



BRIEFING TO THE PORTFOLIO
COMMITTEE ON HIGHER EDUCATION
AND TRAINING

Financial and Fiscal Commission

14 October 2015

For an Equitable Sharing of National Revenue

PRESENTATION OUTLINE

1. Role and Function of the Financial and Fiscal Commission
2. Higher Education and Training and the Broader Economy
3. Departmental Analysis
4. Emerging Higher Education and Training Issues
5. Concluding Remarks



1. ROLE AND FUNCTION OF THE FINANCIAL AND FISCAL COMMISSION

ROLE AND FUNCTION OF THE FFC

- The Financial and Fiscal Commission (FFC)
 - Is an independent, permanent, statutory institution established in terms of Section 220 of Constitution
 - Must function in terms of the FFC Act
 - Mandate of Commission
 - To make recommendations, envisaged in Chapter 13 of the Constitution or in national legislation to Parliament, Provincial Legislatures, and any other organ of state determined by national legislation
 - The Commission's focus is primarily on the equitable division of nationally collected revenue among the three spheres of government and any other financial and fiscal matters
 - Legislative provisions or executive decisions that affect either provincial or local government from a financial and/or fiscal perspective
 - Includes regulations associated with legislation that may amend or extend such legislation
 - Commission must be consulted in terms of the FFC Act
- Current research strategy focuses on developmental impacts of IGFR



2. HIGHER EDUCATION AND TRAINING AND THE BROADER ECONOMY

DEVELOPMENTAL FOUNDATIONS OF HIGHER EDUCATION

- Higher Education (HE) is an investment (nearly exclusively)
 - Private
 - Better jobs, salaries and life
 - Reduced risk of unemployment, poverty and deprivation
 - Employment rate for those with a post-matric qualification ranges between 81%-89% whereas employment rates for those with only matric qualification sits at around 55%
 - If a household head has obtained a post matric qualification their chances of being below the poverty line are less than 10%
 - Collective
 - Contribution to economic growth and development (of increasing importance the closer a country is from the technology frontier)
 - Necessary – but not sufficient – condition for the promotion of democratic values, social cohesion, cultural development and individual security and well-being

NATIONAL DEVELOPMENT PLAN AND HIGHER EDUCATION AND TRAINING

- The National Development Plan (NDP) envisages the higher education and training sector playing an instrumental role in facilitating skills development and innovation
- The 2014-2019 Medium Term Strategic Framework (MTSF) sets out measurable targets aligned to NDP and national policy goals:
 - Increase university student enrolment from 950 000 to 1.07 million
 - Increase Technical and Vocational Education and Training (TVET) (formerly further education and training - FET) student enrolment from 650 000 to 1.2 million
 - Increase number of artisans produced from 18 000 to 24 000 per annum
 - Increase PhD graduates from 1800 to 3000 per annum
 - Increase the number of engineering and science graduates
 - Increase the number of qualified TVET lecturers
 - Reduce student dropout rate

FUNDING APPROACH/PRINCIPLES FOR HIGHER EDUCATION

- Funding of higher education is underpinned by four principles:
 - Sharing of costs – government and students
 - Autonomy in determining fees – ability to set student fees independently
 - Funding for service delivery – funding linked to teaching and knowledge outputs
 - Funding as a steering mechanism – steer the system in line with social and economic goals

MAJOR POLICY DEVELOPMENTS

2009

- Establishment of Department of Higher Education and Training (DHET) with the responsibility of coordinating education and training sub-systems of post-school education - aimed at achieving single coordinated higher education system

2011

- Adoption of NDP as driver for Government policy and resource allocation with specific goals around what needs to be achieved by DHET by 2030

2012

- Further Education and Training (FET) Colleges Amendment Act shifts function of adult learning centres and FET colleges from provincial to national DHET with FFC endorsement

2014

- National Skills Development Strategy III – aimed at integrating workplace training with theoretical learning

2014

- White paper on post-school education and training – aimed at effecting transformation of the entire post-school sector. It sets out a vision of the type of post-school education and training system to be achieved by 2030

KEY CHALLENGES

- High education is moving towards its national development goals but:
 - Access is still racially and regionally inequitable
 - Graduate output efficiency is low
 - Post graduate enrolment to facilitate transition into knowledge economy is limited
 - Five universities produce 55% of postgraduate qualifications



3. DEPARTMENTAL ANALYSIS

DEPARTMENTAL ANALYSIS: OVERVIEW

- The DHET consists of 5 programmes
 - Administration, HR Development, Planning and Monitoring Coordination, University Education, Vocational and Continuing Education and Training, Skills Development
- DHET is also responsible for Sector Education and Training Authorities (SETAs) and the National Skills Fund (direct charge on national revenue fund)
- Mandate: Expand access to and improve success within the post-school education and training system
- Key strategic goals of the department:
 - Increase number of skilled youth, to increase the number of students successfully entering the labour market, to expand research, development and innovation capacity
 - DHET is responsible for Outcome 5 of Government's Performance Monitoring and Evaluation System
 - A skilled and capable workforce to support an inclusive growth path

KEY TRENDS IN HIGHER EDUCATION 2015 MTEF FINANCING

- DHET share of GDP (1.4%) and national budget (4.2%) maintained over the MTEF period
- Over 2015 MTEF, non-interest expenditure set to grow by a real annual average of 2.9%
 - Over 2015 MTEF period, real annual average growth of DHET budget is 3.2%
 - Strong level of real growth maintained over the 2015 medium term expenditure framework (MTEF) period, highlighting the priority attached to post-school education and training

BUDGET AND PROGRAMMES OF DHET

R'million Programmes	Outcome		Revised Outcome	Medium Term Estimates		
	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Administration	229	267	281	318	331	348
HR Development, Planning & Monitoring Coordination	47	48	60	55	58	61
University Education	26 229	28 299	30 444	32 844	34 603	36 343
Vocational & Continuing Education and Training	6 876	7 656	8 096	8 516	8 986	9 439
Skills Development	93	100	107	111	117	127
Subtotal	33 474	36 370	38 987	41 844	44 094	46 317
Direct Charge Against the National Revenue Fund	11 695	12 090	13 200	14 690	16 140	17 400
Sector Education and Training Authorities	9 356	9 674	10 561	11 753	12 913	13 920
National Skills Fund	2 339	2 416	2 639	2 937	3 227	3 480
TOTAL	45 168	48 460	52 187	56 534	60 234	63 717
Real Annual Growth Rates						
Administration		12.9%	4.9%	13.4%	4.0%	5.0%
HR Development, Planning & Monitoring Coordination		-0.8%	25.4%	-8.4%	5.5%	5.0%
University Education		4.4%	7.6%	7.9%	5.4%	5.0%
Vocational & Continuing Education and Training		7.7%	5.8%	5.2%	5.5%	5.0%
Skills Development		3.4%	7.0%	3.7%	5.4%	8.5%
Subtotal		5.1%	7.2%	7.3%	5.4%	5.0%
Direct Charge Against the National Revenue Fund		3.4%	5.4%	7.8%	6.7%	4.9%
Sector Education and Training Authorities		3.4%	5.4%	7.8%	6.7%	4.9%
National Skills Fund		3.3%	5.5%	7.8%	6.7%	4.9%
TOTAL		7.3%	4.0%	5.0%	3.5%	2.9%

BUDGET AND PROGRAMMES OF DHET

[CONT.]

- Priority programmes over 2015 MTEF:
 - University Education programmes: increased funding to cover costs associated with newly established universities in Mpumalanga and Northern Cape
 - Vocational Continuing Education and Training (VCET) programme: Technical and vocational education and training and adult education and training functions shifted from provinces to national DHET
 - Real annual average growth in allocations to Sector Education and Training Authorities (SETAs) and the National Skills Fund (NSF) show stronger growth relative to DHET programme-based expenditure
 - Emphasis over 2015 MTEF is for SETAs and NSF to drive increased skills training, work opportunities and placements – emphasis is on intermediate level skills
- Given reports on mismanagement of SETA funds, the emphasis should be effective utilisation of funding as opposed to allocating additional funding

ECONOMIC CLASSIFICATION

R'million	Outcome		Revised Outcome	Medium Term Estimates			Real Annual Average Growth 2015/16-2017/18
	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	
Compensation of Employees	5 928	6 605	7 008	7 308	7 733	8 138	2.6%
Goods and Services	258	294	303	493	501	514	-0.7%
Transfers and Subsidies	38 958	41 553	44 872	48 721	51 993	55 058	3.4%
Capital Assets	7	8	4	12	8	7	-25.6%

- Transfers and subsidies are significant due to DHET being transferring agent for universities, colleges and various entities/agencies (National Student Financial Aid Scheme, Council on Higher Education, SA Qualifications Authority)
- Given tighter resource envelope, cost containment measures implemented with respect to spending on goods and services and machinery and equipment (falls under capital assets)

TRANSFERS/SUBSIDIES TO HIGHER EDUCATION INSTITUTIONS

	Outcome		Revised Estimate	Medium Term Estimates		
	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Subsidies to Universities (R'million)	20 903	22 389	24 155	26 243	27 634	29 016
Real Year on Year Growth		3.6%	4.2%	5.3%	2.3%	2.2%
% of Total DHET Budget	46.3%	46.2%	46.3%	46.4%	45.9%	45.5%

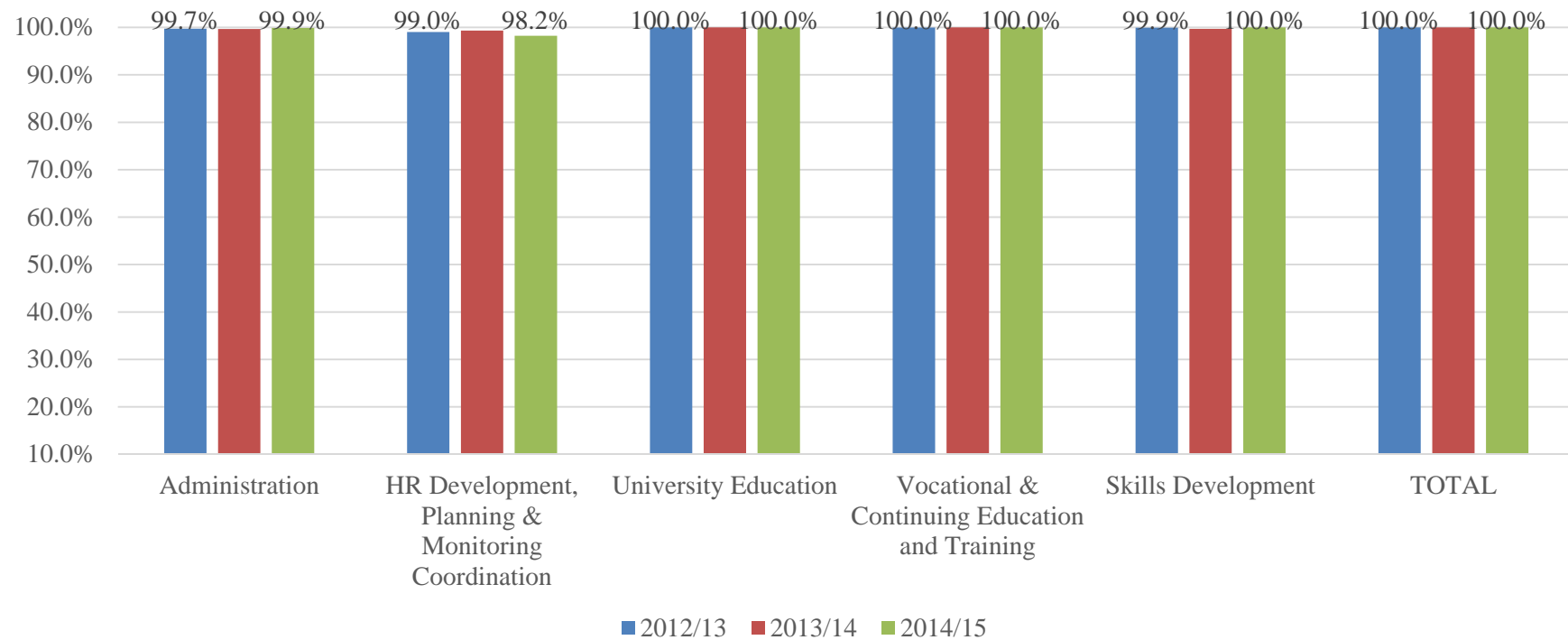
- Subsidies to universities reach R29 billion by 2017/18
- Strong real growth of 5.3% is recorded for 2015/16 – due to inclusion of R1.2 billion for infrastructure at University of Mpumalanga and Sol Plaatje University. Thereafter, growth in allocations slow down over outer years of the 2015 MTEF period
- Challenges that need to be overcome in universities include: increasing participation rates, particularly with respect to African/Coloured students, increasing PhD enrolment and completion rates and ensuring wider distribution of completion rates across all universities

TRANSFERS/SUBSIDIES TO NSFAS

- Over the 2015 MTEF period, NSFAS to receive R20.4 billion to fund university loans and college bursaries
- Proportion of the DHET budget allocated to NSFAS has declined slightly from 12% (in 2014/15) to 11% over the 2015 MTEF period
- Real growth in 2015/16 is slower (at 1.8%) than the 2.8% recorded in 2014/15, then recovers to 2.2% by 2017/18
 - Question is whether budget growth is aligned with anticipated increases in enrolments at universities/TVET colleges

	Outcome		Revised Estimate	Medium Term Estimates		
	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
NSFAS (R'million)	5 196	5 769	6 139	6 449	6 811	7 151
Real Year on Year Growth		7.4%	2.8%	1.8%	2.6%	2.2%
% of Total DHET Budget	12%	12%	12%	11%	11%	11%

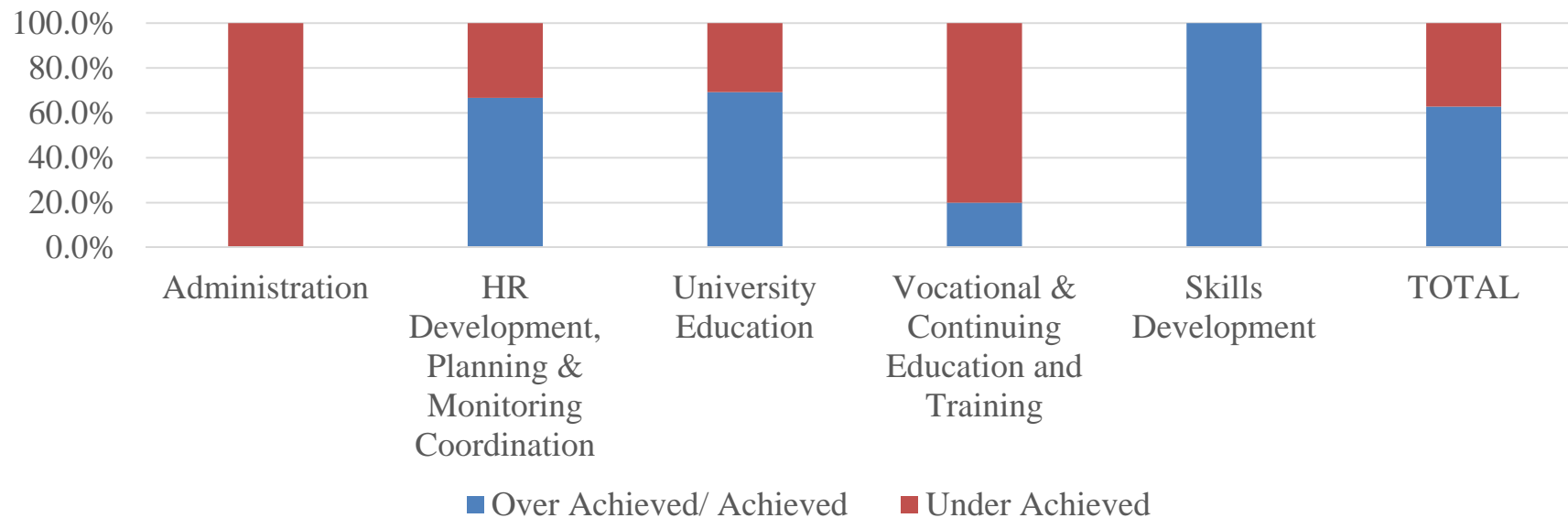
DEPARTMENTAL SPENDING PERFORMANCE (FISCAL DISCIPLINE)



- DHET consistently able to spend allocated funds

DEPARTMENTAL PERFORMANCE

- Achievement rate with respect to 2014/15 targets: 63%
 - Under achievement on key programmes such as University Education and specifically Vocational and Continuing Education and Training programmes are concerning
 - Challenges around capacity and adequate resources driving poor performance and low attainment of targets
 - Overall, in relation to the level of spending, achievement of targets is low: raises the issue of effectiveness and value for money





4. EMERGING HIGHER EDUCATION AND TRAINING FUNDING/POLICY ISSUES

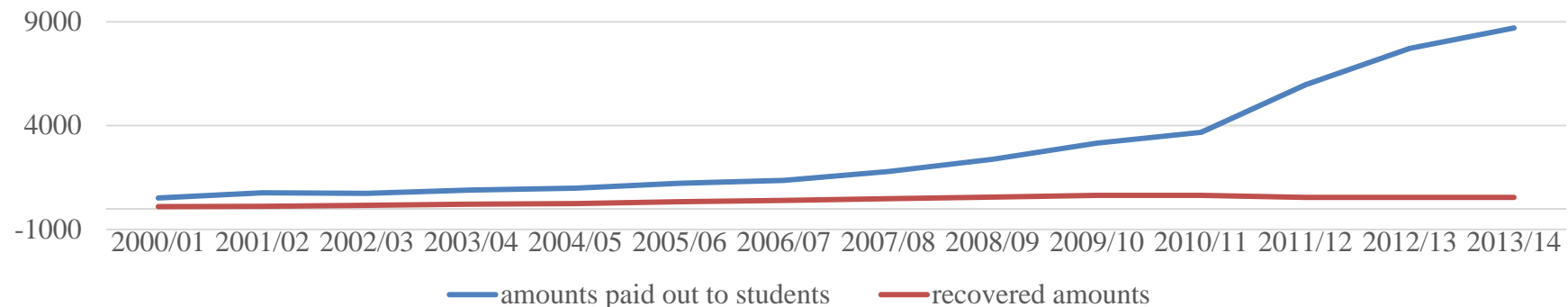
DEMAND PRESSURES

- NSFAS is generally perceived to be underfunded
 - Scheme has less than half of funds needed to meet the demands
- The average household income for Black African is R69 000
 - The number of learners qualifying for higher education acceptance is increasing
 - In 2013 the UKZN – received 10 426 NSFAS applications and managed to assist 7 650 students

DEMAND PRESSURES [CONT.]

- Poor loan recovery record
 - Collecting student loan repayments is an integral element of NSFAS mission statement
 - International comparisons on student loan repayment/recovery ranks South Africa amongst the lowest (along with Malaysia and Jamaica)
 - Gap between amounts paid out to students relative to recovered amounts is widening – implication is that ability of NSFAS to contribute to replenishing the funds available for future generations of students is constrained
 - Can the new loans and bursaries management system that was piloted during the 2014 academic year assist in turning around this challenge?

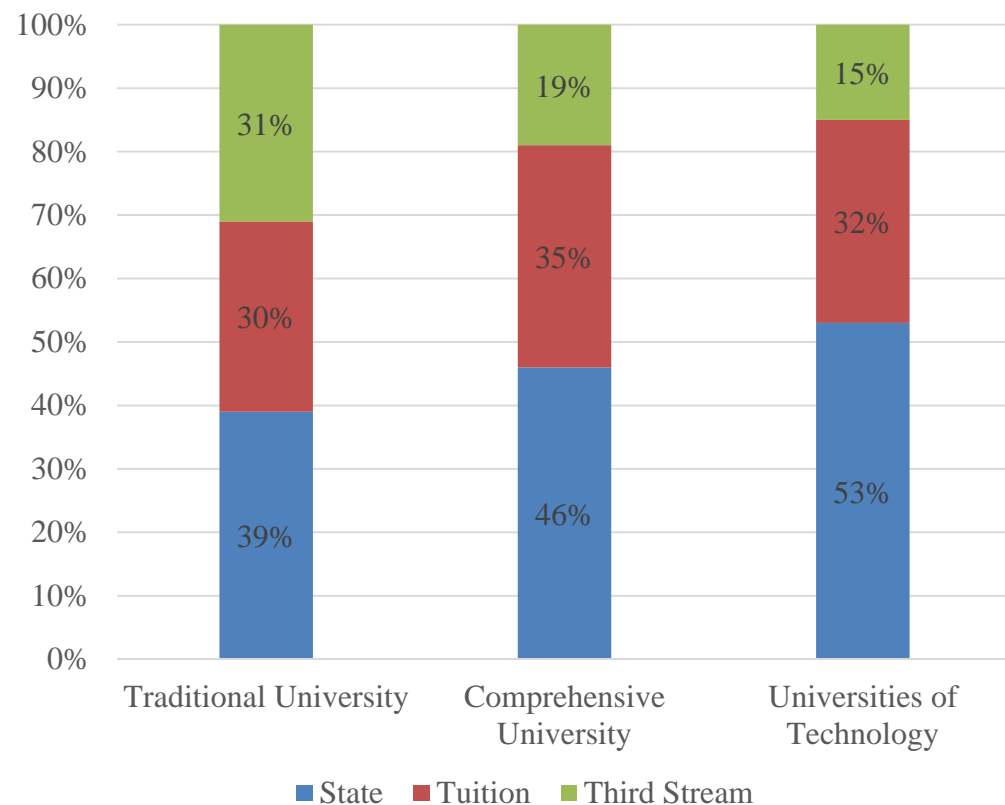
Amounts Paid Out to Students Relative to Recovered Amounts, 2000/01-2013/14 (R'mil)



GOVERNMENT SHARE VS STUDENT SHARE

- This raises the key issue in HE finance
 - Who benefits and who should pay?
 - What is an appropriate student/family share?
- Theme of higher education finance today:
 - These decisions are not made on any consistent criteria
 - General fund declines; institutions raise fees as far as they can to make up lost revenue

Institutional Funding Per Source and Institutional Type (Average % over period 2007/08 to 2012/13)



SHIFTING TOWARDS A COHERENT FRAMEWORK FOR POST SCHOOL EDUCATION AND TRAINING

- Colleges function (TVETs and CETs) shifted from provinces to national sphere
 - FFC was consulted and endorsed the shift but cautioned against perpetuating historical underfunding of colleges
- Positive development: National Treasury (together with DHET, DPME, FFC) has set up technical working group to explore options for financing the roll-out/implementation of the White Paper on Post School Education and Training

5. CONCLUDING REMARKS

- Quality education, training and innovation are central to achieving South Africa's long-term developmental goals – NDP sees higher education and training sector as important instrument for economic development and eliminating and reducing poverty and inequality
- Key messages from FFC analysis:
 - Value for money: DHET well able to spend allocation, achievement of targets not keeping pace, particularly with respect to priority areas for example TVET colleges
 - Adequacy of funding and ensuring that historical underfunding is not perpetuated especially in the case of colleges (TVET and CET)

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