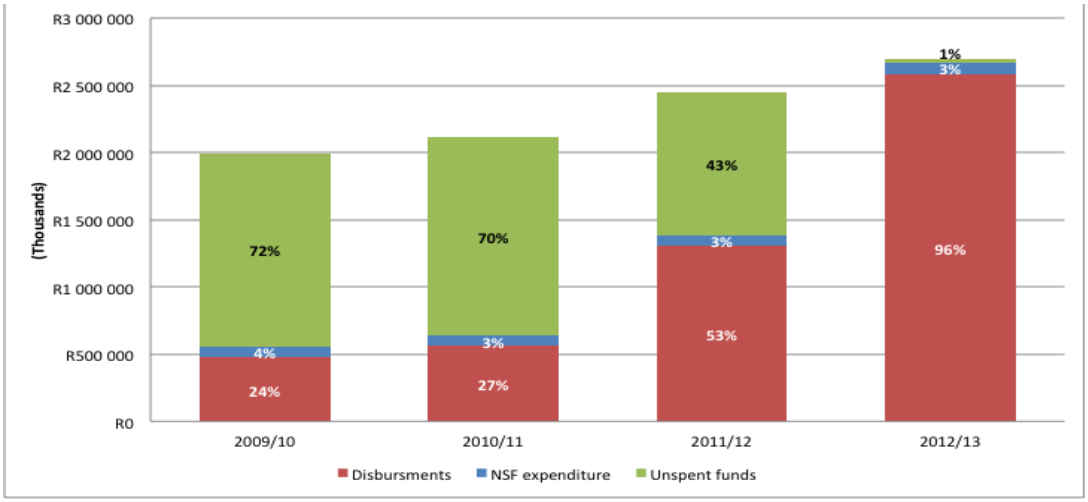
NATIONAL SKILLS FUND

1 Introduction

One of apartheid's most malign legacies is educational, both basic and post-school. As a result, government devotes a considerable share of its resources – about 20% of public spending – to education and skills development. One vehicle through which post-school education and training is financed is the National Skills Fund (NSF), which was established in terms of the Skills Development Act of 1998. The NSF is funded through the skills development levy, a payroll tax introduced by the Skills Development Levies Act of 2000 to encourage learning and development in the workplace. It receives about 20% of the levy; the rest is allocated to Sector Education and Training Authorities (SETAs). These resources fund training programmes, institutional capacity building, and research in the post-school education and training sector.

Unlike the SETAs, which have a clear mandate to improve the skills and competencies of the workforce and promote workplace-based training, the legislation provides much less guidance to the NSF, although it is expected to finance training for people who are not in employment. Because of the limited legislative guidance, the NSF's operational mandate was derived from subsequent policies and frameworks, such as the National Skills Development Strategy. These have changed substantially over time, giving the NSF an increasing focus on college-based training and education.

Figure 1: NSF expenditure, 2009/10 to 2012/13



One of the implications of the inconsistency in and uncertainty around the NSF's priorities was that it was unable to spend all its funds. A performance and expenditure review (PER) of the NSF was commissioned to examine trends in its spending, as well as its efficiency and effectiveness. The PER focused on the nature and composition of NSF expenditure; its main cost drivers; the unit costs of NSF-funded training programmes; the spending implications of different training mixes; and options for improving efficacy and effectiveness. It was conducted by DNA Economics (Pty) Ltd between October 2013 and October 2014. Its main results are summarised here, and the full report is available at www.gtac.gov.za/programmes-and-services/public-expenditure-and-policy-analysis.

2 Institutional context

As a funding agency, the NSF's primary function is to disburse grants to post-school education and training institutions. In making these funding decisions, it is guided by the National Skills Development Strategy developed by the Department of Higher Education and Training. In addition, the NSF *Strategic Framework and Criteria for the Allocation of Funds*, which was approved by the National Skills Authority, establishes limits for different funding windows to ensure that resources are allocated equitably and support key national priorities.

The first National Skills Development Strategy had set ambitious goals to develop new skills, upgrade existing skills and reskill labour to meet the demands of a growing economy. However, the NSF played a limited role in achieving these goals and its expenditure was largely focused on social development initiatives.

Under the second iteration of the skills strategy, by contrast, the NSF financed larger and more varied training programmes across a number of different funding windows: adult basic education and training, learnerships and artisanal training, work readiness programmes, and cooperative training. It was also directed to fund research and capacity building in education institutions.

In a stark departure, the third National Skills Development Strategy, launched in 2011, provided much more detail about an envisaged role for the NSF as a 'catalytic fund'. It positioned the NSF to target skills gaps and address resource shortages for priority skills. As a result, since 2011 NSF funding has been used to expand the number of learners enrolled in technical and vocational training (TVET) programmes at colleges.

Most recently, the 2014 *White Paper for Post-School Education and Training* set the NSF on a somewhat different course, tasking it with building linkages within the skill systems and funding government strategies such as youth, small business, cooperative and rural development. It will also fund research and innovation across sectors.

A number of institutional factors undermine the efficiency and effectiveness of the NSF, such as:

- The skills development strategies set broad priorities that do not provide the NSF with sufficient guidance to decide which programmes and qualifications to fund. For instance, the National Skills Development Strategy III aims to increase access to occupationally directed programmes, but contains neither criteria on the occupations to be targeted nor a clear definition of a 'catalytic' project.
- The national department has been unable to supply the NSF with much of the information it needs to make targeted funding decisions.
- There has been little formal evaluation of the impact of the fund's work, and there are no plans for periodic evaluations of the NSF and its funding decisions.
- Because spending priorities are stated in broad and ambiguous language, the limits on spending set by the National Skills Authority are not effective in guiding and rationing spending. The authority does not monitor spending and it is not clear whether overspending incurs any consequences.
- A number of problems have been identified with the process of inviting and adjudicating funding proposals, which are submitted in large volumes but are of variable quality. In addition, without a system for benchmarking unit costs and outputs, evaluations can be arbitrary.
- Funding delays have negatively affected the performance of some institutions, particularly those that rely heavily on NSF funding.
- There is little or no post-training evaluation of the quality or impact of the NSF-funded projects.

A key challenge underlies all these institutional issues: the NSF lacks detailed guidance and criteria for deciding which projects to fund.

Notwithstanding these serious challenges, the NSF has made significant progress since 2010/11 and has implemented a number of reforms to improve its financial management. These include setting standard operating procedures for each stage of the funding process and collecting more performance information. Better financial management and control contributed to better financial performance (see Table 1).

Table 1: Total revenue and expenditure of the NSF, 2009/10 to 2012/13

(R million)	2009/10	2010/11	2011/12	2012/13
Total revenue	R1 996	R2 119	R 2 451	R 2 699
Skills Development Levy	*R1 612*	*R1 733*	*R2 013*	*R2 254*
Total expenditure	R559	R636	R1 388	R2 664
Disbursements to institutions through approved projects	*R476*	*R564*	*R1 305*	*R2 580*
Expenditure as % of revenue	28%	30%	57%	98%

However, despite these improvements, the NSF lacks systems for capturing detailed cost estimates provided by applicants, and is unable to compare the costs of programmes across institutions when adjudicating grant applications. Beneficiary management is another key challenge. The NSF fails to collect consistent information from service providers about the beneficiaries of its training programmes, including their names, field of study, modules taken, National Qualifications Framework (NQF) levels, notional hours, pass rates and time taken to complete the course.

3 Expenditure and performance

Without clarity on its goals and priorities, amongst other factors, the NSF routinely underspent its budget before 2010/11. Considerable improvements in this regard are evident after 2010/11, with the fund spending almost all its income in 2012/13. Disbursements to education institutions for training, institutional capacity building and research account for the bulk of NSF spending. These increased from just over R475 million in 2009/10 to R2.6 billion in 2012/13, at an average annual rate of over 75%. Much of the increase was driven by a strategic decision to use NSF funds to expand training at TVET colleges and to increase access to the National Student Financial Aid Scheme (NSFAS). (The PER provides a full list of projects valued at more than R5 million.)

As part of its turnaround, the NSF chose to run down its reserves, which had accumulated to R7.7 billion by 2012/13, by committing funding to projects over the medium term. By the end of that year, R6.1 billion of the reserves had been committed, while the remainder, along with R3.7 billion of future income, had been earmarked for multi-year and recurring projects.

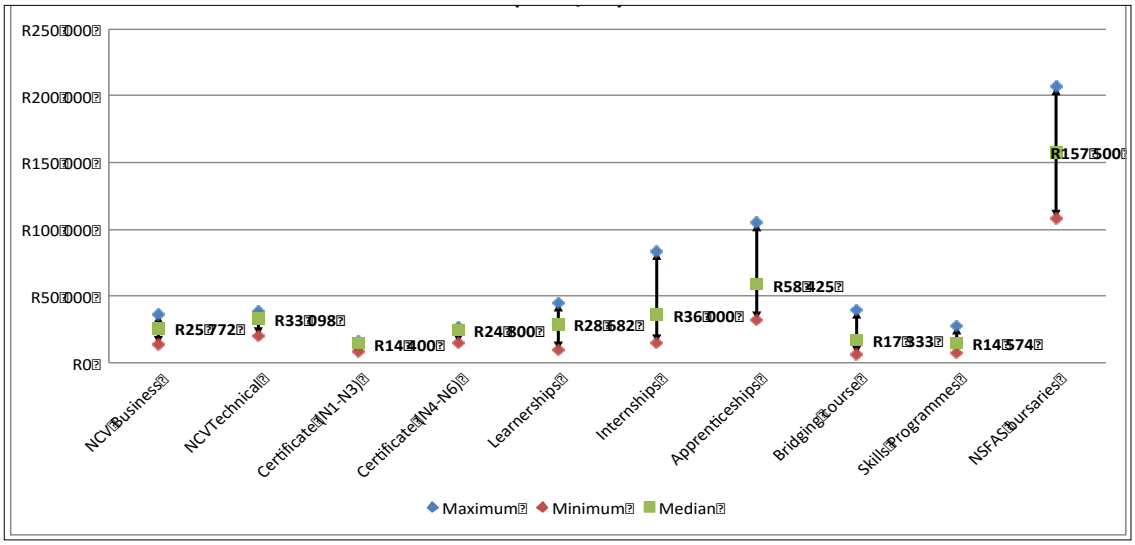
3.1 The allocation of spending by training type

Of the NSF's total expenditure on training in 2012/13, around 28% was used to finance graduate and post-graduate degree programmes through the NSFAS. About 43% was allocated to TVET, including spending on the National Certificate (Technikon), the National Certificate (Vocational), learnerships, apprenticeships and internships. About R470 million (18%) went to short skills programmes. As the NSF does not maintain a proper database, it is unclear whether the latter programmes were accredited by the South African Qualifications Authority.

3.2 Unit costs

The NSF funds programmes on the basis of open calls for proposals. However, since it offers few guidelines, proposals vary greatly in quality, as do proposed unit costs. Some of this variance relates to differences in the qualifications: the tuition costs of university degrees far exceed those of apprenticeships, internships and certificates. However, there are also considerable differences in the unit costs of training for apparently similar skills and qualifications (see Figure 2). For example, the most expensive learnership and bridging course cost up to six times as much as the cheapest, and more than twice as much as the median course. In the case of NSFAS bursaries, the most expensive (R207 000) cost almost twice as much as the cheapest (R108 000). Add variations in non-tuition costs per programme (e.g. administration, equipment costs and stipends) and the range of costs per learner widens even further.

Figure 2: Variations in the unit cost of tuition of NSF-funded programmes, 2012/13



Because of the poor standard of the submissions for funding, and in the absence of effective monitoring and evaluation, it is impossible to know whether and to what extent these differences in cost reflect justifiable differences in quality and/or in training methods.

3.3 The allocation of spending by funding priority

As noted, the National Skills Authority sets out a skills development strategy and a framework for the allocation of funds from the NSF. This framework defines certain categories of expenditure with limits on how much the NSF can devote to each. Table 2 shows that in 2012/13, almost half of the NSF's funding was earmarked for projects in line with National Skills Development Strategy III. The remainder was to be split between the director-general's priorities, skills infrastructure, ministerial priorities, and the priorities of the human resource development strategy. In practice, however, the allocation of funds from the reserves meant that over 95% of the funding went to the National Skills Development Strategy (mainly public TVET colleges) and the director-general's priorities.

While the NSF has improved its capacity to disburse funds, its key challenges now relate to improving the impact of its spending and ensuring that its disbursements are sustainable. The main concern is that nearly 70% of the NSF's disbursements have been used to fill gaps in the funding of TVET colleges (which received 41% of spending in 2012/13) and the NSFAS (27%). To the extent that the NSFAS and TVET colleges become dependent on NSF funds to supplement their budgets, this could compromise

the sustainability of their activities, since the NSF's reserves are now depleted. If, for example, TVET colleges have used this funding to develop new programmes or expand old ones, the reduction of this 'extra' funding will create new budget pressures.

Table 2: Actual grant expenditure by funding priority, 2012/13

Funding priority	Proportion envisaged by National Skills Authority	Actual spending
Human resource development strategy	**5**	**1**
Research		1
Ministerial priorities	**8**	**0.7**
NSA – Constituency Capacity Building		0.6
National Public Dialogue and Advocacy		0
National Skills Development Strategy III	**47**	**61.9**
New Growth Path		16.8
Industrial Policy Action Plan		2
Rural Development		3.4
Education and Health		0.5
Justice and Crime Prevention		6.8
Cooperatives Small Enterprises		6.1
Public Sector Capacity (TVET colleges)		26.4
Director-general priorities	**10**	**33.8**
DHET Projects		3.2
Worker Education		0.2
Skills System Capacity Building		0.5
Training Layoff		0.2
Academia, Research and Development		0.0
Bursaries (NSFAS)		29.6
Skills infrastructure	**10**	**2.7**
Community Education Centres		1.5
Public Delivery Infrastructure		1.2

4 Costing model

The PER developed a costing model that allows users to calculate how many beneficiaries the NSF might finance under various user-specified scenarios and at what cost. The model can test alternative allocations of NSF funds, allowing users to specify different mixes of training types, unit costs and forms of training aimed at different groups of potential students.

The modelling suggests that if the NSF continued to fund programmes in line with its current disbursement mix, the total cost of training the 120 000 new learners it aims to fund between 2014/15 and 2016/17 would be R8.3 billion, which is about the expected budget over that period. If, on the other hand, it were to focus on funding short bridging programmes and technical and vocational programmes for young people who are neither in employment nor training, it could finance programmes for over 500 000 learners.

Because the NSF previously had little data on the unit costs of training programmes at different institutions, this costing model provides a valuable new tool for the strategic management of NSF funds to effectively target skills development priorities.

5 Conclusion

The costing model highlights a number of critical issues for the NSF. The most important is the clear trade-off between funding short courses (which are the least expensive), vocational and technical training, and the university sector (the most expensive). Finding the right balance requires the NSF to assess the overall effectiveness of its disbursement mix and the impact of different qualifications on trainees' employment and income prospects. It needs to consider the pass rates of each training programme and the time it takes the typical student to complete a course, since these have a material bearing on the full costs of training to be procured, as do variations in the unit costs of training provided by different institutions.

The NSF plays an important role in financing education and training. Given the urgency and complexity of South Africa's skills-related challenges, the fund could enhance its role by promoting flexibility and adaptability in the post-school education and training sector. Doing this effectively would be challenging, and at the time of the PER, there were concerns about the ability of the NSF to manage an effective process for receiving funding applications, evaluating them, and allocating the funds. Since the PER's completion, however, the fund's grant-making processes have been overhauled, and significant progress has been made in improving effectiveness and efficiency.