

OPINION

Financial sustainability: Universities' business model must be sufficiently flexible to survive drastic change, writes UP Finance Director

By Professor Carolina Koornhof, Executive Director at the University of Pretoria responsible for Finance, Enrolment and Student Administration, and Business Initiatives. Her portfolio also includes the University of Pretoria Retirement Funds, Campus Companies and TuksSport (UP's High Performance Centre and sports companies).

“New normal” has become the buzzword to describe how the COVID-19 pandemic has changed the world as we know it. Slowly but surely, the economy and society will settle, but the new reality will differ significantly from what prevailed prior to the start of the crisis. Part of the adjustments we and our institutions must of necessity make is to reimagine our lives as well as the way in which we are to function going forward.

A crucial aspect of navigating the pandemic will be to ensure the financial sustainability of our higher education institutions. Currently, COVID-19 ranks at the top of the University of Pretoria's (UP) risk register, followed by financial sustainability. The two are inexorably linked, but COVID-19 is not the only reason universities in South Africa are under pressure financially. It has been a long time coming, and COVID-19 has simply acted as a magnifying glass for the financial difficulties universities face.

South African public universities have three main streams of income:

- the block grant and earmarked funds, that is, the government subsidy, which is the most important stream;
- tuition fees; and
- third-stream income from sources such as donations, contract research, consulting services, and continuing education courses.

Universities differ, but for research-intensive universities, third-stream income can be substantial.

Since around 2010, the higher education system has grown aggressively, but as student numbers increased, the subsidies did not keep pace and, in effect, the subsidy per student, discounting the effect of inflation, has steadily declined. The South African government has also increased access to higher education through National Student Financial Aid Scheme (NSFAS) bursaries for students from households with an annual income of up to R350 000. This has placed additional pressure and complexity on the balancing of the Department of Higher Education and Training's (DHET) budget.

The COVID-19 pandemic has also affected the state subsidy negatively. Universities were notified that next year's block grant for the sector will be just under R400m less than we anticipated – a 1.7% decline. Even larger declines are evident in the infrastructure grants. Universities are waiting for information from the DHET on the exact impact of the decrease on each institution.

Like most universities in South Africa, UP has continued to pay staff salaries during the lockdown. We have, however, been spending less on certain operational costs such as water, electricity, travel, printing costs and telephone services. The money we have saved has been reprioritised for COVID-19 expenditure and additional costs related to providing online teaching and learning, which is continuing this semester and possibly into next year. Although government has assisted universities with COVID-19 funding, we received less than half of what was originally requested. This funding support is not additional funding, but rather a reprioritisation of existing government funding to our institution.

Pre-2015, universities balanced stagnant subsidies by increasing fees by more than inflation. That came to an end after the #FeesMustFall protests of 2015/2016. For three years, the state funded no fee increases for poor and 'missing middle' students – those who do not qualify for NSFAS but cannot fully fund themselves – and then consulted with the higher education sector to keep fee increases low and linked to inflation. In 2020, our tuition fees increased by 5.3%, and we expect the increase to be even lower next year.

When NSFAS Administrator Dr Randall Carolissen briefed the Parliamentary Portfolio Committee at the beginning of lockdown in May, he mentioned the scheme was funding 42% of university students. Due to the economic impact of COVID-19, NSFAS looks set to fund even more students, because many self-funded students could potentially move into the NSFAS eligibility bracket, which would affect the budget, he said.

We expect a general shift in that direction. Some self-funded students will move into the missing middle category, and others from the missing middle into the NSFAS category. As a result, we expect that one of the biggest risks for higher education, namely unpaid student fees, will continue to rise in 2021 and beyond.

Enrolments may even decrease, both in terms of local and international students. Although international students may favour South Africa as a cheaper alternative to universities in the traditionally popular USA, UK and Australia, this source of income will dry up should travel restrictions remain.

The lockdown has also created additional pressure on fees, with students and parents asking for partial refunds on tuition and residence. In this regard, the South African public university sector believes that we should complete the academic year before we can consider discounts, especially for residence fees. We are at this stage not sure when we will return to having 100% of students back on our campuses.

Of course, we empathise with everyone who is negatively affected by the economic situation. Times are hard, and livelihoods have been lost or are under threat. Nevertheless, should a fees rebate be implemented, it would have a significant financial impact on the higher education sector and, by implication, the financial situation of universities, including UP.

As for third-stream income, besides generally not being recurrent and sustainable, we expect this to drop, as companies and foundations start cutting back when the economy is weak. The whole of South Africa is under huge economic pressure, and some of our funders are already stepping back from donations and scholarships.

COVID-19 has forced us to comprehensively review our financial position. We will have to be extremely careful about our costs, the appointment of new staff, and our growth strategy. We will have to defer or even cancel some of our planned infrastructure and other projects. We will have to manage maintenance costs with great care. We will have to be vigilant regarding salary cost increases.

Universities need to consider: Is our business model sufficiently flexible to evolve as circumstances change? Although UP's financial sustainability plan will continue to guide our response to the pandemic, we have revised it to address our new challenges.

One key principle is environmental sustainability – going green will enable us and other universities to be more energy-efficient; we can supplement electricity supply by installing solar panels on various buildings, and all new buildings will have to win a four-star Green Rating.

Other options to control costs include sharing business services such as information technology (IT) with other universities in the area, and fundraising will need to be bolder than ever before. We need to develop fundraising campaigns for bursaries, expand our international fundraising, and substantially increase external research funding.

The times we face are and will remain challenging, at least for the next three to five years.

This being said, I remain positive about our future and the long-term financial sustainability of UP and other higher education institutions.

Universities have been one of the cornerstones of civilisation through the ages. The University of Karueein (al-Qarawinyin), founded in 859 AD in Fez, Morocco, by a woman named Fatima al-Fihr, as well as the universities of Bologna, Oxford, Salamanca and Cambridge, established between 1088 and 1209, have withstood the test of time and proved their ability to adapt to modern contexts.

UP and other universities' staff and students are committed and resilient. We will complete the academic year and survive the COVID-19 pandemic too. We will work together to overcome the challenges of the current time and create a new and better reality. Parents and students can be assured that our universities will continue to provide quality education and, in this way, we will honour our African-ness and our duty to society.

(Ends)