

2020

**An analysis of a funding gap in the
subsidy to no-fee schools against the
national norms and standards**

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PROVINCE: KWAZULU-NATAL

Summary

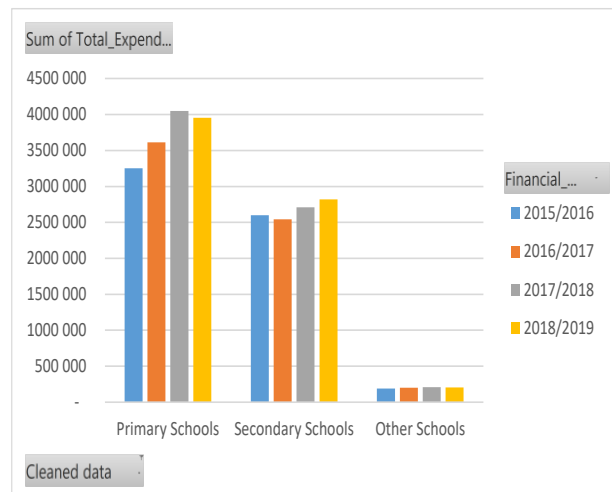


In 2016/17 Annual Report the provincial department of education (KZNDOE) reported that the number of learners in public ordinary schools benefitting from the “No Fee Schools” policy in 2015/16 was 1 965 951. It noted that the target for 2016/17 was 1 939 310 and the actual output was 1 990 795. The department indicated that the target was exceeded due to schools’ contestations and requests for adjustments of quintile ranking which resulted to more schools being declared as no-fee schools.

The expenditure analysis of the provincial department indicate that the expenditure in respect of no-fee schools amounts to R6 million per annum. The province spends the majority of the budget on subsidising primary schools.

The province is largely rural with most no-fee schools being categorised from quintiles 1 to 3. In total the province has 2 609 556 learners from quintiles 1 to 5, while the number of learners who qualify for a subsidy is 1 933 797 from quintiles 1 to 3 which are the poor areas.

The Department of Basic Education’s (DBE) 2011 School-Monitoring Survey



Report (2013) revealed troubling information showing that nationally, 53 per cent of learners attended schools that were not funded at the minimum per-learner level. This problem was most acute in Mpumalanga, Eastern Cape, KwaZulu-Natal and Limpopo. It should be noted that the schools in the lower quintiles (1 to 3) are declared no-fee schools, and do not charge school fees. The quintile classification is based on the socio-economic conditions of the surrounding school communities, rather than the circumstances of the learners. These schools get the majority of the government’s funding.

Therefore, in order to improve the equity in funding of public schools the DBE and Provincial Education Departments (PEDs) have to undertake serious budgetary and financial analysis, and to use learner information in their costing. This Performance and Expenditure Review report analyses the gap between funding subsidy provided to no-fee schools in the province against the National Norms and Standards for school funding.

DISCLAIMER:

This document is not for quoting or circulation. It was done as part of the NT training exercise on the spending review methodology and is intended for discussion purposes. Further, there were serious data limitations and both the appropriate level of information, and its correctness could not be independently verified.

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1. Introduction

The introduction of norms and standards for subsidies to learners from impoverished background is an important policy that was developed by the National Department of Basic Education (DBE) to ensure equal access to education. This policy was implemented to close the gap that existed in various communities in order to allow access to education for all school-going children. However, due to slow economic growth, government has experienced budget constraints resulting in the lack of compliance to the set norms and standards to funding of no-fee schools by some provincial departments.

The DBE's 2011 School-Monitoring Survey Report (published in 2013) revealed troubling information showing that nationally, 53 per cent of learners attended schools that were not funded at the minimum level of per-learner funding or higher. This problem was most acute in Mpumalanga, Eastern Cape, KwaZulu-Natal and Limpopo. It should be noted that the schools in the lower quintiles (1 to 3) are declared no-fee schools, and do not charge school fees. The quintile classification is based on the socio-economic conditions of the surrounding school communities, rather than the circumstances of the learners. These schools get the majority of the government's funding.

Therefore, in order to improve the equity in funding of public schools the DBE and PEDs have to undertake serious budgetary and financial analysis, and to use learner information in their costing. This Performance and Expenditure Review analyses the gap between funding for the subsidy provided to no-fee schools in the province against the National Norms and Standards for school funding.

The PER will look at the following research questions, what is the current cost of subsidies to no-fee schools in KZN, what are the cost implications of adjusting the subsidies for no-fee schools in KZN, and what is the difference between what the province is subsidising and the national norms and standards. These questions will assist in analysing the funding gap and calculating the funds required to close this gap and conform to the set norms and standards.

2. Policy and Institutional Information

The Bill of Rights in the **Constitution of the Republic of South Africa**, 1996 (No. 108 of 1996) establishes the right to education. This led to the establishment of the **South African School Act (SASA)** No. 84 of 1996 which provides the legislative framework, that guides the Provincial Departments of Education (PEDs) in budgeting for the funding subsidies to schools. Also, the **Education White Paper 6 on Inclusive Education** provides an enabling legislative framework to ensure that the education system to meet the needs of all learners. This requires relatively more funding by the state for poorer and historically disadvantaged schools, in order to improve the teaching and learning taking place at those schools.

In line with the school Act, National Department of Basic Education (NDBE) through the Minister sets out the **National Norms and Standards for School Funding (Notice 29179 of 2006)** in line with Section 35 of the Act. These norms deal with the procedures to be adopted by PEDs in determining resource allocations to their schools. The schools are categorised according to the prevalent socio-economic status of the community within which they function. This is one of the factors that determines whether schools have a fee or no-fee paying status and assists the PEDs in allocating funds to schools.

The PEDs use these guiding estimates to prepare budgets for subsidy allocations to schools. The Head of Department will be expected to verify that the national norms are being complied with in allocating funds, or that acceptable alternatives are being implemented after consultation with the DOE. Each province determines its own level of spending on education,

in relation to its overall assessment of needs and resources. The PED must use relevant provincial data much more intensively in budgeting and planning decisions. Also, the PED must develop the necessary data systems to guide planning and allocations. The school receives a per learner school allocation, that is greater than or equal to the no fee threshold for the year in question. This criterion is aimed at ensuring that a critical level of public funding is reached before private funding in the form of school fees is removed.

The KZN province has identified 256 schools as no-fee schools as at 31 March 2018. This was based on the quintile ranking and the score attached to each school that reflect the degree of poverty of the surrounding community.

3. Programme Chain of Delivery

There are various business process that are undertaken to provide the subsidy to disadvantaged schools and therefore, achieve the optimal goal of equal access to education for all school going children.

Firstly the schools must provide information to PEDs (Section 59 of the Act) and ensure that information is submitted on time, so that the necessary analysis can be undertaken, and resource allocation decisions made on time. PEDs must annually provide public schools with sufficient information so that the schools can develop their budgets. The consolidation of information is firstly undertaken at a district level for all the schools that in that particular district. The information provided by the schools should be costed per learner from the data obtained from the South African School Administration Management System (SA-SAMS) and, this is thereafter consolidated provincially into the Education Management Information System (EMIS).

The PED must assign to each school a school poverty score that will allow the PED to sort all schools from poorest to least poor in the process allocating the quintile ranking of the school from 1 to 5. As part of the ongoing budgeting process, the PED must calculate the school allocation budget implied by the national targets, and compare this amount to the actual school allocation budget amount available in the MTEF budgets. A PED may use the difference between the actual amount and the target amount to create a smoother distribution, however, this should not result in any school receiving less than the target per learner amount applicable to that school. The PEDs are expected to present to NDBE a detailed management plan on how they will address the funding gap should they not comply with the norms and standards.

It is important that the PED acquires the services of highly-skilled strategic financial analysts who understand the use of data-intensive planning, and analysis techniques in public financial management, highly-skilled information systems experts to improve the functioning of the education databases (including the EMIS) at a district level. These individuals should be skilled in educational planning and forecasting techniques, and computer systems and databases. The PED will therefore utilise the information analysed from the various databases in districts to determine the affordability of funding the schools as per the norms and standards. This is usually based on the available equitable share budget that is allocated to the department over the MTEF period.

This indicate that the government is often faced with challenges of utilising limited resources to achieve maximum output. This frequently results in trade-offs between competing priorities, thus resulting to cost-effectiveness analysis in allocation of funds to schools.

4. Expenditure Observations

As previously mentioned the limited resources due to inadequate budget results to the need to undertake thorough analysis on the affordability of PEDs to increase the per learner allocation in line with the national norms and standards for no-fee schools. It is against this background that an analysis of the expenditure trends as well as comparisons of budgets in line with nationally set targets is undertaken in order to address any gaps that exist in the subsidies provided to no-fee schools.

No-fee schools are entitled to receive a minimum per-learner amount of funding, which is known as the 'no-fee threshold'. This minimum amount of funding is supposed to ensure that these schools have enough funding to cover non-personnel costs. In 2015, the no-fee threshold of minimum funding was set at R1 116 per learner. Quintiles 1, 2 and 3 schools must therefore receive funding from PEDs at this minimum amount, while quintile 4 schools must receive at least R559 per learner, and quintile 5 schools must receive at least R193 per learner.

The following table illustrates how the PEDs should use the resource targeting list, the table of targets for the school allocation to determine the per learner allocation for each school.

Figure 1: National table of targets for the school allocation (2014 - 2016)

Quintile	2015	2016*	*2017
NQ 1	R1 116	R1 177	R1 242
NQ 2	R1 116	R1 177	R1 242
NQ 3	R1 116	R1 177	R1 242
NQ 4	R559	R590	R622
NQ 5	R193	R204	R215
No-fee threshold	R1 116	R1 177	R1 242
National Fixed Amount	R25 843	R27 264	R28 764

* 2016 and 2017 figures inflation adjusted CPI projected inflation rate adjusted

The expenditure analysis of the provincial department indicate that the expenditure in respect of no-fee schools amounts to R6 million per annum as show in the figure below. The provinces spends the majority of the budget on subsidising primary schools.

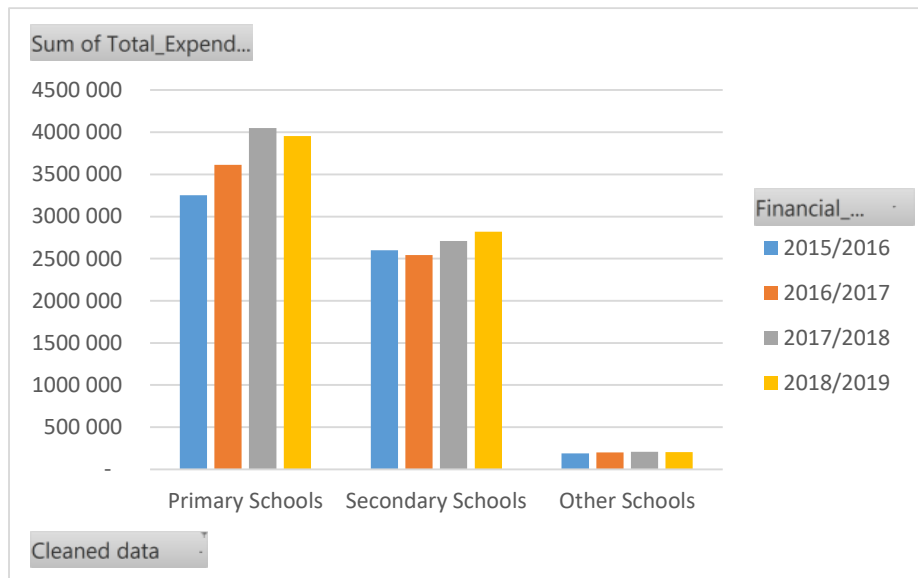
Figure 2: Expenditure per year for no-fee schools

	2015/2016	2016/2017	2017/2018	2018/2019
	R'000	R'000	R'000	R'000
Primary Schools	3 252 458	3 611 963	4 050 605	3 956 783
Secondary Schools	2 600 609	2 541 752	2 709 011	2 821 666
Other Schools	188 012	201 124	210 004	204 656
Grand Total	6 041 079	6 354 839	6 969 620	6 983 105

The 196 no-fee primary schools accounts for over 50 per cent of the expenditure on transfers to schools as shown in Annexure 2 on the pareto analysis. The overall year-on-year growth is indicative of a gradual increase in the expenditure for the first two years while the outer year shows a minor increase. This indicates that the department could not sustain the CPI increase as set in the Treasury Guidelines.

Although the year-on-year spending shows an increase the department indicated that per learner allocation has not changed since 2016/17 it has been kept at R955 per learner. The growth in expenditure as shown in the graph below is mainly influenced by the changes in the yearly increases or decrease of learner enrolment per school. If the expenditure growth should be in line with the set CPI at 6.3 per cent in 2019/20 (shown in Annexure 2 on growth projections) an amount of R439 935 will have to be reprioritised from within the equitable share budget.

Figure 3: Expenditure growth per year for no-fee schools



It was also noted that the year-on-year spending trend fluctuate with a decrease in spending in 2018/19. The Compounded Annual Growth Rate (CAGR) reflect a negative growth of 10.3 per cent which is mainly attributed to low growth in 2018/19 and 2016/17 ascribed to budget shifts that were utilised to offset pressures elsewhere in the vote. The high expenditure growth is evident in 2017/18 mainly due to high number of learners that benefitted from the funding subsidies.

5. Performance

The mission of the provincial department is to provide equitable access to quality education for the people of KwaZulu-Natal. The strategic objectives of the department include, to increase access to education in public ordinary schools. To implement the Education Management System to improve information management and ensure credible learner information is provided and up to date. Also, to implement administrative management systems and accounting procedures in order to ensure maximum support to curriculum delivery. These strategic objectives assist the department in the budget planning process and also to measure if the financial resources are assisting the department to meet the set targets.

The NDP's vision for 2030 is that South Africans should have access to training and education of the highest quality, characterised by significantly improved learning outcomes. It should be noted that public ordinary schools in the province of KwaZulu-Natal are funded below the norms and standards due to lack of funds. Whereas the no-fee learners' provincial percentage total should be 65 per cent as set by NDBE, it is currently at 76 per cent, therefore no-fee learners in the province of KZN are over-subscribed by 11 per cent. There are now only 15 per cent of schools that are fee paying, and an overwhelming 85 per cent of public ordinary schools in the province are no-fee.

In 2016/17 Annual Report the department reported on the indicator (number of learners in public ordinary schools benefitting from the “No Fee Schools” policy). The actual output for 2015/16 was 1 965 951 while the target for 2016/17 was 1 939 310 and the actual output was 1 990 795. The department indicated that the target was exceeded due to school’s contestations and requests for adjustments of quintile ranking which resulted to more schools being declared as no-fee schools. Also, the target was exceeded in 2017/18 from 2 000 070 and achievement was 2 010 132. The logframe that is illustrated on Annexure 1 shows the performance information related to the funding of no-fee schools.

Although, the DBE determines the nationally progressive school allocations poverty targeting list and formulates the national targets and distribution tables. The PED must process enrolment data and school poverty data in order to determine how many schools qualify to be categorised as no-fee paying. As previously mentioned due to the rurality of the province the population of learners from poor areas is larger than other provinces which requires more funds.

6. Options

The Annual Report for 2016/17 indicated that the budget pressures have resulted in per learner norms being under-funded over recent years. This trend was aggravated by cuts to the equitable share of the department due to changes in the provincial equitable share formula as a result of changes in the proportion of the population living in KZN as well as a decline in provincial own revenue.

Also in the departmental Estimates of provincial revenue and expenditure for 2017/18 the department indicated that no-fee learners constitute 75 per cent of the total population of learners in public ordinary schools, whereas the national target for each province is 65 per cent. This is an indication of budget pressures facing the department which result in the below-national-norm subsidy that is being provided to the no-fee schools.

While it is noted that there have been budget cuts resulting in slow growth in the baseline, the department can explore various costing options in order to slightly increase the subsidies to no-fee school and try and align to the national targets. As previously illustrated in the expenditure observations the expenditure growth should increase, however, this is not related to the budget increase in order to comply to the national norms and standards.

The province is largely rural with most no-fee schools being categorised from quintiles 1 to 3. In total the province has 2 609 556 learners from quintiles 1 to 5, while the number of learners who qualify for a subsidy is 1 933 797 from quintiles 1 to 3 which are the poor areas. The calculated estimates in respect of the increase to meet the national norms and standards is illustrated in the table below.

Figure 3: Analysis of funding between National target and Provincial allocation scenario one

Quintile	National Recommendation	Learners Numbers	Per National	PED per Quintile	2015/16 as per PED	Difference between National and PED
NQ 1	R1 116	565 268	R630 839 088	R955	R539 830 940	R91 008 148
NQ 2	R1 116	675 173	R753 493 068	R955	R644 790 215	R108 702 853
NQ 3	R1 116	693 356	R773 785 296	R955	R662 154 980	R111 630 316
Total		1 933 797	R2 158 117 452		R1 846 776 135	R311 341 317

This illustration indicates that the budget required to be in line with the national norms and standards at the level of 2015/16 is estimated at R311 million. Another scenario that can be considered is to slightly increase the subsidy not from savings which can be reprioritised within various programmes that can be scaled down. If the department can consider increasing the budget by at least 2.5 per cent an amount of R46.169 million will be required as illustrated in the figure below.

Figure 4: Analysis of funding between National target and Provincial allocation scenario two

Quintile	Learners		PED per Quintile	2015/16 as per PED	Difference between National and PED
	Numbers	2.5% increase			
NQ 1	565 268	R553 326 714	R955	R539 830 940	(R13 495 774)
NQ 2	675 173	R660 909 970	R955	R644 790 215	(R16 119 755)
NQ 3	693 356	R678 708 855	R955	R662 154 980	(R16 553 875)
Total	1 933 797	R1 892 945 538		R1 846 776 135	(R46 169 403)

It might be worth explain what happens in schools that do not receive the expected subsidy. I imagine that that means they have higher learner:teacher ratios? But maybe there are other effects? Maybe it is worth explaining how the norm is costed, assuming that the DBE provides that information?

7. Recommendations

There are at least two things government can do to achieve a more equitable share formula for education. National Treasury and the Department of Basic Education should analyse the cost differences of providing education in rural and urban settings, and adjust the formula accordingly. Treasury should increase the weighting given to the poverty component of the formula, so that provinces with a higher share of their population living in poverty receive relatively more funds. This is necessary to reduce inequality within and between the provinces, as the Constitution requires.

Also, by the time each school's funding allocation based on the NNSSF is calculated, the total provincial equitable share has already been determined based on a formula that doesn't take the need for redistribution and the achievement of equity and equality between schools and provinces that much into account.

So, even if a province really wanted to equalise schooling inputs and outcomes – for example, by making significant extra investments into poorer public schools – its ability to do so is limited by the fact that its main budget is based on an equitable share formula that hasn't taken this consideration significantly into account.

The department should accelerate the process of rationalisation of schools in order to assist the department to realise savings if the identified schools can be merged. Also the department assists some schools which are struggling to pay their domestic accounts resulting in additional non-LTSM support to these schools. This assistance should be reviewed by the department in order to determine if this support does not result in an increase in the norms and standards subsidies to schools.

8. Action

The department reports that the competing priorities pose a challenge in ensuring that sufficient budget exists for the funding of no-fee schools. There needs to be thorough analysis of the competing policy priorities of the department with the view to scale down some of the activities. This will have to be undertaken before the start of the 2020/21 MTEF budget process.

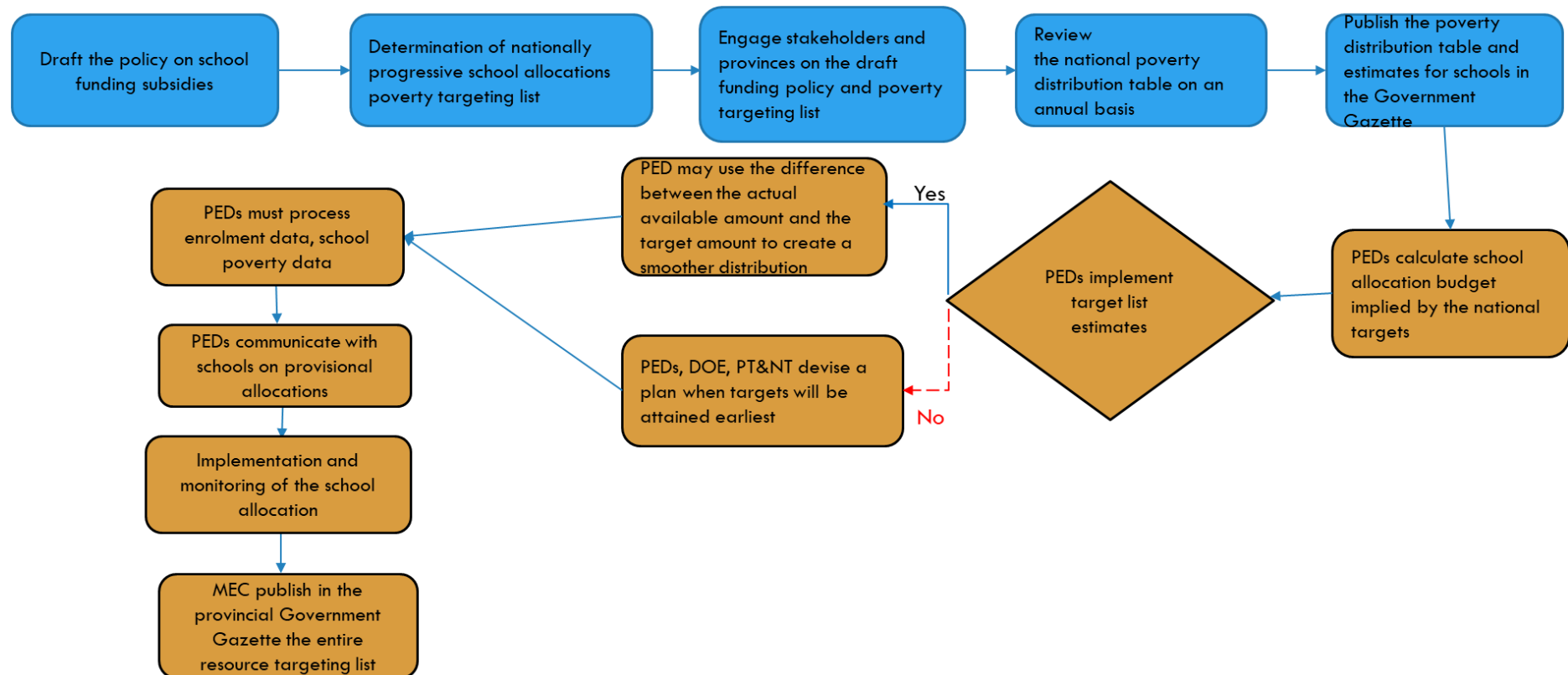
Also the department will have to ensure that the learner numbers reported are accurate and that all the schools have reliable information technology systems in order to ensure that the reported figures utilised for budget decision making is credible.

The department should develop a turnaround strategy to address this funding gap taking into consideration the budget options that can be implemented to at least try and apply a minimal increase to the per learner capita funding. This must be done during the submission of budget inputs into the 2020/21 MTEF.

The department should request for additional funding from DBE during the sector MTEC benchmarking process for the next MTEF. The submission for request of funding should clearly indicate the challenges faced by the provincial department in respect of the high number of schools who qualify or are classified as no-fee schools as compared to the target set by national norms and standards.

Annexure 1

Programme Chain of Delivery



IMPACT	IMP1	Equal access to education			
OUTCOME	OUTC1	Improving analytical capability for better decision-making			
Indicator				adequate funding to no-fee schools	
Frequency				annually	
Source of data					
Final Output	FOUT1	National Norms and Standards for School Funding Policy/Act	FOUT2	Provincial funding subsidy aligned to national norms and standards	FOUT3 Provincial Gazette of subsidy to no-fee schools
Indicator				turnaround strategy plan	
Frequency				yearly	
Source of data				budget reports	
Intermediate outputs	IOUT1	Approved National Policy on no-fee school funding	IOUT2	Minimum funding subsidy to no-fee schools	IOUT3 Approved Provincial Gazette list for no-fee school funding subsidy
Indicator		estimates for schools in the Government Gazette		Published provincial gazette for transfers to schools	
Frequency		yearly		yearly	
Source of data				LURITS	
Activities			ACT 2.6	Annually monitor the per learner funding subsidy for no-fee schools	
Indicator				Number of learners in public ordinary schools benefiting from the "No Fee Schools" policy	
Frequency				annually	
Source of data				SA_SAMS and LURITS	
Activities	ACT 1.5		ACT 2.5	PEDs communicate with school principals to indicate the provisional allocations per learner	
Indicator				Letter with indicative allocation per school	
Frequency				annually	
Source of data				resource target list for department	
Activities	ACT 1.4	Publish the poverty distribution table and estimates for schools in the Government Gazette	ACT 2.4	PEDs must process enrolment data, school poverty data	
Indicator		Government gazette on school funding		provincial funding model	
Frequency		annually		annually	
Source of data		provincial population stats		EMIS SA-SAMS	
Activities	ACT 1.3	Engage stakeholders and provinces on the draft funding policy and poverty targeting list	ACT 2.3	PEDs, DOE, PT&NT devise a plan when targets will be attained earliest	
Indicator		MTEC hearings		turnaround strategy plan	
Frequency		Annually		3 years	
Source of data		provincial MTEC submissions		BAS, MTEF allocations	
Activities	ACT 1.2	Determination of nationally progressive school allocations poverty targeting list	ACT 2.2	PED may use the difference between the actual available amount and the target amount to create a smoother distribution	
Indicator		national targets and distribution tables		resource target list for department	
Frequency		annual gazette		Annually	
Source of data		census data		BAS, MTEF allocations, EMIS, LURITS, SA-SAMS	
Activities	ACT 1.1	Draft the policy on school funding subsidies	ACT 2.1	PEDs calculate school allocation budget implied by the national targets	ACT 3.1 MEC publish in the provincial gazette the resource target list and allocation per school
Indicator		Policy drafted and disseminated to provinces			
Frequency		Annually			
Inputs		Statistics SA data, National Treasury budget estimates, PDEs IT information/data EMIS learner data and quintile ranking		District circuit manager, school principal, school teachers, learners, PT Budget Analyst, PED CFO and HOD	Provincial Treasury Budget Analyst, PED CFO and HOD, MEC
Performance indicator					
Frequency					
Programme elements		Develop policy framework		Allocate funding subsidies to schools aligned to national norms and standards	Funds available to needy schools
Responsibility					

Annexure 2: Expenditure analysis

Pareto analysis

No-fee schools	Share Analysis								Pareto analysis			
	2015/2016	2016/2017	2017/2018	2018/2019	Y1 share	Y2 share	Y3 share	Y4 share	Y1 CumSum	Y2 CumSum	Y3 CumSum	Y4 CumSum
Primary Schools	3 252 458	3 611 963	4 050 605	3 956 783	53.8%	56.8%	58.1%	56.7%	53.8%	56.8%	58.1%	56.7%
Secondary Schools	2 600 609	2 541 752	2 709 011	2 821 666	43.0%	40.0%	38.9%	40.4%	43.0%	40.0%	38.9%	40.4%
Other Schools	188 012	201 124	210 004	204 656	3.1%	3.2%	3.0%	2.9%	3.1%	3.2%	3.0%	2.9%
Grand Total	6 041 079	6 354 839	6 969 620	6 983 105	100.0%	100.0%	100.0%	100.0%				

Annexure 2: Expenditure analysis

Growth projections

A dense table of data, likely a technical or scientific dataset. The table is organized into multiple columns and rows. A vertical blue line is present on the left side, and a horizontal yellow line is present near the bottom. The bottom portion of the table, from approximately row 45000 to the end, is highlighted in light green.