TRANSCRIPT FOR

COMMISSION OF INQUIRY INTO HIGHER EDUCATION AND TRAINING

FRIDAY – 28 OCTOBER 2016

QUORUM/SPEAKERS

Chairperson: Judge J. Heher

Member(s):

- Advocate G Ally
- Ms. L. Khumalo

Presenter: Mr. Firoz Patel (DHET/ TVET)

Presenter: Mr. Joubert

Head Evidence Leader: Advocate K. Pillay SC

Evidence Leader (s):

- ADV. M.Lekoane
- ADV. T. Mabuda
- ADV. M. Zulu

Stakeholders

- Mr. Dan Mabuyakhulu
- Mr. X. Xuma
- Dr. K.S Kongwa
- Advocate Joe Chilwane
- Mr Sam Zungu

Expert(s):

- Dr. G. Simpson
- Prof. T Mosia

TRANSCRIPT

JUDGE J. HEHER: Yes Advocate Pillay

ADV. K. PILLAY: Thank you Chair. Mr Patel, I'm just trying to pick up where you are on the presentation. I think that the TVET Colleges Funding Grid, most of which have been done already. Maybe you could just highlight portions of the presentations which you want to draw to our attention. I'm just conscious of the fact that we do have two stakeholders who want to post questions to you as well.

MR. PATEL: Oh thank you very much. Just in terms of this Grid – is just to show from 2014 what has been the budget allocation. You can see it's just increased from 5.8 billion in 2014/15 to 6.5 billion in 2016/17, and that has been at an average rate of inflation – 6%, 6.7%. So there hasn't been much additional of funds injected into the system.

Another issue is on page 9, 2015/16–the 'Compensation of Employee's Budget'. Now, fundamentally what the Continuing Education and Training Act did or the FET Amendment Act, is not only move the assignment of the functions…..you must remember that the function is still with provinces in terms of the constitution because schedule 4, has not been amended, but it's just in terms of the legislative assignment of those functions, through the Minister of Higher Education and Training, but the FET Amendment also brought all the Lecturers that were under the employ of the colleges, brought them into the employ of the department – but based on posts the Minister has established with the funding that was available.

Previously….and this is part of the tension and the stress that the colleges are facing is, when they got the lump-sum of the full funding including compensation of employees that they would have flexibility around a lot items for example will able to be responsive in terms of filling vacancies etc. And they also have to make savings, where efficiency savings were concern. Now they restricted to the 63% which has to be managed by the department on behalf of the college because they are now public servants, the 63%. Well we need to recognise employees that fell in the 63% of the college, but the point I want to make is that…...the funding norm says that CET Act says that the Minister will establish posts from the allocation made to colleges in regards to money appropriated by parliament.

My understanding, and the funding norms says under paragraph 117, 118 that if we are unable to spend the money of the college that whatever is left over must be transferred back to the college with conditions and that it may only be used for personnel related, non-recurring expenditure such as [indistinct] and training. But as indicated coming on the 1 April [indistinct] the National treasury accessed those funds of over 300 and somewhat million Rands.

Our Director General then questioned that particular issue in regards to whether the national revenue fund had a stake in that particular funds. Our interpretation and our legal advice from our legal services is that, that money had to rightly be transferred back to the colleges before the end of the financial year which is 31st of March this year. So come on the 1st April, we started the [indistinct] and the National Treasury responded to say that their legal advice is, that in terms of PFMA, you cannot transfer money earmarked for compensation of employees to any other line item. So we're still pursuing that particular case and issue with vigour.

ADV. G. ALLY: Sorry Sir, just to understand what you are saying. And perhaps you can explain it, there's two varying opinions; one saying that the moneys taken previously by Treasury should be returned to the colleges. The norms and standards say that particular money which is meant for personnel can only be used for that purpose. Treasury says the money for personnel cost can only be used for personnel cost and cannot be taken for any other cost. So explain to me again now where the problem lies?

MR. PATEL: No there's just one correction to that. The CET Act says that it will be an allocation appropriated by parliament; it then says the Minister will establish posts from that allocation. Our understanding and….. both from my side and the legal services side in our department says that's an incorrect interpretation. That once parliament makes an allocation that was the intent to say: this is the money for colleges. All we are is we're a guardian by administering the payroll, now if that allocation is not exhausted, in other words there are savings.

And there were problems because of the transition, the systems were not up etc. The funding norms which are approved by the Minister of Finance - the Minister of Education determines the funding norms and it is the Minister of Finance that concurs with it, says: that if we as a department do not spend the money that we withheld from a college; before the financial year end, we must transfer it to the colleges. National Treasury says: no you are not allowed because it was earmarked for compensation and all compensation of employees in any government department if not spent. must revert to the National Revenue Fund. And so we are still contesting that legal particular issue, inter-governmental processes take quite a while.

ADV. G. ALLY: Thank you

MR. PATEL: Now okay, and then on the slide on 'Bursary Allocation' you will notice that bursaries has grown less than what subsidies have grown. In 2015/16, the bursary allocation grew by 4.5% and by 5.3 in 16/17. Now bursary allocations consist of tuition fees and allowances, transport and accommodation. The consequences of over-enrolment has also had a consequences on the lives of students. For example in terms of allowances, transport and accommodation; because of increase in number, you've got to send same money that has to be shared with 50% more students, in terms of accommodation. And Again I must say that I think as a nation we owe our colleges, college management gratitude for having to hold the system in terms of all these particular pressures.

And the students, I am holding thumbs that up to now, I think by a large majority of TVET students have not participated in….and disrupting colleges. [indistinct] spoke about the targets, but I am not going to go into that. Now the funding shortfall - now we say if we have to be true to the norms, if we use the white paper targets, for 2016/17 which is 829 000; the estimated cost according to the funding formula would have been R19.8 billion. The amount of money that we have available is R9 billion so you can already see that rather than putting colleges into bigger problems and saying you will stick to the 829 that we maintained the enrolment where it was without putting them under more pressure.

So the estimated, now this is…..if we use the 829 000 for this year in terms of the white paper trajectory. Now if I go to the next table, the slide - some of them haven't got page numbers. It says NDP enrolment target. Sorry it's the white paper enrolment target, I've got an old copy sorry - the white paper enrolment target this has been corrected, so if you've got the version that says NDP enrolment target, just read as white paper. 2016 - 829 as I indicated; 2017 – 948; 2018 - 1 million. Now clearly without any money in the MTEF, those targets would have to be wiped off. Headcount, the headcount that was projected for NCV and report 911 was 755, 862 and 985. So remember that the 829 will include occupational programmes which are not under our control. The headcount based on the white paper target is 755. The full time equivalence of that is 368, what we have funding in the kitty 238 000 full time equivalence. So 130 000 full time equivalence is unfunded, and you can see it is about 50%. Therefore we get our 57%, If you count the funding that we have and what the numbers are, it covers at 57%. Okay we spoke of that.

If I go to the next table now this is the interesting one; of the estimated programme funding shortfall. On the white paper, I spoke about the 10.7 billion shortfall and this is not even talking about the relative with NSFAS….oh no it includes NSFAS there it is….the 2017-14 billion; 2018-18 billion. But now working on an assumption of instead of having the growth rates of 25% per annum, working on assumption of 5% increase enrolment in the new MTEF that is coming next year; the target will be….revised to 627 for ministerial programmes and the enrolment is expected to climb, not to climb as fast. So if you look in the next table it shows us what the white paper target is and what our revised targets would be. And again the revised targets in the [indistinct] process, has not yet been approved. So we are waiting for the unpacking of the Minister of Finance's speech to say that they are giving us the 5% more over the inflation to deal with the increase.

<u>MS. L. KHUMALO</u>: Sorry Mr. Patel, the assumption of 5% is based on what? The increase, the anticipated 5%?

<u>MR. PATEL</u>: No, it's a revision of the unrealistic growth targets in terms of the budget that would….that was…..commissioner, I had it somewhere…..21% here on your growth to 5%. It's 5% above inflation, so in real terms it would be 11%....

<u>MS. L. KHUMALO</u>: For enrolment?

<u>MR. PATEL</u>: 11% of the budget

<u>MS. L. KHUMALO</u>: It says headcount enrolment assumed 5% increase in enrolment in 2017. So I am asking how do you assume it's 5% that you gonna increase on

<u>MR PATEL</u>: Well we were asked to provide scenarios for 5%, 10%, 15%, so we've provided that. But I've just displayed the 5% one. And the bottom line assumption is that it must be higher than the growth rate of population. So we're sitting on the population growth of 1.8%, at least we must be able to grow it slightly above the population growth.

<u>MS. L. KHUMALO</u>: If could help if may be we have some kind of a yardstick for this cause we are getting……I mean unlike varsity where it's post-matric, TVET could be you know…. people from even before matric, isn't. So that's why I am saying this assumption might be a bit, you know. I just need a bit of education on it.

<u>MR. PATEL</u>: Now Ok, this is not the real growth in the demand…..this is not the real growth. The real growth in demand is really 20, 30% per annum, so Commissioner if you are referring to that. Here the assumption is if you got to slow down…..to be able put a case in which it would be affordable to the fiscus to at least have a progressive increase in the enrolments that we….. In other words what

will happen is if this assumption is carried, we will increase college enrolment not more than 5% per annum to stay within the budget.

MS. L. KHUMALO: Okay this is on the understanding that we are over enrolled you know, which is why I am saying an assumption on an increment actually determines that if we are able to deal with access and success

ADV. G. ALLY: Okay, what Commissioner Khumalo is saying, you assuming 5% increase actually you should have 0% increase because you are over enrolled already.

MR. PATEL: Okay thank you Commissioner. No, our assumption is that we get the money for that over-enrolment. And starting from that, we start moving it at 5%. That…in fact the next page gives the assumptions. Now based on the 5% enrolment growth, based on the fact that our current underfunding is fully funded, based on….

ADV. K. PILLAY: Can I just ask you Mr. Patel just on that. How is it anticipated that the current funding shortfall would be met? That there would be no underfunding within the colleges?.

MR. PATEL: No, there isn't…….All we can say is this is what we say want whether it's gonna be given is another question.

ADV. K. PILLAY: And has there be any costing exercise done of what it will cost to remove the funding crisis at the moment?

MR. PATEL: Yes. Okay. So we've taken the assumptions in the budget and that's this slide here. We've taken it on the 5% growth. We've taken into account underfunding. We've taken into account the examination shortfall because examination budgets have not increased in spite of the increase in enrolment and that puts pressure on the department's budget again. Infrastructure maintenance backlog want-off issue; new TVET college, were factored into. And the bottom line then is if you look on that slide.

ADV. K. PILLAY: Mr. Patel I am just wondering if we all reading from the same slide. I don't seem to see some of the items you referring to.

MR PATEL: It's the same slide that's on the screen that I am talking to.

ADV. K. PILLAY: For an example I don't see any reference to infrastructure, shortfall etc.

MR. PATEL: Okay it's not on the slide. That's what I was saying when Commissioner asked Me about the assumptions. So I mean for the record…. the assumptions…….25% of students qualify for accommodation. Full cost of accommodation and meals at R40 000 per annum per student. 50% of students will qualify for travel, examinations, infrastructure. So if you look at that particular slide, the total projected shortfall taken as assumptions is R10 billion for this year, R14 billion for the next year if I can read that far, 18 billion for the year after that. Anyway we interested in is; what is 2017 - R14 billion.

ADV. K. PILLAY: Can I just ask the question because there is something I am not clear about and it's an important part so I just need clarity. Your figures begin from next year, from 2016/ 2017.

MR. PATEL: This year.

ADV. K. PILLAY: Sorry this year. The equalizing funding let's call it that. The funding that's going to put us in the ideal position where all the backlogs have been removed. Has that been included in the 2016/2017 numbers?

MR. PATEL: Can I just hand over to Mr. Joubert?

MR. JOUBERT: Thank you, the slide at the top is the white paper costing and just below it is the revised 5% costing. I just wanted to show what is the…..if we reduce the white paper to 5%, that at the bottom is how we reduce the shortfall. So at the top is R10.7 billion for 16/ 17 on white paper. Going down it's R10.2 billion if you had to do it on 5%. So those are the different scenarios just on that one slide.

ADV. K. PILLAY: And I appreciate it. The reason this question is important is I'm sure you will understand from DHET's perspective, one of the criticisms about the National Treasury costing report, for the white paper. Is that those costing numbers assume that everything is as it should be and that everything is properly funded at the moment. So now in relation to these figures, I just want to get a sense that these figures take…..do they [indistinct] on the assumption that everything is properly funded? And what it's going to cost going forward and if so, how do we get a sense of how much it's going to cost to get everything to the level it should be before you begin to look forward.

MR. PATEL: Thank you. No you…..these figures include the new target figures fully funded. So it will level the playing field and then moving forward, the difference between what the backlog is to the numbers, we've also got that figure somewhere. In other words if keep the numbers as they are on 710 000,…….Mr. Joubert will give us that number.

ADV. K. PILLAY: And is there an intension to compensate colleges for the amounts that ought to have been paid to them but that weren't paid over to them?

MR. JOUBERT: To look at that, if you refer to the accrual, I think that is still the thing that we have to discuss. The reason being that if the colleges were able to absorb that increment deficit; I think as government itself we will have to see whether or not it is still in our objectives to pay for that accrual. I think going forward, if we can revise enrolment targets to look at the throughputs of provisioning and quality; we'll have to have a discussion….. If they didn't run a substantial deficit and they could still absorb it; that's the discussion we will have to see whether or not there are funds available I think. If you look at the current shortfalls going forward, the priority should rather be to focus on the way forward than to look at the payback of the accrual.

ADV. K. PILLAY: I'm certain the college will have a question or two about that in due course.

MR. PATEL: Can I just indicate the issue is in terms of accrual accounting of the State. There will have to be some justification because….assuming the playing field is now levelled and you're saying: but two years ago I used my surplus, can you pay it back? That's an accrual accounting system which Treasury, in terms of the PFMA, will not be allowed to do; what is gone is gone. However as Mr. Joubert says, we are quite sympathetic that we have to try to ensure colleges have at least a decent reserve to fall back on in terms of that, so we will try. But at the end of the day I think colleges are also juristic persons and they must claim what is owed to them from the authority that owes it to them.

ADV. K. PILLAY: Just a final question. You mentioned, you testified that it had been costed what it will take to remove all backlogs in terms of funding backlogs. Do we know what that amount is?

MR. JOUBERT: We haven't done retrospective costing, we did prospective costing. So we will have to see what the shortfalls…we did submit it in the Treasury Bids, so obviously if you add those bids together retrospectively, you'll get to a figure and tell what the shortfall will be. My last input at that is that, from my professional opinion is that the colleges are non-profit organisations to a certain extent. So from a departmental perspective, one of the things I always have ask myself is: why extensive reserves in colleges. That's just the thing that I need to ask myself as well because those funds were initially intended for service delivery. So you if ask now: should we pick up bill retrospectively, and I am saying that if you still have some form of reserves, you have absorbed those costs. Yes quality and provisioning might be, the question at stake; but that's just my professional opinion.

MR. PATEL: Can I then also just answer the question in regards to……If you've got to come up to the enrolment to be fully funded. If you look at that table there, it shows R10 billion for 2016/17. So this is a big job to be able to deal with the backlogs and after that you'll see the increase is by R1 billion a year. So the big job from current to be able to deal with those backlogs would be your R10 billion and then 11, 13….ya

ADV. K. PILLAY: May I just ask the slowdown, the 5% slowdown. How does that translate into the strategic plans and the APP's of the colleges? Would they be required to submit new strategic plans, new APP's?

MR. PATEL: Well, you know the issue with Treasury is that we will only know certainly by November, when the department gets its letter of allocation of whatever we gonna get whether it's 5%, 10% or 15%. And at that point when we get that information in November, we will have to communicate to colleges to say where at the moment we have stabilised it at 710, so those colleges that are still under enrolled, will probably not take in more learners because they were over enrolled in any case.

And one would see itself playing out within a year or two, where you would then see real increase in enrolment, when they have caught up around that….the particular issue. Can I also say that in the same breath where colleges have….that we owe colleges money…..there are also colleges that owe the department money because they've overspend it. So I think as Mr. Joubert said, is that we have to take that discussion into account. I think in terms of fairness etc, if we can work specific capital projects, particularly around those institutions that have lost funds; we won't be able to use capital infrastructure to in a way reward them in regards to that part. You can't have both money because parliament won't agree to what's the purpose. You just ja.

MS. L. KHUMALO: Mr Patel when you say you…… the colleges owe you. If they were to repay you what will be their source? Would it be from fees? If they were to repay the department

MR PATEL: Well, the….but that's not what I am saying, I'm just…..let's rather then say that we would ask them to repay. We will also say that we'll also have a debit against colleges, we can't do anything about it; we have to accept it that the money is gone, but the money has to come from somewhere.

The issue is at the moment, part of the over/under expenditure because of the change in the system is that the money was [indistinct] those that had savings and for those that didn't. But at the end of the day I am sure the colleges who make savings, would rightfully put pressure on us to be able to ensure that there are consequences because it's a criminal activity to over-spend. So that would be the consequences, they won't be able to go dig up money anywhere but the consequences is that we to slow them down; we have to put to either them under administration; we have to take action against their accounting officer etc. Being in a very volatile situation now, we are saying we don't want to use all those instruments because we probably will not have colleges left.

MS. L. KHUMALO: [laughing]

MR. PATEL: Can I be protected here Chair.

JUDGE J. HEHER: I did not see any threat….except that what you brought on your own head

MR. PATEL: [laughing] Now that's a fact what I am saying.

JUDGE J. HEHER: Yes I understand.

MR. PATEL: I mean one can go to the PFMA. It's a fact.

ADV. K. PILLAY: Are we now on Staffing Cost Mr. Patel?

MS. L. KHUMALO: Maybe before you commence with the staffing. Can we assume that the staffing cost overview is based on the ratio on slide 4 that you spoke about? Or it's the anticipated one as per….it's quite a long presentation and staffing and I just thought if we put it on….

MR. JOUBERT: Good, these slides depict the current actuals, the previous slides referred to the funding norms and the different economic categories. But this is what is actually loaded on our payroll, just to say to you a lot of discussions were held in terms of the 63%. These slides cover what is the actual scenario or the actual results on the system - these are these slides

MS. L. KHUMALO: Ok, based on the ratio you gave us earlier?

MR. JOUBERT: Yes, these costs are those budgets at 63% per college. So if you look at the total conversation for 16 /17, it's 5.1 billion of the allocation.

ADV. G. ALLY: Mr. Joubert I think you and Commissioner Khumalo are talking past each other. She is asking whether these costs that you were saying refer to your 1:25 and your 1:30

MR PATEL: Yes, Chairperson. It relates to the 1 is to 25 and the 1 is to 30, but remember based on the proper enrolment and not on the over-enrolment. If you take the over-enrolment into account, you take these costs, your ratio would be greater. So basically this is talking about the current situation in terms of the staffing costs. The 63% is based on the funding norms again in terms of what component is personnel. What you will notice is in this financial year, 16 colleges are projected to over spend on their compensation for employees, which comes up to about R62 million. And the department has been effecting adjustments in regards to bring it…bring the over expenditure under control.

And 34 TVET colleges projected COE savings. Now I must say that if you remember last year, the money got taken away to the revenue fund. What we've done now, is we put in into the adjustment estimate, that the Minister of Finance is tabling it in parliament, saying these 34 colleges have a saving and we want to move the money from compensation for employees to transfers, and we will be transferring that money into colleges to avoid what happened last year.

I spoke to the next slide which talks to paragraph 117 of the funding norms and how I lost the money etc. On the next page, I'm not going to go the norms again. Based on legal argument, we say as we differ with National Treasury, that in terms of paragraph 117 on the funding norms, let….If the colleges have not spent their money before the of that financial year we must transfer it, but it must be a conditional transfer.

Now the question is what probably went wrong with the situation last year? The issue is that on the 1st of April last year, we had to bring over 36 000 employees, 18 000 of whom were employed by colleges; together with their files; together with their salary histories; together with their background over on to the state personnel system. And the problem is there were cases in which files were not completed in terms of minimum requirements of the Public Service Act. In other cases, there were system glitches in terms of the electronic transfer of records. That cost at some point that the department itself had to inform colleges that we are not going to file posts because we are a runaway train in regards to not understanding what the compensation. So it was a once-off thing for last year, and as we indicated that it was part of the whole migration issue. But we still believe that with all that in place colleges should not have been penalised in terms of losing the under expenditure of the savings that was made.

<u>JUDGE J. HEHER</u>: Have the brakes been put on the train?

<u>MR. PATEL</u>: For?

<u>JUDGE J. HEHER:</u> The runaway train. Is it still running? Or has it now come to a stop?

<u>MR. PATEL</u>: Judge as I have indicated that we have gone to parliament now and said if there's money that is not spent, must be transferred to colleges before this financial year ends.

<u>MS. L. KHUMALO</u>: But now, I see you've listed the challenges, is the governance issue not a problem as well? At the colleges and the……remember the Public Service Act, how it is, the staffing. Remember you were saying from the provinces the staff now belongs…..It was either under PSA or under the colleges themselves. Did that not create a problem? Is it being fixed? I don't see it being mentioned in your challenges.

<u>MR PATEL</u>: No, well I think yes thanks Commissioner; it's related to the Judge's remark as a runaway train which stopped. We are now monitoring personnel expenditure on a monthly basis. That is why, we were able to calculate what the potential under expenditure is, and to be able to make sure that that money is transferred. So we are cutting it very, very fine, but we definitely gonna be managing it. That's the assurance I got from our Chartered Accountant sitting next to me, that it will not be as it was last year.

We did try last year to pay some of the money back because the only avenue we could find was that if a College submits a fully motivated claim against us; that we could then pay it and circumvent the

Treasury prescripts because it’s a claim that we had to honour - and we had communicated to colleges.

There are some colleges that gave us the information in regards to these claims and they were paid out. In other cases there wasn’t sufficient information to substantiate the claim. Therefore we were unable to process that claim and that's when it got wiped away into the national revenue fund. Now I think that bullet point then tells you that we are still committed as a department to try to alleviate the suffering of colleges. That we are in the process to secure additional money from the NSF - National Skills Fund, to try to assist those colleges that were not funded by the fiscus….in other words they lost their money that will still try to find that….and so, we are committed to that.

So the way forward there in the next slide, is about strict management of TVET college budgets. You know what we’re very, very lucky for is that we were saved really by the National Skills Fund. Because If there was no National Skills fund we would have been in dire, dire problems. So the national skills fund has bailed the department out in terms of examination costs for the past 3, 4 years because that's under our operational budget and we haven't been compensated. Chairperson that’s the interesting figure. The savings on for compensation for this year, colleges will be glad to hear that there is R260 million, and……

<u>JUDGE J. HEHER</u>: What is AENE?

<u>MR. PATEL</u>: Adjusted Estimates of National Expenditure - based on the tabling by the Minister of finance yesterday in terms of the medium term budget policy statement. In other words, it is only parliament that has the right to shift or change the budget. So we are not going to have an annual budget, but midterm now, parliament then votes on whether we can money from point A to point B.

<u>JUDGE J. HEHER</u>: Just explain to me there’s word I don't know. What is a *Vilament?*

<u>MR PATEL</u>: Chairperson a *Vilament* means if you got R10 in one budget and R20 in the other. In the public service you have to spend the money for what it's allocated. You are allowed to move money from on allocation another, but it has through a voting process. So the Virament means shifting the R260 million which sets up compensations for employees on our budget to the transfer item. So when parliament approves that, we are allowed to transfer that money without question.

<u>JUDGE J. HEHER</u>: I see, Thank you

<u>MR. PATEL</u>: Alright so the liquidity and solvability…can I hand over to Mr. Joubert to take us through these quickly.

<u>MR. JOUBERT</u>: Thank you. In terms of we’ve had this discussion total liquidity in the system as at end of July is about R3.9 billion over the 50 colleges. Of that, 17 colleges have about 75% of the total cash, 3 colleges would be…

<u>MS. L. KHUMALO</u>: Joubert sorry I don't understand that, 17 TVET colleges above 60 million.

<u>MR. JOUBERT</u>: Yes

<u>MS. L. KHUMALO</u>: What does it mean?

MR. JOUBERT: If you have 50 colleges, and if you had to look at their total liquidity. If you had a R60 million packet, who has R60 million and more in the account

MS. L. KHUMALO: Is there a word missing in this sentence?

MR. JOUBERT: Why

MS. L. KHUMALO: I don't know

MR. JOUBERT: So what it says is that if would take R60 million; If you add that up there is 17 colleges that has more R60 million, if you aggregate that its 75% with the total of 3.9 billion. So

MS. L. KHUMALO: It’s 17 colleges that are allocated R60 million?

MR. JOUBERT: No, no liquidity. When we do

MR. PATEL: Just hold on. Commissioner, when the colleges money in the savings or in the bank account, is above the allocation, which normally gets referred to as surpluses. I mean the college is bankrupt if it's got zero in its bank account or in any investments. And what this slide is saying is 17 colleges have a situation in which they have R60 million in cash or in investments.

MS. L. KHUMALO: and where does 75% - - -

MR. JOUBERT: 75% is that if you said you had 50 colleges and you take the 17 colleges and you add up their investments. If you took that it's worth 75% of 3.9 billion. What we are saying is 3.9 billion in the system, but of that 75% is only for 17 colleges. Even if it looks like comprehensive reserves, there's only 17 colleges with extensive liquidity, 33 colleges is still doesn't have that type of liquidity. So just to give you the picture, where the actual cash is sitting, it’s predominately 17 colleges - t's not at all 50

MS. L. KHUMALO: Okay

MR. JOUBERT: Just to give you an added overview. If you look at AV's analysis we have noted a decline – Annual Financial Statement 2015, Annual Financial Statement Analysis. We've noted a decline in revenues and an increase in expenditure. We've seen that, if look at the status of the colleges so what we’ve been noting is that due to your increase in enrolment your track more costs. You need to buy more text books, those type of expenditure is increasing, but your revenue is not supported. So it's the increase and expenditure, but we also noting that there's not a dramatic increase in occupational revenue.

So that is one area that we have to search for funds, is to increase the service on occupational side. I think that's an option for us to explore if we not saying that the fiscus will pick up the additional income. Now due to this, it’s putting extensive pressure on the liquidity on the cash and investment of reserves, we've indicated it previously. They are utilising their own funding to pick up the over enrolment, if we had to continue on these basis, that 3.9 billion should be exhausted by 2018. I think it is very important to

JUDGE J. HEHER: How could you look at it like that when you have a large number of colleges whose positions differ one from another? How can you talk about the whole being exhausted? We've got half the population dead on the way.

MR. JOUBERT: Judge this is just to say that if you looked at the expenditure trends over the past 3 years. If we look at what is costing the system to maintain these enrolments without having that additional influx of funding, those reserves will not last longer than 2018?

JUDGE J. HEHER: But by then half the population of SA would have died. Those who would have started at 20 million would presumably have…

MR. JOUBERT: Yes, this is just on an average, not necessarily saying that individual colleges, but that 3.9 billion will only last so long. I think that's the essence of that. Good, then on average, the current assets, just in terms of liquidity ratios, the current assets is only 31% more than your current liability. It's just to say to you in financial terms that 3.9 billion is not that extensive. Also continuing and in terms of liquidity, we've indicated that current cash and investments versus their monthly average expenditure, it's about 3.26 months.

So to put in context is to say that if you look at the overall monthly expenditure of TVET colleges that cash; will only carry you for about 3.26 months - If you look at the average expenditure of the colleges. The debtors also when you look at…compared to your monthly revenue, it's not that high, it means it's 1.3 times in 2014 to 2.4 times. So it indicates to us that the colleges are not able to recover debtors. If you look at your monthly revenue in your debtor account. Just comparing that, it's indicative that they are not recovering debtors. Now those debtors are referred to student debtor so emanating from that process, I think the total recovery from student debt is in a region of 15%. So they are writing off 75 to 85% of total student debt on an annual basis with the approximate recovery of 15%.

MR. PATEL: Can I just add. This is a very significant point is that over the past 3 or 4 years University students in terms of the debts - the State had bailed out the universities from the obligation of collecting those debts, but in the case of colleges they write off 75% or more of the debts and they haven't been compensated in a way that universities have been compensated. So that is another very negative period in which TVET colleges did not get the same treatment as universities. So normally the university will keep its debt book and make sure that they recover it. At TVET colleges is very difficult, they wrote it off. So the issue is that I think going forward we must really consider together with colleges that they must keep their debt on the debt book, because when it comes time, we can ask the State to assist with the debt list that we have it. The problem now is it's written off so it doesn't reflect in the books anymore. The figure is over a billion rand that is written off by colleges for bad debt.

ADV. G. ALLY: But is it not written off because they have to explain to the auditor. Well the Auditor says to you well you have got to write it off because otherwise you are running a concern that is not viable.

MR. JOUBERT: Advocate, if you look at your accounting policy of an institution, it will determine their provision for doubtful debt then obviously they write it off. So the write-off policy that we propose to colleges is not to write the debt off while the student is still in the system and that is accepted by the Auditors. Your provision could provide for that amount.

ADV G. ALLY: I am with you. That is your proposal going forward. I am putting the situation where they were told to write off by their Auditors or their Accountants.

MR. JOUBERT: Your accounting policy will determine how you account for it. The Auditors cannot prescribe to you how to do it. Your accounting policy informs the way that they audit against your accounting policy. Good, also continuing from that point of view. I think we have discussed liquidity and solvability quite comprehensively if there any questions I prefer that we move on. If we go to the next item, just looking at perhaps the item on that slide. I would like to focus solvability and repairs and maintenance in this context. In terms of just solvability, we've noted the total liability slightly increased by a margin of 1% between the two financial years - - -

MS. L. KHUMALO: Just Joubert, on the surplus and total revenue. Is that correct 7, 03 and reduced to 0.65

MR. JOUBERT: Yes it's just a….it's a financial ratio where we compare the surpluses to total revenue. So all that is indicative to us is that it decreased from 7.03 to 8.03% so it's 65% from 14 to 15 indicating a lower level of revenue and increased expenditure level. So it's just a ratio that we compared it, but the output of that is still as I have discussed in liquidity; increased expenditure lower income that is what we've predominantly been seeing. And that then impacts your utilisation of your reserves because you're dependent of your reserves funding your operations. That also is the same in terms of solvability. If you do all the financial analysis, you will see that our total liabilities are also slowly increasing due to the fact that there is a shortfall in funding the system.

Repairs and maintenance in terms of the funding norms well it's very important to notice this. The funding norms on cost provide for 10% for repairs and maintenance. Based on the financial statement analysis we've seen that colleges only spent 4% last year, 3% 2014. The question of infrastructure maintenance, that is exactly due to the fact that they do not have sufficient funds. So they would rather use the funds to procure learner teacher material and then to spend the money on repairs and maintenance. That is the direct implications of increased enrolments. So you have to reprioritise your funds and at the end your physical infrastructure is the one that will have the biggest impact.

JUDGE J. HEHER: At some stage that will become a catastrophic it's left like that

MR. JOUBERT: Yes, exactly Judge.

MS. L. KHUMALO: How do you approach this reprioritisation in light of the legal advice that is standing? Are you able to do that in colleges?

MR. JOUBERT: That reprioritisation that I am referring to is at Council level. That is what we see from looking at the financial statements. We are channelling money rather to learning and teaching support material than perhaps to maintain a leaking roof. That's the reprioritisation that will be on council level

MS. L. KHUMALO: It's the priority of the council.

MR. JOUBERT: Exactly. The budget is determined by Council and approved annually by Council at each college.

MR. PATEL: Honourable Judge, I think all these accounting ratios are showing that colleges are heading for a downward dive, very fast.

JUDGE J. HEHER: Well Mr. Patel, repairs and maintenance is about easy to understand as anything I suppose. When you go to argue the pros and cons of your bid; doesn't this sort of persuasion tell if you present this sort evidence to them. If you're spending 6% less than the provision for repairs and maintenance. Doesn't it say something? It either says that you don't need repairs and maintenance or it says that you are going backwards fast.

MR. PATEL: The fundamental problem has been over enrolment; and the underfunding balanced to that. As I testified previously during set one that there is a process in which I do not believe that Treasury gives us sufficient space to be able to argue a case because they are faced with 90 somewhat budget, and department and bids. And all the basis that the Treasury works on is we only got R20 billion so how are we going to divide this R20 billion so that nobody complains. And it is that particular process number 1. Number 2 factoring process; it happens at official level that may not even reach the Minister or the President or all the decision makers. Thirdly another process; it goes to parliament. When parliament does ask us for the information, but I think really these type of issues, needs to be. But on the other hand, I can see that the argument is, there's no money for anybody. So we do….and I suppose that's why we are in this crisis situation; and we are hoping Judge you will get us out of this morass.

JUDGE J. HEHER: Oh yes [laughing] my prayers are going up already.

MR. JOUBERT: Thank you. Just looking at revenue sources and student debt, we had a discussion in terms of that. What I would like to highlight there is that the current system that we've looked at, now that is not including the retrospective write-off of funds. But if you just look at one set of financials and you've got two years of comparatives; we've identified about R1.2 billion of debt. Of that R1.2 billion of debt, 900 million has already been impaired not necessarily written off, but there was provision for impairment of 900 million. As indicated that 75 to 80% of student debt that's provided annually, but also the write off can be more; that's just indicating that specifically. I think that is the massage from that. If we can continue, any questions, we'll take that? Good. If we look again at…more focussing on the infrastructure requirements. We've done a costing in terms of infrastructure backlog maintenance

JUDGE J. HEHER: Sorry, before you get to that. The student debt is quite an important thing. What it seems to be generating is a culture where even a student who can pay says: I don't see why I should pay; Nobody else is paying and if I don't pay so what nobody is going to collect it anyway. Or is this putting it too high?

MR. JOUBERT: Judge again from the departmental side, we've proposed again a policy for recovering of student debt, whether the colleges are following that or the Councils have adopted that type of recovery process, it will be a Council determination. But again from a national perspective, we are still saying it's a policy directive to recover those fees for students that can afford the fees.

JUDGE J. HEHER: It just seems to me that colleges shouldn't be debt collectors. And that there should be some better way worked out for collecting the money. For example, through the tax system.

MR. JOUBERT: There might be alternatives but as it stands currently, they are debt collectors and we would like to see whether or not there is a more efficient process to recover the debt.

JUDGE J. HEHER: Well they are very unsatisfactory debt collectors.

MR. JOUBERT: Yes, the proposed policy even makes provision for outsourcing the debt collection function.

JUDGE J. HEHER: That's expensive

MR. JOUBERT: Yes, obviously there's a cut. Also emanating even if you have debt collection in the system is still marginally. Looking at the financial statement there's not a lot debt recovery.

JUDGE J. HEHER: This just seems to me this is not part of the core business of education. One should be restructuring the debt collection system or rationalising it in a way which will make it more productive

MR PATEL: Absolutely, correct Judge,

JUDGE J. HEHER: So what is being done about it?

MR PATEL: Well, what's done about is that?

JUDGE J. HEHER: It's very sensitive issue I appreciate that

MR. PATEL: No, no what is done about it is that puts us in this current situation at this moment in time. Is that we have policies that allow colleges to collect fees on state funded students - the 20%, of which 50% are covered by NSFAS. So there is an amount that needs to be recovered. The ideal situation would be; in terms of all the administrative work, in terms of taking one away from the core function; is we have to look at the situation in which the fee situation is located elsewhere?

JUDGE J. HEHER: If it's not paid up front, let’s assume the amount can't be paid up front.

MR PATEL: Yes

JUDGE J. HEHER: Yes it should be located elsewhere.

ADV. G. ALLY: The problem you have besides the solutions that are being suggested, is that you are dealing with heuristic entities and they are the people, whatever is owed to you, you must go and collect it. So in going forward, you got to look at various models that would assist entities. Now, you will recall from your experience with the schools situation, that you had section 21 schools and you had others but never received all the powers of section 21 schools. And it might be a situation in these colleges, where some are able and some are not. And what do you do for those that are not able? So that kind of model.

MR. PATEL: Correct Counsel. I mean that's a policy issue that one has to look at. In other words, colleges that don't have the capacity not on their own, but also the capacity needs to be managed differently from those that do have capacity. But it’s a policy issue that would have to be looked into.

JUDGE J. HEHER: Just as a matter of interest. Is it possible to say that there's some college who is markedly better than any other in collecting student debt? Or has this not been looked at?

MR. JOUBERT: Judge we have looked at that as well it is eminent. You can see it directly from the financial statement in terms of revenue as well, but there are definitely some colleges that are getting it more accurately done than others. So we should be able to look at what type of model they are implementing, and maybe look at best practice emanating from that. There are definitely some that's getting it better than others.

JUDGE J. HEHER: Some of course would be maybe better allocated from a demographic point of view, from a sociological point of view. I appreciate that

MR. JOUBERT: Exactly, the urban colleges specifically in mentioning that. I have seen that urban colleges are recuperating a bit more in terms of their normal…..

JUDGE J. HEHER: What I really want to know is the amount that they are recovering materially more?

MR. JOUBERT: Judge in terms of the 15%....the overall recovery on the system is not materially big. So in incremental, if you can recuperate…..I don't think even students……one college can write-off about R30 million in student debt per annum - one college. So if you can recuperate 5 million out of 30 million; that’s quite comprehensive, so in material terms, it can't even be a R5 million difference, so I don't think that's quite extensive.

MR. PATEL: To answer the question I don't think that response….the issue is whether we have done analysis college per college in terms of the recovery rate. Taking into account the context and the demographics. I don't think we've done that

JUDGE J. HEHER: Alright if that's the case that's the case. Thank you.

MR. JOUBERT: The next slide that we've got is looking at infrastructure requirements. The first item there is we’ve costed the infrastructure maintenance backlog. That's approximately R3 billion in the system. That will then refer to that difference between 10% and the 6%, that we’ve noted from repairs and maintenance. So this is not new capital, it's just the requirements in terms of fixing the current infrastructure, painting those type of stuff that needs to be done in terms of infrastructure maintenance. And again as mentioned that without that, it impacts your quality of provisioning. In terms of construction new capital, just to indicate what that was; so the department has gone out to look at 16 sites. Of the 16 sites, we have now 13 new sites of which three sites are for refurbishment.

We have committed approximately R640 million again it’s NSF fund for the construction of three sites, that was only in Nkandla and Bambanani. In terms of the operational budget, that there's still also one of the items that we put forward a bit. We have not yet secured the operational throughput funding for those sites. That can be approximately be R1.1 billion over the MTEF. So what we have done in the short term is we've been able to secure approximately R300 million from the NSF, but to do that it excludes equipment and a setup connectivity. So it’s still not sufficient funding in order to able to fully capacitate those sites. Again the NSF fund is not a sustainable source of funding. We will have to look at baseline funding for the operational cost for any capital expansion. Noting that there's already a current shortfall in terms of enrolment for 80% funding. There's definitely no sufficient funding for operational cost for expansion in terms of capital infrastructure. Therefore our bid process to Treasury to also look at supporting us through the operational cost for these sites.

The remaining 13 campuses, the estimated cost is also about 6.1 billion to construct it; which we secured funds to do that, the operational cost is R1.1 billion year-on-year. But the scope of the sites has actually been severely cut to be able to be built in terms of our available funding. R6.1 billion is the total requirement, but again we had to cut those sites to fit in terms of funding that we have been able to secure. These sites now have classrooms and workshops, but unfortunately we can't afford student accommodation.

Those sites are 16 sites who will not have any student accommodation, simulator buildings or no E-learning centres and then resources are still required to equip and install connectivity. Operational funding must still be sourced for these sites as well. So the message there is that we have secured funds for capital expansion for the 16 sites from the NSF, but we do not have extensive budget available for operational cost in future. It's only a short term intervention operational cost in terms of what we've got. That is the last slide of this presentation.

<u>MR. PATEL</u>: Thank you, Honourable Judge. That concludes our presentation. Commissioners I hope that we stressed the issue that this is a sector under severe stress. The sector should not be forgotten in regards to the whole issue that we are facing as a nation in regards to the Fees must Fall. Thank you very much.

<u>JUDGE J. HEHER</u>: Thank you. I do see that Nkandla has not been forgotten.

<u>MIXED VOICES</u>: [laughing]

<u>JUDGE J. HEHER</u>: I take it’s a different Nkandla we are talking about. Thank you, we got some stakeholders here. Do the stakeholders want to put questions? But if they do I would not wish you to put questions which are specific to your particular university or your particular institution - unless they have a bearing on the wider sector If you understand me because our duty is not to investigate your particular problem so much as to investigate the problems to the wider sector. The two may impact the one or the other. If you have any questions which do impact on the wider sector which you wish to put to Mr. Patel do so? Before you do so I will ask with the Evidence Leaders if there's further questions.

<u>ADV. M. ZULU</u>: Judge I don't from my side.

<u>ADV. T. MABUDA</u>: I do not have questions Judge

<u>ADV. M. LEKOANE</u>: Nothing Judge.

<u>ADV. M. ZULU</u>: I understand that Mr. Patel is available only till 13:00 O'clock, I don't know whether Mr. Joubert will

<u>JUDGE J. HEHER</u>: I'm sorry I didn't hear.

ADV. M. ZULU: I am saying that I understand Mr. Patel is available only until 13:00

JUDGE J. HEHER: That's another 25 minutes

ADV. M. ZULU: Maybe Mr. Joubert will be available to continue if we don't finish the questions.

JUDGE J. HEHER: I would ask you not to be long if you can avoid it. Leave that to us. Yes, Mr Mabuyakhulu

MR. MABUYAKHULU: Thank you honourable Chair. I just want to check from the Department as to why colleges are not given relief arising from student debts; when they've done that for Universities. That's the first question that I would want them to answer.

JUDGE J. HEHER: Let's take one at the time

MR. MABUYAKHULU: Okay

JUDGE J. HEHER: Mr. Patel, can you deal with that?

MR PATEL: Thank you Honourable Judge. Honourable Judge, in my presentation I had indicated that it is not fair and equitable in which universities were given a debt relief and that colleges were not. So I am not going to be able to answer because a decision did not lie within the department at all. It's the nature of the struggle that we had, that all the focus was taken away from TVET colleges. I think it was a syndrome of whoever was able to shout the loudest, got listened to.

JUDGE J. HEHER: Do you know how the universities obtained that benefit?

MR. PATEL: Well what I can understand….I can only report from media statements….. is that as part of the whole fees must fall issue last year. There was an issue also of what is called…….and I suppose the situation in universities is different because in universities; Universities strictly apply the issue of exclusion based on finance. If you haven't paid up your debt, you are not going to enter the University. And that's the pressure that the State had to deal with in terms of relieving that. I am not aware of those instances where students are not paying the debts, that the council stops them from coming to college. That would probably account for the difference.

MR. MABUYAKHULU: Chair, I just want to make a follow up question on student debt. Given the relief that was given to universities, what impact will it have to TVET colleges going forward on collection of debts? I am asking this question Honourable Chair because universities have been given debt relief and we are expected as TVET colleges to collect. What would be the impact of debt relief given to universities to TVET colleges on collection of student debts. Now that they have called some of students missing middle or something, they keep on finding ways of saying who they are; and also the impact of that on college Councils to collect debt.

MS. L. KHUMALO: Sorry Mr. Mabuyakhulu, which sector are you from?

MR. MABUYAKHULU: I am the Chairperson of the TVET College's Governance Council

JUDGE J. HEHER: Are you able to answer that?

MR. PATEL: Yes certainly Judge. There will be consequences in terms of as Mr. Joubert has indicated, that the writing off of debt either by the college or the bailing out institutions in terms of debt, can create a behaviour which will lead to a culture of none payment. So the impact would be, is that it could get worse in regards to colleges. Because people will ask a question, if a university student is relieved from debt and bailed out, why aren't TVET Colleges. And I think one has to look at it on the equal basis of the application of fiduciary responsibility. I am aware that the universities are able to prove their systems, where they go out trying to recover the debt including the exclusion of students including the withholding of results. Now if that situation pertains in terms of the fiduciary responsibility of a college council, that they have done all they could within their particular powers, then they have a legitimate expectation to be treated the same with the universities.

JUDGE J. HEHER: Maybe it is no longer deemed expedient that that should be put to the test in a sense of provoking reaction from students who haven't paid. Is there not a basis upon which your particular branch of higher education can make an approach to the Treasury to justify similar treatment to universities?

MR. PATEL: Thank you Honourable Judge. In fact we have made a number of presentations, but we will follow it up again further again that particular submission. Honourable Judge, my overall view is just the time and the effort that goes into the application of the 20% fee as well as the means test, is at that this sector - there is more work, more effort, more angst and administrative burden for that 20% and that we need to perhaps move towards the situation at least for TVET colleges of full funding

MR. MABUYAKHULU: Honourable can I go to another area? Staffing. They keep the money in the form of 63%. My question that I want to check. How do we deal with natural attrition when the money is with them?

JUDGE J. HEHER: I am sorry, one of my members has asked for a break.

MR. MABUYAKHULU: Okay

JUDGE J. HEHER: We will take a 5 minute break. I know you are under pressure Mr. Patel but we will do our best. Thank you

……………………………………………………………………ADJOURNMENT……………………………………………………………..

JUDGE J. HEHER: Thank you, Mr. Patel has indicated that he would prefer to have all the questions at once, by which I take it he wants to know all the questions that will be asked, but I don't know how many people are going to want to put questions. So Mr. Mabuyakhulu have you got - - can you give us the question that you want to ask and then let us see how many other people want to ask questions.

MR. MABUYAKHULU: Thank you Judge. the question that I was asking was around staffing, where the department is keeping 63%, the question was what happens during the year around natural attrition. What do we do as the colleges, they have the money there is natural attrition, what do we do in terms of staffing as they are keeping the money and why they are.

JUDGE J. HEHER: Do you understand the question?

MR. PATEL: Yes

JUDGE J. HEHER: Just take a note of that. Please give him a chance to make a note

MR. MABUYAKHULU: Ok, the second question is that they are taking 63%, are all colleges at 63%? Shouldn't they be taking the rate at where the college is, and not the 63% and then they call it in their slide savings, the issue of enrolment

JUDGE J. HEHER: Sorry do you understand that question?

MR. PATEL: Yes?

MR. MABUYAKHULU: The issue of enrolment honourable Chair for 2017. Given what is happening in universities and the indication from the universities that they will not be admitting because of the disturbance of the academic programs. What is the plan that is there from the department in case those students come to TVET colleges in numbers when they are advocating 5% growth? How are we going to deal with that? Judge the last part - - -

JUDGE J. HEHER: [intervene] One moment, do you understand that question?

MR. PATEL: Yes, thank you.

MR. MABUYAKHULU: Honourable Chair the last part is just the issue around underfunding. They have confirmed what we said around the two previous presentations. The only thing that I would want them to explain to us is why are they using full time equivalence in a system that has lowest possible results? Because originally it is used in systems where the pass rate is very high and then the combined students are very few. Why are you then using the system that is impoverishing colleges? Thank you Honourable Chair.

JUDGE J. HEHER: I'm not very sure I understand that question, would you just would you just frame it again please?

MR. MABUYAKHULU: Ok, I'm saying when it comes to full time equivalence it is normally used in systems where the pass rate is very high so that the combination of the students is the lowest numbers the majority are individual students, in our case TVET Colleges the pass rate is the lowest and therefore the majority is the combined student rather than the individual students, why are they using that system in TVET Colleges given the situation of our pass rate?

JUDGE J. HEHER: Do you understand that?

MR. MABUYAKHULU: Thank you Chair

JUDGE J. HEHER: Ok; right, lets deal with that first and I think because Mr. Mabuyakhulu has indicated that those are the questions that he wishes to put let's see whether those can be dealt with before Mr. Patel has to go.

MR. PATEL: Thank you Chairperson, Honourable Chair. I'll take the last 2 and Mr. Joubert will take the others and if I can then be excused. They, the question regarding the enrolment for 2017 and if we, we did not say that we are going to have a 5% growth. We said we have asked for increase, at the moment it's flat and the issue is that it's purely speculative and I'm not going to be able to speculate what will happen if this is…. if the enrolment stays stable. So I'm not going to be able to predict anything around that. In regards to the FTE, I cannot see any relationship between the pass rate and an FTE. What an FTE merely means is if a student is attending a college for a quarter of the year you fund that student for the quarter, if they are attending, if four students attend for four quarters then it's counted as one full student so there is, I cannot see any relationship between FTE versus the repudiation rate. In fact we fund all those that repeat 2 3 4 5 times as they repeat half of it. Thank you.

JUDGE J. HEHER: Right and you want to go Mr Patel?

MR. PATEL: Yes

JUDGE J. HEHER: Let us just deal with Mr Mabuyakhulu's remaining questions before lunch through you Mr. Joubert

MR. JOUBERT: Thank you Judge.

JUDGE J. HEHER: And then we will ask the others to put their questions after lunch

MR. JOUBERT: Thank you, the question here relating to the 63% budget and the natural attrition. What will happen is if you have natural tuition and you do not utilize the budget then and you do not fill those positions. It will relate to a saving at year end on budget and what we are planning to do for this round to make sure that we do not go onto the same challenges we had last year is, we are not going to allow cross subsidization between colleges from COE that was our first thing that we are going to do. Secondly we will approach the National Skills Fund to get additional funding for examination shortfalls so we don't use that allocation as we did last year and then thirdly if we will receive claims from the collages paragraph 117 of the funding norms that where we kick this in.

That one says that the department must transfer funds before end of the year. So any budget that you didn't utilize will then be transferred through the transfer process that's why we utilize the adjusted ENE process to transfer R260 million to that sub-line which we will then transfer back to the colleges. So I think that is the new process that we have set in motion to make sure that you get your savings but again Judge just to say that Mr. Patel indicated that there is still a contagious issue that legal point of view between what the funding norm says and how the PFMA works from a total allocation. There is still conflicting views but for this year we got approval to shift R260million at transfers.

JUDGE J. HEHER: Good

MR. JOUBERT: The second question we had is if you look at the 63% threshold for colleges. Should we apply 63% at all or should we not look at the actual costs, that's what the question was, that's where the funding grid comes in. The funding gird is a tool that looks at your program qualification mix. So you have your enrolments loaded and it then calculates on your program cost what is the total budget? And then it splits it between non-personal, non-capital, capital, the 3 economic categories. That then informs what the compensation should be for the program qualification mix? So that's the point I wanted to put forward is that the funding grid will tell you what it is. Now if you look at what is loaded on partial, the actual expenditure it might even be lower currently than what the funding grid stipulates.

So the reason why we saying is that is visible from the savings that we have from the compensation and not utilizing the full complement. Why I would say that is not a good thing to rather budget on the actuals currently is because some of the colleges still need to appoint people going forward to reach your funding grid compensation element because you might be under that compensation threshold. So if you like for instance there is a survey in South West Gauteng and I can put it on record, they are quite comprehensively lower if we budgeted 63%. If we look at their funding costs they are sitting on 44%.

Now again we need to go and look why are they running an organization on a 44% marginal rate. Maybe they have a lot of people on their payroll that didn't migrate on the 1st of April, there might be partial restrictions. So my view would be to budget at 63% of your allocation and then utilize your - - at the end of the year your claims processes, so that you can get access to your funds. If we do not budget at 63% and we budget at actual cost currently, you will not be able to appoint more people on the system. So I think that Chair, Judge that's what I wanted to add on that why we should not currently budget at actual costs but rather at a projected percentage of your compensation so that you have space to get your compensation in terms of your funding grid. Good

JUDGE J. HEHER: Sorry Mr. Mabuyakhulu we can't allow a debate on this in the circumstances so for the moment we will just have to abide by the answer that's given whether it is right or whether it is wrong is another matter.

MR. JOUBERT: Yes

JUDGE J. HEHER: Were there any other questions that you need to be answered?

MR. JOUBERT: Only the two questions that was remaining Judge.

JUDGE J. HEHER: Do you wish to take the further questions now and answer them after lunch?

MR. JOUBERT: I'll take them Judge, yes sure.

JUDGE J. HEHER: Who is speaking, who are you Sir?

MR. KONGWA: My name is Sam Kongwa, I'm the council member from Tshwane South TVET College.

JUDGE J. HEHER: From Tshwane South TVET College yes, what do…..? What questions do you want to put?

MR. KONGWA: The first question really has to do with qualifications. Most of our students through the SRC, they are understanding that the college and the reasons Mr. Patel perhaps it wasn't very clear. That the college will fund the 8% and another understanding is that the 8% increase announced by the minister will only apply to those below the R600 000, right, so that is one question.

JUDGE J. HEHER: So what is the question, I'm sorry I didn't follow that

MR. KONGWA: The question is will the department fund the 8% that increase that have been announced, that is the question

JUDGE J. HEHER: 8%?

MR. KONGWA: Yes

JUDGE J. HEHER: 8% interest, I thought you said 80 persons increase

MR. KONGWA: 8% increase.

JUDGE J. HEHER: Yes, Alright.

MR. KONGWA: So that is the question, will the department fund that?

JUDGE J. HEHER: Yes, thank you, and the next question?

MR. KONGWA: The next question is, there is a discussion with most colleges that… if we have to stick to the ministerial programs and at the same time be expected to increase enrolment, would it not be fair for colleges to be involved in the curriculum development? At the moment, there is a problem because some of the employers, the prospective funders, donors think that we have to make a lot of changes to the curriculum set up. So the question is, does the department contemplate a time when colleges will be given more say in curriculum development?

JUDGE J. HEHER: Yes, I follow that

MR. KONGWA: Number 3, the present system of examinations in terms of examinations set up and marking, seem to be quite problematic. The results come very late and often we have problems with the beginning of the term because often when you open the new term, the results are not yet in.

JUDGE J. HEHER: I understand.

MR. KONGWA: Yes

JUDGE J. HEHER: This really doesn't seem to be an issue of funding at, I may be wrong.

MR. KONGWA: Well perhaps we see the connection…..that there is a connection because if the students…….some of the students involved do not have a clear idea which where we enrol them then it will involve them they cannot properly apply for NSFAS.

JUDGE J. HEHER: I see, alright, Mr. Joubert can you deal with that or not

MR. JOUBERT: Judge I will try but

JUDGE J. HEHER: Not now but do you understand the question?

MR. JOUBERT: But I think the question correlates to if the examination results are late, they don't know if they will be enrolled for the next subject or next year that implicates the whole registration process.

JUDGE J. HEHER: Yes, can you deal with that?

MR. JOUBERT: We have a separate Chief Director for Examinations; I will be able to give feedback after lunch like you said.

JUDGE J. HEHER: Yes

MR. JOUBERT: So I will consult quickly after that to take

JUDGE HEHER: Is, alright do you have any other questions?

MR. KONGWA: The other question My Lord is about the funding by SETAs with regards to the schemes programs. It seems to us to be…..by the way, there is no proper instruction or expectation by SETAs perhaps there is no clear instruction from the department to make sure that they collaborate with colleges and fund these programs as a matter of necessity.

JUDGE J. HEHER: So what is the question?

MR. KONGWA: The question is, is it possible for the department to intervene particularly now that the SETAs seem to intervene by making sure that the SETA fund these programs as a necessity by means of a residual.

JUDGE J. HEHER: Yes, anything else from you Sir?

MR. KONGWA: Advocate here, Advocate Joe Chilwane -the Principal wanted to ask one question, I'll refer to him.

JUDGE J. HEHER: Yes, where is Joe Chilwane from?

ADV. CHILWANE: Thank you My Lord, I'm delegated by the South Africans Colleges Principal Organization to come here and listen and if possible put questions to rebut some of the statements that were mentioned by the department.

JUDGE J. HEHER: Well you can put the questions, let's hear what you want to put.

ADV. CHILWANE: There are 2 worrisome questions that, there are 2 worrisome statements that were made by Mr. Patel. One statement was that over spending was as a result of unregulated over enrolment. That statement presupposes that colleges are accountable to no one but themselves and we are saying, we are working in a highly regulated environment and we have evidence to the effect that we were asked by the department to increase enrolment.

JUDGE J. HEHER: Yes, Ok Sir but now what is the question?

ADV. CHILWANE: The question is that statement does not cast us in a positive light as colleges.

JUDGE J. HEHER: No it doesn't but is that the question?

ADV. CHILWANE: The question is that I wanted perhaps if Mr. Patel was here I wanted him to make the fact that we are not doing that, why does he say we are doing that when we are not doing it as institutions.

MS. L. KHUMALO: Can the Evidence Leaders not invite him to come and present if he's got evidence

JUDGE J. HEHER: Well I did, Mr Joubert you heard what's been said, see if you can comment on that, if you are able to

ADV. CHILWANE: And the last one on my side Honourable Judge is that the other statement was made which to me appears as…..sounds as reckless. We were told, this commission was told that if the book was to be thrown at us as Chief Accounting Officers of institutions there would be no college, the question is the department not doing it for peace sake.

JUDGE J. HEHER: For what?

ADV CHILWANE: Is the department not throwing the book at us as Chief Accounting Officers for peace sake because my understanding is that South Africa is founded on the rule of law and the supremacy of the constitution if anybody has transgressed or violated the law or committed a statutory offence must the book be thrown at him or her. So the question is: why is the department not doing that if we are really violating statutory…. what you call, statutory obligations.

JUDGE J. HEHER: Well you know with all due respect to that question. I think if there is a specific instance where you think that the department might have taken steps but didn't, that can be discussed with the department but I didn't understand that there was a particular criticism of the Accounting Officers of TVET colleges at all. It was, there was a statement of a situation which had risen over the years as a result of encouragement given probably wrongly by the department to colleges to increase numbers and I don't think there was a criticism directed at the Accounting Officers in that regard.

ADV. CHILWANE: Perhaps you did not hear it that way but that is how I captured it and to me as - - -

JUDGE J. HEHER: [intervene] Well let us hear, let me hear from my commissioners what do they think - do you feel that there was a criticism?

ADV. G. ALLY: All that he said if all was said and done and if you follow the prescripts, it could be that there could be a case booked to Accounting Officers. Now you might agree or disagree, in my view, it's a matter that you can still take up with the department specifically and I just want to say for all the other questions to come, there might be questions that relate specifically to the department relating to your specific college. As the chairperson has indicated what we are looking for here are the broad strokes and we've heard the questions today relating to that and Mr. Joubert will be able to answer them. Now Advocate the ones you are putting relate to specific allegations now your interpretation of them would be different from what we have interpreted and there is no aspersion that would be cast from our side with regards to what he has said because we don't have the evidence before us to indicate actually that there is or isn't a transgression of the law.

ADV. CHILWANE: May I reserve that for another day and I will take it up within the proper……..

MS. L. KHUMALO: [intervene] May I just, I wanted to advise as well that the way the commission runs is that we've got witnesses here who are sworn in and what they've put in is on record so the indulgence that was given to Mr. Mabuyakhulu I don't think needs to be extended further, we've got evidence leaders here where you can talk to them and tell them these are the things you want to put in and want the commission to hear instead of us sitting here rebutting things that were said by people who are no longer here and who said it under oath and you guys are not even under oath for this.

JUDGE J. HEHER: Questions there, but in any event….I think our unanimous view is that there was any particular criticism directed that needs to be answered at this stage and if you want to take something up with the evidence leaders on that feel free to so.

ADV CHILWANE: That is accepted my Lord, I will do that.

JUDGE J. HEHER: Thank you

MS. L. KHUMALO: OK

JUDGE J. HEHER: Yes sir, you sir are?

MR. ZUNGU: Thank you chairperson, my name is Sam Zungu, I also represent SACPO-South African College Principal Organization but I'm the principal of the Umfolozi TVET College in Richards Bay, I've got 3 questions chairperson

JUDGE J. HEHER: Yes Mr. Zungu

MR. ZUNGU: The first one relates to the historical under-funding for the KZN Colleges which the department has failed to address over the past few years and we wish to ask as to when are they going to address that issue that came as a result of the monies that were not ring-fenced coming from National to the Province and ended up being utilised for other things and did not go to the colleges, the matter was reported to the department and the promise was made that this was going to be addressed.

JUDGE J. HEHER: Well we've heard nothing about that in the course of this commission if Mr. Joubert is in the position to say something about that then he can say it but it's not evidence that has been placed before this commission at all, we know nothing about it.

MR. ZUNGU: Chair we would like to provide that evidence.

JUDGE J. HEHER: Then you must discuss it with the Evidence Leaders.

MR. ZUNGU: Yes we will do so Chairperson

JUDGE J. HEHER: Mr. Joubert if you are able to say anything about that then you should

MR. JOUBERT: OK

MR. ZUNGU: The second one chair is about the current funding of the TVET colleges that is sitting at 38% under-funding. We are not hearing as to how this 38% will be addressed but also a projected 46% for 2017, 18 next year as to how that one will be addressed. We are told to maintain the enrolment figures as they are this year but maintaining the enrolment figures it means that we are maintaining the very same shortfall that we are currently operating and that chairperson also has a bearing in terms of the issue around staffing because if we maintain these figures as they are. Fine because the department will be in a position to hold the 63% in terms of salaries but in terms of the other operational costs that the college will incur it means that that budget will dwindle.

We will have staff but you will not have the resources that are required for that staff to be able teach, so we want to know: what is the plan to close off that deficit or that shortfall. Lastly chair it is around the issue of the bad debts. We want to find out if there has been any process of speeding up the NSFAS processes. There are colleges who were part of the private projects of the NSFAS but how the system works is that the students will apply in colleges you will find that 100% of your total enrolment will apply, the department has got a policy that says you do not take any monies in the beginning of the year. Now you find a situation that 100% of your students applied and they do not get a prompt response whether through the means tests whether they will be eligible or not. Now the college will then sit and wait for NSFAS to process the applications and that takes too long by the time you get the response it's already mid-year or towards the last quarter of the year.

Now if the outcome of the application says this student is not funded, you must then go back and start to get this money or recoup this money and that is how the bad debts are created. Now the issue of the missing middle as well, it does affect this issue of the bad debt, so we want to know if there has been any ways in which the NSFAS processes can be fast-tracked in order to close off the issue of the huge bad debts that the colleges are incurring, thank you Chair.

JUDGE J. HEHER: Mr. Zungu I don't know if Mr. Joubert can possibly answer that question. I don't think it falls within his expertise but I can tell you that we are going to be having a whole session dealing with NSFAS and those problems will be put to the NSFAS people to deal with. So I think perhaps they should be left over for that situation, we will expressly raise that problem with NSFAS

MR. ZUNGU: Thank you Chairperson. There was an input as well. In terms of the FTE, I know that Mr. Patel did respond, the issue of the FTEs is they do have a bearing, how it works if you do related programs the full FTE means you have four subjects if you do NCV the full FTE says you're doing seven subjects. Now if a student drops, two of those subjects it means that that student is no longer giving you a full FTE now it means the headcount will be there but we do not find the headcount per FTE and I think it is where it then increases shortfalls because it means you are carrying people that are not giving you a full FTE. I wanted to clarify that, unfortunately Mr. Patel is no longer here. Thank you Chairperson.

JUDGE J. HEHER: At what? Sorry at what stage do you carry them? If they have registered and are in the system presumably you are paid as if they were an FTE. When do you suppose they should? When do you say drop out?

MR. ZUNGU: Well the NCV has got its own rules to say that if you fail three subjects you can still carry on

JUDGE J. HEHER: Yes

MR. ZUNGU: But because the funding norm or the funding norms and standards are based on a full FTE that person is no longer giving you a full FTE. Yes he or she will write the supplementary exams but he is no longer giving you the full FTE but you must deploy the very same resources that you would deploy to a person that is carrying a full FTE. So you carry them and also you carry the new enrolments in that particular program but it's no longer giving you a full FTE hence the issue of the pass rate that Mr. Mabuyakhulu was referring to has got a bearing on terms of the funding.

JUDGE J. HEHER: Well I'm not sure that I understand that entirely and Mr. Joubert will be able to answer it. Does anybody lest wish to put any questions?

MR. XUMA: Yes

JUDGE J HEHER: Your name.

MR. XUMA: Xolile Xuma

JUDGE J. HEHER: Yes Mr. Xuma

MR. XUMA: From TVET CGC, my first question chair is based on the fact that it's about this over-enrolment. It's based on the fact that the President signed a performance agreement with the Minister and the Minister signed a performance agreement with the DG and on that basis there are targets that are set. Now my question is actually to say who are actually because there was this statement that says that colleges determine through the encouragement - the targets.

On that basis of that process of determining the performance agreement who actually on your view Ntate Joubert determined the targets of the colleges and the second question on the basis of the background that you have bailed out other colleges during this year, how do you think colleges should continue to plan for a deficit on the basis of the underfunding and generally underfunding and also the underfunding of the 38% that we are talking about. And secondly because I've sensed that you have this passion that it's a must that our reserves must be used for…. to fund whether is a core business or our operation. Who actually in terms of universities, do you expect the same in terms of their reserves.

JUDGE J. HEHER: What does it matter what he thinks of the universities, because he's concerned only with TVET colleges.

MR. XUMA: That is where is a problem Chair. The problem is that the way we are treated as colleges we are treated like an after effect or step-cousin of the universities. Now we want to check because we are of the view that this utilization of reserves is not sustainable, now if that is the expectation to us to utilize them in that regard, is this expectation extended to the universities?

JUDGE J. HEHER: I don't know whether….can you answer that question?

MR. JOUBERT: I can

JUDGE J. HEHER: Alright, then do

MR. XUMA: The last one is just a plea as the answer is already provided for debt relief that there is also a debt for colleges of no increase for no intuition fess increase for 2015, because of the instruction by the department that we should not increase fees for 2015. So I'm just saying can we extend as we are dealing with debt relief, can we extend that item under that particular issue also. And the last one, is it possible as much as currently you are maintaining or withholding regarding the 63% compensation budget. Is it possible that you can pay grant varsities compensation grant as it is today to the colleges and to build colleges, so that whatever savings that is remaining, should automatically be in the coffers of the colleges unlike the system that? The savings remains your coffers and there are certain prescripts that we have to comply with from PFMA that ensured the withholding and not paying the 2015 savings to the colleges. Thank you

ADV G. ALLY: This relates to the issue of…there's this legal dispute between you and Treasury. Advocate Xuma is saying if that money, the whole of the money is in the college then you will not suffer the consequence of having in terms of PMFA having to give it back to the fiscus, that is what the question is about.

MR. JOUBERT: My response on this is

JUDGE J. HEHER: You don't have to do it now, I'm going to adjourn when we've fixed up all the questions and we will do it after 14h00, are there any other questions. Alright thank you we will adjourn for lunch and after lunch Mr. Joubert will reply as far as he can. If you are unable to do so you must just simply say you are unable to do so. You are not under any obligation. Thank you

……………………………………………………………………ADJOURNMENT…………………………………………………………

MR. JOUBERT: Fee adjustment - that was the first question. Judge, I'm going to indicate what is part of the baseline and what is the council responsibility. The budget baseline increment has been 6.2% for next year. So the budget already caters for 6.2% incremental adjustment. Again that is based on the funded baseline that is the 440. So what we are saying is that, that is the baseline in terms of enrolments that we receive from treasury.

The current enrolment is still over-enrolment but the current treasury's 6.2% is sufficient to provide the 6.2% of the 8% of the funded baseline. The announcement made by the Minister this week still needs to be costed to see what portion is available for TVET. That still needs to be done so I can put it on record. That for now, I can confirm 6.2% adjustment on baseline as we receive from Treasury for the funded enrolment. Any questions?

JUDGE J. HEHER: No

ADV. G. ALLY: You see that is not what Mr. Patel said, because you will recall that I asked the Minister. He said shortfall for universities will be dealt with by......will be funded, the 8% increase. Remember it is not the shortfall it is the 8% increase. The TVET sector has asked in respect of the TVET sector, the 8% that you indicated, there remember there is a 10% and a 8% - you said the 6.2% is catered for and there is a 2%

MR. JOUBERT: 1%

ADV. G. ALLY: 1% that is remaining as far as I'm understanding

MR. JOUBERT: Yes

ADV. G. ALLY: That part, you are not sure whether it will accrue to TVET colleges? Do I understand you correctly?

MR. JOUBERT: Yes, the Minister made an announcement in the budget speech. Now we still need to see what portion is the TVET allocation before I can put on record that we will pay the 8% in total.

ADV. G. ALLY: And I take it by circular you will be informing TVET colleges, and the governors and the Principals what they will be getting in line with the assumptions as you said in accordance with the letter I read out.

MR. JOUBERT: Yes, we will definitely do that. As soon as we see what portion is for TVET and do the costing on that. The next question I would like to defer, the question was that if colleges can be involved in curriculum design. We will take the note and we will take it back to the department for communication in terms of that. We've got a separate Chief Director who is responsible for Curriculum Design. Similarly we had a question in terms of examinations, where they said examination impact on registration and enrolment. We have a separate Chief Director for Examinations. I would like to defer the question to get feedback in terms of that and the other items. There is also the saying that SETA funding to say that, can DHET intervene to get SETAs working more closely with the colleges to be able to get fully funded at occupational level. We also have also Programme 5 in the department, it's a skills unit, I would like to defer that question there. Then the next question we've got is the equitable share. Now this one I can respond to. The question was: are the KZN colleges underfunded in terms of the equitable share. Judge you indicated we haven't discussed this as yet. What that is; for the funding norms and for the funding grid, there are predetermined, equitable share provincial equitable shares. So KZN will have a part of the money, Western Cape. That money is then allocated to the colleges in terms of the funding norms and funding grid. So there are different equitable shares over the 9 provinces and others being derived since long ago, when the competency was still under….each one had a provincial competence. So there are definitely different equitable shares applicable. So if one college as an example……if It was two exactly the same colleges one in KZN and one in Eastern Cape; if they enrolled exactly the same students for exactly the same programs, the funding for the student based on the FTE might differ from the one province to the next if it was exactly at the same colleges due to the equitable shares being different

JUDGE J. HEHER: Who determines these equitable shares?

MR. JOUBERT: The equitable shares were determined by the provinces previously. So the implication of the department now is that when we migrated its staff; those equitable shares informed how the colleges were capacitated. So I've done the costing, I've said if I reran the funding norms on nationally 50 colleges and I eliminate equitable shares, I've done the costing to look at the budget for each college. As an example, Eastern Cape will be dramatically cut, if we run a national allocation not an equitable provincial model because the equitable share in Eastern Cape was higher. Now I can also say that Treasury can comment better on that, but there are budgeting processes where different based on…….different provinces will get a higher allocation due to the economic factor in that province.

So they might have at that stage decided that Eastern Cape might get that additional influx to build the Eastern Cape as an example. So that's based on the social impact indicators as well. So we've noted the differences in equitable share. Only what we can only do is……we can take it forward to see whether or not it will be able to be considered; if we get additional influx of funding. So the point is, in the development of the new norms as an example, if we were able to succeed to get an additional influx of funding; the first option is then….the first thing I would like to do is address the equitable share. Then we can stabilize everyone receiving the same funding per capita or per FTE. The next item will be to then add the funding in terms of the expansion system for the enrolment, but the first step is to get equitable share.

JUDGE J. HEHER: Well at whose discretion is this fixing of the equitable shares or the application of this share? How do you change it if you want to change it?

MR. JOUBERT: As it stands currently the first step would be…is you need to understand what was the original objective of allocating more money to Eastern Cape was and less to KZN. We need to look at the social impact indicators.

JUDGE J. HEHER: Alright well that's fair enough. I don't think you need to go beyond that.

MR. JOUBERT: Ok, there it is.

JUDGE J. HEHER: It is not something that can be dealt with in a hurry.

MR. JOUBERT: No

JUDGE J. HEHER: And it's not something that is in the immediate pipeline either.

MR. JOUBERT: No, but it will be part of our design as soon as we can get that research also done.

ADV. G. ALLY: But Mr. Joubert, I take it this matter has been taken up by the review committee which sat today.

MR. JOUBERT: Yes the Ministerial review committee as part of - - -

ADV. G. ALLY: The Ministerial Committee reviewing funding for TVET Colleges.

MR. JOUBERT: Yes

ADV G. ALLY: That these are the anomalies they were looking at whether they have answers or not is a different question.

MR. JOUBERT: This was a direct input from us to them to the ministerial committee. We explained to them equitable shares and how it was set up; and that provinces are funded differently based on that equitable shares model. So that's to answer the KZN question.

JUDGE J. HEHER: Thank you

MR. JOUBERT: The next question we had was, again it is a broad question to say: taking the current over-enrolment in system, how will department manage that? That was the questions so based on the presentation.

ADV. G. ALLY: The 38% shortfall?

MR. JOUBERT: Yes, so in essence that's the shortfall related to enrolment. As indicated by Mr. Patel, the colleges now have an opportunity to see whether or not they can still fund and maintain their current enrolment. What we also said is that if they cannot, because based on their financial situation they can decrease their enrolment without cutting their compensation because it is the over-enrolment we looking at here. So to answer that question here is to see if it's based from college to college situation; which the department is engaging, that's where you cash and cash equivalent additional income streams come into effect.

So Judge what I am saying if you recall in my previous discussion if you have, and I'll link it to the question now that was asked about the reserve. Why am I making reference to the reserves? From a professional point of view, if you are a college and you are sitting with expenditure, with large reserves. Let's say you have R300 million and your current enrolment based on your PQM and funding grid indicates that your current enrolment is a R100 million shortfall. Yet you have R300 million in the bank which is uncommitted and the origin of that R300million was state funding in the first instance. We have to ask the questions, why can you not absorb the shortfall?

I think that was my previous recollection, why I was referring to reserves, because from a departmental prospective, you need to take things into consideration. If that is the reality into those reserves, you need to be vigilant and take it into account in terms of good financial planning. So I think that is what I wanted to state.

JUDGE J. HEHER: Good

MR. JOUBERT: So there is an opportunity to amend. The next item that we had is FTEs. We had a question from Tshwane South to say that if a student throughout the year drops subjects. They said it has implications on their funds. I actually have to put it the other way around. We are funding enrolments based on FTEs in the beginning of the year. If a student drops subjects, by all means we actually have to claw-back the funds because the student is not there.

So what the principal said is, I need to put it the other way around because we're funding the FTEs, but what we also saying is that the funding is available. If there is, then a replacement for the subjects we will still fund that on a full time equivalent for that student. So we have never done claw-backs to say that we fund your enrolment for next year based on FTE. Remember we are funding planned FTEs. We are not funding accrual FTEs because then we'll be funding lower FTEs than what you planned for. That is not how the planning model works. What needs to happen from a departmental perspective after you've found the FTEs is, you need to go back and audit those FTEs. That's where the claw-back mechanism comes in. It stipulates that if we find out that a certain amount of full time equivalence and if you do not maintain 90%. Am I right? If you do not maintain 90% of that we can claw-back the funds because you didn't maintain the minimum FTEs that we funded.

That is how the funding model works. We've never instituted the clock back mechanism due to the fact that we are experiencing capacity because you will have to audit 710 000 FTEs or headcounts to be able to do a claw-back. That's number one and secondly we're quite aware that there's currently an over enrolment in the system. The possibilities of the colleges not maintaining the baseline is very little. If you recall previously, I said that three colleges that dropped their enrolment, their enrolment numbers which I am looking at now is still above the funded baseline. So even if they dropped enrolment, that is still not a claw-back yet because they haven't dropped back below what we funded. I think I just wanted to clear how the funding model works and how the FTEs funds work. Good, the next question.

ADV. M. ZULU: Can I ask Mr. Joubert with the FTEs what happens - - I was asking this question, what happens if one student registered for two courses in different department or in the same department? So how do you treat that student?

MR. JOUBERT: So if a student registered but at different colleges, are you saying……

ADV. M. ZULU: Same College.

MR. JOUBERT: Same college of - - so each program will have subjects. If they enrol for program A for two subjects but there is actually seven subjects it will be two out of seven multiply by the program costs for that allocation.

ADV. M. ZULU: So if he registers - - If the student registers fully if the program is four, four he registers four, four so do you fund like sort of the full FTE.

MR. JOUBERT: FTE for that course.

ADV. M. ZULU: For the course.

MR. JOUBERT: For the course?

ADV. M. ZULU: It means it is possible you can fund one student twice.

MR. JOUBERT: Yes for different courses but there is proportionate allocation in terms of program costs because it is full time equivalent. As a student you can only do so much courses throughout the year. So you will be funded proportionately for each program based on the full time equivalent of that course. Good, thank you. The next question we had from TVET CGC is to say that planning for a deficit. I think we've discussed that, if you look at your funding grid you'll have your shortfall. You as a college need to see whether or not you can fund that shortfall. If you cannot you must reduce you enrolment as a minimum funded enrolment and that is the opportunity they've got for this current year. In the past, we've asked for increased enrolment figures. This year we've said that due to sustainability and possible decline in targets, they've got an opportunity to address the shortfall.

JUDGE J. HEHER: Just for a moment. The question of reducing enrolment would take place at the beginning of the year when you - - persons are registered.

MR. JOUBERT: Yes Judge, like for instance; now we are planning for next year, so we've got an opportunity now to devise the plans for next year; based on the anticipated shortfall and financial stability of the college.

JUDGE J. HEHER: So it will be open to any institution to say that, in a particular program instead of having the originally contemplated 500 people - will only have 400 people.

MR. JOUBERT: Yes, that is what we are doing now engaging with each college individually now to plan for next year.

JUDGE J. HEHER: I see.

MR. JOUBERT: And we plan on reducing head counts if they have huge deficit which they cannot afford. So we look at income, we look at the reserves, we look at private income and student fees we actually do not at this stage budget for, due to the huge write offs in the system. I don't think it is a good thing to plan for the recovery of student debt at this stage. It's just not there. The next question we've got is - - I spoke about the utilization of reserves. Why I mentioned that because it was just a good planning indicator. You need to ask the questions when you engage colleges to look at their cash reserves. That was the point I 'm making and I was not making referral to any universities in this instance. Just as a planning purpose and the last question Judge they asked us is can we not transfer the total compensation budget to colleges. Now I need to scoop that, the idea of function shifts was to centralize payroll. Previously it was other provincial departments. It was nine provincial departments under the division of Revenue Act.

So there was always a provincial element running a certain portion of the payroll so the whole migration was to centralize payroll. I don't think it's possible to take that again back to colleges. I mean the idea was to move it from a provincial competency to a national competency. I don't think it's possible to move it back again from a national competency back to fifty individual colleges. The reason being is to be able to be a public server you need to be on a departmental payroll and if you move it back to a college then you are both in the public domain because a college is also a jurisdiction entity. They do have their own payrolls which caters for occupational courses and any Ministerial approved courses is for the people loaded on. We call it Pastel; it's a payroll system of financials of that department.

So I think just to conceptualise that it will unfortunately not be possible, but I think by implementing more vigorous controls for the claims process. I think the colleges can have some surety that we are going to see if we can get these costs or the savings back to them before the end of the year. That will then be the vogues system. Thank you.

ADV. M. ZULU: Can I just suggest one thing because again the impression that this FTE is an accounting tool to determine how much each college - - ja as the basis of the funding it's problematic. I'll suggest that the department should try and explain it more fully and comprehensively to all the principals of the colleges.

MR. JOUBERT: Yes, thank you. We take that input because I was quite aware that they were not fully informed how the model works. So I'll take that up so I think we need to invest on training in our councils.

JUDGE J. HEHER: I would echo that.

ADV. G. ALLY: And ask the Principals or Chairpersons of the councils to have their accountants there within that training session, CFOs yes.

MR. JOUBERT: Thank you very much that is the last of it.

JUDGE HEHER: Thank you very much for your trouble and listening to and answering those questions, Mr. Zulu

ADV. M. ZULU: That is all for today Judge

JUDGE J. HEHER: Thank you very much, when do we meet again? On Monday week?