COLONIAL RULE, APARTHEID AND NATURAL RESOURCES: TOP INCOMES IN SOUTH AFRICA, 1903- 2007*

	Number	Income cut-off (IES) (2007 Rands)	Income cut-off (SARS) (2007 Rand)	Income cut-offs from Alvaredo & Atkinson*
Top 10%	3.46 m	R83,200		~R80,000
Top 1%	346,000		R359,000	~R400,000
Top 0.1%	34,600		R1,051,000	~R1,000,000
Top 0.01%	3460		R3,167,000	
Top 0.001%	346		R11,405,000	

If the above is updated for the effects of inflation since 2007, the following estimated income deciles result.

Top 10% income decile commences at R150 000
Top 1% income decile commences at R600 000.

Applying the above on a very broad approach it can be concluded that the NSFAS intervention is targeted at the 'Very Poor' who constitute income deciles 1 to 9.

The 'missing middle' are predominantly located within the 10^{th} income decile.

The 'wealthy' represent the Top 1% of income earners in South Africa, above the missing middle.

Note that

- the above observations cannot be considered as being anything more than estimates at this time.
- The distribution of students based on family income varies widely between universities.

Thus far, the recommendations of the Commission into the feasibility of Fee-Free higher education and training:

While it is not yet possible to arrive at a firm conclusion, certain areas can be identified that are either common cause or, at least, favoured by a clear majority of participants. These include the following:

1. *The opportunity to pursue higher education and training is a constitutional right. Although the state has, since 1994, progressively made such education accessible and available, principally through subsidies and NSFAS funding, too many deserving candidates are being excluded by the lack of financial means. The state should without delay recognize and implement an obligation to fully fund the very poor (less than annual family income of R 122 000) and the 'missing middle' (less than R 600 000 annual family income) as well as recognizing that there may be persons who fall outside the upper limit who should be assisted those who can afford to pay for such education should be*

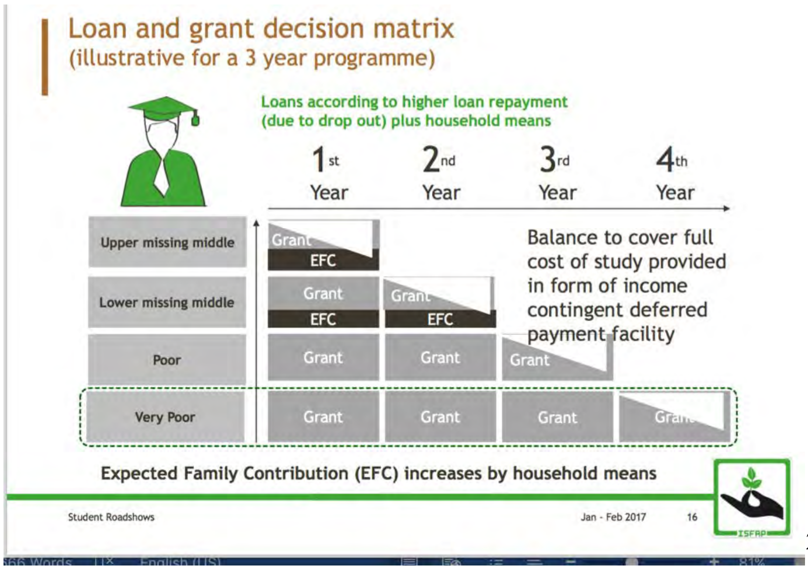
required to do so without financial assistance from the state until the progression that S29 (1)(b) of the constitution contemplates can realistically be extended to all.[19]

Ikusasa Financial Aid Programme,

The shortcomings of NSFAS are well documented.

Currently a new funding initiative, the Ikusasa Financial Aid Programme (ISFAP), is in its pilot phase in an attempt to address some of the significant problems of NFSAS.

ISFAP grants financial aid to students on a 'loan and grant decision matrix'.



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ISFAP proposes that the State should fully fund (grant) a 'very poor' student for 3 years (for a 3-year qualification). If a student needs an additional year to complete, the State will provide a 50% grant and the student will have to fund the remaining 50%.

The proposed ISFAP model is a complete overhaul of the current higher education funding system that is NSFAS.

The new proposed ISFAP model is a partnership between government, NSFAS and the private sector.

The fundamental differences between NSFAS and ISFAP are summarized in the graphic

[19] *INTERIM REPORT OF THE COMMISSION INTO THE FEASIBILITY OF FEE-FREE HIGHER EDUCATION AND TRAINING. 2 November 2016*

[20] ***Ministerial Task Team Report on a Support and Funding Model for Poor and "Missing Middle" students, 9 May 2017***

below

Lending Programme	NSFAS	ISFAP
Funding Philosophy	• Loans first – converted to partial grant based on academic performance	• Grant system – reducing with increasing household income
Poor Students	• Income below R122 000 p.a.	• Income below R600 000 p.a. (including "missing middle")
Funding	• Government	• Public/Private sector (incl. NGOs, DFIs, etc)
Debt management	• Government funded	• Privately/Public managed
Promotion of scarce skills / Employability	• Limited focus	• More focus, better incentives for students, universities, private sector

[21]

It is emphasized that the ISFAP scheme is currently a pilot scheme. Implementation dates and terms have yet to be announced.

Conclusions

It is common knowledge that Rhodes University is already financially strained. There is even merit to the line of argument that Rhodes University had embarked upon an unsustainable trajectory prior to the emergence of the student free crisis. Thus it is simply unrealistic to expect that Rhodes University itself can implement a comprehensive form of Fee-Free policy for all students. In reality such a policy would not be sustainable!

The above is not to say that specifically targeted interventions should not be designed and implemented.

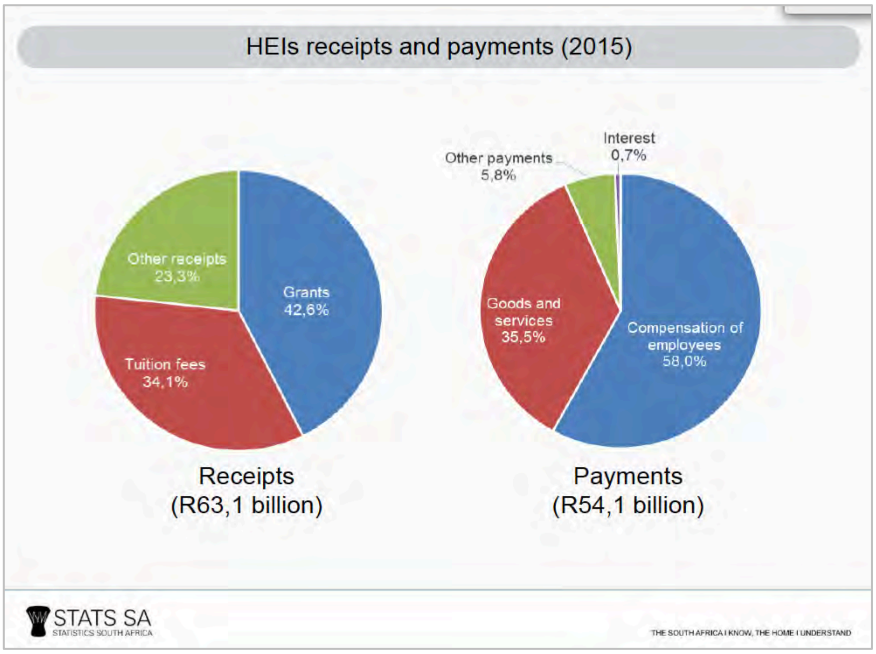
Further specifically targeted interventions should be designed around the framework of 'very poor', the missing middle and, perhaps, even the wealthy (where unintended anomalies definitely do arise).

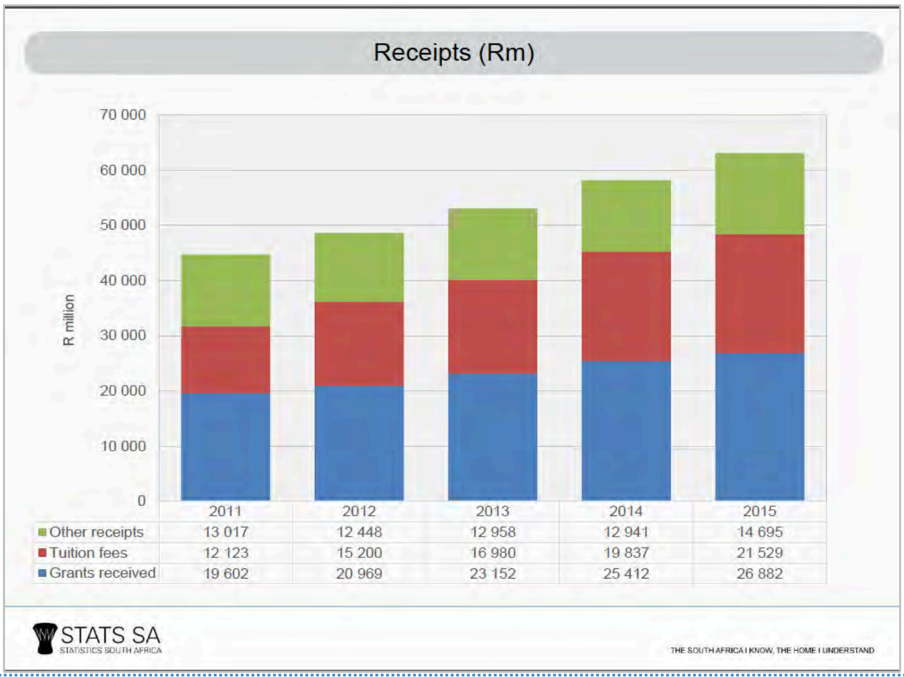
[21] ***Ministerial Task Team Report on a Support and Funding Model for Poor and "Missing Middle" students, 9 May 2017***

Chapter 5
'Third Stream Income' of universities

Before addressing the nature of interventions that could be considered to assist the student fee issue it is vital to consider the source of funding that could be pursued to make a meaningful difference. In short there is simply no point in implementing measures that are not financially sustainable in the short-, medium- and long-term. This will only lead to disappointment and anger.

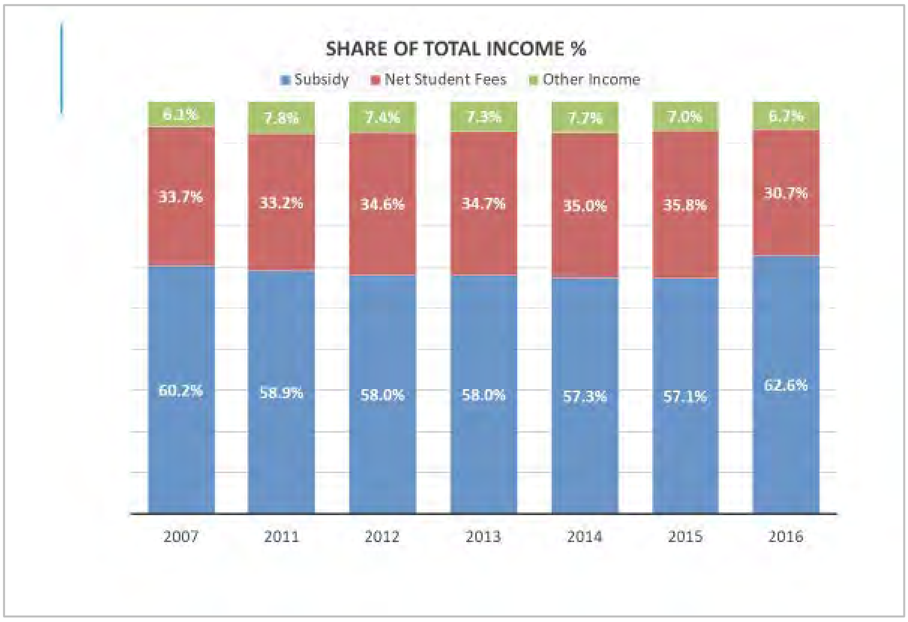
No analysis of the current fee crisis in higher education can be complete without the examination of the 'Third Stream Income' of universities.





	2011	2012	2013	2014	2015
Other receipts	13 017	12 448	12 958	12 941	14 695
Tuition fees	12 123	15 200	16 980	19 837	21 529
Grants received	19 602	20 969	23 152	25 412	26 882

At national level Third stream income comprises 23% of the total income of universities (R14,6 billion per annum). This is a significant component within the student fee debate as, quite obviously, a university's ability to produce third stream income has a direct impact on dependency on tuition fees (First Stream) and government grants (Second Stream).



In stark contrast, the third stream of income of Rhodes University has not exceeded 8% of total income. Thus there is little wonder that Rhodes University is the second of most dependent university on student fees in South Africa today.

Extracts from the Report THIRD STREAM INCOME AT SOUTH AFRICAN UNIVERSITIES Report for Vice Chancellors (2009 Prof J Duncan)

> *The past two decades have seen many changes in higher education both worldwide and in South Africa. Significant among these myriad changes have been those affecting the financing of higher education, including declining public subsidies ('First Stream Income') to universities. With a concomitant pressure to limit increases to and income from tuition fees ('Second Stream Income') in the face of its implications for access and social equity, the result has been the need to increase 'Third Stream Income.'*
>
> *An examination of higher education income streams in the United States of America reveals that state and federal funding of public institutions has declined by 15% over a 20-year period while income from tuition fees at public and private universities have increased by 5-10% during this period (National Centre for Education Studies, 1999; Paul, 2005). The other major income source at both types of institutions is federal and state contracts which proportionally have not changed significantly in the past decade. The remaining shortfall in income as a result of declining subsidies has been made up by increases to varying degrees at different universities in private gifts, endowment income and sales of university services and research (Zemsky and Massy, 1989).*

The Canadian experience has been even more marked with government grants and contracts declining as a percentage of operating income from 79% in 1990 to 60% in 2002, income from tuition fees increasing from 18% to 33% and all other income (donations/bequests and investments/endowments) increasing from 3% to 7% of operating income (Eastman, 2006)

In Australia, the response of many institutions to declining state subsidies has been to significantly increase revenue from overseas student fees (De Zilwa, 2005). On average, foreign student fees constituted 30% of total income in 2001 with this figure being as high as 49% at some universities. In addition, a number of Australian universities have substantially increased revenue through increased research contracts, commercialisation of research and sales of services. Concern has, however, been expressed that a high proportion of Australian universities have become over-reliant on single sources of independent income (McBurnie and Ziguras, 2003).

Funding higher education in the United Kingdom has also undergone significant changes in recent years and has witnessed the introduction of tuition fees, structural changes (such as the removal of the 'binary line' between universities and the former polytechnics), the introduction of assessments of research and teaching quality, and the establishment of Higher Education Funding Councils (Rolfe, 2003). The overall effect has been similar to that in other countries: declining state funding, increasing fees and a greater emphasis on income generation from publically and privately funded research activities but also other private sources of revenue.

1.2 South African Higher Education Institutions

In South Africa any examination of higher education must take into account the historical context of this sector of the education system. In recent times this has largely centred on the need to address historical inequities and social exclusion stemming from Apartheid, the challenges emerging from the growth of student enrolments, introducing a systematic approach to improving quality at universities, changes in the number and type of institutions, and changes in the nature of public funding of universities. In this context, government faces a delicate balance between being investors in and regulators of public higher education (Ntshoe, 2004). South African universities differ considerably in terms of their institutional histories, academic profiles, sizes and locations and have also been shaped by more recent institutional restructuring and mergers. As a result, in terms of first and second stream income, funding at South African higher education Institutions has changed considerably over the past 50 years.

In terms of this funding, prior to 1994 funding models and mechanisms for South African public Higher Education (HE) were fragmented in accordance with the systems fragmented institutional landscape. Formula funding had been initiated with the Historically White Universities (HWUs) with Historically Black Universities (HBUs) and technikons being funded through 'needs based' negotiated budgets (CHE, 2004). The CHE report estimated that private income was largely determined by institutional size and prior to 1994 ranged from 10-25%. By 1994 institutions catering predominantly for historically disadvantaged students were becoming vulnerable to failures in collection of projected fee income and many did not have the ability of historically advantaged institutions in attracting alternate income from investments, donations and contracts. In addition, although government appropriations for HE increased by 178% between 1986 and 1994 (R1161 billion to R3227 billion), the real *rand growth was only 3% due to high inflation rates. Given that student enrolments increased by 73% in the same period, the unit value of government spending per student actually fell sharply (CHE, 2004). The introduction of the South African Post-Secondary Education (SAPSE) system of formula funding for all universities resulted in an increase in government subsidy in real rands but this was matched by an equivalent growth in student numbers. One analysis also suggests that government spending per student in fact continued to decline between 1995 and 2001 due to significantly different patterns of inflation in HE and enrolment shifts to higher cost fields of study (CHE, 2004).*

The Duncan report contains considerable analysis of the sources of third stream income of universities.

Table 2: Total Percentage First and Second Stream Income for 2004 and 2007

Institutions	Year	Total First and Second Stream Income	Range
HWU's	2004	64%	53-69%
	2007	60%	47-75%
HBU's	2004	83%	77-89%
	2007	76%	65-86%
Merged U's	2004	76%	67-82%
	2007	70%	60-76%
UoT's	2004	88%	81-95%
	2007	87%	77-95%
Distance U	2004	71%	
	2007	75%	
Average	2004	77%	53-95%
	2007	72%	45-95%

Historically White Universities (HWU's) are considerably less dependent on First Stream Income than Historically Black Universities (HBU's).

Total Contract Income for 2004 and 2007 (in Rmillions)

Institution	Year	Total Contract Income	Range
HWU's	2004	108	14 – 216
	2007	244	11 – 525
HBU's	2004	25	14 – 55
	2007	60	22 – 106
Merged U's	2004	26	16 – 54
	2007	48	26 - 82
UoT's	2004	15	1 – 45
	2007	15	0 - 38
Distance	2004	2	
	2007	11	

HWU's located predominantly in urban areas receive far more contact income than HBU's located mainly in poor rural areas means that experience difficulty in charging for services rendered to their constituent communities who expect them to provide these services free of charge as part of their commitment to community development.

Total Income from Investments for 2004 and 2007 (in Rmillions)

Institution	Year	Total Income from Investments	Individual Range
HWU's	2004	49	15 - 113
	2007	175	19 – 434
HBU's	2004	6	0 - 14
	2007	3	0 - 7
Merged U's	2004	76	21 - 181
	2007	127	5 - 354
UoT's	2004	10	0 - 48
	2007	22	0 – 95

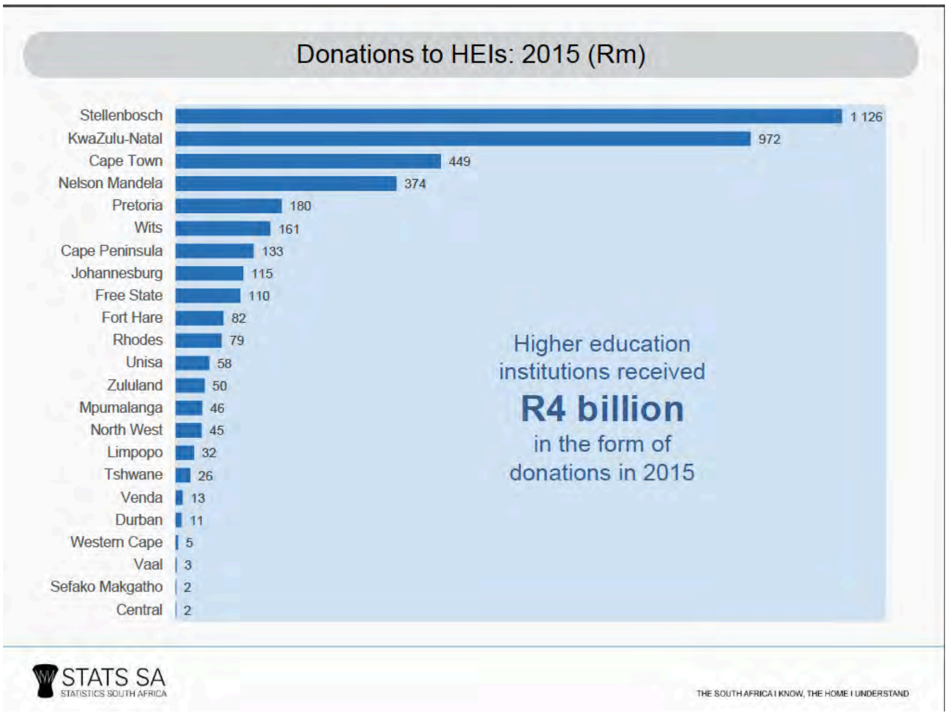
Institution	Year	Total Income from Investments	Individual Range
Distance U	2004 2007	261 216	

Total Income from Interest for 2004 and 2007 (in Rmillions)

Institution	Year	Total Income from Interest	Individual Range
HWU’s	2004 2007	75 119	15 - 114 19 – 217
HBU’s	2004 2007	6 13	2 - 16 7 – 19
Merged U’s	2004 2007	7 50	0 - 15 3 - 94
UoT’s	2004 2007	14 22	3 - 37 9 – 53
Distance U	2004 2007	126 233	

HWU’s have built up investment and cash reserves over decades. HBU’s have not.

Traditionally the layman’s interpretation of third stream income is the income received through donations, bequests etc. This is a small component (2015 -R4 billion). Again it would seem that even some HWU’s are far more fortunate than others.



The combined donations received by the Stellenbosch, Kwa Zulu Natal, Cape town and UNNM represent a staggering R2,9 billion of the total R4 billion (73%).

Extract from the Report THIRD STREAM INCOME AT SOUTH AFRICAN UNIVERSITIES Report for Vice Chancellors (2009 Prof J Duncan)

> *One of the primary reasons cited for this is that alumni are the most important source of this income, but unlike the US and possibly other countries, philanthropic support for universities is not a deep part of the South African culture, something which is particularly the case with regard to donations to the alma mater. The experience at many universities was that in South Africa there is more of a culture of "giving" to the high schools graduated than universities, especially amongst males.*

> *Even those universities with long histories and giving traditions and with a substantial alumni base (including financially influential graduates) reported difficulties in alumni fundraising. There have obviously been exceptions with once off but sizeable donations being received, but these are reportedly small in number. This problem appeared to be particularly acute in the historically black universities although it was indicated that with the growth in the number and, more importantly, financial success of alumni, a culture of donations to alma mater was beginning to develop. However, individual donations were still small in value. An interesting comment made at most of the merged institutions was that both alumni and other potential donors do not yet identify with the "new" institutions and their new names, although this was not viewed by all of these institutions as a particular disadvantage.*

> *The general consensus amongst the newer and merged institutions was that they were at a disadvantage compared to the older, established universities in terms of both alumni as well as corporate and foundation fundraising. This was cited as being due to the generally larger and more wealthy alumni at the older and historically white institutions. Observers suggested that these institutions, for a variety of reasons, had a longer tradition and therefore experience in fundraising, in addition to*

well established relationships with potential donors. Fundraising is often regarded as being built around such relationships and the development of a mutual trust and respect. It was acknowledged that this did present all institutional advancement offices with both challenges and opportunities when major structural and leadership changes occurred within the institution.

A characteristic of an institution which significantly influences donor fundraising was pointed out, not unexpectedly, to be its reputation and standing both nationally and internationally. What was further cited as a major factor in this institutional reputation and was regarded by some as being the most critical one, is the institution's research standing. Leveraging of funding from the corporate sector, in particular, is considered by many to be highly dependent on the profile and success of the university's research programmes.

Observations

The current university funding model does little to recognise the fundamental difference between HWU's and HBU's (the Institutional factor grant comprises a mere 5,7% of total block grant for 2016).

The disparity in the heritage of South Africa's universities raises serious questions as to whether the 'one-size-fits-all' model is an appropriate subsidy model at all.

Rhodes University finds itself in a particularly difficult corner in the Third Stream debate as it has always been one of the poorer HWU's and is overly dependent on government funding.

Conclusions

It is impossible to adequately address all aspects of the Third stream income debate in a paper that must concentrate on the student fees issue.

The third stream income debate has not been specifically included as a component of the transformation project at Rhodes University. At the very least this must be treated as an omission as it is integral to the long term survival of the university.

Over the years, despite the issue of third stream income being discussed, Rhodes University has not made significant progress in this arena.

It is suggested that the Council establish a separate and ongoing committee to rigorously explore all aspects of third stream income generation at Rhodes University. Aspects to be considered by the task team should include

- The update of the findings of the Duncan report, 2009.
- The BBBEE status of Rhodes University which is already having substantial adverse effect on third stream income prospects).
- The potential impact of the university name change,
- Trade opportunities,
- Research opportunities,
- Staff recruitment and promotion implications,
- Foreign funding,
- Alumni relations.

Chapter 6
The very poor

Chapters 2 and 3 have already identified that Rhodes University has little prospect of making substantial inroads into making the University accessible to the very poor. The brunt of this responsibility must rest with NSFAS.

The above is not to say that Rhodes University could not identify specifically targeted measures to make access and life easier for the very poor, even if they are funded by NSFAS.

Again the emphasis must be on targeted interventions. Even within the category of the 'very poor' distinction should be made between those funded by NSFAS and those not.

NSFAS students

The NSFAS application and selection criteria are indeed a daunting prospect for a prospective Rhodes Student. Far more needs to be done in the form of training interventions to fully understand the NSFAS processes.

The NSFAS intervention does no cover all financial requirements of student life. Far more attention is needed to fully explore other costs incurred by students and to design targeted interventions that may assist.

Clearly defined and communicated policies must be established to provide for any costs not covered by NSFAS.

Corporate benefactors should be sought to provide supplementary funding.

Non NSFAS students

The relaxation of the Rhodes University Minimum Initial Payment policy, effective from the 2016 academic year has created formerly unintended consequences. Primarily, a student may be admitted to the university by simply paying the MIP. Thus the stark reality is that a student's family can scrape together the resources to make the Registration fee of 10% and gain admission, with no prospect of maintaining the university payment plan.

Rhodes University has accepted that these students can apply for extended funding and payment plans. (include details here).

This policy must be further extended as far as possible.

- Active counselling interventions must be installed to ensure that all students who qualify for NSFAS funding pursue application to NSFAS.
- Supplementary fundraising opportunities for the poorest of the poor should be pursued with the business community and foreign funding organisations.

Chapter 7
The 'missing middle'

The definition of the 'missing middle'

While it is not yet possible to arrive at a firm conclusion, certain areas can be identified that are either common cause or, at least, favoured by a clear majority of participants. These include the following:

> *1. The opportunity to pursue higher education and training is a constitutional right. Although the state has, since 1994, progressively made such education accessible and available, principally through subsidies and NSFAS funding, too many deserving candidates are being excluded by the lack of financial means. The state should without delay recognize and implement an obligation to fully fund the very poor (less than annual family income of R 122 000) and the 'missing middle' (less than R 600 000 annual family income) as well as recognizing that there may be persons who fall outside the upper limit who should be assisted those who can afford to pay for such education should be required to do so without financial assistance from the state until the progression that S29 (1)(b) of the constitution contemplates can realistically be extended to all.*[22]

It is noted that the above refers to 'annual family income.' There is potentially an enormous difference between annual family income (Disposable income after tax) and taxable income (Pre Tax).

Taxpayers between ages of 40 and 65 years (Per SARS Stats)

Based on Family Annual income of Pre Tax R600 000.

Total Remuneration bands	Number of employed individuals according to Total Remuneration bands	Number of employed individuals according to Total Income bands	
NSFAS	2 541 280	2 324 386	< R150 000 per annum
Missing middle	1 896 195	2 002 266	R150 000-R600 000
Wealthy	335 957	482 943	>R600 000
Total	4 773 432	4 809 595	

The 'missing middle' represents some 2 million taxpayers in South Africa. It is important to recognise that even though the missing middle may be wealthy in comparison to 90% of their fellow South Africans this is by no means a fair reflection of their ability to pay student fees**.**

[22] *INTERIM REPORT OF THE COMMISSION INTO THE FEASIBILITY OF FEE-FREE HIGHER EDUCATION AND TRAINING. 2 November 2016*

The following issues relating to the missing middle must still be considered.

- There is a substantial difference between the Gross income of the taxpayer and disposable income. The R600 000 per annum taxpayer would be subject to the deduction of medical aid contributions, retirement fund contributions and UIF. Thus reducing disposable income by approximately 40% (dependent on extent of contributions). This would result in a disposable income of circa R360 000. It is hard to envisage that university fees are affordable in this context.
- The R600 000 threshold takes no consideration of the number of dependent students in a family. It is not unusual for a family to have two or more students dependent at the same time.
- The reference to 'family income' in itself creates unintended consequences and is open to manipulation (for example: Claim of parent separation).

Conclusions

The extent to which students at Rhodes University will be affected by the R600 000 threshold cannot be accurately determined at this time and must be monitored as more reliable information becomes available during 2017.

Rhodes University must recognise that the NSFAS intervention has a mountain to climb in making universities accessible to the very poor. Thus it will be years before any meaningful state intervention will address the needs of the missing middle.

The 2017 no-fee increase for families within the missing middle is indeed a small consolation to missing middle families. Far more is needed.

Tax deductible donations Section 18A

Section 18A acts as a tax incentive to encourage taxpayers to donate to universities are claimed as deductible expenditure in terms of Section 18A of the Income Tax Act.

Table C.1 Tax expenditure estimates (R million)

Personal income tax	**2010/11**	**2011/12**	**2012/13**	**2013/14**
Pension and retirement annuity contributions[1]	21 064	23 745	27 037	28 543
Pension contributions – employees	*7 922*	*8 928*	*10 107*	*10 650*
Pension contributions – employers	*8 910*	*10 041*	*11 367*	*11 978*
Retirement annuity	*4 232*	*4 776*	*5 563*	*5 915*
Medical	15 290	17 493	20 314	20 291
Medical contributions & deductions – employees	*15 290*	*17 493*	*4 314*	*4 881*
Medical credits [2]	–	–	*16 000*	*15 410*
Interest exemptions	1 259	1 150	1 184	1 168
Secondary rebate (65 years and older)	1 762	1 702	1 850	2 580
Tertiary rebate (75 years and older)	–	142	152	201
Donations	139	179	216	287
Capital gains tax (annual exclusion)	112	146	303	370
Total personal income tax	**39 627**	**44 557**	**51 056**	**53 441**

The overall cost of section 18A to the fiscus is currently a mere R291 million per annum. This represents the cost of all section 18A donations to both basic and higher educational institutions as well as a few other institutions (mainly schools) that qualify for section 18A within part 2 of the Ninth schedule to the income tax act.

Thus it can be concluded that the section 18A is not widely utilized in the context of higher education.

Section 18A is targeted at philanthropic initiatives and has its limitations in the context of encouraging funding of students in higher education, primarily:

- The donor is specifically not permitted to nominate the recipient of the bursary or scholarship;
- Terms and conditions may not be attached to the bursary or scholarship; and
- The quantum of the income tax deduction is limited to 10 percent of the employer's taxable income.

Thus, in the context of an employer providing financial assistance on behalf of a targeted employee, Section 18A is of limited assistance.

No general income tax deductions are available to students, parents or individual donors who nominate beneficiaries in respect of university fees. However, this does not detract from income tax provisions specifically targeted at the taxation implications of employers.

Section 18A donations are essentially overated as a potential solution to the student fees issue.

However, other solutions are available that should be given a far higher priority.

Income tax and other considerations pertinent to employers

In general, the common characteristic of the missing middle family is that one or more family member is employed. Thus the ideal form of intervention to solve the student crisis may be

- State to provide for the very poor (income deciles 1-9)
- Employers to supplement fee payment for the missing middle
- Wealthy to pay university fees (with a few exceptions for unintended consequences).

It has never been the purpose of the Income Tax Act to discourage the payment of bona fide bursaries and scholarships by employers on behalf of employees. However, historically the payment of bursaries and scholarships has been overly manipulated in salary structuring of higher income employees. Thus controls within Section 10(1)(q) of the Income Tax Act curb the tax benefits applicable payment of bursaries and scholarships to siblings and relatives of employees.

An employer is at liberty to pay bona fide bursaries and scholarships on behalf of employees to an unlimited extent. To achieve this, bursaries and scholarships must be paid directly to the educational institution and not paid to the employee by way of a cash allowance. It is also possible for employers to restructure the terms and conditions of the employment contract to include the bursary or scholarship arrangement.

The benefits of Section 10(1)(q) are not limited to funding opportunities for employee studies. Further opportunities are contained in the provisions relating to bursaries granted to relatives of employees.

The Section 10(1)(q) thresholds relating to tax-free bursaries granted to relatives of employees were substantially increased in the 2016/17 National Budget Speech announcements.

With effect from 1 March 2017 section 10(1)(q) allows the employer to grant tax-free bursaries to relatives of employees where the employee earns less than R600 000 per annum. The tax-free bursary may be as much as R60 000 per annum.

Thus it is possible, through the restructuring of an employee/parent's employment package to fund the education of relatives on a pre-tax basis. This can achieve an effective discount by as much as 31%.

The benefits contained in section 10(1)(q) are under-utilised. Employers are either not aware of the provision or are discouraged by the additional compliance burden inherent to its use.

Conclusion

Rhodes University must design comprehensive interventions to assist students from families within the missing middle to obtain the full benefit of the section 10(1)(q) allowance. If the above could be achieved employers could make a fantastic contribution in assisting in the financing of fees of the 'missing middle' thus leaving NSFAS to concentrate on the 'poorest of the poor.'

Broad-Based Black Economic Empowerment (B-BBEE)

The new codes of Good Practice on B-BBEE were issued by the Department of Trade and Industry in 2013, with an implementation date of 1 May 2015 under the Broad-Based Black Economic Empowerment Act of 2003 (B-BBEE).

Any Measured Entity that undertakes any economic activity, whether direct or indirect, with any other Measured Entity that is subject to measurement under paragraph 3.1.1 to 3.1.2 of the codes, must establish its own level of B-BBEE compliance using the generic scorecard.

Element	Weighting	Code series reference
Ownership	25 points	100
Management Control	15 points	200
Skills Development	20 points	300
Enterprise and Supplier Development	40 points	400
Socio-Economic Development	5 points	500

A Large Enterprise (any enterprise with a turnover of more than R50 million per annum) is required to comply with all the elements of the scorecard. The Priority Elements (40% of the points on the scorecard must be met), which the Large Enterprise must meet, is Net Value under Ownership, Skills Development and Enterprise and Supplier Development.

A Qualifying Small Enterprise (QSE) (turnover of more than R10million but under R50 million per annum) is required to comply with all of the elements of B-BBEE, however the QSE scorecard is yet to be promulgated. The Priority Elements that the QSE must meet is Net Value under Ownership as a compulsory element, and either Skills Development or Enterprise and Supplier Development.

Failure to comply with the 40% minimum requirement of each of the Priority Elements incurs an automatic discount by one level in the ultimate B-BBBEE rating.

One of the three Priority Elements of the BBBEE scorecard is Skills Development within the workplace. This now accounts for 20 of the maximum measured 105 points in the overall scorecard.

The Skills Development element, as set out in Code series 300, measures the extent to which employers carry out initiatives designed to develop the competencies of black employees and black people, internally and externally.

Bursary and scholarship expenditure is recognized within the skills development component of the BBBEE scorecard.

Conclusion

The interrelationship between the BBBEE scorecard and bursary fund raising should be further pursued by Rhodes University in the pursuit of funding from corporate donors.

Sectoral Education Training Authority (SETA)

Employers registered with SARS with a payroll of over R500 000 per annum are required to pay a Sectoral Development Levy (SDL) of 1% of the payroll.

Many employers view SDL as a final tax charge. However, SDL collections do not form part of the national revenue pool. Instead, they are distributed to NSFAS and the various SETA entities in terms of the Skills Development Act.

23 SETAs were established in 2000. Each SETA has a defined sector in which it operates. All the SETAs are responsible for both the private and public sectors within their own sector

A portion of SDL may be reclaimed via Mandatory Grants or Discretionary Grants implemented by the various SETA's.

The Mandatory Grant Programme serves to reimburse training expenditure of employers in accordance with the submitted Work Skills Plans (WSP) and Annual Training Reports (ATR). Actual training costs are reimbursed by this grant, but limited to only 20% of the employer's SDL liability.

The Discretionary Grant Programme serves as an incentive for employers to participate in the achievement of the specific SETA Strategic Plans. Pivotal Grants (PG) form part of the SETA Strategic Plans and enable employers to claim back a maximum of 49.5% of the SDL payments.

The basic requirements applicable to Pivotal Grants include:

- Specific learners who have registered on or completed Learnerships;
- Academic and Professional Study to specific employed and unemployed learners who have successfully completed a course of study at recognised institutions or professional bodies;
- Quality Assured and Structured Workplace Experience where specific learners enter or complete full-time, on-the-job training (non-Learnership).

According to regulations, PIVOTAL is an acronym that stands for Professional, Vocational, Technical and Academic Learning programmes, which result in qualifications, as determined by the National Qualification Framework (NQF).

The contribution paid towards tuition fees and associated costs differ amongst the various SETAs and may be as much as R110 000.

Conclusion

The SETA system represents a substantial incentive for employers to participate in solving the higher education.

However, due to administrative requirements and, in many cases, plain ignorance of the benefits, employers do not participate in the programs.

The framework for employer participation in solving the fee-crisis should be reviewed pursuant to extending its application and encouraging its use through streamlining and simplifying the administrative requirements.

Chapter 8
Overall recommendation

Attention is drawn to the King IV Report on corporate governance in South Africa, November 2016 'King IV'.

Important distinctions between the King III report 2009 and the King IV report 2016 include

- King IV is of almost universal application to all entities and does not only apply to the business sector. It is submitted that Rhodes University would not be doing too much wrong if it was to follow the guidance provided by King IV.
- King III's "apply or explain" basis to "apply *and* explain" in King IV.
- The 'governing body' as recognized in King IV would be the Council of Rhodes University.
- The governing body should assume responsibility for its composition by setting the direction and approving the processes for it to attain the appropriate balance of knowledge, skills, experience, diversity and independence to objectively and effectively discharge its governance role and responsibilities. [King IV,Part 5.3 Recommended practice 6]
- The governing body should comprise a majority of non- executive members, most of whom should be independent. [King IV Part 5.3 Recommended practice 8]
- The governing body should ensure that its role, responsibilities, membership requirements and procedural conduct are documented in a charter which it regularly reviews to guide its effective functioning. [King IV Part 5.3 Recommended practice 2]
- When determining the requisite number of members of the governing body, the following factors should be considered:
    - a. The appropriate mix of knowledge, skills and experience, including the business, commercial and industry experience, needed to govern the organisation.
    - b. The appropriate mix of executive, non-executive and independent non-executive members.
    - c. The need for a sufficient number of members that qualify to serve on the committees of the governing body. [King IV Part 5.3 Recommended practice 7]
- The governing body should determine if and when to delegate particular roles and responsibilities to an individual member or members of the governing body, or to standing or *ad hoc* committees. The exercise of judgement by the governing body in this regard is subject to legal requirements and should be guided by what is appropriate for the organisation and achieving the objectives of the delegation. [King IV Part 5.3 Recommended practices 39 and 40]
- In the event that the governing body determines not to delegate all or some of the responsibilities dealt with in this Code as part of the responsibilities of a specific committee, the governing body should ensure that it fulfils those responsibilities itself. [King IV Part 5.3 Recommended practices 39 and 40]
- Any delegation by the governing body of its responsibilities to a committee or a member of the governing body will not by or of itself constitute a discharge of the governing body's accountability. The governing body should apply its collective mind

to the information, opinions, recommendations, reports and statements presented by the committee or the member. [King IV Part 5.3 Recommended practice 49]

Given the significance of the fees issue and the interrelationship that exists with the generation of third stream income it is suggested that two separate committees be established by the Board of Governors (Council of Rhodes University), the fees committee and the Third Stream Income Committee.

- The terms of reference and delegation to the committees should be recorded by means of a formal terms of reference that should be approved and reviewed annually by the governing body [King IV Part 5.3 Recommended practices 41 to 43].
- The terms of reference should, at a minimum, deal with the following:
    - The composition of the committee and, if applicable, the process and criteria for the appointment of any committee members who are not members of the governing body.
    - The committee's overall role and associated responsibilities and functions.
    - Delegated authority with respect to decision-making.
- The tenure of the committee.
- When and how the committee should report to the governing body and others.
- The committee's access to resources and information.
- The meeting procedures to be followed.
- The arrangements for evaluating the committee's performance.
- [King IV Part 5.3 Recommended practices 41 to 43]
- The governing body should consider the allocation of roles and associated responsibilities and the composition of membership across committees holistically, so as to achieve the following:
    - a. Effective collaboration through cross-membership between committees, where required; coordinated timing of meetings; and avoidance of duplication or fragmented functioning in so far as possible.
    - b. Where more than one committee has jurisdiction to deal with a similar matter, the specific role and positioning of each committee in relation to such matter are defined to ensure complementary rather than competing approaches.
    - c. A balanced distribution of power in respect of membership across committees, so that no individual has the ability to dominate decision-making, and no undue reliance is placed on any individual. [King IV Part 5.3 Recommended practices 44 to 48]

- The governing body should ensure that each committee, as a whole, has the necessary knowledge, skills, experience and capacity to execute its duties effectively. Each committee should have a minimum of three members subject to legal provisions, where applicable. [King IV Part 5.3 Recommended practices 44 to 48]

- Every member of the governing body is entitled to attend any committee meeting as an observer. However, unless that member is also a member of the committee, the member is not entitled to participate without the consent of the chair; does not have a vote; and is not entitled to fees for such attendance, unless payment of fees is agreed to by the governing body and shareholders. [King IV Part 5.3 Recommended practices 44 to 48]

- King IV does not contain an overarching recommendation with regard to the chairperson of the committee. In general, the committees should be chaired by independent non-executive members of the governing body.

Conclusion

It is recommended that the student fees issue and the third stream income issues are of such critical importance that they threaten hello the very sustainability of the University and the Makana community.

There is no 'silver bullet' to either problem. Nor will the problems go away in years to come. Thus it is critical that these matters be dealt with by appropriately qualified committees on an ongoing basis.

In conclusion, the transformation summit must be viewed as being the start of a very long road. There is work to be done.