



BRIEFING TO THE PORTFOLIO COMMITTEE ON HIGHER EDUCATION AND TRAINING

Financial and Fiscal Commission

11 March 2015

For an Equitable Sharing of National Revenue

PRESENTATION OUTLINE

1. The Economic Foundations of Higher Education Financing
2. Diagrammatic overview of funding sources
3. Significant Policy Developments
4. Departmental 2015 MTEF Analysis
5. Observations and Options

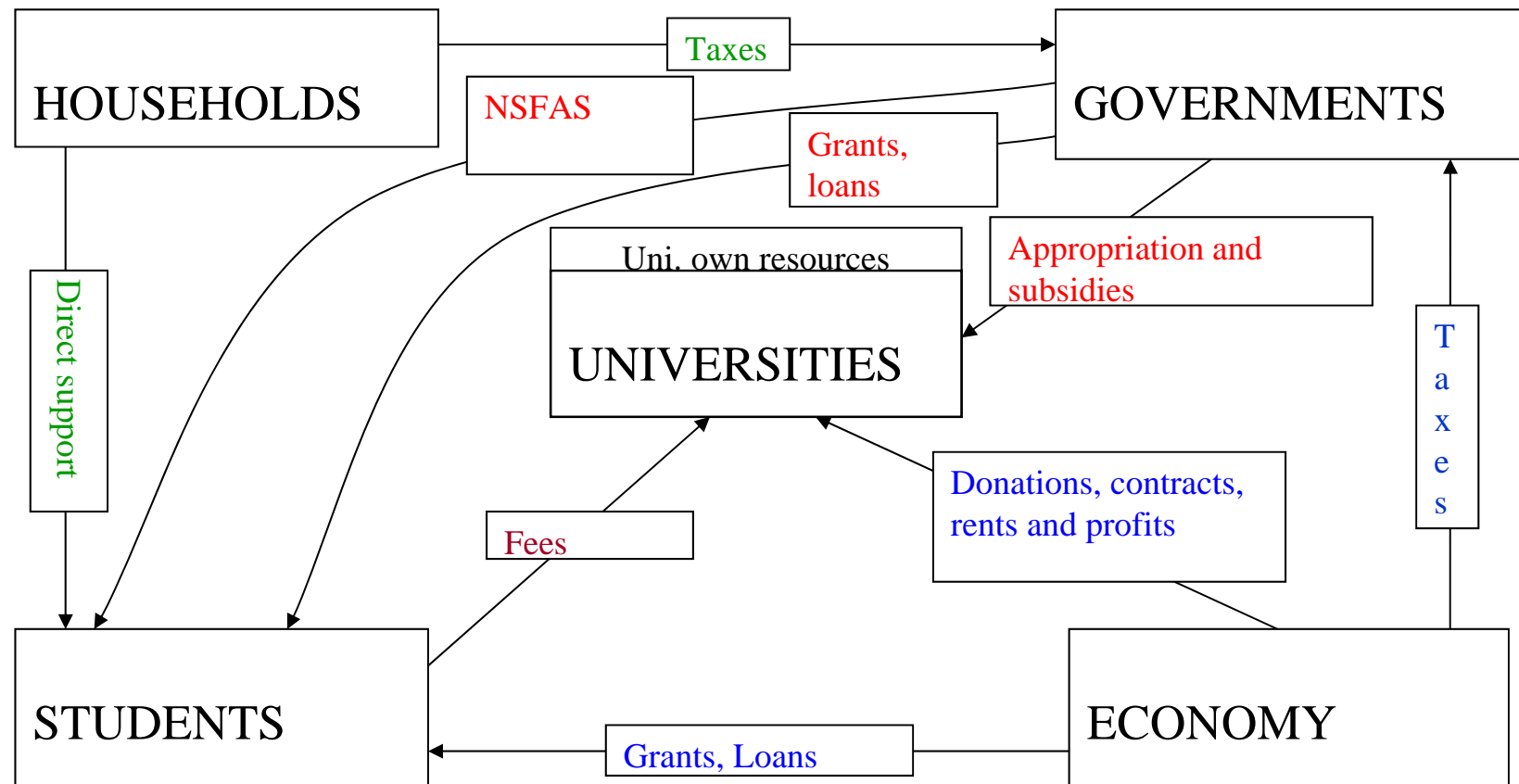
DEVELOPMENTAL FOUNDATIONS OF HIGHER EDUCATION

- Higher Education (HE) is an investment (nearly exclusively)
 - Private
 - Better jobs, salaries and life
 - Reduced risk of unemployment, poverty and deprivation
 - 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

IS HIGHER EDUCATION AND RESEARCH A PRIVATE OR PUBLIC GOOD?

- There is a continuum from collective to private:
 - Fundamental, curiosity driven research
 - National research programs – applied research
 - Basic teaching and learning (private + external benefits)
 - Specialized training within firms and public organizations
 - Life long learning
- These differences should be taken into account in the way education is funded

DIAGRAMMATIC OVERVIEW OF FUNDING SOURCES





POLICY DEVELOPMENTS AND KEY CHALLENGES

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

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

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



DEPARTMENTAL ANALYSIS: 2015 MTEF

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

FUNDING APPROACH/PRINCIPLES FOR HE

- 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

BUDGET AND PROGRAMMES OF DHET

[CONT.]

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%

KEY TRENDS IN HE 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

- 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
 - Real growth in allocations in respect of student aid (National Student Financial Aid Scheme) slow to 1.8% in 2015/16
- By outer two years of 2015 MTEF period, growth in subsidies to universities will slow down significantly (from 5.3% to just over 2%)

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%



OBSERVATIONS AND OPTIONS

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

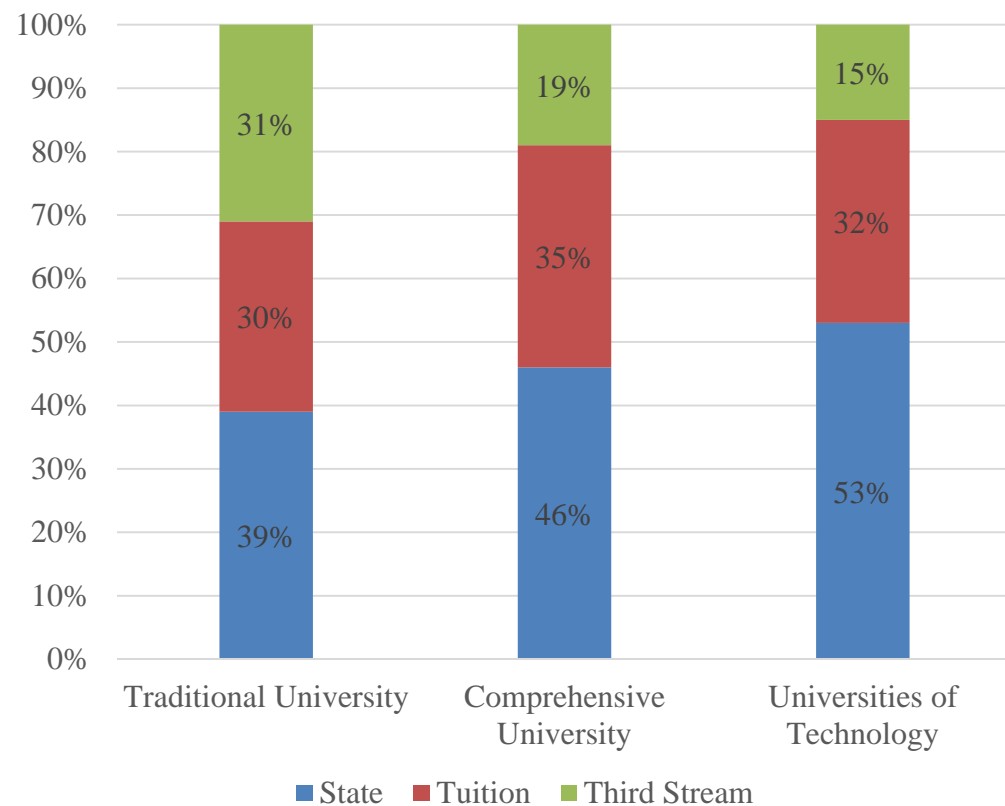
DEMAND PRESSURES [CONT.]

- Poor loan recovery record
 - R3.2 billion of total R12 billion loan book recovered
 - Scheme has second lowest recovery rate globally
 - Income contingent loan model create problems
- Over 82% of NSFAS funds allocated to universities
- The average subsidy per student is R20 000
 - The subsidy compares unfavourably with average cost of tuition

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)



EMERGENT HIGHER EDUCATION AND TRAINING FUNDING ISSUES

- Driven by higher education institutional goals?
 - Focus is on capacity building and prestige at expense of national policy goals
- Policy coordination?
 - Insufficient focus on affordability
 - Insufficient focus on overall revenue adequacy

ACCOUNTABILITY TO TAXPAYERS

- Rising costs and persistent performance shortfalls → calls for accountability
- Policymakers looking for results/return on investments
- Often punitive, but should be driver for better finance policies
- Performance budgeting – A new framework will have to be introduced in South Africa
 - Based on different funding principles and on a policy of institutional differentiation
 - FFC's concern: size, direction and impact of funding higher education and the post-school system as a whole
- 3 major areas that require funding: higher education qualifications, further education qualifications, and research

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