higher education & training

Department: Higher Education and Training
REPUBLIC OF SOUTH AFRICA

COMMISSION OF ENQUIRY INTO HIGHER EDUCATION AND TRAINING (FEES COMMISSION)

TVET COLLEGES FUNDING

DATE: 28 OCTOBER 2016
TIME: 10H00-17H00

Content of presentation

- Budgeting process for TVET Colleges
- Growth Targets for TVET Colleges
- Staffing cost overview
- Overview of income and expenditure including student debt
- Infrastructure requirements

Different sources of funding

Formula funding of programmes:

- Earmarked capital funding;
- Earmarked recurrent funding;
- College fees;
- Student Financial aid (bursaries);
- Fee-for-service income; and
- Other income (private funding).

Funding Categories

- Funding of TVET Colleges covers three economic categories
  - Non Personnel Non Capital (NPNC)
  - Personnel
  - Capital infrastructute (Replacement)

Fees

- The funding norms permit colleges to charge students an annual college fee:
  - The public formula funding of programmes covers 80% of the full cost of the programme. College fees cover the remaining 20%.
  - Colleges may alter fees up to a maximum of 10% higher than the assumed fee level.

Staffing ratios in terms of Funding Norms

Lecturer vs. Support Staff:

- Lecturer-support staff ratio is 1: 0.75

Lecturer vs. students:

- A lecturer-student ratio is 1: 25 for sciences/engineering and
- 1:30 for the humanities

Programme Costs for TVET Colleges

- Programme Cost is the full cost of delivering the Ministerial approved Programmes
- Determination of programme cost was implemented by the national Department from 2010
- Over the years the costs had grown by the rate of the CPI and for 2017 its 6.2%
- For 2017, the college may variate by a maximum of 8% and not 10% as permitted by the Funding Norms

TVET Colleges Funding Grid

- Funding Grid is a tool to calculate the budget for TVET Colleges
- The budget is distributed per economic classification (Personnel, NPNC and Capital Maintenance)
- It takes into account the number of students to be enrolled and the approved programme cost
- The budget is distributed within the available budget baseline indicating funded and unfunded enrolment on the specific Programme Qualification Mix (PQM) selected

Programme Budget Allocation TVET Colleges

Regions	2014/15	% share	2015/16	% share	2016/17	% share
Gauteng	1 364 872 000	23%	1447 412 000	23%	1 545 013 000	23%
KwaZulu-Natal	1 033 932 000	18%	1096 460 000	18%	1 173 644 000	18%
Eastern Cape	838 630 000	14%	889 347 000	14%	938 825 000	14%
Western Cape	719 892 000	12%	763 427 000	12%	814 880 000	12%
Limpopo	657 723 000	11%	697 499 000	11%	749 090 000	11%
Free State	389 424 000	7%	412 975 000	7%	438 326 000	7%
Mpumalanga	413 864 000	7%	438 893 000	7%	469 295 000	7%
North West	314 409 000	5%	333 423 000	5%	357 162 000	5%
Northern Cape	94 427 000	2%	100 138 000	2%	108 029 000	2%
TOTAL	**R5 827 173 000**	**100%**	**R6 179 574 000**	**100%**	**R 6 594 264 000**	**100%**
Avg Baseline Growth Rate from Y-o-Y			**6.0%**		**6.7%**	

Programme Budget Allocation TVET Colleges

The Budget Allocation for TVET Colleges consists of the following:

- Compensation of Employees for all TVET Colleges appointed to offer Ministerial approved programmes (NCV and Report 191)
- Operational costs for the TVET Colleges (Direct Transfers also known as subsidies)
- From 2015/16 Compensation of Employees budget allocation has been retained in the Department to manage the salaries on college employees due to the function shifting to DHET on 1 April 2015

Bursary Allocation for TVET Colleges

	2014/15	% share	2015/16	% share	2016/17	% share
Gauteng	467 933 000	22%	488 707 000	22%	514 775 000	22%
KwaZulu-Natal	447 349 000	21%	467 891 000	21%	492 852 000	21%
Limpopo	281 502 000	13%	294 618 000	13%	310 336 000	13%
Eastern Cape	227 212 000	11%	237 981 000	11%	250 677 000	11%
Western Cape	227 510 000	11%	238 182 000	11%	250 888 000	11%
Free State	148 253 000	7%	154 665 000	7%	162 917 000	7%
Mpumalanga	129 184 000	6%	135 107 000	6%	142 315 000	6%
North West	135 579 000	6%	141 667 000	6%	149 224 000	6%
Northern Cape	43 215 000	2%	45 182 000	2%	47 592 000	2%
TOTAL	**2 107 737 000**	**100%**	**2 204 000 000**	**100%**	**2 321 576 000**	**100%**
Avg Baseline Growth Rate Y-o-Y			**4.5%**			**5.3%**

Bursary Allocation for TVET Colleges

The Bursary Allocation for TVET Colleges consists of the following:

- Tuition Fees ; and
- Allowances (Transport and Accommodation)

- This form of funding is channeled through NSFAS
- NSFAS pay TVET Colleges on a claim basis

Enrolment Targets

- The White Paper for Post-School Education and Training (White Paper) sets a target of 2.5 million TVET students by 2030
- Current APP enrolment target (2016/17) is 829 000 aligned to the White Paper target
- Projected increase over 2017 MTEF is 14.4% per annum projecting 1.238 enrolments by 2019
- From 2020 until 2030 projected growth is 6.6% per annum to reach the White Paper target of 2.5 million

Estimated Programme Funding Shortfall: 2017 MTEF in line with 2030 White Paper Target

Categories	2016/17	2017/18	2018/19	2019/20
Estimated target				
	R'000	**R'000**	**R'000**	**R'000**
Total Estimated Programme Funding Costs Required	19 803 000	23 803 000	28 584 000	30 184 704
Programme Funding Baseline Available	9 072 000	9 567 000	10 087 000	10 651 872
Total Estimated Shortfall	**(10 730 000)**	**(14 236 000)**	**(18 497 000**	**(19 532 832)**

Current Funding

- The State is required to fund 80% of the total programme cost
- Colleges are expected to recover 20% from student fees or NSFAS for those students that quality for bursary
- For 2016 the NSFAS allocation is R2.3 billion
- Currently colleges are funded at 57% of the required 80% due to over enrolment

White Paper Enrolment Target - 2016 MTEF

The projected enrolment target for the 2016 MTEF aligned to the White Paper target is as follows:

Categories	2016	2017	2018
Enrolment Target:			
Headcount (Annual Performance Plan-Ministerial and Occupational)	829 000	948 000	1 084 000
Headcount (National Certificate Vocational and Report 191)	755 000	862 000	985 000
Full-Time-Equivalents (NCV and Report 191)	368 888	422 008	482 355
Funded FTEs	**238 744**	**246 547**	**255 522**
Unfunded FTEs	**(130 145)**	**(175 461)**	**(226 833)**
Unfunded Headcounts	**(325 362)**	**(438 652)**	**(567 083)**
Funded Headcounts	**429 638**	**423 348**	**417 917**
% Funding on Headcount	**56.9%**	**49.11%**	**42.43%**

Current Headcount Enrolment

- Included in the total enrolment of 710 535 for 2015/16 is 664 748 is for Ministerial and 45 787 for occupationally directed programmes
- Enrolments increased from 345 000 students in 2010 to 664 748 (Ministerial approved programmes) in 2016
- The estimated growth for that period is **21%** year-on-year

Estimated Programme Funding Shortfall - 2016 MTEF

The projected funding shortfall for the 2016 MTEF aligned to the White Paper target is as follows:

Funding Categories	2016/17	2017/18	2018/19	Total Shortfall: 2016 MTEF
	R'000	R'000	R'000	R'000
Budget Requirement	19,803,000	23,803,000	28,584,000	**72,189,000**
Baseline	-9,072,000	-9,567,000	-10,087,000	**-28,726,000**
Projected Shortfall on:				
80% Programme Funding	-4,732,000	-6,749,000	-9,231,000	**-20,712,000**
National Student Financial Aid Scheme (NSFAS)	-2,489,000	-3,383,000	-4,457,000	**-10,328,000**
8% Fee Increase	-504,000	-605,000	-727,000	**-1,836,000**
DHET Goods and Services (Including Examination Shortfall)	-3,006,000	-3,498,000	-4,082,000	**-10,586,000**
Total Projected Shortfall	**-10,730,000**	**-14,236,000**	**-18,497,000**	**-43,463,000**

Headcount Enrolment – Assumed 5% increase in enrolment for 2017 MTEF

- Due to the current financial constrains in the country, the Department is implementing a revised target that will only provide for a 5% growth rate over the next 3 years as compared to the 14.4% rate to reach the White Paper target

- The revised target for 2017 will be 697 985 (Ministerial programmes)

- With the projected increase of 5% per annum, 769 529 enrolment is estimated by 2019

Headcount Enrolment – Assumed 5% increase in enrolment for 2017 MTEF

Categories	2016	2017	2018	2019
White Paper Target Headcount (Ministerial and Occupational)	829 000	948 000	1 084 000	1 238 000
Revised Target (National Certificate Vocational and Report 191)	664 748	697 985	732 885	769 529
Reduction in Target (only providing for 5% growth year on year)	(164 252)	(250 015)	(351 115)	(468 471)

Estimated Programme Funding Shortfall - 2017 MTEF (5 % enrolment growth vs. White Paper)

Categories	2016/17 R'000	2017/18 R'000	2018/19 R'000	TOTAL R'000
White Paper funding shortfall				
Tuition Shortfall (80% and bursaries)	(7,725,000)	(10,737,000)	(14,415,000)	(32,877,000)
DHET Goods and Services (Including Examination Shortfall)	(3,006,000)	(3,498,000)	(4,082,000)	(10,586,000)
Total Projected Shortfall	**(10,731,000)**	**(14,235,000)**	**(18,497,000)**	**(43,463,000)**
Revised 5% funding shortfall				
Tuition Shortfall (80% and bursaries)	(7,235,166)	(8,412,050)	(9,739,450)	(25,386,666)
DHET Goods and Services (Including Examination Shortfall)	(3,006,000)	(3,498,000)	(4,082,000)	(10,586,000)
Total Projected Shortfall	**(10,241,166)**	**(11,910,050)**	**(13,821,450)**	**(35,972,666)**
Decrease %	**-4.56%**	**-16.33%**	**-25.28%**	**(7,490,334)**

Staffing cost over-view

System overview:

- Approximately 18,000 staff (lecturers and support staff) in TVET System.
- Total Compensation of Employee (CoE) budget retained by DHET for 2016/17: **R5,168,971,000**
- Projected expenditure as at 31 March 2017: **R4,780,360,786** (92.48%)
- Project net saving: **R388,610,214** (7.52%)
- 16 TVET Colleges projected to over-spend on CoE by 31 March 2017 (total: **R62 million**). The Department has initiated adjustments in the remaining subsidy payments (October 2016 and January 2017) to cater for the projected overspent.
- 34 TVET Colleges projected CoE savings for 2016/17.

Staffing cost over-view

- In terms of Paragraph 117 of the TVET Funding Norms: The Department will transfer the CoE Savings back to the College concerned based on specific conditions i.e utilisation of funds for staff development and for staff costs incurred on behalf of the Department.
- R260 million has been shifted during the AENE from CoE to transfers to enable payments during March 2017.
- In terms of Migration to the Department, 63% of total budget has been approved by the Minister in terms of the TVET Funding Norms to enable transfer of staff onto PERSAL.
- Thus, staff have been transferred to a maximum of 63% of TVET Budgets.
- Under expenditure on DHET CoE may be attributable to staff that could not migrate (due to PERSAL limitations) as well as vacancies not being filled which may lead to the quality of provisioning being jeopardised.

Staffing cost over-view

- **Paragraph 116** of the funding norms states that the Department must retain 63% of the full cost (**80% of government subsidy allocation and 20% of assumed college fee level)** of the total TVET colleges budget allocation.
- **Paragraph 117** of the funding norms provides requirements for the transfer of unspent personnel funds back to colleges, which are as follows:
  a) Unspent funds will be utilised in the calculation of the clawback mechanism outlined in paragraph 103, if any;
  b) The funds will be utilised by the college for non-remuneration staff costs such as staff development, within a staff development plan, recommended collectively by the staff to the Academic Board for recommendation to the Council of the TVET college concerned and finally approved by the Director-General of the Department;
  c) Subject to a motivated application from the TVET college, to defray remuneration of staff where such staff would have been remunerated by the Department in the financial year concerned; and
  d) Subject to any conditions that may be determined by the Department policy on utilisation of such funds, if such policy is determined.

Staffing cost over-view

2015/16 Challenges due to first year of Migration:

- All staff were not migrated on 1 April 2015. Some Provincial Education Departments (PEDs) still managed the Payroll for up to 3 months in 2015/16. (Eastern Cape and Gauteng).

- PEDs submitted claims to DHET which were not allocated to individual TVET Colleges.

- PERSAL incorrectly interfaced to DHET Basic Accounting System (BAS) which made expenditure data per TVET College inaccurate.

- Cross-subsidisation relating to CoE occurred between TVET Colleges as subsidies were not adjusted to cater for projected overspent. This was mainly attributable to data inaccuracies on BAS.

Staffing cost over-view

2015/16 Challenges due to first year of Migration (continued):

- 25 TVET Colleges overspent on CoE by **R144** million by March 2016.
- 25 TVET Colleges had savings on CoE of **R323** million.
- Net CoE savings of **R179** million which was utilised by the Department to compensate for cost over-runs relating to Examiners and Moderators in the Examination function.
- A Total of 36 Claims were received from Colleges (including those received after year end of March 2016).
- 27 College claims were processed and paid (based on sample testing performed). Some received after year end whilst others did not meet the requirements.

Staffing cost over-view

2015/16 Challenges due to first year of Migration (continued):

- Claims received amounted to R271 million and a total of R157 million was paid out to colleges in terms of Paragraph 117 of the Funding Norms.
- The Department now faces potential litigation by College Councils for the 2015/16 CoE savings.
- The Department is in process to secure the required funds to settle the liability as paragraph 117 of the TVET Funding norms could not fully be implemented.

Staffing cost over-view

Way forward:

- Strict management of TVET College budgets between CoE and Subsidies. Subsidies are being adjusted with projected CoE overspent. This will ensure sufficient cash-flow to process CoE saving claims as determined by the TVET Funding Norms.
- The National Skills Fund will be approached to subsidise the shortfall relating to the remuneration of Examiners and Moderators for 2016/17. (Increased enrolments has a carry through effect on the costs relating to the Examination function).
- R260 million has been shifted in the AENE from CoE to transfers to enable processing of claims at year end.
- The Department has informed the National Treasury accordingly who has supported the R260 million virement.

Over-view of income and expenditure

Liquidity and Solvability:

- Total cash and investments as at 31 July 2016: **R3.9 Billion**
- 17 TVET Colleges above R60 million comprising 75% of total cash and investments.
- Remaining 33 TVET Colleges on average R20 million which is relatively low and experiencing cash-flow pressures which impacts provisioning due to a lack of adequate Learner Teacher Support Materials (LTSM), text books, protective clothing etc.

- From the 2015 AFS analysis – There is a decline in total revenue and an increase in total expenditure (through inflationary and labor increases) which is indicative of a net deficit position for the sector in the future.
- This is putting pressure on the cash and investment reserves and worsening overall solvency and liquidity.
- Based on the current expenditure trend, the cash and investment reserves will be exhausted by **2018.** *(If White Paper targets are implemented)*
- On average, current assets are 31% more than current liabilities (still below the bench mark of 50%) which is indicative of a weakening liquidity position.

Over-view of income and expenditure

Liquidity and Solvability (continued):

- From 2014 to 2015, current liabilities increased from 33% to 47% compared to total cash and investments, thus indicating an increased expenditure and lower revenue levels thus putting pressure overall liquidity.

- Current cash and investments (less current liabilities) vs. monthly average expenditure decreased from 3.26 months in 2014 to 1.94 months in 2015 also highlighting extensive pressure on liquidity due to lower revenue and increased expenditure levels.

- Debtors compared to monthly revenue increased from 1.38 times in 2014 to 2.04 times in 2015 indicating that the Colleges are not able to recover the debtors and therefore hampering cash-flow.

- The average rate of return on investments is 5.62% indicating low risk exposure instruments which is aligned to ensuring capital security.

Over-view of income and expenditure

Liquidity and Solvability (continued):

- From 2014 to 2015, surplus vs. total revenue decreased from 7.03% to 0.65% indicating lower revenue and increased expenditure levels. In some of the Colleges budget deficits were experienced for 2015 indicating utlisation of reserves to carry the increased enrolment which was not funded by the State.

Solvability:

- From 2014 to 2015, total liabilities slightly increased from 10% to 11% of total assets indicating that Colleges are finding it more difficult to settle their obligations due to less debtors being recovered and lower revenue levels.

Repairs and maintenance:

- In terms of the TVET Funding norms, the progamme funding provides for 10% of the costs to be attributable to repairs and maintenance. From the 2015 AFS analysis, 4% has been spent by the Colleges (3% in 2014) which is far below the prescribed norms. This is indicative of the cash-flow pressures being experienced by the TVET System and the re-prioritization of other dire needs above this critical requirement.

Over-view of income and expenditure

Revenue Sources and student debt:

- From the AFS analyses performed, total revenue provide by the State contributes approximately 85% of total revenue of the TVET Colleges with only 15% being provided through the delivery of occupational programme offerings (funded predominantly through the SETAs and the NSF).

- In terms of the TVET Funding Norms, the Student is only liable for 20% of the programme costs and the State must subsidise 80% of the costs of which NSFAS is making bursaries available for deserving students.

- In terms of the 2014 AFS analysis, student debt in the system was approximately at R1.2 billion of which 75% - 80% has already been provided for (R900 million).

- From AFS analysis conducted, some Colleges write-off student debt on an annual basis equaling 80% to 100% of their student debtors. This is indicative of the low recovery of student debt and that the system is already rendering free education based on the limited financial resources available.

Infrastructure Requirements

- The estimated infrastructure maintenance backlog amounts to **R2.952** Billion in the TVET System which directly impacts the quality of provisioning if not addressed.

Construction of 16 New Sites (13 New and 3 Refurbishment):

- The Department has committed R639 million in constructing Thabazimbi, Nkandla and Bambhanana campuses. Operational Budget required: R 1.1 Billion over the MTEF. R300 Million has been secured from NSF as short term intervention which excludes equipment and to set up connectivity. This is not sustainable in the long run. Baseline funding will have to be sourced to keep these new sites operational.

- The remaining 13 campuses are estimated to cost R6.1 Billion to construct with operational costs of R1,1 Billion every year. The scope of the sites has been severely cut to fit the available NSF budget of R1.2bn. The sites now have classrooms and workshops but no student accommodation, simulator buildings and no e-learning centre. Resources are still required to equip and install connectivity. Operational funding is still to be sourced as well.

THANK YOU