

CHAPTER 3

Funding of the South African Further Education and Training Sector



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3.1 Introduction

A well-functioning post-school education system is a key lever to break out of poverty and inequality and sustain a higher development trajectory. With drastically high domestic unemployment and global economic instability, school leavers are about to enter a world that is racked with uncertainty and fragility; a world where they will need every opportunity to get ahead. To that end, higher education is crucial. It gives young people a chance to continue their studies at tertiary level, opening the door to all kinds of knowledge-intensive jobs and personal growth opportunities, gaining the skills sought after by many employers and essential for entrepreneurship.

An effective further education and training (FET) college system is a critical component of a well-established, good quality, post-school education system. As the National Development Plan (NDP) recognises, FET can extend access to the labour market, increase labour productivity and improve other labour market outcomes such as wages and labour employability. In particular, developing human capital in turn improves the country's competitiveness, innovation and economic growth (NPC, 2012). FET is an important investment lever for economic development, through its focus on developing skills for the labour market. Skills development is critical for absorbing the economically marginalised into a vibrant, innovative and internationally competitive economy.

In line with the mandate of the national Department of Higher Education and Training (DHET), FET colleges are migrating from the provincial to national sphere. The rationale for this shift is to develop an integrated post-school education and training sector. This chapter highlights key issues for consideration with respect to the full transfer of the FET function in line with the requirements of the Financial and Fiscal Commission Act (99 of 1997), which provides for consultation with the Commission of the fiscal and financial implications before assigning the power or function to another sphere of government. This chapter presents an overview of key issues in financing the FET function and lays the foundation for the anticipated and ongoing shift, looking at how to maximise potential benefits and mitigate financial and fiscal risks.

3.2 Provision of and Participation in FET Nationally

An indicator of equitable access to FET colleges across provinces is the proportion of FET enrolments relative to the cohort population in the province. The majority of FET college students fall into the age category of 19–24 years. Table 7 shows the number and proportion of 19–24 year olds enrolled in FET colleges out of the total population of the same age.

Table 7: Participation of 19–24 Year Olds in FET College Education Per Province – 2011

Province	2011 19 - 24 year olds in population			2011 19 - 24 year olds enrolled in FET Colleges			2011 % of 19 - 24 year olds in the population enrolled in FET Colleges		
	Male	Female	Grand Total	Male	Female	Grand Total	Male	Female	Grand Total
Eastern Cape	448 738	448 018	896 756	12 081	12 919	25 000	2.7%	2.9%	2.8%
Free State	167 704	164 129	331 833	10 613	11 379	21 992	6.3%	6.9%	6.6%
Gauteng	567 634	550 238	1 117 872	39 697	28 587	68 284	7.0%	5.2%	6.1%
KwaZulu-Natal	665 025	664 075	1 329 100	22 824	22 334	45 158	3.4%	3.4%	3.4%
Limpopo	362 416	367 273	729 689	15 847	16 608	32 455	4.4%	4.5%	4.4%
Mpumalanga	234 891	230 591	465 482	4 940	5 130	10 070	2.1%	2.2%	2.2%
Northern Cape	63 034	61 508	124 542	2 254	2 400	4 654	3.6%	3.9%	3.7%
North West	187 319	184 296	371 615	6 352	5 532	11 884	3.4%	3.0%	3.2%
Western Cape	276 712	272 694	549 406	14 560	13 964	28 524	5.3%	5.1%	5.2%
All provinces	2 973 473	2 942 822	5 916 295	129 168	118 853	248 021	4.3%	4.0%	4.2%

Source: StatsSA (2011) Mid-year population estimates 2011; DHET (2011) Public FET Annual Survey

As Table 7 shows, nationally only 4.2 per cent of youth aged 19–24 years enrolled in FET colleges in 2011.¹⁷ Of these youth, the highest participation rate was in the Free State (6.6 per cent), followed by Gauteng (6.1 per cent), and the Western Cape (5.2 per cent). The lowest percentages were in Mpumalanga (2.2 per cent), the Eastern Cape (2.8 per cent), North West (3.2 per cent) and KwaZulu-Natal (3.4 per cent).

3.3 Assessment of Plan and Progress for the Transfer Shift

The FET Colleges Act 16 of 2006 was amended by the FET Colleges Amendment Act of 2012, which shifts the administrative function of adult learning centres and FET colleges from the provincial to the national (higher) education department (MHET, 2012). Through this change, staff from the FET college sections in provincial education departments and FET college staff are transferred to the DHET.

For colleges, the transfer of the FET function to the DHET brings a number of advantages, not least the potential development of a uniform FET sector with a single vision that can be presented to the public. The national focus could uplift the image, marketing and quality of colleges and improve cooperation between colleges, Sector Education and Training and Authorities (SETAs) and universities. Enhancing institutional coordination between FET colleges and the SETAs would assist FET colleges to unlock funding and support from industry. The location of the post-school sector under one umbrella will also lead to greater portability of qualifications in the sector. Finally, college funding would be equitable and consistent across provinces, and employment contracts and programme offerings would be standardised.

An interim process of managing the college sector has been implemented via a set of Provincial Implementation Protocols, and the following supporting activities have been initiated (DHET, 2013e):

- The development of a business plan and costs to cover the support of National Treasury's Technical Assistance Unit, and a process to secure funding for this support and the transfer process.

¹⁷ Note that this analysis focuses mainly on access issues, not other elements of FET performance such as quality, through-put rates, diversity etc., which can be found in the Technical Report on which this Submission is based.

- The establishment of a Technical Task Team in the DHET to provide oversight and direction to the transfer process.
- The establishment of Provincial Technical Task Teams (PTTTs) to steer the transfer process at provincial level.
- The development of a macro plan and a micro plan to direct the processes of transfer and related costing.

The migration strategy micro plan developed by the DHET is clustered into six management areas: Human Resources, Finance, Governance and Management, Legal, IT and Infrastructure, and Assets and Liabilities (DHET, 2013e). These management areas are described in Table 8.

A comprehensive migration plan is in place, and progress made is sufficient to ensure that the FET colleges can continue with their daily operations during the migration process. The DHET decided to transfer first the management staff at colleges, followed by non-management staff. Provincial education staff members will be seconded to the DHET until their full transfer is complete. The subsidy allocations have been completed, and a payment schedule is in place. All the other processes to ensure the migration of all functions to the DHET are currently underway.

The migration is one angle. Another is the need to reformulate the funding and delivery of the FET function, with its transfer from provincial to national sphere. Simply transferring the function without addressing the pre-existing financing challenges could prevent the potential benefits of the function shift from being realised. The financial model must therefore be optimised, including baselines.

Table 8: Management Areas of the Migration Strategy Micro-Plan

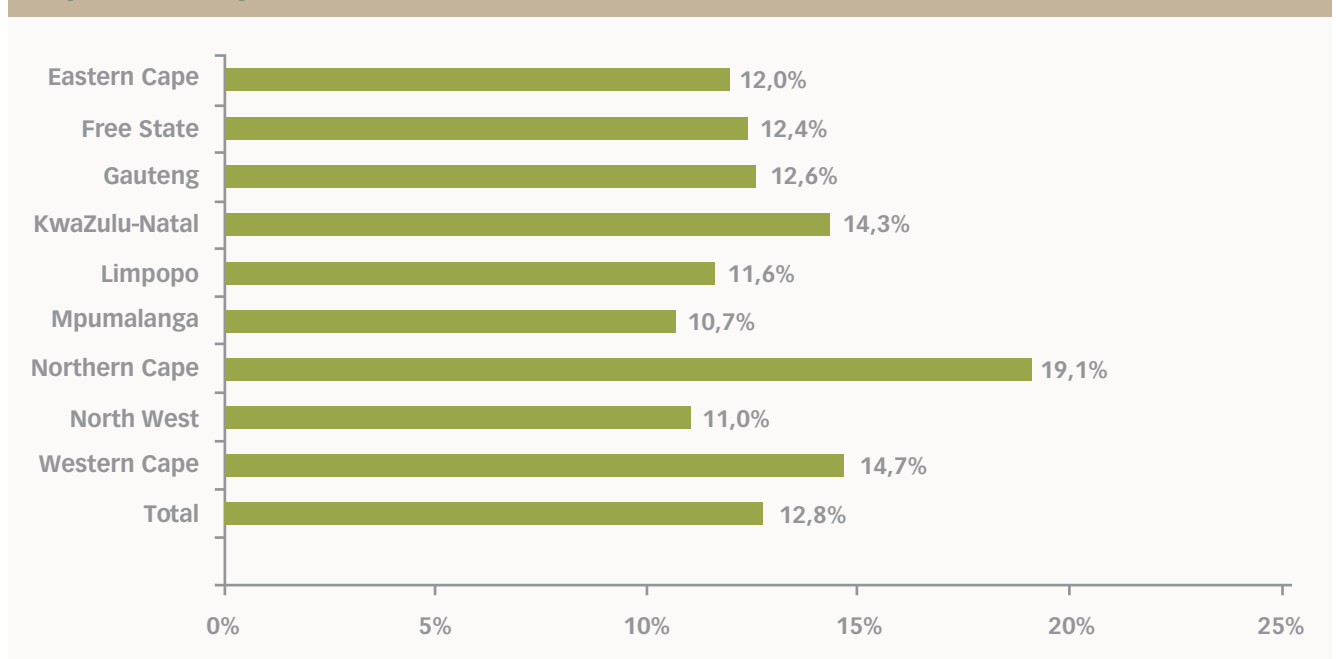
MANAGEMENT AREAS					
1. Human Resource	2. Finance	3. Governance and Management	4. Legal	5. IT and Infrastructure	6. Assets and Liabilities
1.1 Management staff	2.1 Funding sources and distribution	3.1 College Councils	4.1 Drafting of Protocols and getting them signed	5.1 Survey of IT management and Infrastructure	6.1 Identification of assets (including leased assets) and title deeds for Land and Buildings to be transferred
1.2 Non-management staff	2.2 Financial commitments	3.2 Strategic planning, coordination and annual reporting		5.2 Setting up Local Area Network in each province	6.2 Transfer of assets (including leased assets)
1.3 Secondment of provincial staff	2.3 Funding norms and standards	3.3 Operational planning for FET colleges enrolment and funding thereof		5.3 Data management	6.3 Register of title deeds for land and buildings
1.4 Transfer of provincial staff	2.4 Financial management and reporting systems	3.4 Monitoring and evaluation			
1.5 Appointment of Administrators					
1.6 Post provisioning model					

Source: DHET (2013e). Migration Plan Version 5, Further Education and Training College Amendment Act, 2012.

3.4 Assessment of Adequacy of FET Colleges Funding

Figure 2 shows the average annual growth rate of Medium Term Expenditure Framework (MTEF) allocations to FET colleges. Over the last three years, support for colleges has grown significantly, from R3.8 billion in 2010 to R5.45 billion in 2013/14 – an increase of 43 per cent. The Northern Cape recorded the highest average annual increase in MTEF allocations (19.1 per cent), followed by the Western Cape (14.7 per cent) and KwaZulu-Natal (14.3 per cent). Mpumalanga had the lowest average annual increases (10.7 per cent), followed by Limpopo (11.6 per cent).

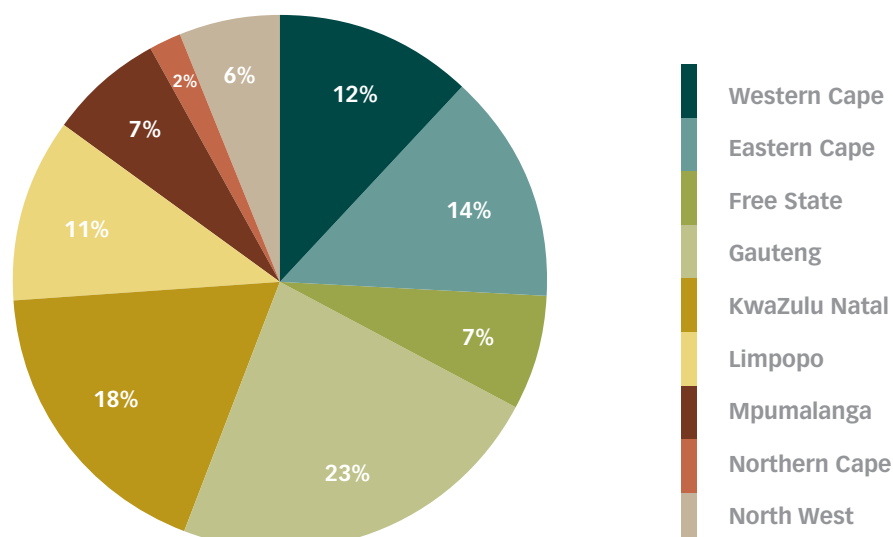
Figure 2: Average Annual Growth Rate of MTEF Allocations (2010/11–2013/14)



Source: Commission's calculations

As Figure 3 shows, by 2015/16 the provinces projected to receive the highest portions of total MTEF allocations are Gauteng (23 per cent), KwaZulu-Natal (18 per cent) the Eastern Cape (14 per cent) and the Western Cape (12 per cent). The latest MTEF allocations and other financial allocation trends for FET college education include the financial assistance to poor students, which has increased four-fold – from R318 million in 2010 to R1.7 billion in 2012.

Figure 3: Provincial Distribution of MTEF Allocation Estimates for 2015/16



Source: Commission's calculations

The DHET has developed very sophisticated costing models to calculate the annual cost per FET programme. Historically the DHET allocated funds to the provinces and FET colleges based on the reported student enrolment and the related programme cost. Provinces then determined allocations to FET colleges, and these allocations were adjusted annually by the consumer price index (CPIX). The DHET had submitted various requests for additional funding to cover the growth in student enrolments and infrastructure, but with little success.

The long-term advantage of migrating FET colleges to national government is that they should be equally funded, based on their programme enrolments, and no longer depend on what funds provinces allocate to them. The research shows that provinces did not prioritise FET education equally in their budget allocations, which led to unequal participation rates in FET colleges and in provinces.

The equity of the provincial allocations was assessed by weighting the funded full-time equivalent (FTE) enrolments, based on the subsidy component of the cost of the programme in 2013, as modelled by the DHET. The distribution of enrolments in the various programmes that have different costs should determine the MTEF allocations for FET college education in the provinces. Table 9 gives the programme cost obtained from the DHET (DHET, 2013f) – the cost of the programme is for one funded FTE-enrolled student. A funding weight was assigned to each programme based on the subsidy component cost of the least expensive programme, which is the NC(V) programme in Office Administration (R23,191). The DHET funds the NC(V) programmes according to the subsidy component of the cost of the specific programme. The Report 191 programmes¹⁸ are funded according to three groups: engineering programmes, non-engineering programmes and service programme, with one rate for each group.

Table 9: Indicative Funding Weights Based on the Subsidy Component of the Programme Costs for 2013, NC(V) and Report 191 Programmes

Programme	Total programme cost	College fee (20%)	Subsidy (80%)	Weight of total subsidy compared to base cost
Civil engineering construction	R 45 990	R 9 200	R 36 790	1.586
Drawing office practice	R 34 124	R 6 820	R 27 304	1.177
Electrical infrastructure construction	R 45 348	R 9 070	R 36 278	1.564
Engineering & related design	R 59 978	R 12 000	R 47 978	2.069
Mechatronics	R 60 808	R 12 160	R 48 648	2.098
Process instrumentation	R 43 672	R 8 730	R 34 942	1.507
Process plant operations	R 46 074	R 9 210	R 36 864	1.590
Finance, economics & accounting	R 32 426	R 6 490	R 25 936	1.118
Generic management	R 33 918	R 6 780	R 27 138	1.170
Hospitality	R 55 485	R 11 100	R 44 385	1.914
IT & computer science	R 44 446	R 8 890	R 35 556	1.533
Education and Development	R 31 682	R 6 340	R 25 342	1.093
Marketing	R 29 091	R 5 820	R 23 271	1.003
Office administration	R 28 991	R 5 800	R 23 191	1.000
Primary agriculture	R 77 894	R 15 580	R 62 314	2.687
Tourism	R 42 111	R 8 420	R 33 691	1.453
Safety and Society	R 29 765	R 5 950	R 23 815	1.027
Transport and Logistics	R 28 923	R 5 780	R 23 143	0.998
Primary Health	R 31 834	R 6 370	R 25 464	1.098
National Average for Total NC(V) Programme Cost	R 42 240	R 8 450	R 33 790	1.457

Source: DHET (2013c) Final Budget Allocation - FET Colleges - 11 March 2013. Weighted FTEs calculated.

¹⁸ Report 191 contains the programme requirements for current technical college education in the Republic of South Africa. The Report serves as a manual and is an educational policy document, which lists all instructional programmes approved by the Minister of Higher Education and Training.

To evaluate whether funding across provinces is equitable and fair, a comparative basis is needed. This is done by calculating an allocation per weighted FTE, which is the result of dividing the 2013/14 funding allocation per province by the total weighted funded FTE enrolments. The total weighted FTEs in Table 10 comprise the funding weights of the NC(V) and Report 191 programmes, which are calculated relative to the subsidy component of the cost of the NC(V) programme in Office Administration.

Table 10 shows clearly the huge differences for the various provinces, between the highest (R26,857 in the Eastern Cape) and the lowest allocation (R16,050 in Limpopo) – a difference of R10,809. The huge inequities in the allocations across provinces can be explained by the fact that the conditional grant was based on historical allocations to the provinces, adjusted only by CPIX increases.

The financial implications would be huge if all the provinces were funded on the basis of the average rand value per weighted FTE. The result could be financial instability of FET colleges in provinces where they were funded above the average value (Eastern Cape, Free State, Gauteng, Mpumalanga and the Western Cape). The only way to avoid this is to ensure that the conditional grant is increased adequately to prevent any college losing funding. In a stringent fiscal environment, a funding convergence strategy might be needed to achieve more equitable funding across provinces. This would entail higher increases for the provinces at the lowest levels – to “catch-up” with the provinces, which receive higher levels of funding – and should be funded from additional allocations.

Table 11 looks at the shortfalls in funding for FTE students. Based on the 2012/2013 enrolment plan (DHET, 2013b) the total MTEF budget for FET college education should have been R5.989 billion. However, the actual budget was R4.845 billion, made available through conditional grants, which is based on historical provincial allocations for FET college education plus annual CPIX adjustments. The shortage of R1.144 billion reflects the huge levels of underfunding in certain provinces. Provinces with the greatest shortfalls are the Northern Cape (35%), KwaZulu-Natal (34%), Limpopo (28%) and the Free State (27%).

Clearly, funding of FET colleges is inequitable and insufficient. More funding needs to be allocated to FET colleges within the provincial MTEF budgets, and a fair distribution of funding would mean colleges receive equal rand values per weighted FTEs. Currently, the baseline used for the conditional grant reflects historical allocations to FET college education, which were clearly too low in the Northern Cape, KwaZulu-Natal, Limpopo, Free State and North West Province. However, redistributing the pool of available funding equitably to all provinces would disadvantage colleges in provinces where more appropriate budgets were allocated to FET colleges. A more acceptable way to rectify these imbalances would be to secure additional top-up funding, which could be channelled to the provinces that are severely underfunded. What is critical, when channelling additional funding to the sector, is to ensure that the funds are spent effectively and efficiently. To this end, the fiscal governance and financial health of individual FET colleges are absolutely essential.

Table 10: Summary of Calculated Weighted Funded FTEs for NC(V) and Report 191 Funded FTE Enrolments as at February 20113, per Province and Programme

Province	Weighted FTEs NC(V)	Weighted FTEs Report 191 N1 - N3	Weighted FTEs Report 191 N4 - N6	Total weighted FTEs	2013/14 Funding allocation	Allocation per weighted FTE	Deviation from average
Eastern Cape	24 864.93	816.79	3 579.03	29 260.75	R 785 866 000	R 26 857	R 6 074
Free State	9 173.82	1 173.47	4 875.54	15 222.83	R 364 705 000	R 23 958	R 3 174
Gauteng	41 670.33	3 355.24	10 030.71	55 056.27	R 1 276 429 000	R 23 184	R 2 400
Kwa-Zulu Natal	45 666.76	2 004.89	9 484.56	57 156.21	R 969 192 000	R 16 957	-R 3 827
Limpopo	32 573.18	817.08	4 894.11	38 284.37	R 614 458 000	R 16 050	-R 4 734
Mpumalanga	14 533.17	988.71	1 436.12	16 957.99	R 387 950 000	R 22 877	R 2 094
Northern Cape	3 980.67	210.79	1 086.47	5 277.93	R 88 392 000	R 16 747	-R 4 036
North West	13 467.40	1 239.47	1 925.90	16 632.77	R 295 004 000	R 17 736	-R 3 047
Western Cape	23 161.50	1 000.52	4 497.30	28 659.32	R 673 872 000	R 23 513	R 2 730
Total	209 091.75	11 606.97	41 809.72	262 508.44	R 5 455 868 000	R 20 784	R0

Source: DHET (2013c) Final Budget Allocation – FET Colleges – 11 March 2013. Weighted FTEs calculated.

Table 11: Shortfalls in Provincial MTEF Budgets to Fully Fund Programme Enrolments (Funded FTEs) and Percentage Unfunded FTE Students (2012/13)

Province	Actual MTEF budget for 2012/13	Funded NC(V) FTE students 2012	Funded Report 191 FTE students, 2012	Total funded FTE students	Total indicative budget required 2012/13	Shortfall	Shortfall as a % of total budget	Unfunded NC(V) students	Unfunded Report 191 students	Total unfunded FTE students	% unfunded FTE students
Eastern Cape	R 699 923 000	16 118	7 844	23 963	R 767 498 306	-R 67 575 306	-9%	-1 304	-768	-2 072	9%
Free State	R 323 804 000	4 895	14 995	19 890	R 440 719 024	-R 116 915 024	-27%	-1 090	-3 658	-4 748	24%
Gauteng	R 1 133 245 000	26 194	25 824	52 018	R 1 180 033 316	-R 46 788 316	-4%	-1 180	-1 177	-2 357	5%
KwaZulu-Natal	R 858 862 000	28 769	29 209	57 978	R 1 299 044 247	-R 440 182 247	-34%	-8 071	-8 313	-16 384	28%
Limpopo	R 545 768 000	19 538	10 965	30 503	R 761 528 701	-R 215 760 701	-28%	-4 578	-2 607	-7 185	24%
Mpumalanga	R 345 285 000	8 569	6 891	15 460	R 373 363 379	-R 28 078 379	-8%	-579	-462	-1 041	7%
Northern Cape	R 78 342 000	2 433	2 773	5 206	R 120 300 902	-R 41 958 902	-35%	-765	-799	-1 564	30%
North West	R 261 789 000	8 432	3 260	11 693	R 303 224 625	-R 41 435 625	-14%	-995	-394	-1 390	12%
Western Cape	R 597 589 000	15 535	10 727	26 263	R 743 278 236	-R 145 689 236	-20%	-2 994	-2 391	-5 386	21%
Total	R 4 844 607 000	130 484	112 489	242 972	R 5 988 990 737	-R 1 144 383 737	-19%	-17 403	-14 505	-31 908	13%

Source: DHET (2013b) Final Budget Allocation 2012–13.

When evaluating the effectiveness of the current framework and funding of the FET college sector, having an overall picture of the financial health of the colleges is important. Using information from the annual financial statements (DHET, 2013a), the financial health of the FET colleges was determined by testing the following criteria for the period 2009–2011:

- Unqualified auditor’s opinions.
- Change in the value of assets.
- Change in the value of equity.
- Liquidity ratio (current assets: current liabilities).
- Percentage change in total income.
- Surplus in income over expenditure.

The analysis found:

1. Annual financial statements were provided for 48 out of 50 FET colleges. No annual financial statements were provided for two colleges in KwaZulu-Natal (Mthashana and Thekwini).
2. Eleven colleges had qualified audits.
3. Thirteen (27 per cent) colleges were not in a sound financial position, including the four colleges in the Free State. The financial health of three other colleges could not be determined.
4. Of the colleges that were not in a sound financial position, 12 had a surplus below or equal to 10 per cent. The Sekhukhune FET College displayed a surplus of 29 per cent but was still found not to be in a financially sound position.
5. Staff costs, as a percentage of government subsidies, tuition and examination fees, varied among the colleges: three colleges had staff costs of over 60 per cent – Vuselela FET College (62 per cent) in North West, Northern Cape Urban FET College (62 per cent) and Esayidi FET College (60 per cent) in KwaZulu-Natal. A matter of concern was the high percentage of staff costs at two colleges: Motheo FET College in the Free State (70 per cent) and Tshwane South FET College in Gauteng (75 per cent).
6. The majority of FET colleges are highly dependent on government subsidies, and tuition and examination fees. Information concerning the fee-for-service income and other private income as a percentage of total income was available for 47 colleges. The figure was found to be below or equal to 10 per cent for 33 colleges, 11–20 per cent for eight colleges and 21–30 per cent for three colleges. Only three colleges receive more than 30 per cent of their total income from fees and other private income: Port Elizabeth FET College (39 per cent) in the Eastern Cape, Motheo FET College in the Free State (44 per cent) and the Tshwane North FET College (33 per cent) in the Gauteng Province.

The following nine FET colleges are under currently under administration, and more are expected to follow (DHET, 2013d).

Eastern Cape	Ikhala College; Ingwe College; King Hintsa College; King Sibata College; Lovedale College
Free State	Motheo College
Gauteng	Tshwane North College
KwaZulu-Natal	Coastal College; Mthashana College

3.5 Conclusion

The FET college sector plays a vital role in the development of middle-level skills that are crucial for economic development and building an inclusive economy. As part of moving the FET functions from the provincial to the national sphere, a new funding framework for FET colleges has been introduced. The Commission is concerned about the size, distribution and impact of FET funding. The sector needs to be adequately funded in order to increase the country's skill base. The provision of FET college education has been very uneven across provinces, and so future expansions need to ensure that a more equitable spread across provinces is attained. The sector is facing governance and management problems, especially with regard to financial management. Financial accountability in the sector needs serious attention, to ensure that any additional funding to the sector will be used effectively and efficiently.

3.6 Recommendations

With respect to **funding further education training (FET) colleges**, the Commission recommends that:

- The funding model for the FET sector after the function shift ensures that:
 - o Baseline funding does not perpetuate past underfunding of the function in certain provinces
 - o Additional allocations are used to achieve a more equitable funding regime across the provinces.
 - o Ongoing infrastructure development and maintenance are provided for.
- The transfer of the FET function to the DHET should include the development of sound systems and uniform templates for financial reporting, designed in a manner that ensures the DHET can proactively monitor the financial health of FET colleges. This should be complemented by holistic interventions to improve fiscal governance in FET colleges including recruitment of appropriate skills, ongoing training, and credible financial systems and processes