

FINANCIAL AND FISCAL COMMISSION
POLICY BRIEF

9/2013

The Financial and Fiscal Implications of Further Education and Training (FET) Function Shift

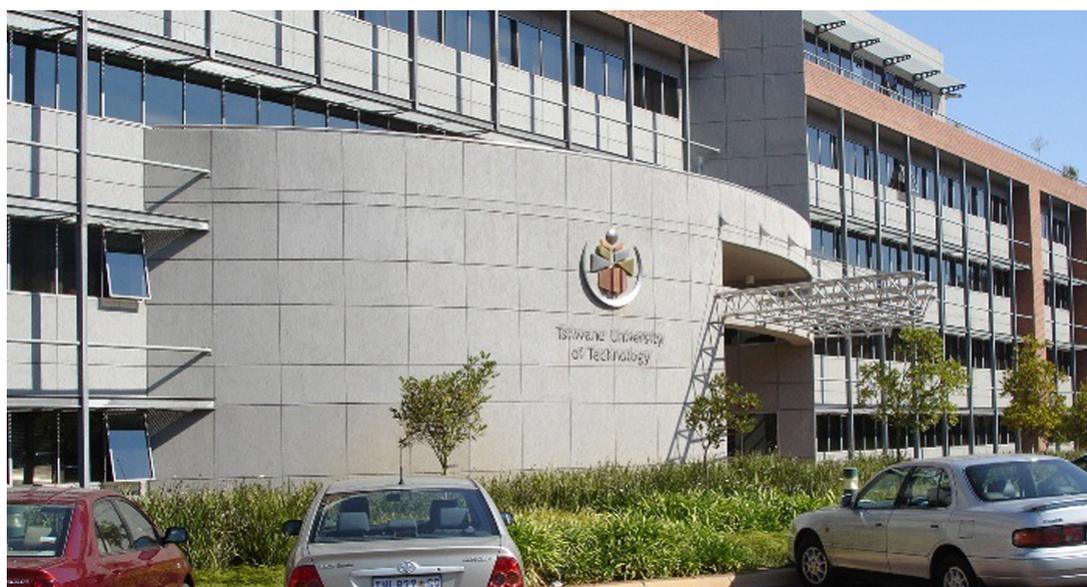
EXECUTIVE SUMMARY

The FET college sector plays a vital role in the development of middle-level skills that are crucial for economic development and absorbing the economically marginalised. As part of developing an integrated post-school education and training sector, the FET colleges are migrating from the provincial to national sphere, and a new funding framework for FET colleges has been introduced. The long-term advantage of migrating FET colleges to national government is that they should be equally funded, based on their programme enrolments. The provision of FET college education has been very uneven across provinces, and future expansions need to ensure that a more equitable spread across provinces is attained, without disadvantaging colleges in provinces that historically allocated more funding to FET colleges. The sector is facing governance and management problems, especially with regard to financial management. Financial accountability in the sector needs serious attention, to ensure that any additional funding to the sector will be used effectively and efficiently. The funding model for the FET sector after the function shift needs to ensure that it does not perpetuate the past underfunding of the function in certain provinces and achieves more equitable funding through additional allocations. The transfer of the FET function should include systems for monitoring the financial health and governance of FET colleges.



BACKGROUND

The further education and training (FET) college system plays a critical role in the development of middle-level skills that are crucial for economic development and building an inclusive economy. Skills development is critical for absorbing the economically marginalised into a vibrant, innovative and internationally competitive economy. FET colleges are migrating from the provincial to national sphere, with the aim of developing an integrated post-school education and training sector. As part of this shift, a new funding framework for FET colleges was introduced. The Financial and Fiscal Commission (the Commission) looked at the potential benefits and financial and fiscal risks associated with the full transfer of the FET function.¹ This is in line with the requirements of the Financial and Fiscal Commission Act (99 of 1997), which provides for consultation with the Financial and Fiscal Commission of the fiscal and financial implications before assigning the power or function to another sphere of government.



FINDINGS

Participation rates and funding vary across provinces. In 2011 4.2 per cent of youth aged 19–24 enrolled in FET colleges nationally, with participation rates ranging from 6.6 per cent in the Free State to 2.2 per cent in Mpumalanga. Over the last three years, funding support to colleges has increased by 43 per cent, from R3.8 billion in 2010 to R5.45 billion in 2013/14, but the average annual increases vary across provinces (Figure 1). By 2015/16, the provinces projected to receive the highest portions of total allocations are Gauteng (23 per cent) and KwaZulu-Natal (18 per cent) – see Figure 2. Included in the allocations is financial assistance to poor students, which has increased four-fold, from R318 million in 2010 to R1.7 billion in 2012.

The long-term advantage of migrating FET colleges to national government is that they should be equally funded, based on their programme enrolments, and no longer dependent on what funds provinces allocate to them. Provinces have not prioritised FET education equally in their budget allocations, which led to unequal participation rates in FET colleges in provinces. The ratio of the funding allocation per province to the total weighted full time equivalent (FTE) for 2013/14 shows clearly the huge variation, with a difference of R10,809 between the highest (R26,857 in the Eastern Cape) and the lowest allocation (R16,050 in Limpopo). These huge inequities in allocations can be explained by the fact that the conditional grant was based on historical allocations to the provinces, adjusted annually by consumer price index.

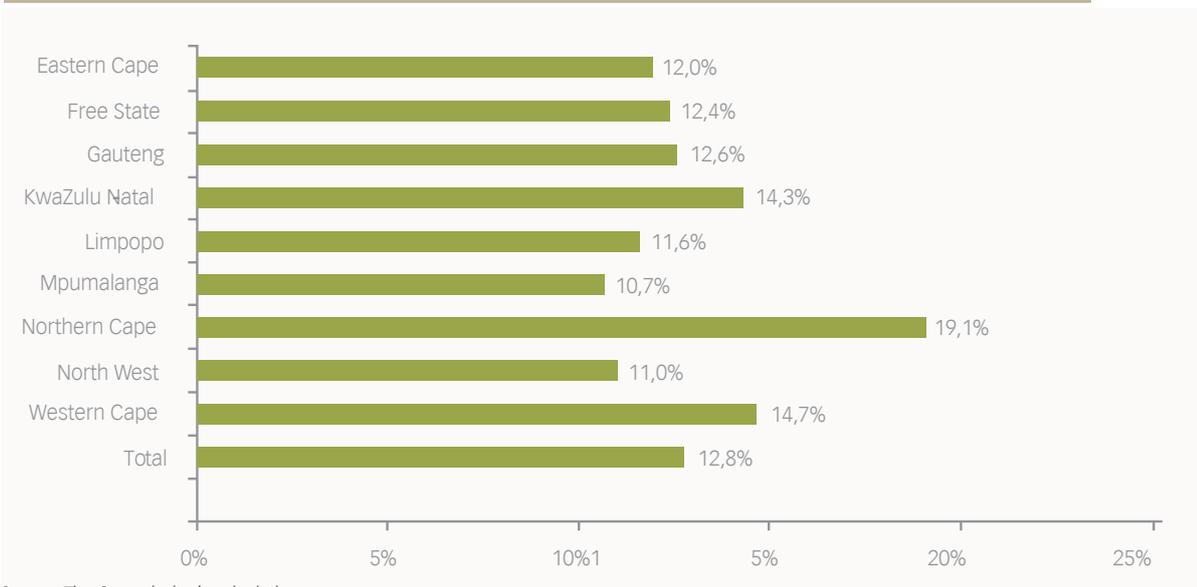
¹ For the full study, see Sheppard, C and Ntenga, L. 2013. Funding of the South African further education and training (FET) sector, Chapter 10 in Financial and Fiscal Commission (2013). 2014/15 Submission for the Division of Revenue Technical Report, Midrand, South Africa. This analysis focuses mainly on access issues, not other elements of FET performance such as quality, through-put rates, diversity etc., which can be found in the Technical Report.

The shortfalls in funding for FTE students also varies across provinces. Based on the 2012/2013 enrolment plan, the total MTEF budget for FET college education should have been R5.989 billion. However, the actual budget was R4.845 billion, made available through conditional grants. The shortage of R1.144 billion reflects the huge levels of underfunding in certain provinces. Provinces with the greatest shortfalls are the Northern Cape (35%), KwaZulu-Natal (34%), Limpopo (28%) and the Free State (27%). Clearly, funding of FET colleges is inequitable and insufficient.

More funding is needed, and a fair distribution of funding would mean colleges receive equal rand values per weighted FTEs. Currently, the baseline used for the conditional grant reflects historical allocations to FET college education, which were too low in the Northern Cape,

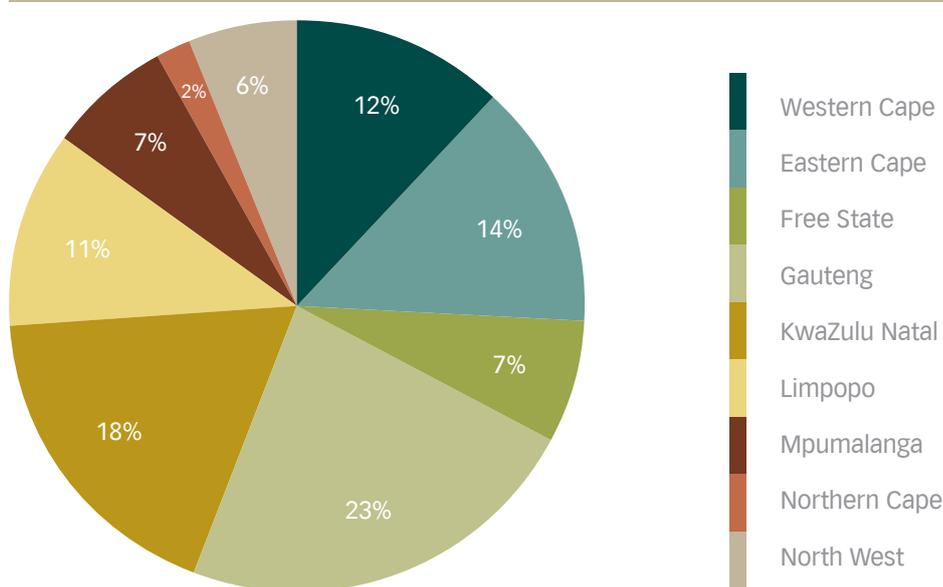
KwaZulu-Natal, Limpopo, Free State and North West Province. However, redistributing the pool of available funding equitably to all provinces would disadvantage colleges in provinces where more appropriate budgets were allocated to FET colleges. A more acceptable way to rectify these imbalances would be to secure additional top-up funding, which could be channelled to the provinces that are severely underfunded.

Figure 1: Average Annual Growth 2010/11–2013/14

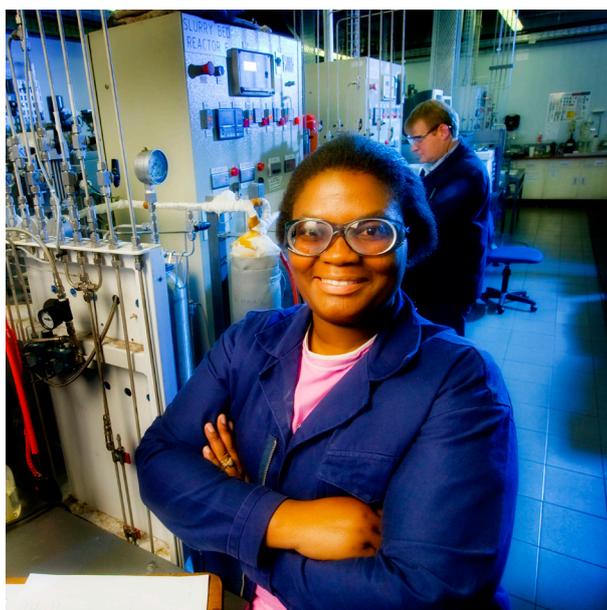


Source: The Commission's calculations

Figure 2: Provincial Distribution of MTEF Estimates (2015/16)



Source: The Commission's calculations



When channelling additional funding to the sector, it is critical to ensure that the funds are spent effectively and efficiently, which implies that individual FET colleges must have good fiscal governance and be in good financial health. An analysis of the financial health of FET colleges, using information from annual financial statements for 2009–2011, found that:

1. Eleven colleges had qualified audits.
2. Thirteen (27 per cent) colleges were not in a sound financial position, including the four colleges in the Free State. The financial health of three other colleges could not be determined.
3. Of the colleges that were not in a sound financial position, 12 had a surplus below or equal to 10 per cent. Staff costs, as a percentage of government subsidies, tuition and examination fees, varied among the colleges from 60 per cent to 75 per cent.
4. The majority of FET colleges are highly dependent on government subsidies, and tuition and examination fees.

CONCLUSION

The FET college sector plays a vital role in the development of middle-level skills that are crucial for economic development and building an inclusive economy. The sector needs to be adequately funded in order to increase the country's skill base. However, the provision of FET college education has been very uneven across provinces, and so future expansions need to ensure that a more equitable spread across provinces is attained. The sector is facing governance and management problems, especially with regard to financial management. Financial accountability in the sector needs serious attention, to ensure that any additional funding to the sector will be used effectively and efficiently. A comprehensive migration plan for the transfer of the FET function to the Department of Higher Education and Training (DHET) is in place. However, simply transferring the function without addressing the pre-existing financing challenges could prevent the potential benefits of the function shift from being realised. The financial model must therefore be optimised, including baselines.

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

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

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