higher education
& training

Department:
Higher Education and Training
REPUBLIC OF SOUTH AFRICA

Department of Higher Education and Training

Enterprise Architecture for Central Application Service

Position Paper on "No Fee Option"

29 February 2016

LEARNING STRATEGIES
Consulting Services

Contents

1   Terms of Reference

This position paper has been prepared by Learning Strategies, the service provider tasked with the development of the Enterprise Architecture for the Central Applications Service (CAS).

This document sets out considerations relating to the principle that the Central Applications Service should be self-funding and self-sustainable and presents the options and implications of considering a "no fee" option.

2   Enterprise Architecture for the CAS

A comprehensive process has been undertaken between April 2015 and February 2016 for the development of an enterprise architecture for the proposed Central Applications Service for the PSET sector.

The Enterprise Architecture has been developed based on a number of core principles which emanate from key documents including the White Paper on the Post-School Education and Training sector as well as the Vision document for central application service which was developed by the DHET project team for the CAS.

One of the core principles which form the basis of the enterprise architecture was that the central applications service should be self-funding and self-sustainable. The Central Applications Service would charge a fee to all applicants. The fee would be set at a level which is both affordable to all students but also sufficient to ensure that the CAS is able to operate at least at break-even and ideally at a level that it is self-sustainable, able to invest in new developments as required. This principle was affirmed by the Project Steering Committee in July 2015.

The principle of self-sustainability and funding through application fees has already been proven in the KZN Central Applications Office and is supported by the findings of international benchmarking and the international study tour to the UCAS operation in the United Kingdom and the Central Applications Office in the Republic of Ireland.

3   Recent Developments - #FeesMustFall

After the initial service model for the enterprise architecture have already been formulated, the #FeesMustFall campaign which developed over the latter part of 2015, highlighted the challenge for students unable to afford the fees at higher education institutions and placed the spotlight on the costs of higher education and the fees charged. While the #FeesMustFall campaign resulted in a moratorium on fee increases for 2016, it is clear that this is not the end of this campaign. Rather, there is likely to be on-going pressure aimed at addressing the costs of higher education and ensuring that higher education is accessible to all deserving students.

This prompted a review of the principle of self-funding and charging of application fees by the CAS. This document presents the pros and cons of both options and a case for a possible "no fee" approach. It makes a recommendation on how to proceed.

4   Recent Developments – Government Cost Reduction

The above objectives of students and community bodies may be partly off-set by the recent focus on government cost reduction and even the fees on hiring new staff into the public service. These pressures as highlighted in the February 2016 budget are likely to place competing pressure on the CAS to be self-sustainable and potentially to limit the number of new posts created in the public service.

Effectively, this provides alternative pressure in favour of application fees and potentially the use of service providers in the establishment of the CAS.

5   Arguments for Application Fees

There are a number of practical and behavioural reasons in support of application fees including:

- **Self-funding** – a relatively small application fee of around R200 per application will enable the CAS to be self-funding and to perform the service envisaged without requiring any central allocation of funding.

- **Take Application Seriously** – the major behavioural aspect is that the payment of a fee would mean that a potential student should take the process of applying seriously due to the fact that the application has a financial impact on them and therefore should motivate them to submit a serious application with a specific intention to study or enter the PSET sector.

- **Automatic Removal of Spurious Applications** – it is a documented fact that free applications to any opportunity, whether it be for study of for any other activity made available online, result in the submission of spurious applications from across the globe from parties with no intention of making use of the application. This phenomenon has been experienced in worldwide where universities who have made online applications free have experienced similar activity. While it is relatively simple to exclude these types of applications, they still need to be assessed and deemed invalid in order to be excluded.

- **Payment by those that can afford to** – If application fees are going to be paid by even part of the applicant group, "Those that can afford to", then it is necessary to set up the Service with the capability to collect fees. This appears to be the position of DHET and the Ministry for student fees, and if this is carried into the CAS, then the service must have the capability to collect fees and to allow those not required to pay to submit applications without payment.

- **Other issues to be identified**

6   Arguments against the Application Fee

The following arguments should be considered against the proposed application fee:

- **"Free Higher Education"** – the call for "free higher education" and the issues raised through the #FeesMustFall campaign have highlighted the focus on reducing the cost of access to higher education. The charging of an application fee may elicit a push-back from student organisations and civil society.

- **Free Online Applications** – a number of institutions have already offered free online applications and the move by a central applications service to charge a fee for what will in future be majority online applications may be seen as regressive.

- **Transaction Cost** – the collection of application fees could eventually result in some 600 000 transactions each for a fee of approximately R200. Assuming that the CAS was already fully in place and receiving some 600 000 applications per annum, the total income generated would be in the region of R120 million. The transaction fees alone are likely to be in the region of between 3% and 5% of the application fee, meaning that the transaction cost paid to banks and other financial intermediaries is likely to be between R3.6 million, even to R6 million.

- **Administration Cost of Payments** – collecting payments and matching these to online applications can be relatively highly automated, particularly when payments can be made online through the use of debit cards or credit cards. It is, however, unlikely that all application fees will be paid this way from the outset and it is therefore likely that some payments will be made through other collection mediums such as payments at retail outlets through payment intermediaries such as EasyPay or Pay@, and potentially other payments channels such as mobile payments. These multiple channels means that payments received need to be reconciled to applications made in order to validate an application. The initial estimates of administration costs involved in this process are likely to amount to some R4 million in staff and other operating costs which enable the collection and reconciliation of payments. This estimate is based on the full implementation of the CAS (600 000 applications).

- **System Development and Testing** - the implementation of a paid application form requires the development of a further set of applications and processes for online and paper-based applications into the application system. While these processes are not excessively complicated, they do comprise a relatively significant part of the entire application scope for the system solution of the CAS. The cost of this development could therefore be avoided in a no fee application environment. The complexity of systems development would also potentially enable the quicker development and deployment of the application system.

- **Walk-in Applications** – while walk-in applications have been effectively totally removed from the university sector, it is anticipated that walk-in applications will still take place for many years to come in the college and particularly community college sector. Critical information should be obtained by the CAS relating to applicant's applications and registrations made through this process at these colleges. It is the intention of the CAS to get a comprehensive picture of the total cohort of entering participants into the PSET sector in each cycle which therefore requires that these application and registration processes which take place at the same time directly at institutions will also provide feedback into the CAS. The collection of payments at this point is likely to be problematic. A policy environment which requires payment for all applications may cause complications in institutions wanting to accept students arriving for registration at skills centres and community colleges. A "no fee" application process would significantly simplify this component of entry into the PSET sector.

7 Summary Business Case

This document has been prepared as a discussion document aimed at starting the discussion around a possible no fee approach. A more comprehensive business case may be required in future should this option be considered more fully.

At this stage, the business case for the "no fee" approach would be as follows:

- Additional annual costs for payment transactions (R4.5 million per annum) and administration staff (R4 million per annum), amounting to some R8.5 million per annum could be avoided in the no fee approach.

- The no fee approach would require that funding from national government through treasury or other sources would need to be made available of approximately R110 million per annum for the operations of the CAS.

The setup costs and timeframes for the CAS may also be reduced due to reducing the complexity of the systems development. The cost reduction in this regard will, however, only be able to be determined once detailed costing has been received for the establishment of the CAS.

8   A Hybrid Option

It is clear from experience around the world, that charging an application fee has operational benefits to prevent spurious applications. It can also be expected that even if a #FeesMustFall policy would be adopted by DHET as a model for CAS application fees, there would still be an expectation that "Those who can pay, must pay". This would result in a hybrid option where some applicants would be expected to pay, where others would not.

The project team has anticipated such a scenario, and have proposed in the service model a mechanism to "waive" fees for any applicant who meet the funding eligibility test from NSFAS. This is illustrated in the diagram below where the NSFAS eligibility check could be used to drive logic whether an application fee could be waived. This scenario was not accepted by the Steering Committee at the time, but the scenario could be re-activated.
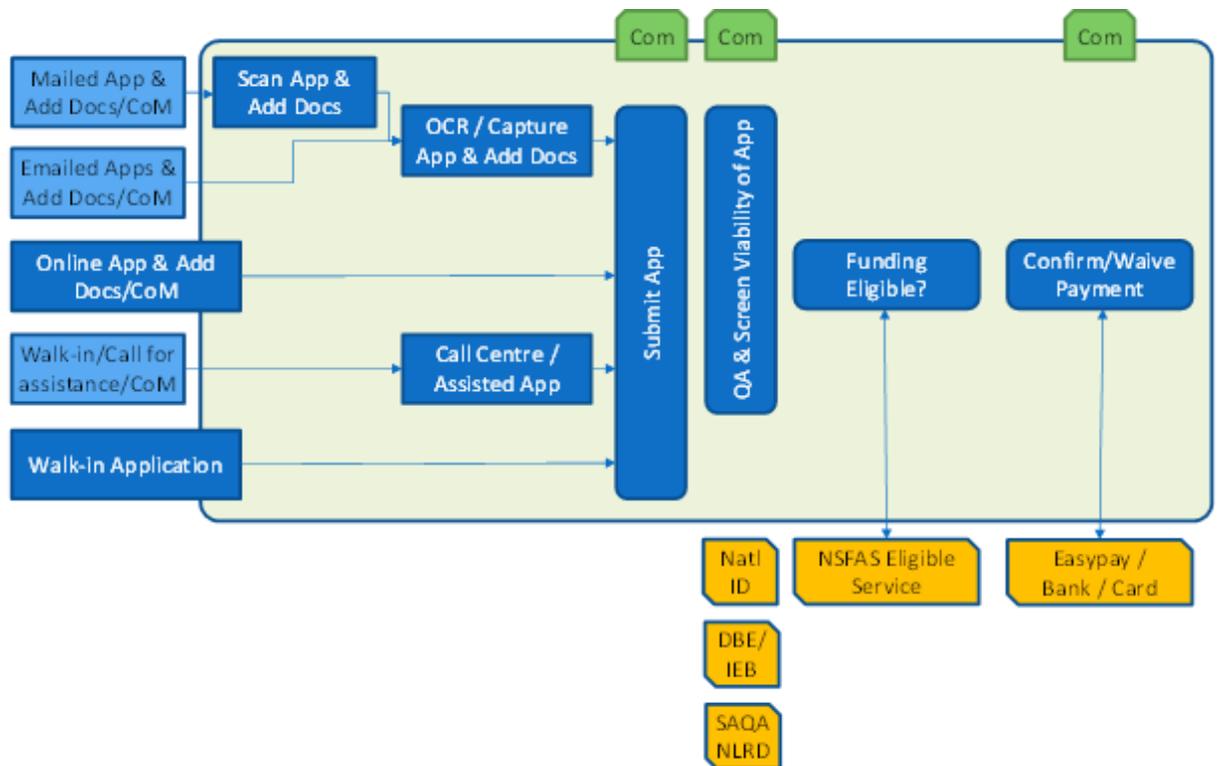
This scenario would enable options to relieve the burden of an application fee for the poor, while retaining some controls to prevent spurious applications and not relieving applicants who can afford the fee from paying it. The scenario does not rely on online applications, as the eligibility

check is also executed when a paper application is captured and submitted, but a paper-based applicant would not know immediately whether his or her application has the fee waived.

This scenario would increase the complexity of the solution slightly, and would not avoid the requirement for an administrative resource to manage the payments where these are due.

It is also possible to adapt the scenario where a capitation fee is charged to NSFAS for applicants whose fee was waived but who have registered and accepted NSFAS funding. The fee could then conceivably be capitalised in the NSFAS loan. This would then result in a hybrid revenue stream for the CAS, and possibly allow it to operate at break-even point.

9 Recommendation

Learning Strategies recommends the following approach to be adopted by DHET with respect to application fees for the CAS

1. On principle, the CAS should be set up to be able to charge and manage an application fee, and to be able to waive the fee on NSFAS eligibility, with the condition that the option to waive a fee can be de-activated;

2. The CAS should be set up to record the number and costs of waived application fees, and be able to record which of these resulted in NSFAS funding, in order to be able to raise a capitation fee; and

3. Should the Department decide to follow a policy of free applications for all, the system parameters must be able to handle a zero application fee for all applications (noting that this is a likely requirement anyway for walk-in applications to community colleges).

Learning Strategies believes that this approach will provide the most flexibility in the event that the design principle of self-funded need to be moderated and fees are either set to zero altogether or a principle of fee waiver is adopted.

Chris Elfick
26 February 2016