Processes for Financing Public Basic Education in South Africa

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1 Introduction

This paper has been prepared for the International Budget Partnership (IBP) following discussions on questions that were put forward by Civil Society Organisations in the public basic education space about what budget and expenditure information is available on the public basic (school) education function in South Africa.

The answer to many of the questions seen to date is that the requested information is not available for one of the following reasons:

- the information is not reflected in the budget documents because the format of budget documents does not cater for it to be shown – they are either too aggregated or they are not structured to show the requested information;
- the information is not collected during the recording of expenditure transactions; or
- the question was asked with an incorrect understanding of how public education is funded in South Africa.

To understand fully what information is available and how to influence allocations to education, it is important to understand how education is funded, the process of funding it (the budget process) and what sources of expenditure information are available.

National and provincial government departments are required to prepare budgets following a prescribed budget template. The budget format ensures uniformity across departments, which is useful when analysing expenditure across provinces for the purposes of comparing expenditure on policy objectives. However, to ensure this uniformity is achieved in a meaningful way and also support functional budgeting and expenditure reporting, only so much information can be meaningfully presented in the published budget documents. Consequently, budget information is very useful, but often limited in its scope. It is designed to answer high-level questions regarding the funding of public education, and not necessarily the more detailed questions different parties may have. Expenditure information on public education (and government functions generally) is more detailed, but often not easily accessible, and may still not answer certain questions some parties may have. These issues are explored.

Influencing how much money is allocated in any budget is a difficult, involved process. This applies to education too. It requires a thorough understanding of the budget process, and persistence. In short, a long-term approach is required in which submissions, interventions and interactions are timed to match a very rigid budget process timetable, during which there are key moments when information needs to be fed into the process to make an impact. If one’s timing is out, then the opportunity to influence is lost for another year. Not only is timing crucial, it’s also crucial to know what to try to change, what information is most likely to get a hearing and who (which sphere of government) to lobby for particular changes.

Public basic education is funded from the provincial equitable share, provincial own revenues and national conditional grants to provinces. Conditional grants account for, in aggregate, less than five per cent of basic education budgets. The other 95 per cent comes from each provincial budget, and is funded by a combination of the provincial equitable share and provincial own revenues. These sources of funding are also described as discretionary funds because provinces have discretion over how these funds are allocated. During the provincial budget process, each province identifies their budget priorities and allocates their discretionary funds according to their chosen priorities.

In terms of the Constitution, provinces are fully responsible for compiling their budgets, and any direct interference by national government in the exercise of this responsibility would be unconstitutional. So, national government cannot dictate to provinces what they must budget for education. However, the Constitution does allow national government to prescribe national uniform service delivery norms and standards in national legislation. Provinces are required to fulfil these legislated service delivery obligations. However, national legislation invariably prescribes, or directs, how services must be provided
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and the quality of inputs used. Vary rarely (if ever) does national legislation prescribe “how much” a province must allocate to a particular function. This means that national government can only exercise indirect influence over provincial budget allocations. Thus, in the education sector service delivery norms and standards in national legislation are used to indirectly coerce provinces into budgeting certain amounts for education. As counterintuitive as this may sound, especially considering the importance of education, understanding this is central to influencing education expenditure. It means that the primary avenues for influencing budget allocations for public education are:

- directly, through the budget processes of each province (not the national government’s budget process);
- indirectly, through the development and enforcement of national service delivery norms and standards for public education (which cannot be so-called costed funding norms, i.e. norms that set an explicit monetary value);
- indirectly, through processes related to the division of nationally-collected revenue (which may give provinces a larger provincial equitable share that they may or may not allocate to education); and
- directly, through the creation and design of conditional grants within the national government budget process (though this is a relatively minor funding source for education).
2 Relevant legislation

This section provides an overview of the legislation relevant to the funding of the basic education function. The funding of education is grounded in the Constitution, as is National Treasury’s mandate to prescribe the formats of budgets and expenditure classifications that provinces must use. Then there is national legislation and regulations, and in some provinces there is also provincial legislation, that can influence budget and expenditure decisions relating to basic education.

2.1 Constitution

The right to education is protected in Section 29 of the Constitution:

> 29. Education.—(1) Everyone has the right—
>   
>   (a) to a basic education, including adult basic education; and
>   
>   (b) to further education, which the state, through reasonable measures, must make progressively available and accessible.
>   
> (2) Everyone has the right to receive education in the official language or languages of their choice in public educational institutions where that education is reasonably practicable. In order to ensure the effective access to, and implementation of, this right, the state must consider all reasonable educational alternatives, including single medium institutions, taking into account—
>   
>   (a) equity;
>   
>   (b) practicability; and
>   
>   (c) the need to redress the results of past racially discriminatory laws and practices.
>   
> (3) Everyone has the right to establish and maintain, at their own expense, independent educational institutions that—
>   
>   (a) do not discriminate on the basis of race;
>   
>   (b) are registered with the state; and
>   
>   (c) maintain standards that are not inferior to standards at comparable public educational institutions.
>   
> (4) Subsection (3) does not preclude state subsidies for independent educational institutions.

Importantly, there is no “progressive realisation” clause qualifying the right to basic education. This is significant. However, what it means for the actual practice of budgeting is still being explored, and there are a number of court cases where the issue has been raised. Suffice to say, the issue is complicated, involving discussions around the nature of resource limitations, the need to balance competing priorities, and government’s limited capacity to implement.

2.1.1 Concurrent functions and national norms and standards

The legislative authority of provinces is described in Section 104 of the Constitution:
Schedule 4 of the Constitution lists functional areas of concurrent national and provincial legislative competence. Basic education is a Schedule 4 function, which means that both national and provincial governments can pass legislation with respect to the function; however it is a function that is assigned to provinces to implement.

Section 146 of the Constitution deals with conflicts between provincial and national legislation.

146. Conflicts between national and provincial legislation.—(1) This section applies to a conflict between national legislation and provincial legislation falling within a functional area listed in Schedule 4.

(2) National legislation that applies uniformly with regard to the country as a whole prevails over provincial legislation if any of the following conditions is met:

(a) The national legislation deals with a matter that cannot be regulated effectively by legislation enacted by the respective provinces individually.

(b) The national legislation deals with a matter that, to be dealt with effectively, requires uniformity across the nation, and the national legislation provides that uniformity by establishing—
   (i) norms and standards;
   (ii) frameworks; or
   (iii) national policies.

(c) The national legislation is necessary for—
   (i) the maintenance of national security;
   (ii) the maintenance of economic unity;
   (iii) the protection of the common market in respect of the mobility of goods, services, capital and labour;
   (iv) the promotion of economic activities across provincial boundaries;
   (v) the promotion of equal opportunity or equal access to government services; or
   (vi) the protection of the environment.
The key issues to note are that national legislation prevails over provincial legislation when the matter concerned will be dealt with effectively through uniformity across the country and the national legislation establishes that uniformity through norms and standards, frameworks and national policies, and if the national legislation is necessary for the promotion of equal access to government services.

So, national legislation regarding education will only prevail over provincial legislation if the relevant conditions set out in section 146 are met, otherwise provincial legislation prevails. However, in practice, most provinces have chosen not to legislate in the education space, and even those that have, have not conflicted with the national legislation (as far as we were able to ascertain).

A second implication is that provinces have an obligation to fulfil executive obligations in terms of the Constitution or legislation, and that in terms of section 100 of the Constitution the national executive may intervene in a province to ensure fulfilment of that obligation. In other words, where national legislation prescribes norms and standards for the delivery of basic education, provinces are required to provide the budget and put in place the administrative arrangements necessary to comply with the norms and standards. Failure to do so may result in the national executive intervening in the province. This sounds relatively straightforward, but in practice the scope for national government intervention in the affairs of a province is constrained, and a range of factors need to be in place before an intervention may occur. Also, any interventions need to be managed within the context of the constitutional arrangements relating to co-operative governance.

2.1.2 Division of Revenue

Section 214 of the Constitution requires that each year there is a division of revenue raised nationally:

<table>
<thead>
<tr>
<th>214. Equitable shares and allocations of revenue.  ---(1) An Act of Parliament must provide for—</th>
</tr>
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<tbody>
<tr>
<td>(a) the equitable division of revenue raised nationally among the national, provincial and local spheres of government;</td>
</tr>
<tr>
<td>(b) the determination of each province’s equitable share of the provincial share of that revenue; and</td>
</tr>
<tr>
<td>(c) any other allocations to provinces, local government or municipalities from the national government’s share of that revenue, and any conditions on which those allocations may be made.</td>
</tr>
</tbody>
</table>

Section 214 (2) sets out the criteria that must be taken into account when Parliament effects this division of revenue:
Much has been written and debated about these sections. However, the following is important to note:

- Provinces receive an equitable share of nationally raised revenue – i.e. their slice of the national revenue cake. The size of that slice is dependent on (i) how big the overall cake is, i.e. the amount of total revenue raised nationally; and (ii) the division of the cake between the three spheres of government (the vertical division).
- The provincial equitable share does not have conditions attached to it, i.e. provinces may allocate their equitable share allocations as they see fit; only “other allocations” may have conditions.

Also, note that through the criteria listed in sections 214(2) (d), (e), and (i), the following are stressed:

- the need to ensure provinces can provide basic services and the functions allocated to them, i.e. the provincial equitable share needs to be sufficient to fund basic services. What this means in practice requires definition, but it is clearly not best practice or luxury services.
- the fiscal capacity and efficiency of provinces must be considered – this is especially important when considering the nature of the conditions applied to “other allocations” received.
- the Constitution envisages something in the form of a medium-term expenditure framework that promotes stable and predictable allocations.

The Act referred to in section 214 is the annual Division of Revenue Act, which is discussed below.

2.1.3 Budgets norms and standards

Section 215 of the Constitution requires that there is legislation that prescribes the structure or form of national, provincial and municipal budgets, as well as the budget process:
Section 216 requires there be legislation that prescribes expenditure classifications and treasury norms and standards:

216. **Treasury control.**—(1) National legislation must establish a national treasury and prescribe measures to ensure both transparency and expenditure control in each sphere of government, by introducing—

   (a) generally recognised accounting practice;
   
   (b) uniform expenditure classifications; and
   
   (c) uniform treasury norms and standards.

These two sections are of particular interest to this paper. These sections give National Treasury the authority to prescribe what information must be available in the budgets and how expenditure information must be recorded. They provide the basis for the budget programme structures and the expenditure classifications. These issues are explored in detail below.

### 2.2 The Annual Division of Revenue Act

As noted, section 214 of the Constitution requires that there be an Act of Parliament that provides for the division of revenue. The annual Division of Revenue Bill is tabled with the national budget every year. The Division of Revenue Bill should be passed before 1 April, when the fiscal year starts, but in recent years it has been passed during May.

The Division of Revenue Act is the piece of legislation that defines what each sphere of governments’ equitable share of the nationally collected revenue is. The Act has two main sections. The first section, which is the body of the Act, contains clauses that make the equitable share allocations and that are broadly applicable to most conditional grants or all conditional grants within a category of grants. The other section of the Act contains the conditional grant frameworks. The conditional grant frameworks provide specific details on each of the grants such as outcomes, outputs, conditions, reporting requirements, allocation criteria and so on. The frameworks have the same legal standing as the clauses in the body of the Act. In other words, the conditional grant frameworks are legislated.

In the Act, the equitable shares of the three spheres of government are determined in Schedules 1, 2 and 3, as follows:

- **Schedule 1** - Equitable division of revenue raised nationally among the three spheres of government
- **Schedule 2** - Determination of each province’s equitable share of the provincial sphere’s share of revenue raised nationally (as a direct charge against the National Revenue Fund)
- **Schedule 3** - Determination of each municipality’s equitable share of the local government sphere’s share of revenue raised nationally
Conditional grants are set out in different schedules to the Act. These schedules change from time to time, but not frequently. In the Division of Revenue Act of 2016 there are four schedules that provide for the following types of conditional allocations to provinces:

- **Schedule 4 - allocations to provinces to supplement the funding of programmes or functions funded from provincial budgets** - provinces are required to use these grants in specific budget programmes. Expenditure of the grant is not reported explicitly (or separately), but as part of normal expenditure reporting on the implementation of the budget. This is relevant to this paper as the Education Infrastructure Grant is a Schedule 4 grant.

- **Schedule 5 - specific purpose allocations to provinces** – these grants fund specific projects and the transfer of the funds is dependent on projects meeting specific criteria and also the proper implementation of those projects. Provinces report explicitly on the expenditure of these grants.

- **Schedule 6 - allocations-in-kind to provinces for designated special programmes** – these are less common than the above two types of grants. The funds are spent on behalf of the province by the national department. The Schools Backlogs Infrastructure Grant was initially an in-kind grant as the Department of Basic Education received the money to spend on behalf of provinces.

- **Schedule 7 - Allocations to provinces for immediate disaster response** – these are funds that are not allocated to specific provinces, but that may be released to provinces to fund an immediate response to a disaster. They can be used to respond to disasters in any sector, including education; for instance, when school buildings are damaged during storms or floods.

Provincial conditional grants are in Part A of each schedule, and local government conditional grants are in Part B of each schedule.

### 2.3 Money Bills Amendment Procedure and Related Matters Act

Section 77(3) of the Constitution provides that an Act of Parliament must provide for a procedure to amend money bills before Parliament. Money bills include the national budget and revenue raising bills. Similarly, section 120(3) of the Constitution provides that a provincial Act must provide for a procedure by which the province’s legislature may amend a money bill.

The Money Bills Amendment Procedure and Related Matters Act was passed in 2009, and applies to national government. It is a relatively young Act, and the processes and procedures it puts in place are still maturing. The Act puts in place a three-stage process for Parliament to interact with the budget process, and ultimately amend the budget, as follows:

1. Sector committees review the performance of national departments and make recommendations on the forward use of funds in “Budgetary Review and Recommendations Reports” that must be tabled before the tabling of the Medium Term Budget Policy Statement (MTBPS) by the Minister of Finance in October.

2. Parliament is given seven weeks to recommend amendments to the MTBPS – this is prior to the tabling of the budget by the Minister of Finance in February each year.

3. The Minister of Finance tables the government’s budget, fiscal framework, division of revenue bill, appropriation and revenue bills in mid-February. Parliament can amend these items in three successive stages:
   a. 16 working days (three to four weeks) is allocated to the amendment and adoption of a fiscal framework;
   b. a subsequent 33 days (or seven weeks) is allocated to enable amendment of the division of revenue bill, working within the fiscal framework approved in accordance with the process in “a”;
   c. a further 12 days (or three weeks) is provided for any amendments of the Appropriation and Revenue Bills, working within the fiscal framework and division of revenue approved in accordance with the processes in “a” and “b” above.
From the point of view of influencing the division of revenue and the national budget, steps 1 and 2 are important as they provide substantive opportunities for Parliament to provide input into the division of revenue and budget processes. Individuals and organisations might seek to leverage these opportunities by providing input to the relevant sector committees, which they can take forward as recommendations to the Minister of Finance. When it comes to influencing allocations for basic education, this would be the time to make inputs regarding the division of revenue and conditional grants.

Once the budget is tabled in February, the process becomes very frenetic and the likelihood of being able to make substantive changes to either the division of revenue or national budget at this late stage is minimal.

As already noted, the budgets for basic education are determined in the respective provincial budgets. So to influence these allocations, individuals and organisations would need to provide input into the respective provincial budget processes, working through the respective provincial legislatures.

### 2.4 Legislation on basic education

#### 2.4.1 The South African Schools Act

Chapter 4 of the South Africa Schools Act (84 of 1996) deals with Funding of Public Schools. It places responsibility on the State to fund schools from public revenue on an equitable basis. The Act refers to the Norms and Standards for School Funding (section 35) which, subject to both the Constitution and the Act, must deal with:

- the Public Funding of public schools in terms of section 35 of the Act
- the exemption of parents who are unable to pay school fees in terms of section 39(4) of the Act
- public subsidies to independent schools in terms of section 48(1) of the Act

The National Norms and Standards for School Funding (NNSSF) were most recently revised in 2011. The NNSSF set out the regulations of how individual schools must be funded. It deals with the procedures to be adopted by the provincial education departments in determining resource allocations to schools falling under their jurisdiction.

Chapter 4 of the Act also outlines the institutional arrangements for funding public and private schools, and deals with the responsibilities of School Governing Bodies (SGBs). This outlines the requirement of SGBs to supplement the resources supplied by the state.

Section 37 outlines the requirements for the management of funds and assets belonging to the school. Schools are required to have a fund, and that all proceeds thereof are to be used specifically for the school. Section 38 requires Annual Budgets of public schools to be prepared according to the prescriptions of the Executive Council in a Provincial Gazette. This section also deals with the prohibition of payment of unauthorised remuneration, and outlines the guiding requirements for school budgeting.

Section 39 and 40 deal with school fees, and the parental responsibility for these fees, while section 41 outlines the process of enforcement of payment of fees. This section includes the consideration of the regulations around the exemption of payment of fees.

Section 42 requires the governing body of a public school to:

- keep records of funds received and spent by the public school, and of its assets, liabilities and financial transactions; and

---

1 NNSSF (2011) Section 3
• as soon as practicable, but not later than three months after the end of each financial year, draw up financial statements in accordance with the guidelines determined by the Member of the Executive Council.

Chapter 5 deals with subsidies to independent schools, as follows:

• the Minister may, by notice in the Government Gazette, determine norms and standards for the granting of subsidies to independent schools after consultation with the Council of Education Ministers and the Financial and Fiscal Commission and with the concurrence of the Minister of Finance.
• the Member of the Executive Council may, out of funds appropriated by the provincial legislature for that purpose, grant a subsidy to an independent school.
• if a condition subject to which a subsidy was granted has not been complied with, the Head of Department may terminate or reduce the subsidy from a date determined by him or her.

Section 4 of the NNSSF (2011) provides that the funding policy relating to learners with special educational needs will be prepared in accordance with Education White Paper 6: Special Needs Education.

2.4.2 Regulations in terms of the South African Schools Act

2.4.2.1 Norms and Standards for School Funding (Government Gazette No. 34290; 13 May 2011)

The Norms and Standards for School Funding, as outlined above, deal with the funding of public schools. This document is understood in conjunction with an annually published list of no-fee schools, and these norms and standards outline the regulations pertaining to fee charging and no-fee schools.

2.4.2.2 The annual publication of the list of no-fee schools by province

The list of no-fee schools per province is published annually on the DBE and provincial government websites. This information is available here:


2.4.2.3 Exemption of parents from payment of school fees in public schools

This is a set of regulations and instructions on how parents may apply for exemption from the payment of fees where children are enrolled in fee-paying schools but the affordability of parents falls below a threshold relative to the fees of that specific school (as determined by the SGB).

2.4.2.4 Norms and Standards for School Infrastructure

The Norms and Standards for School Infrastructure are referred to in the South Africa Schools Act, in Chapter 2: Learners, section 5A. In this section of the Act, provision is made for the formulation of Uniform Minimum Norms and Standards for School Infrastructure. These Norms and Standards however, were not confirmed until 2013. The objective of these Norms and Standards are as follows:

• to provide minimum uniform norms and standards for public school infrastructure;
• to ensure that there is compliance with the minimum uniform norms and standards in the design and construction of new schools, and that additions, alterations and improvements to schools that exist when these regulations are published; and
• to provide for timetables within which school infrastructure backlogs must be eradicated.
The structure of these regulations tie in with the budget structure for school infrastructure as defined at the time of publication, and expenditure categories are also linked in the planning of the infrastructure grants: Schools Backlogs Infrastructure Grant and the Education Infrastructure Grant.

2.4.3 Employment of Educators Act

The Employment of Educators Act (No. 76 of 1998) serves to provide for the employment of educators by the State, for the regulation of conditions of service, discipline, retirement and discharge of educators. Chapter 2 of this Act deals with the salaries and other conditions of service of educators. It confers responsibility for the definition of the salaries and other conditions of service to the Minister of Basic Education, subject to the Labour Relations Act or any agreement concluded by the Education Labour Relations Council. Such agreements must be reached with the concurrence of the Minister of Finance.

This Act includes regulations on the South African Council for Educators and the funding of this council. This should be understood in conjunction with the South Africa Council for Educators Act, 2000 (Act No. 31 of 2000). This Act does not deal directly with any financial flows, but rather with the regulations around the duties and governance of the council and the processes for registration of educators.

2.4.4 Provincial legislation on basic education

Some provinces have passed provincial acts in relation to basic education, and certain of these provinces have also issued regulations. Following is a list of the provincial acts and regulations:

Eastern Cape:
- The Eastern Cape Schools Education Act, 1999 (Act No. 1 of 1999)

Free State:
- Free State Schools Education Act No. 2 of 2000;
- Regulations for financial records of Public Schools, Provincial Notice 154 of 2001
- Regulations for the examination, irregularities and the Examination Board, Provincial Notice 155 of 2001;

Gauteng:
- Gauteng Schools Education Act, 1995 (Act No. 6 of 1995), as amended;
- Admission Policy for Ordinary Public Schools (General Notice 2432 of 1998);
- Regulations and Rules for Governing Bodies of Public Schools, 1997, as amended;

KwaZulu-Natal - none

Limpopo - none

Mpumalanga - none

Northern Cape - none

North West
- North West Sport and Educational Aid Trust Act, 1986 (as amended)

Western Cape
- The Western Cape Provincial School Education Act, 1997 (Act No. 12 of 1997)
• The Determination of the Functions and Procedures for the Establishment and Election of Representative Councils of Learners at public schools, Provincial Gazette Extraordinary No. 7317, dated 13 October 2014.
• Regulations on the Duties of Attendance Officers, Provincial Gazette Extraordinary No. 7205 of 2013, dated 2 December 2013.
• Regulations relating to the Declaration of Personal Interest of Members of Governing Bodies in the Procurement of Goods and Services, Provincial Gazette Extraordinary No. 7197 of 2013, dated 18 November 2013
3 The Budget Process

Technically, budgets for education are the result of three processes: the division of revenue process, the national budget process and provincial budget processes.

Practically, the division of revenue process is not separable from the national budget process. Each province runs their own provincial budget process, which starts with the national budget process and is dependent on the outcomes of both the division of revenue and national budget processes.

These three budget processes consist of a series of interactions between national and provincial sector departments, national and provincial treasuries and role-players such as the Fiscal and Financial Commission, inputs from Parliament and provincial legislatures and meetings of various committees concerned with the formulation of the division of revenue and national and provincial budgets. The three processes run parallel, and there are linkages between them at key decision-making moments. The overall budget process is very complicated and runs to a very tight timetable each year. The following discussion seeks to highlight key information regarding the budget process – it is not a comprehensive description of the process.

3.1 The division of revenue process

The annual Division of Revenue Act is the end product of the national budget process, of which the division of revenue process is an important part. Figure 1 on the following page provides an overview of the process, reflecting how it feeds into the determination of provincial budgets.

Figure 1: The Division of Revenue Process

The figure should be read from the top left through to the right. Throughout the year, national government (primarily SARS) collects a range of taxes and other revenues. During the budget process, National Treasury makes forecasts of expected revenue collections over the medium term. Based on these forecasts, government estimates its total revenue that can be allocated and debt that needs to be raised.
The amount of debt that needs to be raised will be informed by government’s fiscal policy stance, plans and commitments over the medium term. Throughout the budget process, these totals will be reviewed and revised. However, the combination of revenues and borrowings is the total amount of money that national government has available to allocate through the division of revenue process.

Through the division of revenue process, the total budget available is divided into the national, provincial and local government equitable shares. Conditional grants to provinces are included in the national equitable share, as these are transferred by the national department responsible for the grant. During this process, the need for existing conditional grants will be reviewed and new conditional grants will be considered. Proposals for new grants will be discussed by various committees before they are formally adopted. Technically, the proposal for a grant should come from the relevant national line department, but they also often emerge as a result of recommendations from National Treasury to national departments.

The division of revenues between the three spheres of government (the vertical division) is predominantly politically driven and reflective of government’s policy priorities. The issues taken into account in this process are set out in Part 1 of Annexure W1: The explanatory memorandum to the Division of Revenue, which is published with the Annual Budget and the Division of Revenue Act. Once the total amounts for the provincial equitable share and the conditional grants are approved, the process of determining each province’s share is carried out. This is a technocratic process. The provincial equitable share is divided between the provinces using a formula, discussed below. Conditional grants are divided according to allocation criteria that are specific to that grant.

There are a number of steps in the process that lead to provinces being aware of their equitable share and conditional grant allocations and then receiving them. Provinces start their budget process during the division of revenue process so that the two processes run concurrently. Provinces receive their provincial equitable share, conditional grants and also raise a small amount of own revenues (the small blocks in figure one above). These resources combined are the total provincial revenues. While conditional grants can only be allocated to specific programmes or projects, the rest of provincial revenues are discretionary within the constraints imposed by national legislation and the associated norms and standards. Therefore, these discretionary funds are allocated according to provincial priorities that are reflected in the provincial budget.

Figure 2 below shows the provincial shares of the division of revenue.

**Figure 2: Provincial Shares of the Division of Revenue**

![Figure 2](image)

The left-hand graph shows the split of the Division of Revenue between the three spheres government. The right-hand graph shows the provincial equitable share and the provincial conditional grants as a percent of total allocations to provinces.
Note that these proportions have remained stable over the period of analysis, and that the provincial equitable share, the portion of funds provinces have discretion over, accounts for more than 80 per cent of the transfers they receive. It bears repeating: national government cannot dictate to provinces how this money must be allocated in their own budgets. National government can only influence how provinces allocate funds in their budgets through service norms and standards in national legislation.

3.1.1 Division of the provincial equitable share

From Figure 2 above we can see that in 2016/17 just over 81 per cent of transfers from national government to provinces goes through the provincial equitable share. Part 4 of Annexure W1: The explanatory memorandum to the Division of Revenue explains the formula and criteria for the division of the provincial equitable share and conditional grants among provinces. This document provides a thorough and comprehensive explanation of the policy and technical decisions that affect the allocation of the provincial equitable share and the conditional grants.

The 2016 Annexure W1 states: The equitable share is the main source of revenue for meeting provincial expenditure responsibilities. To ensure that allocations are fair, the equitable share is allocated through a formula using objective data on the context and demand for services in each of the nine provinces.

The provincial equitable share formula is reviewed and updated on an annual basis with the most recently relevant data available. Some data, however, is not updated annually. The following data is updated annually:

- mid-year population estimates published by Statistics South Africa
- Department of Basic Education’s preliminary data on school enrolment
- data from the health sector and the Risk Equalisation Fund
- Statistics South Africa regional Gross Domestic Product data, which is backdated two years.

The 2010/11 Income and Expenditure Survey is the most recent official survey of income and expenditure levels in South Africa, and data from that survey has been used since the release of those results. Information on the school-going-age population is updated after every Census.

As per Annexure W1: The provincial equitable share formula consists of six components that capture the relative demand for services between provinces and take into account specific provincial circumstances. The formula's components are neither indicative budgets nor guidelines as to how much should be spent on functions in each province or by provinces collectively. Rather, the education and health components are weighted broadly in line with historical expenditure patterns to indicate relative need. Provincial executive councils have discretion regarding the determination of departmental allocations for each function, taking into account the priorities that underpin the division of revenue.

The six components of the provincial equitable share formula are as follows:

- An education component (48 per cent), based on the size of the school-age population (ages 5 to 17) and the number of learners (Grades R to 12) enrolled in public ordinary schools.
- A health component (27 per cent), based on each province’s risk profile and health system case load.
- A basic component (16 per cent), derived from each province’s share of the national population.
- An institutional component (5 per cent), divided equally between the provinces.
- A poverty component (3 per cent), based on income data. This component reinforces the redistributive bias of the formula.
- An economic output component (1 per cent), based on regional gross domestic product (GDP-R, measured by Statistics South Africa).
The relative shares of the components do not change from year to year, although through agreement of the Budget Council and Cabinet they could be changed. The formula in its current form has not changed since it was reviewed in 2011.

What follows is a description of the maths behind each component and then a discussion of the logic underpinning the structure of the different components.

First, the maths. Figure 3 on the following page is a simple graphical illustration of the calculations of the provincial equitable share formula. On the face of it, the formula appears complicated, but it is quite simple.

**Figure 3: How Provincial Equitable Shares are Calculated**

The formula divides the provincial equitable share up between provinces based on information in the six components. Logically the process is as follows: 48 per cent goes into the education component and it is divided up using school enrolment and school-going-age population data to work out each province’s share of the education component. Similarly, 27 per cent goes into the health component and it is divided up based on each province’s risk profile and health system case load data, which gives each provinces’ share of the health component. And the equivalent process is repeated for all the other components. The amounts from each component are added together to calculate one figure for each province, which is their equitable share.

In the provincial equitable share model, per cent values for each component for each province are calculated using the above formula and then these are weighted using the proportion each component is of the total provincial equitable share to arrive at a single per cent value per province. This is illustrated in Table 1, which is taken from Annexure W1.
Table 1: Table W1.11 from Annexure W1

<table>
<thead>
<tr>
<th>Province</th>
<th>Education</th>
<th>Health</th>
<th>Basic share</th>
<th>Poverty</th>
<th>Economic activity</th>
<th>Institutional</th>
<th>Weighted average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eastern Cape</td>
<td>15.1%</td>
<td>13.5%</td>
<td>12.6%</td>
<td>16.2%</td>
<td>7.7%</td>
<td>11.1%</td>
<td>48.0%</td>
</tr>
<tr>
<td>Free State</td>
<td>5.3%</td>
<td>5.3%</td>
<td>5.1%</td>
<td>5.3%</td>
<td>5.1%</td>
<td>11.1%</td>
<td>27.0%</td>
</tr>
<tr>
<td>Gauteng</td>
<td>17.8%</td>
<td>21.7%</td>
<td>24.0%</td>
<td>17.2%</td>
<td>33.8%</td>
<td>11.1%</td>
<td>16.2%</td>
</tr>
<tr>
<td>Kwazulu-Natal</td>
<td>22.4%</td>
<td>21.8%</td>
<td>19.9%</td>
<td>22.3%</td>
<td>16.0%</td>
<td>11.1%</td>
<td>24.0%</td>
</tr>
<tr>
<td>Limpopo</td>
<td>13.1%</td>
<td>10.3%</td>
<td>10.4%</td>
<td>13.6%</td>
<td>7.3%</td>
<td>11.1%</td>
<td>13.1%</td>
</tr>
<tr>
<td>Mpumalanga</td>
<td>8.5%</td>
<td>7.4%</td>
<td>7.8%</td>
<td>9.1%</td>
<td>7.6%</td>
<td>11.1%</td>
<td>8.5%</td>
</tr>
<tr>
<td>Northern Cape</td>
<td>2.3%</td>
<td>2.1%</td>
<td>2.2%</td>
<td>2.2%</td>
<td>2.0%</td>
<td>11.1%</td>
<td>2.3%</td>
</tr>
<tr>
<td>North West</td>
<td>6.5%</td>
<td>6.7%</td>
<td>6.7%</td>
<td>8.0%</td>
<td>6.8%</td>
<td>11.1%</td>
<td>6.5%</td>
</tr>
<tr>
<td>Western Cape</td>
<td>9.0%</td>
<td>11.1%</td>
<td>11.3%</td>
<td>6.1%</td>
<td>13.7%</td>
<td>11.1%</td>
<td>9.0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

Source: National Treasury

This shows the final weightings of the provincial equitable share. The per cent value in the right-hand column, “Weighted Average”, is used to estimate each province’s share of the total provincial equitable share – i.e. one per cent value per province that is used to calculate one amount per province.

Provinces are not advised what the Rand value of each component is. Schedule 2 of the annual Division of Revenue Act only indicates a single amount for each province, and through their prioritisation and budgeting processes they must allocate this amount across competing priorities. It is no more prescriptive than that. The education and health components are not education and health funding formulae. There is no component for social development, yet provinces allocate significant funding to that sector. The same argument can be applied to provincial agriculture and each and every other provincial function. All are funded from the provincial equitable share.

3.1.2 The logic of the provincial equitable share formula

The equitable share formula needs to be viewed holistically as a mechanism that divides the provincial equitable share for funding the whole basket of provincial services/functions. The most efficient and cost-effective way to deliver that basket of services depends on the circumstances in each province – and these circumstances differ by province. The best combination of each service in the basket depends on the circumstances. In one province, giving priority to preventative health will have a tremendous impact on education outcomes, whereas in another province spending more on education may reduce the need for preventative health expenditure. There are many possible other interactions between the services that provinces are responsible for. The provincial equitable share gives provinces the discretion to decide how best to combine these various services for maximum public benefit. This is a crucial part of allowing provinces to exercise democracy.

The six components of the formula combine to create desirable incentives.

The education component uses the size of the school-age population (ages 5 to 17) and the number of learners (Grades R to 12) enrolled in public ordinary schools. These two variables are weighted equally. The combination of these variables creates a financial incentive for provinces to not keep learners older than 18 years in school, and also compensates provinces that have a greater percentage of learners attending public schools as opposed to private schools. The education component only uses data about children in school and children of school-going age. This means that there is no disadvantage, or advantage, for provinces that have disproportionately large or small school-going age populations.

The health component combines risk-adjusted capitation data with data on the demand for health services. The risk-adjusted capitation data weights the population according to their health risk profile.
Provinces with populations that consist of higher risk categories of people – mainly age-related – get higher weights. This is balanced with the demand for services in the province in proportion to demand for services in the rest of the country. The risk-adjusted sub-component is weighted 75 per cent of the health component, which ensures provinces with higher risk populations are compensated accordingly. Provinces with high levels of demand on their services are likewise compensated for that. Note that as 75 per cent of this component is based on the population profile and only 25 per cent on actual demand for services, provinces have an incentive to invest in preventative health interventions that lower the demand for services and therefore reduce the need for expenditure in health.

The basic component ensures provinces are compensated if there is migration into the province, as a growing population places additional burdens on provincial services. The institutional component recognizes that there is a range of costs associated with the running of a province that is not affected by the size of the population. Therefore provinces with small populations benefit from this component as the allocation per person is larger. The poverty component recognizes that provinces with large poor populations will face increased service delivery burdens for certain services. Finally, the economic component provides provinces with an incentive to manage factors that will promote economic activity in their province. At one per cent of the provincial equitable share, this is reflective of the direct impact the responsibilities assigned to provinces have on economic activity.

It is worth repeating that the provincial equitable share formula recognises the basket of services and the variety of conditions under which these services are provided in South Africa. It is also worth repeating that the size of the health and education components are not indicative of the relative size budgets in these sectors should be, nor are the education or health components education or health funding formulae.

The provincial equitable share formula needs to be seen, in its entirety, simply as a mechanism for determining each provinces’ share of the provincial equitable share in a manner that is objective, transparent and fair. The fact that the provincial equitable share is an unconditional transfer to provinces enables them to take democratic accountability for how they prioritise resources across the functions assigned to them. One of the great strengths of the formula is that it is simple, but being simple means it does not account for all the nuances many people would like to see incorporated into it. However, complicating the formula with additional variables will make it less transparent and only shift some funds between provinces at the very margin. A cynical view is that the formula is equitable because all provinces are equitably unhappy with it. Gauteng argues that the formula does not recognise the additional costs of providing infrastructure in a metropolitan context, while Northern Cape argues that the formula does not recognise the additional costs of servicing remote settlements, and KwaZulu-Natal argues that it does not recognise that providing services in very hilly regions costs more.

### 3.1.3 Conditional grants

In principle, conditional grants should have limited lifespans as all provincial functions should be funded through the provincial equitable share. Conditional grants limit provincial discretion in their budgeting and resource allocation process, and thereby interfere with the democratic choices of provinces.

As mentioned, conditional grants typically emerge during the budget process at the request of a national department, or are suggested by National Treasury. The national department responsible for a conditional grant is responsible for managing the allocation and disbursement of the grant. During the division of revenue process, the national department and National Treasury discuss the conditional grants and agree on the structure of each grant, conditions, reporting requirements and so on. There is a standard format for conditional grants, and there is a limited range of requirements that national departments can impose on provinces, plus a set of reporting requirements that must be imposed. National Treasury and the national departments work together to ensure the desired policy objectives of the conditional grant can be achieved while also ensuring adherence to budgeting rules and norms.
At the provincial level, conditional grants are part and parcel of the funding envelope and included in their budgets as are other sources of income. However, conditional grants have to be spent in the sector designated by the conditions of the grant.

There are two issues regarding conditional grants that must be noted. First, when a province receives a new conditional grant, national government has no means of forcing provinces to maintain historical levels of expenditure on that specific function. This is explained as follows. Assume Northern Cape spends R100 million of their equitable share on textbooks. National government feels that provinces should prioritise textbooks and introduces a conditional grant for textbooks. Let’s assume Northern Cape receives R50 million through the new conditional grant, which they have to allocate to textbooks. Northern Cape may choose to increase their expenditure on textbooks to R150 million, but they could also leave it at R100 million. Of that R100 million, therefore, R50 million comes from the equitable share and R50 million from the conditional grant. The conditional grant has effectively allowed the province to move R50 million of the provincial equitable share to other areas of expenditure. Also, national government cannot stop the province from reducing expenditure on textbooks to only what they get through the grant i.e. to just R50 million. This practice of removing equitable share funding from the budget of a programme that receives a conditional grant allocation is fairly common practice, and is sometimes referred to as “hollowing out” the budget.

Second, the money for conditional grants needs to come from somewhere. Funding for a new conditional grant comes at the expense of funding something else. Or a conditional grant simply involves shifting funding from the provincial equitable share into a grant, which imposes additional budgeting and reporting requirements on the province. This means that the provincial equitable share is reduced by the amount of the conditional grant. So, in other words, the net revenue position of the province remains the same, but its discretion over allocating the funds is reduced and its reporting and budgeting requirements are increased.

The default position with respect to conditional grants is that they should be temporary and that the funding should eventually be phased into the provincial equitable share. This is the position even though there are many conditional grants that have been around for some time.

Generally, conditional grants can be motivated on the following grounds:

- **To ensure that funding for new policies and/or priorities is allocated to the issues** – government often introduces new policies that should be funded, but that may not have historically received funding from provinces. Conditional grants can be used to ensure funding is set aside by provinces for such issues. This may include shifting functions from another sphere of government to provinces.

- **To ensure specific priorities are funded** – there are certain priorities that government sees as so crucial that it feels it necessary to protect funding for the priority through a conditional grant. In principle, there should be no need for such conditional grants as norms and standards should be used to ensure provinces allocate funding to important issues. In education, the infrastructure related grants and the National Schools Nutrition Programme are examples of grants introduced for this reason.

- **To address inequalities and unequal distribution effects that cannot be addressed through the equitable share formula** – in some sectors it is more cost effective to not have equitable distribution of services across the whole country and rather compensate some provinces that provide services to populations from other provinces. A good example of this is tertiary hospitals. Given the structure and cost of tertiary hospitals, it is not necessary, or beneficial, to have tertiary hospitals in all provinces, but rather have fewer very good tertiary hospitals and ensure that the provinces where they are located are funded so that they can provide quality services to the populations of other provinces.

- **To deal with transitional issues** – conditional grants are an effective mechanism for ensuring that short term funding issues can be addressed. In government there is often a shift of function
between spheres of government. Conditional grants are used to separate this funding from provincial budgets before the function and the budget is transferred to another sphere. The FET Colleges grant, which no longer exists, was introduced specifically for this purpose.

Table 2 shows the conditional grants for education to provinces that are part of the 2016 medium-term expenditure framework.

<p>| Table 2: Education Conditional Grants to Provinces |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|</p>
<table>
<thead>
<tr>
<th></th>
<th>2015/16</th>
<th>2016/17</th>
<th>2017/18</th>
<th>2018/19</th>
<th>MTEF total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Education</td>
<td>15,632</td>
<td>16,213</td>
<td>19,717</td>
<td>20,851</td>
<td>56,781</td>
</tr>
<tr>
<td>Education infrastructure</td>
<td>9,354</td>
<td>9,614</td>
<td>12,780</td>
<td>13,512</td>
<td>35,906</td>
</tr>
<tr>
<td>HIV and AIDS (life skills education)</td>
<td>209</td>
<td>231</td>
<td>245</td>
<td>260</td>
<td>736</td>
</tr>
<tr>
<td>Maths, science and technology</td>
<td>317</td>
<td>362</td>
<td>385</td>
<td>407</td>
<td>1,155</td>
</tr>
<tr>
<td>National school nutrition programme</td>
<td>5,685</td>
<td>6,006</td>
<td>6,306</td>
<td>6,672</td>
<td>18,984</td>
</tr>
<tr>
<td>Occupational-specific dispensation for education sector therapists</td>
<td>66</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Indirect transfers</td>
<td>2,047</td>
<td>2,375</td>
<td>–</td>
<td>–</td>
<td>2374.867</td>
</tr>
<tr>
<td>Basic Education</td>
<td>2,047</td>
<td>2,375</td>
<td>–</td>
<td>–</td>
<td>2,375</td>
</tr>
<tr>
<td>School infrastructure backlogs</td>
<td>2,047</td>
<td>2,375</td>
<td>–</td>
<td>–</td>
<td>2,375</td>
</tr>
</tbody>
</table>

Source: National Treasury

Note that some grants are introduced and then phased out. The Occupational-specific dispensation for educator sector therapists ended in 2015/16. The School infrastructure backlogs grant ends in 2016/17 when those funds will be shifted into the Education infrastructure grant. In 2016/17 the grant is an in-kind grant that is managed by the national department, but from 2017/18 the funds will go directly to the provinces.

Annexure W1 explains any updates or changes made to conditional grants that will be introduced with the budget. The following is copied from the 2016 Annexure W1:

**Basic education grants**

Provinces use the education infrastructure grant to construct, maintain and refurbish education infrastructure and schools. The baseline reduction on this grant in 2016/17 is R160 million. The reduction to the baseline over the MTEF amounts to R520 million. The grant totals R35.9 billion over the MTEF period, which includes a ring-fenced amount of R112.9 million in 2016/17 to repair school infrastructure damaged by natural disasters.

The school infrastructure backlogs grant is an indirect grant to provinces that was introduced in 2011 as a temporary, high-impact grant. The Department of Basic Education uses this grant to build and upgrade schools on behalf of provinces to address inappropriate structures and access to basic services. To address the grant’s disappointing performance, it will be merged with the education infrastructure grant from 2017/18. However, the baseline allocation under this grant will remain unallocated in 2017/18 and 2018/19, subject to a review of pipeline projects in 2016. In 2016/17, the last year of its current form, the grant is allocated R2.4 billion. The baseline of the education infrastructure grant is R9.6 billion in 2016/17, R12.8 billion in 2017/18 and R13.5 billion in 2018/19. Over the MTEF period, R3.6 billion in 2017/18 and R3.8 billion in 2018/19 will remain unallocated.

Infrastructure grant reforms to improve planning were introduced in 2013 after a decade of provincial capacity building through the Infrastructure Delivery Improvement Programme. Under the requirements introduced in the 2013 Division of Revenue Act, provincial education departments had to go through a two-year planning process to be eligible to receive incentive allocations in 2016/17. The departments had to meet certain prerequisites in 2014/15 and have...
their infrastructure plans approved in 2015/16. The Department of Basic Education and the National Treasury assessed the provinces’ infrastructure plans. A moderation process was undertaken between the national department, provincial treasuries and provincial departments of basic education to agree on the final scores. From 2015/16, provinces needed to obtain a minimum score of 60 per cent to qualify for the incentive. Table W1.20 shows the final score and incentive allocation for each province.

Table W1.20 Education infrastructure grant allocations

<table>
<thead>
<tr>
<th>R thousand</th>
<th>Planning assessment results from 2015</th>
<th>2016/17</th>
<th>Final allocation for 2016/17</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Basic component</td>
<td>Incentive component</td>
</tr>
<tr>
<td>Eastern Cape</td>
<td>62%</td>
<td>1,443,538</td>
<td>–</td>
</tr>
<tr>
<td>Free State</td>
<td>54%</td>
<td>695,122</td>
<td>–</td>
</tr>
<tr>
<td>Gauteng</td>
<td>64%</td>
<td>1,252,428</td>
<td>133,309</td>
</tr>
<tr>
<td>Kwazulu-Natal</td>
<td>64%</td>
<td>1,825,012</td>
<td>133,309</td>
</tr>
<tr>
<td>Limpopo</td>
<td>46%</td>
<td>830,532</td>
<td>–</td>
</tr>
<tr>
<td>Mpumalanga</td>
<td>27%</td>
<td>788,153</td>
<td>–</td>
</tr>
<tr>
<td>Northern Cape</td>
<td>69%</td>
<td>353,229</td>
<td>133,309</td>
</tr>
<tr>
<td>North West</td>
<td>60%</td>
<td>787,249</td>
<td>133,309</td>
</tr>
<tr>
<td>Western Cape</td>
<td>78%</td>
<td>858,903</td>
<td>133,309</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>8,834,165</td>
<td>666,546</td>
</tr>
</tbody>
</table>

Source: National Treasury

The national school nutrition programme grant seeks to improve the nutrition of poor school children, enhance active learning capacity and increase school attendance. It provides a free daily meal to pupils in the poorest 60 per cent of schools (quintile 1 to 3). In a handful of provinces, the shift from provincial quintile classification to the national quintile system meant a number of schools that were previously benefitting from the programme could no longer benefit, although the need remained. This gap has now been rectified, without diluting the benefits of the programme. The grant is allocated R19 billion over the MTEF period. The baseline has not been reduced.

The maths, science and technology grant, a grant that resulted from the merging of the Dinaledi schools grant and the technical secondary schools recapitalisation grant, is providing targeted interventions to improve outcomes in maths and science learning, and grant administration has been streamlined. The baseline is maintained at R1.2 billion over the MTEF period.

The HIV and Aids (life skills education) programme grant provides for life skills training and sexuality and HIV/AIDS education in primary and secondary schools. It is fully integrated into the school system, with learner and teacher support materials provided for Grades 1 to 9. The grant’s baseline is preserved and allocated R735.7 million over the MTEF period.

The occupational-specific dispensation for education sector therapists grant provided funds for provinces to implement the occupation-specific dispensation agreement for therapists, counsellors and psychologists in the education sector. The grant was allocated for two years (2014/15 and 2015/16) while back-pay was funded and new remuneration levels were normalised. The grant no longer exists.

3.1.3.1 Infrastructure conditional grants

As mentioned above, provinces receive the Education infrastructure grant. 2016/17 is the last year the School infrastructure backlogs grant will be implemented by the National Department of Basic Education. In 2017/18 the grant will be transferred to the provinces, which will use the funds to implement
infrastructure projects. Note that although the School infrastructure backlogs grant ends, the money remains in the education sector:

During the MTEF period, two education grants will merge into one grant to improve performance. The school infrastructure backlogs grant is absorbed into the education infrastructure grant from 2017/18, but the school infrastructure backlogs grant remains unallocated in these two years to allow for a proper conclusion of backlog projects. These projects will be reviewed in 2016 to ensure that all Accelerated Schools Infrastructure Development Initiative backlog projects have been added to the merged grant. As a result, the full value of the school infrastructure backlogs grant (R2.6 billion in 2017/18 and R2.8 billion in 2018/19) is added to the education infrastructure grant in the outer years of the MTEF period.

The school infrastructure backlogs grant is an indirect grant to provinces that was introduced in 2011 as a temporary, high-impact grant. The Department of Basic Education uses this grant to build and upgrade schools on behalf of provinces to address inappropriate structures and access to basic services. To address the grant’s disappointing performance, it will be merged with the education infrastructure grant from 2017/18. However, the baseline allocation under this grant will remain unallocated in 2017/18 and 2018/19, subject to a review of pipeline projects in 2016. In 2016/17, the last year of its current form, the grant is allocated R2.4 billion. The baseline of the education infrastructure grant is R9.6 billion in 2016/17, R12.8 billion in 2017/18 and R13.5 billion in 2018/19. Over the MTEF period, R3.6 billion in 2017/18 and R3.8 billion in 2018/19 will remain unallocated.

Until 2011/12 provinces received the Infrastructure grant, which included allocations for roads, health and education. It was restructured so that conditional grants could become more aligned with the needs of the individual sectors.

3.1.3.2 Infrastructure incentive allocations

A number of reforms to infrastructure conditional grants to provinces were introduced during the 2013 MTEF. There are regularly references in Annexure W1 to capacity support programmes for infrastructure delivery. The reforms to the infrastructure grants aimed to force provinces to take ownership and responsibility for developing their own infrastructure delivery capacity. This is evident in the pre-requisites for accessing the grants. The reforms introduce incentives to promote good infrastructure delivery management system practices. In short, provinces were required to have the following in place before they could bid for their infrastructure grant allocations:

- An agreed framework outlining the roles and responsibilities within a provincial infrastructure delivery management system, which has been adopted and signed off by the Provincial Cabinet. This framework must also be supported by the appropriate capacity.
- Long-term infrastructure plans (a user asset management plan) for each sector, aligning a department’s strategic objectives and infrastructure needs.
- Appropriate monitoring systems and contract management systems that enable filing, record-keeping and tracking project expenditure.

If the above pre-requisites are met by the province, it can then follow a process of bidding for provisionally allocated funds two years in advance. Once funds are allocated, the provinces have to comply with the documents used in the bid, otherwise funds are withheld. Funds are also withheld if there is materially slow delivery. The funds that are not awarded or withheld are added to a pot of money that other provinces can bid for, thus ensuring the funds get spent in the sector, but not necessarily in the province, for which they were originally intended.
3.1.4 Analysis of transfers to provinces

Table 3 compares provincial budgets for education with conditional grant allocations. This analysis is provided here as the numbers analysed below are discussed in the previous sections.

### Table 3: Shares of education expenditure and transfers to provinces 2016/17

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Eastern Cape</td>
<td>14.6%</td>
<td>15.1%</td>
<td>14.0%</td>
<td>15.6%</td>
<td>5.1%</td>
</tr>
<tr>
<td>Free State</td>
<td>5.7%</td>
<td>5.3%</td>
<td>5.6%</td>
<td>7.3%</td>
<td>6.1%</td>
</tr>
<tr>
<td>Gauteng</td>
<td>18.5%</td>
<td>17.8%</td>
<td>19.7%</td>
<td>14.4%</td>
<td>3.8%</td>
</tr>
<tr>
<td>Kwazulu-Natal</td>
<td>21.5%</td>
<td>22.4%</td>
<td>21.2%</td>
<td>20.3%</td>
<td>4.6%</td>
</tr>
<tr>
<td>Limpopo</td>
<td>12.8%</td>
<td>13.1%</td>
<td>11.8%</td>
<td>8.9%</td>
<td>3.3%</td>
</tr>
<tr>
<td>Mpumalanga</td>
<td>8.5%</td>
<td>8.5%</td>
<td>8.2%</td>
<td>8.3%</td>
<td>4.7%</td>
</tr>
<tr>
<td>Northern Cape</td>
<td>2.6%</td>
<td>2.3%</td>
<td>2.6%</td>
<td>5.0%</td>
<td>9.5%</td>
</tr>
<tr>
<td>North West</td>
<td>6.8%</td>
<td>6.5%</td>
<td>6.9%</td>
<td>10.0%</td>
<td>7.1%</td>
</tr>
<tr>
<td>Western Cape</td>
<td>9.1%</td>
<td>9.0%</td>
<td>10.0%</td>
<td>10.2%</td>
<td>5.4%</td>
</tr>
</tbody>
</table>

The above per cent values have been calculated as follows:

- Column 1 is calculated by dividing each province’s education budget by the total of all provincial education budgets.
- Column 2 is the education component of the provincial equitable share.
- Column 3 is the weighted share of the provincial equitable share (the final weight).
- Column 4 is each province’s share of the four education conditional grants to provinces.
- Column 5 shows what proportion of the education budget in each province is funded from conditional grants.

Note the following:

- Each province’s share of the total provincial education budget is closely aligned to the education component. KwaZulu-Natal is the only province where the share of the total education budget is more than half a per cent less than its share of the education component. Free State, Gauteng, Northern Cape, North West and Western Cape have a greater share of provincial education budget than suggested by the education component.
- The shares of the conditional grants are not closely aligned with the shares of the budget or education components. This shows how the conditional grants are targeted at specific objectives (backlogs) that the equitable share formula does not capture.
- In the Northern Cape, conditional grants make up 9.5 per cent of its education budget, and this province is an outlier in this regard. Column 5 shows that only a small proportion of provinces’ education budgets is dictated by national government.

3.1.5 FFC recommendations

The Financial and Fiscal Commission is mandated by the Constitution to make recommendations each year on the Division of Revenue. Government’s response to the recommendations are tabled in Annexure W1. The recommendations should focus on how nationally-raised revenue is divided across the three spheres of government, and comment on whether government has taken into consideration the issues raised in Section 214 (2), which are shown in section 2.1.2 above. The FFC recommendations should not be about policy issues, but rather fiscal issues. For instance, its mandate is to make recommendations on how an existing policy position on education infrastructure should be funded, but it does not have a mandate to recommend that education infrastructure should be prioritised.
In recent years, the FFC has misinterpreted its mandate. This can be seen by the fact that government suggested some recommendations are not relevant to the division of revenue in the 2016 Annexure W1. However, the FFC is invited to make presentations on the division of revenue to Parliament, and is also often invited to make presentations to provincial legislatures. It also holds workshops, and staff of the FFC attend various government meetings, including the Technical Committee of Finance, the Budget Council and various budget function meetings. They can be a very worthwhile ally in trying to influence budget matters.

3.2 National and provincial budget processes

A key contributor to ensuring a transparent and fair budget is that there is a robust budget process that is followed consistently from year to year. Any attempt to influence budget allocations in South Africa needs to recognise two key features of the budget process: first, that there is a process that is followed every year and second, that the budget is planned over the medium term.

Within the process, there are specific windows for public consultation during which inputs on the budget can be given. It is important to know what these opportunities are, when they are scheduled and what can be achieved during each period. If the opportunity is missed, one has to wait till the next year. It is also important to take a medium-term perspective to influencing budget allocations, and to plan one’s advocacy strategy accordingly.

3.2.1 The importance of thinking in terms of the medium-term expenditure framework

Figure 14 below provides a simple overview of how a medium-term expenditure framework works.

Figure 4: Simple Overview of the MTEF Process

Usually in February every year, the budget is tabled. In February 2016, the 2016 MTEF was tabled. Expenditure plans for 2016/17 are known as the budget year allocations. When the budget is passed, the 2016/17 budget is enacted into law through a vote of Parliament. In the provinces, the provincial budget is voted into law by the provincial legislatures. It is tabled with indicative allocations for 2017/18 and 2018/19.

The entire MTEF is adopted, but the indicative allocations are not binding in law and can be changed in future years without any legal process being followed. In comparison, the budgeted amounts can only be changed through an adjustments budget, which is voted on.
At the start of the 2017 budget process, the indicative allocations for 2017/18 and 2018/19 (from the 2016 MTEF) become the baselines for the 2017 MTEF. The 2019/20 baseline is worked out by growing (or shrinking) the 2018/19 baseline by a growth factor, which is usually based on forecasts of inflation. During the budget process, much noise is made about the additions or adjustments to baselines. Additions to baselines are essentially that – the amount of money added to the baselines (indicative allocations from the previous years) during the budget process. During periods of growth there are usually additions to the baseline, but during periods of economic recession the baselines are more likely to be reduced.

A key part of understanding how to influence the budget is to understand how the MTEF works. It is a forward-thinking game. One should not focus on the annual budget, but on allocations over the MTEF. Once the annual budget is tabled, the chances of making changes to it are so small that is not worth the effort. It is far easier to get a treasury and the rest of a medium-term expenditure committee (see below) to consider making funds available in the outer year of the MTEF than it is to make changes to the annual budget. A small allocation introduced in the outer year (i.e. 2018/19 in the 2016 MTEF) can receive additions in the 2017 MTEF and be a significant starting allocation for something in the 2018/19 Budget in the 2018 MTEF. So rather than trying to get additional money in the budget, the aim is to get the money into the MTEF baseline.

### 3.2.2 The budget process

The budget process involves many steps and some going backwards and forwards, especially towards the end of the process. One of the first steps in the process is the publication of the MTEF Technical Guidelines, which contain detailed information on how budgets must be prepared, what information must accompany budget submissions, whether there are additional funds or not and so on. The guidelines also outline the schedule of meetings for the budget process. At the beginning of the process, National Treasury explains the forecasted economic circumstances that inform what resources are available and the various budget rules that departments and provinces must follow in the upcoming budget discussions.

The budget process essentially involves meetings made up of committees from national and provincial departments – called budget function groups, and other committees made up of senior officials from national departments – called medium-term expenditure committees. These are explained in the 2017 MTEF Technical Guidelines (which are available on the National Treasury’s website). There are usually a number of rounds of meetings in between which departments and provinces work on their budgets as per the initial discussions. During the process there are a few meetings with members of the national and provincial political executives. The two key political committees are the Budget Council (the provincial MECs of finance meet with the Minister of Finance) and MINCOMBUD, which is the Minister’s Committee on the Budget, chaired by the Minister of Finance, and consists of ten national ministers. Even though there is a rigorous process of discussing and interrogating budgets, these meetings happen behind closed doors.

In October each year, the Medium-Term Budget Policy Statement (MTBPS) is tabled. The most important function of the MTBPS is that it signals policy changes and likely additions to baselines in the MTEF that will be tabled in February. Along with the MTBPS, the adjustments budget for national government is tabled, which may include changes to conditional grant allocations to provinces.

The MTBPS and the annual budget are different processes, but there are a number of key similarities:

- The Budget Council and the MINCOMBUD approve them before are they presented to Cabinet.
- Cabinet approves them before they are tabled in Parliament.
- They are both discussed by the Standing Committee for Appropriations in the National Assembly and the Select Committee for Appropriations in the National Council of Provinces.
A simple overview of the budget process is provided in Figure 5 below.

Figure 5: Simple Overview of the Budget Process

The rectangle showing the various meetings of government officials is black to indicate that this part of the budget process happens behind closed doors. That process is also akin to a train leaving a station – if a proposal has not been put to government departments before or during this period, the opportunity for that budget cycle is lost.

The first evidence that a proposal put forward has been considered seriously is if it is mentioned in the MTBPS. The first sign there is actual commitment is if it is allocated funds in the MTEF.

When considering engaging with government to influence the budget process, the following windows exist:

- An idea has to be pitched to a department before the start of the budget process. Organisations should consider using the opportunities presented by the “Budgetary Review and Recommendations Reports” required in terms of the Money Bills Amendment Procedures and Related Matters Act. It is difficult to pinpoint the exact deadline, but in general if a proposal is not prepared by the end of July then the opportunity for that year has been lost. This means that an outsider trying to influence the budget must plan for a process of consulting, advising and lobbying a department to be concluded during July at the latest.
- The MTBPS tabled in October each year is the first time it will become evident if the idea has gained traction in national government. If it has not, then noise can be made in the press and other channels. A more effective mechanism is to engage with the Standing and Select committees of Parliament and propose recommendations they should make in their recommendations on the MTBPS in terms of the Money Bills Amendment Procedures and Related Matters Act.
- Once the budget is tabled in February, there are various consultations with committees and the Money Bills Amendment Procedures and Related Matters Act applies.

In addition to above, throughout the year members of Parliament, in both houses, are entitled to submit questions to the Minister of Finance. The responses to these questions are published on the National
Treasury website. The strategy with regards to the recommendations and the questions discussed above is that the Ministry of Finance is required to provide written responses. These responses are published and can therefore be referred back to at a later date.

At the national level, the above opportunities allow, or limit, the public wanting to influence the budget to the following.

- Firstly, engage with the national department and/or provincial department about the need to allocate funds to a specific policy objective. During this engagement, the department must be advised on why the issue should be funded, how it should be funded and what the resource requirements are. They should be given a long-term plan that involves a small allocation in the second or third year of the MTEF that then grows over time as the programme becomes more established. The department must then submit the bid and argue for funding during the budget process. At the national level, it is advisable to ensure the engagements with the national department include the relevant official from the Public Finance Division of National Treasury so that that official is fully informed about the proposal when it is discussed in the budget process. At the same time, arguments regarding the policy objective can be published in the media. Also, members of Parliament and/or provincial legislatures can be engaged with. Questions they should ask in debates or submit in writing can be proposed to them.

- When the MTBPS is tabled, it should be reviewed for evidence that the proposal has been considered and there is at least a statement that funds are committed to the proposal. If this has not happened, and assuming the department did try to bid for funds, then the lobbyist needs to use the right channels to ensure the ideas are heard. Again, publishing arguments in the media, especially opinion pieces, will get the message out there. Another avenue would be to engage directly with members of the Standing and Select committees ahead of the hearings on the MTBPS. When members go to the hearing, they must be informed about the proposal and reasons why it has been motivated, as well as be given specific and direct questions they can ask officials during the hearings. Recommendations that the members can make in their reports on the MTBPS should also be provided. It is important to provide recommendations that are realistic and actionable. Government must not be given an opportunity to dodge the recommendation on technical grounds or on the basis that the recommendation is unreasonable. Remember that the aim at the beginning is to just get some funding in the third year of the MTEF. For instance, “It is recommended that growth in the third year of the MTEF for X, Y and Z be reduced by 5 per cent each so that XXX million can be allocated to this priority in the third year of the MTEF”.

- When the budget is tabled, a similar approach to the above needs to be taken. Arguments should be made in the media, and members of committees should also be engaged with. In terms of consultations on the budget, it is also constructive to engage with committees in the provincial legislatures. Generally, the most appropriate committee with be the Committee on Finance, but these vary in name by province. Again, questions to be asked in hearings can be provided and recommendations for the committees (in the NA and NCOP) suggested. Recommendations need to reasonable and actionable. During these hearings, the responses to the recommendations from the MTBPS can be referred to. If promises or commitments were given that were not honoured, then very pointed and accusatory questions can be asked.

- In addition to the above, there are opportunities for Members of Parliament to submit written questions to the Minister of Finance. Through an MP, very specific and targeted questions can be proposed. They can be asked in the form of proposals or recommendations, e.g. “why can’t X, Y and Z be reduced to create an allocation for XXX?”

When government revenues are growing, which is generally the case when the economy is growing, the budget process involves allocating additions to baselines. When revenues are shrinking, the budget process involves holding baselines steady and even cutting them. During periods of growth, it’s obviously much easier to bring new items into the budget than when baselines are being cut. However, it is still not
easy to do so, even if one is working from inside government. Correspondingly, when working from the outside it is that much more difficult.

Well-informed and costed proposals can be pitched by the relevant national/provincial department in Budget Function meetings. However, the concept needs to be sold during the MTEC meetings and then agreed to and/or not be rejected in the Technical Committee on Finance, the Budget Council and the MINCOMBUD, and ultimately the Cabinet, before it is funded. The more the funding goes under the radar to start with, the better. The government official a lobbyist will most likely be engaging with will present the concept in the Budget Function meetings, but that official is likely to rely on other people to do the bidding the rest of the way. So a proposal needs to rely on the quality of the argument (and the document), rather than on a particular official.

It is not easy to influence the budget.

3.2.3 Provincial budget processes

The provincial budget process is intertwined with the national budget process, but at the individual provincial level, the process is very similar to that shown above.

According to the 2017 MTEF Technical Guidelines, the following are the key dates in the process:

- **12 August 2016**: Provincial treasuries submit first draft 2017 Budgets to National Treasury – at the time these are submitted, the provinces have not made any substantive engagements on the budget, and the main purpose of this submission is to show that the province has complied with the requirements set out in the MTEF Technical Guidelines. Previously it was suggested that any process of engaging with a national department in an attempt to influence the budget should be completed by end of July. The equivalent date at the provincial level is August. After this date the MTEC process should begin and any proposals for new funding must be fully prepared by this time.

- **28 October**: Preliminary allocation letters issued to provinces – equitable share and conditional grant allocations. This the first-time provinces see the allocations they receive from the provincial equitable share and the conditional grants. At this stage, they will know whether they can expect additional funds or cuts. These letters provide a preliminary indication of changes.

- **18 November**: Provincial treasuries submit 2nd draft 2017 Budgets to National Treasury: Estimates of Provincial Revenue and Expenditure and database – this draft of the budget will include changes made to the provincial equitable share and conditional grants. Between submitting the first draft and finalising this draft, provinces should have gone through their own internal MTEC process.

- **01-06 December**: Provincial Benchmarking – provinces present their budgets to National Treasury, at which time they need to defend a wide range of budget decisions they have taken. They are then advised on changes they should make to their budgets. This is a closed-door process.

- **9 December**: Second allocation letter to provinces – this letter is an update on the letter sent out in 28 October. Provinces will be aware of changes since the first letter. There shouldn’t be any significant changes to the allocations, but some of the allocations may change at the margin.

- **12-18 January 2017**: Provincial benchmark exercise for 2017 Budget (2nd round) – provincial budgets are checked again, presumably to ensure that recommendations made during the first benchmarking were implemented.

- **End Jan / Early Feb 2017**: Final allocation letters issued to provinces – these letters serve as final confirmation of the allocations. There should be very little change between this version of the allocation letter and the previous.

- **End Feb / Early March 2017**: Provincial 2017 budgets tabled at provincial legislatures – the budgets are then debated in the provincial legislatures.
Note that provinces are not required to table a MTBPS, and those that do so, do it voluntarily. They are required to table adjustment budgets, but they will only change the budget year allocations in that process.

A crucial feature of the provincial budget process to be aware of is that it is during this process that provinces decide how much they will allocate to education. As mentioned, they have to allocate the conditional grants to predetermined budgets or projects – but this makes up only 20 per cent of their budgets. The rest of the budget is determined through their own allocation process.

As with the national budget, influencing the provincial budget is difficult – perhaps even more so than the national budget. While provincial legislatures will debate their budgets, this process is much less robust than the process at the national level. The reporting process around the MTBPS and the budget required by the Money Bills Amendment and Related Procedures Act does not apply to provincial legislatures. Although certain provinces have put in place similar legislation to regulate this process.

The same principles apply: think forward over the MTEF, and if you don’t sell your proposal by August its effectively dead until the next year.

### 3.3 Budgets of provincial education departments

When preparing provincial budgets for tabling in the provincial legislatures, provincial treasuries and provincial departments have to comply with national guidelines on the format of provincial budgets, which govern:

- the programme and sub-programme structure of provincial Votes;
- the classification of and presentation of allocations by economic classification; and
- the format of budget and supporting information in the annual Estimates of Provincial Revenue and Expenditure that the MEC of Finance tables in the provincial legislature.

Section 7 sets out further details regarding these guidelines.

Compliance with the relevant guidelines results in the annual Budget Vote documents for each provincial education department. The easiest place to source these documents is the National Treasury website.

If well-prepared, these Budget Vote documents give a wealth of information regarding the operating circumstances, priorities and decisions that informed the budget, as well as performance-related information.

The following table shows the programme budget for the provincial education department in the Western Cape. This structure clearly shows the total funds allocated to fund different categories of schools, and different areas connected to the provision of school education.
Each programme is broken down into sub-programmes, which provide greater detail. The following table shows the sub-programmes for Programme 2: Public Ordinary School Education.

Table 8.2 Summary of payments and estimates – Programme 2: Public Ordinary School Education

<table>
<thead>
<tr>
<th>Sub-programme R'000</th>
<th>Outcome</th>
<th>Main appropriation 2015/16</th>
<th>Adjusted appropriation 2015/16</th>
<th>Revised estimate 2015/16</th>
<th>% Change from Revised estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Audited 2012/13</td>
<td>Audited 2013/14</td>
<td>Audited 2014/15</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Public Primary Level</td>
<td>6 188 314</td>
<td>6 597 359</td>
<td>7 276 039</td>
<td>7 546 917</td>
<td>7 697 402</td>
</tr>
<tr>
<td>2. Public Secondary Level</td>
<td>3 514 964</td>
<td>4 400 697</td>
<td>4 489 245</td>
<td>4 895 501</td>
<td>5 047 234</td>
</tr>
<tr>
<td>3. Human Resource Development</td>
<td>82 930</td>
<td>82 944</td>
<td>76 011</td>
<td>81 866</td>
<td>81 664</td>
</tr>
<tr>
<td>4. Conditional grants</td>
<td>297 208</td>
<td>278 028</td>
<td>310 231</td>
<td>327 952</td>
<td>327 899</td>
</tr>
<tr>
<td>Total payments and estimates</td>
<td>10 445 476</td>
<td>11 369 029</td>
<td>12 156 526</td>
<td>12 654 456</td>
<td>13 154 194</td>
</tr>
</tbody>
</table>

Similar sub-programme information is available for each of the programmes.

In addition, programme budgets are presented by economic classification, as follows:
Provinces are also required to present more detailed information as annexures to the Budget Vote:

- the economic classification information for the programmes. This covers the so-called “of which” items within the Goods and Services category – see Table B.3 in the Provincial Budget Formats Guide;
- detailed information on transfers to municipalities and other entities – see Table B.4 in the Provincial Budget Formats Guide;
- budgets and expenditure progress information for school infrastructure projects – see Table B.5 in the Provincial Budget Formats Guide; and
- a breakdown of departmental expenditure and allocations by municipality. For the 2016 budget, only Eastern Cape, Gauteng, Mpumalanga and Western Cape provided breakdowns.
The aggregate data reported in the budget formats cannot be used to track expenditure on individual schools. Therefore section 30(2)(a)(ii) of the 2016 Division of Revenue Act aims to get provinces to gazette allocations by school.

Duties and powers of provincial treasuries

30. (1) A provincial treasury must reflect allocations listed in Part A of Schedule 5 to the province separately in the appropriation Bill of the province.

(2) (a) A provincial treasury must, on the same day that its budget is tabled in the provincial legislature, or a date not later than 14 days after this Act takes effect, approved by the National Treasury, publish by notice in the *Gazette*—

(i) the indicative allocation per municipality for every allocation to be made by the province to municipalities from the province’s own funds;

(ii) the indicative allocation to be made per school and per hospital in the province in a format determined by the National Treasury;

National Treasury has determined the format for the publication of the school allocations in an annexure to the *Provincial Budget Formats Guide* as follows:

<table>
<thead>
<tr>
<th>Name of School</th>
<th>District</th>
<th>EMR number</th>
<th>Primary Secondary Quotas Combined</th>
<th>Expenditure Status (Yields)</th>
<th>Revenue Status (Yields)</th>
<th>Allocation Pre-Budget 2016</th>
<th>Medium-term estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Example 1 (3rd School)</td>
<td>District 1</td>
<td>8512298</td>
<td>Primary 1</td>
<td>Yes</td>
<td>No</td>
<td>80</td>
<td>10</td>
</tr>
<tr>
<td>Example 2 (2nd School)</td>
<td>District 2</td>
<td>8512298</td>
<td>Primary 1</td>
<td>Yes</td>
<td>No</td>
<td>80</td>
<td>10</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>160</td>
<td>20</td>
</tr>
</tbody>
</table>

Footnote:

1. Provide reasons for deviation from minimum per learner allocation thresholds

The 2016 Estimates of Provincial Revenue and Expenditure (EPRE) for all the PEDs were reviewed. None of the provinces published the above table in their 2016 EPRE. National Treasury published gazettes from four provinces published in terms of the above section of the 2016 Division of Revenue Act. Only the gazette from the Eastern Cape contained information on allocations to schools. However, the Eastern Cape gazette is not in the same format as above. Western Cape gazette the allocations to schools and this is published by the Office of the Premier with all other gazettes. Gauteng published the above information on the Gauteng Treasury website (but not in the gazette that is published on the National Treasury website). Provinces follow different approaches to publishing this kind of information and publish it on their Office of the Premier website, Provincial Treasury website or Department of Education website. Online searches for these gazettes for the provinces not listed above were unproductive. Through these searches, we found the gazettes with the correct information for previous years for most provinces, but not for 2016. As they have published these in the past, it is likely they are still producing them but have not made them readily available to the public. It is therefore possible that these lists can be obtained through direct requests to the provincial treasuries and/or provincial departments of education.

Provinces are required to publish an enormous amount of information relating to provincial education budgets. The challenge is to make sense of all the information, and to begin to use it constructively in monitoring and advocacy work relating to public education. A further challenge is to get a better

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understanding of the information relating to the funding of schools that is not in the public domain or that is not collected or presented in a systematic format.
4 The Funding of Schools

When it comes to the funding of schools, there are four main categories, namely:

- **No-fee public ordinary schools**: the province takes full responsibility for the funding of these schools, both their personnel and operating costs, including infrastructure maintenance. The SGB may fundraise to supplement the provincial funding, but may not charge school fees.

- **Fee-paying public ordinary schools**: the province takes responsibility for funding the departmental staff employed at the school and part-funds textbooks, other LSM, municipality services and infrastructure maintenance costs. The province may also compensate the school for school fee exemptions granted. The SGB may charge school fees and fundraise to supplement the provincial funding.

- **PAEPL subsidised NPO-run schools**: the main sources of income for these schools are school fees and other fundraising. The school must be operated by a registered NPO and the school fees must fall below the PAEPL threshold; then the school can apply to the province to receive a subsidy (see discussion below).

- **Privately funded schools**: these schools are entirely reliant on private sources of income, which usually include school fees, donations, sponsorships and other forms of fundraising. These schools may be operated by NPOs, trusts or companies.

This section seeks to examine the arrangements for the funding of the first three categories of school noted above. When it comes to public ordinary schools, the following sources of funding are available:

- **remuneration of personnel employed by the PED** – all PEDs pay all staff employed by the department directly. Public schools do not see any of the funding for staff.

- **school allocations** – a per learner allocation to each public school intended to cover LTSM, services and school maintenance. Thresholds for different quintile-category schools are determined by the Minister of Basic Education in terms of paragraph 110 of the NNSSF.

- **school fees** – these are fees paid by parents of learners attending fee-paying public schools, which are determined by the parent body and managed by the SGB.

- **school fee exemption allocations** – PEDs may give fee-paying schools an allocation based on the number of learners granted school-fee exemptions to compensate the school for the loss of school fees.

- **voluntary contributions, donations and fundraising**

PEDs also provide schools with a wide range of in-kind support linked to training, infrastructure maintenance, LTSM, management support etc.

4.1 Funding of educators and support staff

Between 80 and 90 per cent of a PED’s budget goes to funding compensation of employees, which includes educators, school support staff and management staff in the district and provincial offices. As noted, all PEDs pay staff directly, so schools do not see these funds. However, the rules governing how staff are allocated to schools are critical to determining the extent to which different schools benefit (or not) from this expenditure. The payment of educators and other departmental staff salaries is managed in PERSAL.

The SGBs of schools may also employ additional educators and support staff with school funds. In the more privileged fee-paying public ordinary schools, a third or more of the staff complement are employed by the SGB.
4.1.1 Post Provisioning Norms

The allocation of educators is based on the Post Provisioning Norms (PPN) regulations issued in terms of the Employment of Educators Act, 76 of 1998. According to the PPN, the MEC is required to create a pool of posts annually in accordance with the funds available. Unions are then consulted from June to August each year, and final allocations to schools are confirmed around September for the following year\(^3\).

Issues with the original PPN include the excessive reliance on the learner to educator ratio. This does not consider multi-grade classrooms, teachers teaching outside of their specialisation due to issues in the supply of skills in the sector, inefficient utilisation of teachers, and a range of other issues that resulted in the poorest schools remaining the most disadvantaged.

In 2011, in a presentation to the Parliamentary portfolio committee for education, the DBE noted that the PPN model applicable at the time, although "holistic and systemic", was not sufficiently nuanced to cater for curriculum delivery per grade and per subject. Changes were therefore proposed that intended to:

- address persisting problems of large class size,
- respond better to curriculum needs, and appropriate utilisation of teachers,
- deal with the issues of multi-grade classrooms by providing more teachers and,
- link the allocation of posts to physical classrooms in order to manage class sizes.

In the 2012 revised PPN, the number of teacher posts allocated is determined by weighted factors including class size, the range of subjects offered and the poverty levels of a particular community. Available posts are distributed among schools, proportionally to their number of weighted learners. The concept of "weighted learner", instead of actual learner, is used to enable schools to compete on an equal footing for posts. As some learners and some learning areas require more favourable post allocations than others, each learner is given a certain weighting that reflects its relative need in respect of post provisioning. Other factors, like the size of the school, the need to redistribute resources and the need to ensure equal access to the curriculum, may require that additional weighted learners be allocated to some schools. A weighted learner enrolment for each school is determined which, in relation to the total learner enrolment of the province, reflects its relative claim to the total pool of available posts in the province.

In the 2012 PPN model the number of teacher posts allocated to a school is determined by the number of weighted learners at the school. The factors driving the weighting include:

- The maximum ideal class size applicable to a specific learning area or phase.
- Period load of educators.
- Need to promote a learning area – learning areas are set by national policy and schools can promote learning areas as a means to motivate for more teachers.
- The size of the school – the weighting reflects that smaller schools need posts to deal with certain basic responsibilities irrespective of size.
- The number of grades – the more grades in the school, the more complex it is to manage the school and therefore this increases the weight of learners.
- More than one language medium of instruction.
- Disabilities of learners – learners with disabilities require additional support and therefore receive larger weights. There are different weights for different disabilities.
- Access to the curriculum – some subjects are more expensive to offer. Learners are weighted in line with ratings for how expensive each subject offered at the school is. However, each school has a maximum "score" they can earn in terms of subject difficulty. If they reach that maximum level, every learner above that maximum is given the weighting of the least expensive subject.

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\(^3\) Portfolio Committee Presentation (2011). Post Provisioning Norms.
• Poverty.
• Level of funding – this is a tool to enable funding different grades at different levels. It is not in use.
• Ad hoc factors – this could include factors not considered above, such as unexpected growth in learner numbers, that will enable additional posts to be allocated should unforeseen circumstances require it.

4.1.2 Occupation specific dispensations

Between 2005 and 2011 additions to the provincial equitable were made to help provinces cover the cost of occupation specific dispensations (OSD) that were awarded to educators in the bargaining council. These are shown in Figure 6 below. OSDs were awarded to health practitioners, social workers and educators. These resulted in growth in the salaries of these officials over and above the annual increases to salaries of government officials.

**Figure 6: Occupation Specific Dispensation for Educators**

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Educators pay progression</td>
<td>845 173</td>
<td>891 658</td>
<td>940 699</td>
<td>987 734</td>
<td>1 056 875</td>
<td>1 130 141</td>
<td>1 204 309</td>
<td>1 278 568</td>
<td>1 340 396</td>
</tr>
<tr>
<td>Occupation Specific Dispensation for Educators (OSD)</td>
<td>600 000</td>
<td>1 400 000</td>
<td>2 200 000</td>
<td>2 310 000</td>
<td>2 471 700</td>
<td>2 657 078</td>
<td>2 816 502</td>
<td>2 965 492</td>
<td>3 134 767</td>
</tr>
<tr>
<td></td>
<td>2006</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>449 000</td>
<td>2 559 000</td>
<td>5 138 000</td>
<td>5 523 350</td>
<td>5 854 751</td>
<td>6 206 036</td>
<td>6 516 338</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2007</td>
<td>400 000</td>
<td>1 200 000</td>
<td>1 272 000</td>
<td>1 348 520</td>
<td>1 415 736</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2008</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2009</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2010</td>
<td>3 000 000</td>
<td>3 000 000</td>
<td>3 000 000</td>
<td>3 000 000</td>
<td>3 150 000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2011</td>
<td>1 600 000</td>
<td>1 800 000</td>
<td>2 000 000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

In 2006 and 2011, no additions were made. The numbers in black are the additions made to the baseline in that MTEF. The figures in red italic text are the additions to the baseline numbers grown by inflation.

4.1.3 Equalisation of No-Fee Schools and Grade R educators

Two of the policy priorities underpinning additions to the provincial equitable share in the 2102 MTEF are for the provision of additional Grade R teachers and the expansion of fee-free schooling. In 2012, a total of R3bn was added to the provincial equitable share for these priorities. R1.1 billion was added to the 2013/14 baseline and R1.9 billion was added to the 2014/15 baseline. These allocations remain in the baseline and grow with inflation.

The budget documents show the above two priorities as one amount. Therefore, it is not possible to show how much was added for each priority.

4.1.4 School support staff

Regarding the employment of support staff, the only clear reference to this consideration is made in the Amended National Norms and Standards for School Funding (2011), Section 2. Policy Framework. This section outlines the right to education and the financial responsibility of the state. It contains a section on non-teaching personnel at the school level.

29) The allocation of non-teaching staff to schools, including administrative support staff is extremely uneven. The provision of such personnel has been severely lacking in historically disadvantaged and small schools. Inequalities in the provision of such staff members is almost certainly associated with major inefficiencies in schools which serve poor communities.
30) The minister of Education is responsible for determining norms and standards for the provision of non-educator personnel including non-teaching personnel at school level.

These Norms and Standards appear to have not been finalised.

4.1.5 SGB-appointed staff

Section 20 of the South African Schools Act, which deals with the responsibilities of SGBs at all public schools, provides that SGBs may establish posts for both educators and non-educators in a school and employ educators and non-educators in these posts additional to the establishment of the school as determined by the MEC. The SGB, when presenting the annual budget contemplated in section 38, must provide sufficient details of any posts envisaged, including the estimated costs relating to the employment of staff in such posts and the manner in which it is proposed that such costs will be met.

The staff contracted by the SGB are paid by the SGB. Educators and other staff contracted by the SGB are not necessarily employed on the same terms as other staff, and payment of their salaries is dependent on school income. This makes it very unlikely that no-fee schools will be able to appoint additional staff. They will therefore be wholly dependent on the PPN-determined allocations.

4.2 National Norms and Standards for School Funding

Chapter 4 of the South Africa Schools Act deals with the funding of public schools. It outlines the responsibility of the state in funding schools from public revenue on an equitable basis. Section 35 of the Act requires the Minister of Basic Education to issue National Norms and Standards for School Funding (NNSSF), dealing with:

(a) The Public Funding of public schools in terms of section 35 of the Act
(b) The exemption of parents who are unable to pay school fees, in terms of section 39(4) of the Act
(c) Public subsidies to independent schools in terms of section 48(1) of the Act

As far as can be determined, the NNSSF were revised in 2011. The NNSSF outline the complete set of regulations around how individual schools are funded, and are therefore an important source of information in understanding the funding of public ordinary schools and other categories of school.

4.3 Management of public funds by schools

The South African Schools Act requires every public school to have a school governing body (SGB), which is responsible for the governance of the school. The Act sets out the general responsibilities of SGBs in section 20. If an SGB has the necessary capacity, they can be granted additional governance responsibilities in terms of section 21, which include:

- to maintain and improve the school's property, and buildings and grounds occupied by the school, including school hostels, if applicable;
- to determine the extra-mural curriculum of the school and the choice of subject options in terms of provincial curriculum policy;
- to purchase textbooks, educational materials or equipment for the school;
- to pay for services to the school.

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4 NNSSF (2011) Chapter 2
5 NNSSF (2011) Chapter 3
These arrangements have given rise to the categorisation of public schools into either section 20 or section 21 schools. This categorisation has a direct impact on how departmental funds related to the national school funding norms are disbursed and managed.

Note that whether a school is a section 20 or 21 school has no bearing on its status as a no-fee or fee-paying public school.

Ultimately, the aim is that all schools should be section 21 schools. This will require on-going capacity building of SGBs and putting in place proper financial monitoring arrangements. As far as we know, the Northern Cape has moved all its schools to be section 21 schools.

### 4.4 Determining the no-fee status of schools

Each year (though not always) the Minister of Basic Education publishes a national poverty distribution table that breaks poverty down into provinces. The table also indicates the breakdown of the 60 per cent of learners that would not pay school fees. The PEDs are required to use this table to determine their no-fee schools for the next year. The most recent table we could find is published in Government Gazette No. 40065 dated 10 June 2016.

<table>
<thead>
<tr>
<th>National Poverty Distribution Table</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
</tr>
<tr>
<td>EC</td>
</tr>
<tr>
<td>FS</td>
</tr>
<tr>
<td>GP</td>
</tr>
<tr>
<td>KZN</td>
</tr>
<tr>
<td>LP</td>
</tr>
<tr>
<td>MP</td>
</tr>
<tr>
<td>NC</td>
</tr>
<tr>
<td>NW</td>
</tr>
<tr>
<td>WC</td>
</tr>
<tr>
<td>SA</td>
</tr>
</tbody>
</table>

According to the NNSSF, PEDs must maintain a "resource targeting list" as the basis for the pro-poor distribution of the budget for school allocations. The resource targeting list is a list of all the public ordinary schools in the province, sorted from the poorest to least poor. The PED must assign to each school a poverty score that will allow the PED to sort all schools from the poorest (Q1) to least poor (Q5). The determination of the schools' poverty scores should satisfy the following:

- the score should be based on the relative poverty of the community around the school, which in turn should depend on individual or household advantage or disadvantage with regard to income, wealth and/or level of education;
- the score should be based on data from the national Census conducted by StatsSA, or any equivalent data set;
- the score should provide a reasonable measure of the relative poverty of the school community;
- the score should be national in order to promote a pro-poor funding framework that treats equally poor schools equally, regardless of the province they find themselves in.

The NNSSF policy prescribes that the provincial departments, when determining the relative poverty of a school and consequently in which quintile a school is placed, should base their decisions on the relative poverty of the community around the school, using national census data and taking into account indicators such as income, dependency ratio (or unemployment rate), and level of education of the
community (or literacy rate). It is not clear whether the Department of Basic Education ensures that all PEDs use the same data when doing these calculations.

The PEDs are required to ensure that the score measures exactly what it is supposed to measure, and if the data used does not reflect the reality on the ground, the Head of Department may re-classify a school. For example, if a school is situated in a well-off suburb, but because the school accommodates poorer learners from a neighbouring informal settlement because of a shortage of learning spaces in the informal settlement, the PEDs are encouraged to reclassify the school to a poorer quintile. Schools may dispute the correctness of the poverty score assigned to them through representation to the Head of Department.

In addition, in the Government Gazette dated 16 January 2015 the Minister of Basic Education indicated that:

If funds are available, and after taking into consideration the possible funding implications this may have on other poverty related programmes involving no fee schools, the PED may offer Q4 and Q5 schools no fee status at least at the threshold level of R 1,116 voluntarily. In declaring these fee charging schools as no fee schools, the PED needs to ensure all these schools are informed that they will be declared no fee schools from 1 January 2015. PEDs also need to ensure that these schools have informed parents of the change. 

The provincial lists of no-fee schools are published by the Department of Basic Education on its website at http://www.education.gov.za/Informationfor/ParentsandGuardians/SchoolFees.aspx

In response to a Parliamentary Question\(^6\) regarding the quintile system, the Minister of Basic Education indicated:

Assessment of poverty levels in schools at both provincial and national levels had the following results, amongst others: No fee schools were introduced in 2007 (quintiles 1 and 2) and were expanded to include school in quintile 3 from 2010; The number of learners accommodated in no fee schools increased by more than 70% from approximately 5.2 million learners in 2007 to about 9.2 [million] learners in 2015; between 2010 and 2015 more than 1 000 schools nationally were reclassified into quintiles 1-3 from quintiles 4 and 5; allocations to no fee schools were equalized at the level of quintile 1 as from 2010; some Provinicial Education Departments are also providing allocations above the national targets to certain schools in quintiles 4 and 5.\(^7\)

The Minister also indicated:

(a) The Department is currently in the process of reviewing the use of the quintile system as it relates to the school allocation.

(b) The following have been proposed to happen in order to de-link a school’s allocation from its quintile ranking and distinguish between only two broad categories of schools i.e. no fee schools and fee paying schools on which to determine the structure and level of the school allocation:

(i) Progressively equalise the school allocation for all existing no fee schools (Q 1-3);
(ii) The voluntary reclassification of certain Quintile 4 and 5 schools as no fee schools; and
(iii) The introduction of an alternative, fee-based, funding system for determining the level of the school allocation to fee paying schools.

Equalization of the school allocation to no fee schools, as per 2(b) (i) above, has already been implemented. In terms of 2(b) (ii) above, up to now, no additional funding could be secured. Some provinces are, however, to a limited degree and from their existing budgets, offering choices to selected schools in quintiles 4 and 5 to be voluntarily declared as no fee schools. The voluntary reclassification of Quintile 4 and 5 schools as no fee schools will, however, in the absence of securing additional funding, be difficult to implement nationally. The introduction of an alternative, fee-based, funding model for determining the level of school allocation to fee paying schools (as per 2(b) (iii) above) will also require an injection of additional funding, as well as amendments to the current funding policy. Full implementation of the proposals emanating from the review is dependent on securing of adequate funding.

4.5 School allocations

Paragraphs 108 to 124 of the NNSSF deal with the determination and management of school allocations. When first introduced in 2007, the school allocations differed for school quintile category. However, with the introduction of no-fee schools covering Quintiles 1 to 3, the school allocations for these categories are now the same.

4.5.1 Poverty score

The first step in determining the school allocation is to determine each school’s poverty score. As explained above, the PED must assign a poverty score to each school that will enable the PED to sort all schools from poorest to least poor. A school is first linked to a specific geographical area (the area in which it is located), then variables relating to households or individuals that inform different indicators of poverty are selected. These indicators include data relating to the income levels, dependency ratio (or unemployment rate), and the level of education of the community. DBE determines the weights that must be used to weight the variables for the purposes of arriving at the final poverty score for each geographic area, and therefore each school in that area.

A PED can only deviate from this methodology if:

- there are inadequate places in local schools and the PED has determined that the community should make use of schools at a distance from the local community; or
- the PED has requested parents to make use of a school other than the local school, where the local school is suffering severe and temporary problems relating to, for instance, the quality of teaching and learning.

In cases of deviation from the methodology, the PED must keep a register of such deviations, including the justification for the deviation. This register must be made available to the public.

4.5.2 National table of targets for school allocations

Following the poverty score determination, PEDs are provided with a national table of targets for the purposes of determining allocations to schools. This table establishes target per learner amounts for the school allocation that PEDs must aim to achieve. The first table of targets issued with the NNSSF in 2006 is shown in the figure below.
The above table is updated every year to include a new outer year. The latest version of this table is shown below. Note that the first three quintiles have been equalised at the no-fee threshold, which has been set at quintile 3 levels. Previously quintiles 1 and 2 received higher amounts than quintile 3.

Paragraph 113 explains how this table should be used in order to calculate the target school allocation for each individual school for the following year. The PED must multiply the relevant per learner target from the above targets table by the enrolment of the school in the current year. For instance, a quintile 2 school serving 100 learners would have its target school allocation for 2016 calculated as follows:

\[100 \text{ (learners)} \times R1 \ 177 \ (target \ allocation \ for \ quintile \ 2) = R117 \ 700\]

Column A of the original targets table (figure 2 shown above) shows the percentage of learners that fall within each quintile in 2006. At a national level, the DBE wants to ensure that funding at the levels per learner specified in column B is allocated according to the percentage of learners that fall in the different quintiles. For instance, 30 per cent are assumed to fall in the poorest category (quintile 1) and therefore the target is to reach the 30 per cent of learners with an allocation of R738 per learner in 2008.
However, because poverty is unevenly distributed across the provinces, the NNSSF also publishes a province-specific poverty distribution table that PEDs must use when calculating the allocation. This table is shown below.

### Figure 3. The poverty table

**National poverty distribution table**

<table>
<thead>
<tr>
<th>National quintiles</th>
<th>1 (poorest)</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5 (least poor)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eastern Cape</td>
<td>34.8%</td>
<td>21.6%</td>
<td>21.0%</td>
<td>11.6%</td>
<td>10.9%</td>
<td>100%</td>
</tr>
<tr>
<td>Free State</td>
<td>30.8%</td>
<td>14.9%</td>
<td>20.1%</td>
<td>18.8%</td>
<td>15.4%</td>
<td>100%</td>
</tr>
<tr>
<td>Gauteng</td>
<td>10.5%</td>
<td>11.4%</td>
<td>27.4%</td>
<td>27.2%</td>
<td>23.6%</td>
<td>100%</td>
</tr>
<tr>
<td>KwaZulu Natal</td>
<td>24.2%</td>
<td>18.8%</td>
<td>25.6%</td>
<td>17.3%</td>
<td>14.1%</td>
<td>100%</td>
</tr>
<tr>
<td>Limpopo</td>
<td>34.0%</td>
<td>22.3%</td>
<td>24.9%</td>
<td>11.6%</td>
<td>7.2%</td>
<td>100%</td>
</tr>
<tr>
<td>Mpumalanga</td>
<td>16.7%</td>
<td>20.2%</td>
<td>29.8%</td>
<td>19.9%</td>
<td>13.5%</td>
<td>100%</td>
</tr>
<tr>
<td>Northern Cape</td>
<td>26.3%</td>
<td>17.7%</td>
<td>21.6%</td>
<td>14.8%</td>
<td>19.6%</td>
<td>100%</td>
</tr>
<tr>
<td>North West</td>
<td>22.7%</td>
<td>15.2%</td>
<td>30.5%</td>
<td>20.5%</td>
<td>11.0%</td>
<td>100%</td>
</tr>
<tr>
<td>Western Cape</td>
<td>6.5%</td>
<td>8.0%</td>
<td>23.1%</td>
<td>27.7%</td>
<td>34.6%</td>
<td>100%</td>
</tr>
<tr>
<td><strong>South Africa</strong></td>
<td><strong>20.0%</strong></td>
<td><strong>20.0%</strong></td>
<td><strong>20.0%</strong></td>
<td><strong>20.0%</strong></td>
<td><strong>20.0%</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

*Source: Norms and Standards for School Funding 2006*

Once a PED has set up a list of schools ranked from most poor to least poor, it must apply the above table to this list when calculating the school allocation. Each PED must aim to pay out the target allocation amount to as many schools on its list that fall within its specific poverty distribution. The latest poverty table (2016) is shown below.

### Source: Amended National Norms and Standards for School Funding, Government Gazette 38397 16 January 2015

For instance, Gauteng must consider the national quintile 1 target to be applicable to as many schools on the resource targeting list as it takes to cover 10.5 per cent of learners, starting from the poorest school (using the initial poverty table), whereas Limpopo must consider as many schools on its target list
to cover 34 per cent of learners, starting from the poorest schools. This is compared to the national example given above, where the target is 30 per cent of coverage for quintile 1.

The above information shows that the department is merging two different methods of distinguishing between the poorest and the least poor. The quintiles information (the percentages per province in the table above) are determined by using consumption or income data to rank the population from poorest to least poor. The NNSSF poverty score uses income, employment and education levels to rank geographic areas, which score is then used as a proxy to rank schools from poorest to least poor. It would therefore be interesting to see whether, at a national level, the targets are actually being reached – i.e. is the 30 per cent of learners that fall in the poorest category actually being reached at the level of funding specified in column B?

The target allocation is the minimum allocation provinces ought to spend per learner. Analysis of whether PEDs comply with these target allocations would be important, but is beyond the scope of this paper.

Paragraph 114(b) of the NNSSF provides that if the target amount exceeds the actual amount available in the PEDs budget, then the PED and the Department of Basic Education, in collaboration with the National and Provincial Treasuries, must jointly devise a plan for attaining the targets in the earliest possible year. This plan must include details on how, in the interim, the actual budget will be distributed across the national quintiles. Such a plan must prioritise the attainment of targets in quintiles 1 and 2, and for learners in grades 1 to 9.

4.5.3 Use of school allocations

Regarding the use of the school allocations, the different PEDs appear to give different guidance.

The following excerpt is taken from the 2016/17 memo by the WCED on Section 21 schools: Norms and Standards funding for schools and financial allocations. Section 3 of this memo notes the following with regards to the use of the school allocation:

3.1 The N&S allocation is intended primarily for LTSM, local purchases, municipal services, essential day-to-day maintenance of school buildings, grounds and equipment (non-scheduled maintenance) and other everyday expenses. Own income, as intended in paragraph 6 below, must first be used to cover shortfalls in the above regard before it is used to finance governing body posts.

*It is suggested that for 2016/17 schools divide their available allocation as follows among the various expenditure categories:

- 30% for LTSM orders for 2017, of which 10% should be targeted for library material (Each learner must have a textbook for each subject. The stock of school library material should be augmented annually until the total number of items reflects the minimum international standard of 10 items per learner. See paragraph 3.1.1 below for the list of items included under LTSM.);
- 25% for municipal services (However, schools should budget for a larger percentage if expenditure tendencies necessitate this.);
- 25% for maintenance; and
- 20% for local purchases.*

Following is an extract of an allocation letter from the Gauteng Department of Education, which is usually sent to schools in about September each year.

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8 http://wced.school.za/circulars/circulars15/e64_15.html
9 http://wced.school.za/circulars/circulars15/e64_15.html
**Processes for Financing Public Basic Education in South Africa**

### PART C: RESOURCE ALLOCATION AS PER RTT, AND SASA SECTION 21 FUNCTIONS ALLOCATED (AMOUNTS IN RANDS)

<table>
<thead>
<tr>
<th>Day-to-day</th>
<th>LTSM (50%)</th>
<th>Services (38%)</th>
<th>Total Allocated</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Textbooks (70%)</td>
<td>Other LTSM (30%)</td>
<td>Total LTSM</td>
</tr>
<tr>
<td>Amount to be transferred</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount to be managed by district</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total allocated per split</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Deviation in the utilisation of these ringfenced amounts can only be done with the written authorisation of the District Officer.

As indicated on the form, the funds can either be transferred to the school or managed by the district. Generally speaking:

- **Section 20 schools** receive an allocation from the province, but the funds are not disbursed (paid out) to the school. Instead they are managed by the PED district office. So, the PED takes direct responsibility for the purchase of textbooks and stationery for the school, the payment of the school’s municipal accounts and the infrastructure maintenance of the school. In some provinces, the PED has a service level agreement with the provincial public works department to manage school infrastructure maintenance – which very often does not work well.

- **Section 21 schools** are responsible for managing expenditures related to specified items, so the PED pays the allocations to the school in tranches (usually two) and the SGB uses the funds in accordance with the specified expenditure categories.

Some issues to note regarding the above arrangements:

- Issues with textbooks and other LTSM are more likely to arise at section 20 schools, where the PED is responsible for managing the procurement and distribution. Section 21 schools contract directly with suppliers and so tend to manage the process better.

- The allocations for municipal services are very often insufficient to cover the full cost of these services. If the school is fee-paying, then it is usually able to cover the balance of the cost. However, section 21 schools that are also no-fee schools find themselves in very difficult situations where the allocation for municipal services is insufficient. In the case of section 20 schools, the PEDs often do not manage the payment of municipal services well, resulting in municipalities threatening to cut lights and water services to schools, which is highly problematic.

- The management of school maintenance at section 20 schools is a significant challenge because of the bureaucratic processes involved in either getting the district office or the department of public works to do the work. For this reason, the National Treasury has been pushing provinces to allocate all public schools an amount that the SGB or principal can use for small maintenance. It is not known whether provinces are doing this.

### 4.6 School fees

Chapter 4 of the South African Schools Act deals directly with fees at public schools. Firstly, before a budget drawn up by the SGB can be finalised, it is required to be presented to a general meeting of parents for consideration\(^{10}\). Section 39 then states that fees may be determined and charged only if a resolution to do so has been adopted by a majority of parents attending this budget meeting. From this, a resolution defines the amount to be charged, equitable criteria and procedures for exemptions (discussed below) and other aspects pertaining to the budget.

All public ordinary schools (section 20 and section 21) schools are expected to charge school fees, to be determined through this process, **unless they are declared to be no-fee schools.**

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\(^{10}\) SASA 1996 (Act No. 84 of 1996) 38(2)
In 2015, the Department of Basic Education reported that 87.7 per cent of the 23 905 public schools were no-fee schools. Thus, the remaining 12.3 per cent, or 2 940 public schools, charge fees.

The annual school fee amount can vary from as little as R400 per learner to R44 900 per Grade 8 to 12 learner at Rondebosch Boys High (for 2017). Usually parents are required to pay school fees over ten months. The South African Schools Act makes payment of school fees by parents and legal guardians an enforceable statutory obligation, unless the parent applies for and is granted exemption (see below).

4.6.1 Typical use of school fees and funds from fundraising

The SGB of a school has the responsibility to draw up a budget that serves the interests of the school. How an SGB will interpret this responsibility will differ from school to school. Below is an example of the expenditure side of the budget of a large (980 learners) fee-paying primary public ordinary school:

<table>
<thead>
<tr>
<th>Rands</th>
<th>Provisional outcome</th>
<th>Budget</th>
<th>Full-year forecast</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>School fee costs (exemptions)</td>
<td>964,105</td>
<td>1,459,120</td>
<td>1,216,282</td>
<td>1,459,850</td>
<td>1,685,408</td>
<td>1,876,013</td>
</tr>
<tr>
<td>Teaching</td>
<td>4,933,454</td>
<td>5,506,029</td>
<td>5,204,990</td>
<td>5,534,916</td>
<td>5,915,599</td>
<td>6,324,124</td>
</tr>
<tr>
<td>Learner activities</td>
<td>147,000</td>
<td>147,000</td>
<td>81,751</td>
<td>144,484</td>
<td>151,063</td>
<td>157,949</td>
</tr>
<tr>
<td>Sport activities</td>
<td>342,500</td>
<td>342,500</td>
<td>382,136</td>
<td>398,300</td>
<td>420,206</td>
<td>446,010</td>
</tr>
<tr>
<td>cultural activities</td>
<td>66,058</td>
<td>70,100</td>
<td>35,266</td>
<td>73,863</td>
<td>77,556</td>
<td>81,433</td>
</tr>
<tr>
<td>Learner social support</td>
<td>264,925</td>
<td>268,343</td>
<td>200,848</td>
<td>272,318</td>
<td>294,644</td>
<td>318,820</td>
</tr>
<tr>
<td>Management and administration</td>
<td>2,213,608</td>
<td>2,352,433</td>
<td>2,071,216</td>
<td>2,441,887</td>
<td>2,593,813</td>
<td>2,755,957</td>
</tr>
<tr>
<td>Grounds and maintenance</td>
<td>2,053,022</td>
<td>2,173,514</td>
<td>1,954,626</td>
<td>2,428,990</td>
<td>2,627,245</td>
<td>2,843,156</td>
</tr>
<tr>
<td>Total Expenditure</td>
<td>10,984,672</td>
<td>12,319,040</td>
<td>11,147,115</td>
<td>12,755,037</td>
<td>13,738,534</td>
<td>14,803,461</td>
</tr>
</tbody>
</table>

The SGB of this school employs 14 educators, 8 teacher-class assistants and 11 administration and grounds staff. This is in addition to the 19 educators and 3 ground staff employed at the school by the PED. Note that school fee exemptions represent about 11 per cent of the total expenditure budget.

For many fee-paying schools, school fees are a very important source of income. However, there is no systematic collection of data on the level, collection and use of school fees. This is a significant gap in our understanding of the funding of schools and the contribution school fees make to improving the quality of education at public ordinary schools.

4.6.2 School fee exemptions

When the NNSSF was first issued, the design of the regulations envisaged that all public ordinary schools would charge schools fees and poor parents would be allowed to apply for school fee exemptions. However, given the fact that many schools serve exclusively poor communities, in 2007 the government moved to establish a system for declaring certain schools to be no-fee schools. Therefore, the system of school fee exemptions only applies to fee-paying public ordinary schools.

Each public ordinary school has a defined catchment area, and all learners residing in that area, or whose parents are permanently employed within the area, have a right to a place in the school. This means that when doing admissions, fee-paying schools may not discriminate against learners from poor households. So, the school fee exemption arrangements ensure compliance with the constitutional requirement for universal access to schooling irrespective of the background or financial circumstances of children.
The Regulations Relating to the Exemption of Parents from Payment of School Fees in Public Schools (Government Gazette No. 29311 dated 18 October 2006) set out the arrangements for the management and granting of school fee exemptions. Automatic exemption is given in respect of learners within the social welfare system who are orphans or abandoned, who receive a social grant or who head a child-headed household.

In terms of these regulations, schools are required to advise all parents of the procedures for applying for exemption and make the regulations publicly available. If a parent is in arrears with the payment of school fees for more than a month, the SGB must investigate whether the parent qualifies for an exemption before taking action. Parents that wish to be exempted from the payment of school fees must apply for the exemption on an annual basis. Automatic exemption must be granted if the parent provides documentary evidence that their income falls below the specified threshold. Depending on their income and the number of children at public schools, full or partial exemption will be granted.

The value of the exemptions grant is worked out using a three-level test that considers the combined income of the parents in proportion to contributions made to the school and the school fees. Parents that score below a certain amount do not get any exemptions. Partial exemptions are granted to parents in the second range and then full exemptions are granted if parents score higher than a set threshold.

Schools are required to provide a summary of exemptions to the HOD of the PED. This summary must show the number of applications, the number of full exemptions granted, number of partial exemptions granted and the number of applications not granted any exemptions. Depending on available funding, certain PEDs make a pro-rata allocation to schools based on the number of learners granted school fee exemptions.

### 4.7 Other sources of income for schools

Funding for personnel aside, for no-fee schools the school allocations are undoubtedly the most important source of funding. For fee paying schools, the school fees are likely to be the most important source of funding - depending on the level of fees relative to the school allocation.

Nevertheless, all SGBs and schools are encouraged to engage in fundraising activities to supplement school funds. Fundraising activities can include concerts, ticket sales to sporting events, uniform sales, tuckshops, donations, sponsorships and rental of school facilities. Some schools lean on their alumni for funds. The fortunate few have endowments that provide investment income. SGBs may also borrow funds to fund school infrastructure with the permission of the MEC for Education in the province.

Again, there is no systematic information on these other sources of school income and the contribution they make to improving the quality of education at public ordinary schools.

### 4.8 The PAEPL

Programme 3 in the Vote of a PED gives the budget for Independent Schools Subsidies. There are two sub-programmes in the programme: primary level and secondary level. As the name of the programme suggests, these funds are for subsidising low-fee independent schools.

Chapter 7 of the NNSSF governs Subsidies to Independent Schools. An independent school can apply for, and be considered for, a state subsidy. The awarding of a subsidy is contingent on the school showing proof of compliance with the requirements set out in Chapter 7 of the NNSSF.

These subsidies are paid on a five-point progressive scale linked to the provincial average estimate per learner (PAEPL). In brief, the PAEPL is an estimate of the average expenditure of a province per learner in ordinary public schools. A detailed discussion on how the PAEPL is calculated can be found in Annexure B.
The subsidy an independent school qualifies for depends on the level/value of their school fee. The five-point scale awards a maximum subsidy of 60 per cent of the PAEPL. The smallest subsidy level is 15 per cent of the PAEPL, but schools do not qualify for a subsidy if their fees are more than 2.5 times the PAEPL. See details in Annexure B.

Provinces are required to publish their PAEPL and show how the subsidies are calculated, but provinces do not make this information readily available.
5 Planning and funding of school infrastructure

As noted above, the Constitution lists ‘education at all levels, excluding tertiary education’ in Part A of Schedule 4. This means that national and provincial government have concurrent legislative competence with regard to primary and secondary school education.\textsuperscript{11} Section 146 of the Constitution sets out conditions that national legislation needs to meet in order to prevail over provincial legislation dealing with a matter in Schedule 4. Amongst the conditions is the requirement that ‘the national legislation deals with a matter that, to be dealt with effectively, requires uniformity across the nation, and national legislation provides that uniformity by establishing (i) norms and standards, (ii) frameworks or (iii) national policies’.

In other words, the provinces are primarily responsible for Schedule 4 functions, such as education, with national government setting norms and standards, frameworks and national policies. National government is also responsible for exercising oversight of provinces’ performance, and may intervene in a province when there is failure ‘to fulfil an executive obligation in terms of the Constitution or legislation’.\textsuperscript{12}

So, with regard to school infrastructure, the division of roles and responsibilities is (or should be) as follows:

1. National government, acting through the Minister of Basic Education and the DBE, is responsible for:
   a. providing leadership to the education sector, which includes developing strategies to address the backlogs in school infrastructure;
   b. developing national norms and standards, frameworks and national policies related to the nature, planning, funding, provision, maintenance and use of school infrastructure;
   c. building the capacity of Provincial Education Departments (PEDs) to fulfil their responsibilities with regard to the planning, provision and the like, of school infrastructure;
   d. managing and exercising oversight of the use of any conditional grants for funding school infrastructure in accordance with the requirements of the annual Division of Revenue Act;
   e. monitoring PEDs’ compliance with the abovementioned school infrastructure norms and standards, frameworks and national policies; and
   f. if necessary, intervening in provinces when they fail to fulfil an executive obligation, such as failure to implement a national policy or national norms and standards related to school infrastructure.

2. Provincial governments, acting through their respective MECs for Education and PEDs, are responsible for:
   a. analysing the demand for and planning the provision of school infrastructure;
   b. representing the education sector in the provincial budget processes and making credible bids for budgets;
   c. funding the provision of school infrastructure;
   d. managing the building, refurbishment and maintenance of school infrastructure, which includes maintaining a comprehensive asset register of school infrastructure;

\textsuperscript{11} See sections 44 and 104 of the Constitution.
\textsuperscript{12} See section 100 of the Constitution.
Processes for Financing Public Basic Education in South Africa

5.1 Planning required by the NNSSF

The primary responsibility of provinces with regard to planning and funding the provision of school infrastructure is confirmed by the NNSSF.13

The relevant sections under the heading ‘Scenario planning for new school construction’ read as follows:

86. The MEC for Education of each province must ensure that there are enough school places to enable each child living in the province to attend school during the compulsory phase (section 3(3) of the Act). If an MEC cannot comply with this mandate, he or she must take steps to remedy the situation and must report annually to the Minister of Education on progress made (section 3(4) of the Act).

88. Despite the current shortage of funds for capital development, as an aid to planning and decision-making, each PED must:
   a) Maintain an accurate, prioritised, annually updated database of school construction needs, and
   b) undertake annually updated long-term projections of new school construction targets and funding requirements, based on these norms.

90. The scenario planning should initially estimate the requirements to eliminate backlogs and provide sufficient school places by the target year 2008. This must form part of the analytical work required for the MTEF, and should be adjusted annually in the light of new data and performance in new school construction. Depending on the availability of funds each year, and construction performance, the plan may require acceleration or deceleration.

It is notable that in 1998 the national government required PEDs to plan for the elimination of backlogs and the provision of sufficient school places by 2008.14 Needless to say, this target was missed, and still has not been achieved by most provinces eight years later.

The norms and standards require the PEDs to prepare a ‘target list’ of schools or areas that need to be prioritised in the allocation of funds for school infrastructure. The relevant sections read as follows:

78. The construction of new schools or additional classrooms and learning facilities should be targeted to the neediest population. In this expenditure category, “need” is defined in terms of
   a) lack of current schools, or
   b) overcrowding of existing ones.

79. No national norm for “crowding” is given in this document. Each PED must objectively determine where to site new schools and classrooms based on provincial norms and verifiable crowding and distance indicators (need indicators) developed from available data, including the School Register of Needs, Census data, and the department’s own EMIS. Wherever possible, PEDs must aim to eliminate under-utilisation of physical space occurring concurrently with overcrowding, and must

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13 National Norms and Standards for School Funding, GN 2362, GG 19347, 12 October 1998; Amended National Norms and Standards for School Funding, GN 869, GG 29179, 31 August 2006 sections 72-77 & section 85
14 In 2006 an amended version of the 1998 norms were published, but this target date was not changed.
therefore also determine minimum per classroom occupation levels below which schools will be considered under-utilised.

80. Need indicators should refer to the proportion of children who are out of school or are in overcrowded schools. Preference should be given to areas where –

a) children are out of school and there is no uncrowded local or nearby school; or
b) all eligible children are enrolled in school but the local or nearby schools are crowded; and

c) an analysis of population movements demonstrates that the population concerned is resident and permanent.

81. Using these criteria, the PEDs must develop a ranking of geographical areas from neediest to least needy, based on the numbers of children out of school or in existing crowded schools. Backlogs must be eliminated by starting with the neediest, most crowded areas, and proceeding as quickly as possible down the list of priorities.

82. In the allocation of new school construction funds, preference must be given to-

a) facilities serving the compulsory education grades (grades 1-9) in order to ensure that all eligible learners have school places as soon as possible, and
b) extensions to existing schools, rather than new schools, except where extensions would result in schools that are too large to be pedagogically sound, or would otherwise be uneconomical, impractical, or undesirable on educational grounds.

These sections place specific obligations on PEDs to:

- plan for school infrastructure;
- maintain backlog lists that rank geographical areas/schools according to need;
- prioritise the building of new schools or classrooms ‘starting with the neediest, most crowded areas’; and
- report annually to the Minister of Education on progress made in eliminating the backlogs.

It is evident that in 1998 there was an intention and a potential plan to ensure that the PEDs worked systematically to eliminate backlogs in school infrastructure. However, when reviewing education infrastructure since then, it is apparent that most PEDs have failed to comply, and the DBE has failed to enforce compliance with these national norms and standards and the envisaged process.

5.2 Planning required by the 2013 Minimum Uniform Norms and Standards for Public School Infrastructure

Following court action by Equal Education, amongst others, the Minister of Basic Education promulgated Regulations Relating to the Minimum Norms and Standards for Public School Infrastructure (Government Gazette No R920) on 29 November 2013. Section 4 deals with the “Implementation of Regulations” and sets various timeframes for implementing compliance with different sets of the norms and standards. Of importance for the current discussion, section 4(6) reads as follows:

6(a) A Member of the Executive Council, must within a period of 12 months after the publication of the regulations and thereafter annually on a date and in a manner determined by the Minister, provide the Minister with detailed plans on the manner in which the norms and standards are to be implemented as far as schools referred to in subregulation (1) are concerned.

(b) The plans referred to in paragraph (a) are to make provision for, but not be limited to, the following:

(i) The backlogs at district level that each province experiences in terms of the norms and standards;
(ii) costed short, medium and long-term plans with targets;
(iii) how new schools should be planned and maintained and how existing schools are to be upgraded and maintained; and
(iv) proposals in respect to procurement, implementation and monitoring.

The presence of these new regulations raises questions as to how the above planning requirements should be reconciled with the planning requirements set out in the 1998 Norms and Standards for School Funding (as amended in 2006).

5.3 School Infrastructure Grants

As already noted, national government allocates a part of its share of revenue to provinces through conditional grants. All conditional grants to provinces are reflected in the annual Division of Revenue Act and on the Vote of the national department responsible for managing the grant. The provinces’ shares of the conditional grant are also reflected on the budget of each provincial department responsible for managing the implementation of the grant.

The SIBG/ASIDI is a Schedule 6A Grant, namely an allocation-in-kind grant to provinces for designated special programmes. This means that no funding flows to the provinces directly through the annual Division of Revenue Act. Instead, the DBE is responsible for managing and spending the funds on behalf of the provinces. Given current arrangements for reporting and publishing information, this means there is no quarterly ‘reporting trail’ to track progress with the implementation of the SIBG/ASIDI.

The DBE does have the option to convert some of the grant into a Schedule 4A Grant if it finds that a province has the capacity to deliver. This was done in the 2013 Division of Revenue Act when R533 million of the SIBG was converted to the EIG and earmarked for projects in the Western Cape.

<table>
<thead>
<tr>
<th>School Infrastructure Backlogs Grant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rands millions</td>
</tr>
<tr>
<td>2011 MTEF</td>
</tr>
<tr>
<td>2012 MTEF</td>
</tr>
<tr>
<td>2013 MTEF</td>
</tr>
<tr>
<td>2014 MTEF</td>
</tr>
<tr>
<td>2015 MTEF</td>
</tr>
<tr>
<td>2016 MTEF</td>
</tr>
<tr>
<td>Total allocation</td>
</tr>
</tbody>
</table>

The EIG is a Schedule 4A Grant, namely it is an allocation to the provinces to supplement the funding of a programme or function (in this case, education infrastructure) that is normally funded from the provinces’ equitable share and own revenue through the provincial budgets. Because the EIG is a Schedule 4A Grant, the PEDs are not required to report quarterly on the expenditure of the grant itself, but must report on expenditure and non-financial performance information against their entire capital budgets for school infrastructure in accordance with section 11 of the Division of Revenue Act and section 32 of the PFMA.
When the SIBG and EIG were introduced, it is clear that national government regarded them as parts of an integrated package to address infrastructure backlogs at schools.

The SIBG was ‘separated out’ in order to prioritise the most urgent school infrastructure backlogs. The integrated nature of the SIBG and EIG is emphasised by the following provision in the Division of Revenue Act 6 of 2011:

19(2) In respect of the School Infrastructure Backlogs Grant, the National Treasury may, at the request of the transferring national officer and a receiving province, convert the allocation to the province to become an allocation to the Education Infrastructure Grant, if the National Treasury and the transferring national officer are satisfied the province has demonstrated the capacity to implement projects and that the conversion will not be likely to result in –

(a) underspending on the allocation; or

(b) a lesser level of service delivery compared to if the allocation is provided to the province as a Schedule 7 grant-in-kind.

5.4 Provincial expenditure on infrastructure: the Equitable Share

Education is a concurrent function, and as such the primary responsibility for expenditure decisions lies with the PEDs. This is the primary source of funds for education, and is taken from the equitable share allocations made to provinces annually. Through the budget cycle, the PEDs present their budgets breakdowns to the relevant National Departments, but the latter play only an oversight function. Infrastructure expenditure was initially incorporated into Programme 2 in the budget structure, which refers to Public Ordinary Schools. In 2011, a separate programme for infrastructure spending was included in the budget structure.

Programme 8 categorises infrastructure spending over the different areas such as special schools, public ordinary schools, and sanitation, and also breaks this expenditure down between three core categories of project: New schools, Repairs and refurbishments, and Maintenance. The allocations across these categories are affected by the grant allocations, which might, in the long term, result in a problem of underfunding from the equitable share, particularly in school maintenance.
6 Reporting Frameworks and Mechanisms

South Africa has sophisticated budgeting and reporting formats and standards. Budget formats are standardised across all national and provincial departments. Once an understanding has been developed of the structure of the budgets in one department, that same knowledge can be applied when reviewing the budget of any other national and provincial department. Similarly, all national and provincial departments are required to report in the same way and through the same systems. There are, of course, a small number of differences in interpretation between provinces on how to report certain transactions.

6.1 Provincial budget structures

A key part of understanding how to analyse budgets is to understand their structure. A department, such as the Department of Education, is a Budget Vote. That budget vote is made up of a number of programmes, with sub-programmes. The budget information in each vote and programme is also presented by economic classification.

6.1.1 Uniform budget programmes for PEDs

National Treasury, working with the Department of Basic Education and the provincial departments of education, has developed a uniform standardised budget format for provincial education departments. This should be reviewed annually, but this does not always happen. The latest version we could find was issued for the 2013/14 financial year. This is presented on the following page.

Note that subsequent to the issuing of this format, programmes 5 and 6 identified above were transferred to the Department of Higher Education, so these programmes have been removed from the budget format for provincial education departments. This means that the current set of budget programmes for PEDs’ budgets are the following:

1. Administration
2. Public Ordinary School Education
3. Independent School Subsidies
4. Public Special School Education
5. Early Childhood Development
6. Infrastructure Development
7. Examination and Education Related Services
<table>
<thead>
<tr>
<th>Programme</th>
<th>Sub-programme</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Administration</td>
<td>1.1. Office of the MEC</td>
</tr>
<tr>
<td></td>
<td>1.2. Corporate Services</td>
</tr>
<tr>
<td></td>
<td>1.3. Education Management</td>
</tr>
<tr>
<td></td>
<td>1.4. Human Resource Development</td>
</tr>
<tr>
<td></td>
<td>1.5. Education Management Information System (EMIS)</td>
</tr>
<tr>
<td></td>
<td>1.6. Conditional Grants</td>
</tr>
<tr>
<td>2. Public Ordinary School Education</td>
<td>2.1. Public Primary Schools</td>
</tr>
<tr>
<td></td>
<td>2.2. Public Secondary Schools</td>
</tr>
<tr>
<td></td>
<td>2.3. Human Resource Development</td>
</tr>
<tr>
<td></td>
<td>2.4. School Sport, Culture and Media Services</td>
</tr>
<tr>
<td></td>
<td>2.5. Conditional Grants</td>
</tr>
<tr>
<td>3. Independent School Subsidies</td>
<td>3.1. Primary Phase</td>
</tr>
<tr>
<td></td>
<td>3.2. Secondary Phase</td>
</tr>
<tr>
<td>4. Public Special School Education</td>
<td>4.1. Schools</td>
</tr>
<tr>
<td></td>
<td>4.2. Human Resource Development</td>
</tr>
<tr>
<td></td>
<td>4.3. School Sport, Culture and Media Services</td>
</tr>
<tr>
<td></td>
<td>4.4. Conditional Grants</td>
</tr>
<tr>
<td>5. Further Education and Training</td>
<td>5.1. Public Institutions</td>
</tr>
<tr>
<td></td>
<td>5.2. Youth Colleges</td>
</tr>
<tr>
<td></td>
<td>5.3. Professional Services</td>
</tr>
<tr>
<td></td>
<td>5.4. Human Resource Development</td>
</tr>
<tr>
<td></td>
<td>5.5. In-college Sport and Culture</td>
</tr>
<tr>
<td></td>
<td>5.6. Conditional Grants</td>
</tr>
<tr>
<td>6. Adult Basic Education and Training</td>
<td>6.1. Public Centres</td>
</tr>
<tr>
<td></td>
<td>6.2. Subsidies to Private Centres</td>
</tr>
<tr>
<td></td>
<td>6.3. Professional Services</td>
</tr>
<tr>
<td></td>
<td>6.4. Human Resource Development</td>
</tr>
<tr>
<td></td>
<td>6.5. Conditional Grants</td>
</tr>
<tr>
<td>7. Early Childhood Development</td>
<td>7.1. Grade R in Public Schools</td>
</tr>
<tr>
<td></td>
<td>7.2. Grade R in Community Centres</td>
</tr>
<tr>
<td></td>
<td>7.3. Pre-grade R Training</td>
</tr>
<tr>
<td></td>
<td>7.4. Human Resource Development</td>
</tr>
<tr>
<td></td>
<td>7.5. Conditional Grants</td>
</tr>
<tr>
<td>8. Infrastructure Development</td>
<td>8.1. Administration</td>
</tr>
<tr>
<td></td>
<td>8.2. Public Ordinary Schools</td>
</tr>
<tr>
<td></td>
<td>8.3. Special Schools</td>
</tr>
<tr>
<td></td>
<td>8.4. Early Childhood Development</td>
</tr>
<tr>
<td>9. Auxiliary and Associated Services</td>
<td>9.1. Payments to SETA</td>
</tr>
<tr>
<td></td>
<td>9.2. Professional Services</td>
</tr>
<tr>
<td></td>
<td>9.3. Special Projects</td>
</tr>
<tr>
<td></td>
<td>9.4. External Examinations</td>
</tr>
<tr>
<td></td>
<td>9.5. Conditional Grants</td>
</tr>
</tbody>
</table>

The scope of budget information to be captured under each programme and sub-programme heading is defined in a descriptive annexure following the presentation of the uniform budget formats. On the following page is an example of these descriptions.
It is very important to reference these programme and sub-programme definitions to get an understanding of where provincial departments budget for specific kinds of expenditures.

All provinces are required to record the same expenditures in each programme. Each programme consists of a number of sub-programmes. Provinces have similar sub-programmes, but not necessarily identical. They all have the same minimum set of sub-programmes, but some have additional sub-programmes.

The benefit of a standardised programme budget structure is that it is easy to compare budgets for specific things.

### 6.1.2 Expenditure classifications

Within a programme, provinces are required to present their budget against expenditure classifications. In the main body of the budget, provinces are required to present each programme according to the economic classifications shown in Table 4 below.

<table>
<thead>
<tr>
<th>Programme/Sub-programme</th>
<th>Objective of Programme/Sub-Programme</th>
<th>Goods, services and payments included and excluded</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public ordinary school education</td>
<td>To provide public ordinary education from Grades 1 to 12, in accordance with the South African Schools Act and White Paper 6 on inclusive education.</td>
<td>Includes all publicly funded goods and services specific to the provisioning of Grade 1 to Grade 12 education in public ordinary schools. Both goods and services purchased by the department, and transfers to Section 21 schools from the state are included here. Also include ICT for teaching and learning, teacher laptop initiative as well as inclusion activities. &quot;Excludes infrastructure development and professional services&quot;</td>
</tr>
<tr>
<td>Public primary schools</td>
<td>To provide specific public primary ordinary schools with resources required for the Grade 1 to 7 phase.</td>
<td>Includes all programme 2 goods and services utilised in the schools themselves, or goods, services or payments allocated to specific schools, e.g. educators provisioned through the post-provisioning model and attached to institutions, or school-specific funds allocated through the Norms and Standards for School Funding, where these resources are used for education in the Grades 1 to 7 phase. (Excludes combined schools, i.e. schools with some learners in Grades 1 to 7 and some learners in Grades 8 to 12, would be catered for here if the highest grade)</td>
</tr>
</tbody>
</table>
Provinces are required to show the above information in more detail too. An example of this is shown in Annexure A.

Note that the above information is shown per programme. Therefore, it is possible to see the expenditure on compensation for employees for Public Ordinary Schools Education in each province. One can then compare this expenditure, growth rates, expenditure per learner and so on across the provinces. Note that the tables in Annexure A show that one can do similar comparisons but at a much lower level. For instance, the above classifications do not show consultants and professional services, but in the tables in Annexure A this is broken down into five different classifications. This supports very rich analysis. It can be done in all the programmes within the Education Vote.

Unfortunately, provinces are not required to show budget information against the above classifications by sub-programme. They show it only down to the programme level. This is constraining. While it’s possible to see how much a province spends on compensation of employees in all the sub-programmes in Public Ordinary School Education, it is not possible to see what portion of that expenditure is spent in primary schools compared to what is spent in secondary schools.

### 6.2 Standard Chart of Accounts

Standard Chart of Accounts (SCOA) is the accounting reporting framework used by national and provincial departments. The purpose of SCOA is to standardise the way in which financial transactions are recorded. There are eight segments in SCOA, which determine the structure of Basic Accounting System (BAS). BAS is the accounting software/database on which expenditures in government are captured.

Departments record information on all non-personnel-related transactions in BAS. Expenditure and information on personnel is recorded in PERSAL. PERSAL pushes salary information through into BAS.
(this link is vitally important). The information on BAS is therefore a comprehensive record of all the government departments’ financial transactions. When a department processes a transaction on BAS, it is recorded against each of the eight SCOA segments in BAS.

National Treasury can pull data from BAS into an expenditure analysis programme called Vulindlela.

The segments in SCOA are as follows:

Table 5: Segments in SCOA

<table>
<thead>
<tr>
<th>Segment</th>
<th>Main Purpose of Segment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund</td>
<td>Identify the source of funding from which payments are effected, and the nature of receipts.</td>
</tr>
<tr>
<td>Objective</td>
<td>Identify the programme/activity against which any given transaction should be recorded. The segment reflects a department’s programme and sub-programme structure in as much detail as is required, both for reporting and management purposes.</td>
</tr>
<tr>
<td>Responsibility</td>
<td>The cost centre of any given transaction. As the location of cost centres varies across departments, depending on their organisational structure, this segment is not standardised and the departments maintain the segment.</td>
</tr>
<tr>
<td>Item</td>
<td>Record receipt and payment transactions as well as transactions in assets and liabilities.</td>
</tr>
<tr>
<td>Asset</td>
<td>Identify asset classes to which a transaction is allocated when the purpose relates to an asset or the use of an asset.</td>
</tr>
<tr>
<td>Project</td>
<td>Identify whether or not a payment is part of a project.</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>Identify whether or not a spending item relates to infrastructure, and to show the type of infrastructure it relates to.</td>
</tr>
<tr>
<td>Regional</td>
<td>Identify which region benefits from government spending.</td>
</tr>
</tbody>
</table>

The combination of segments and standard classifications within each segment seeks to ensure that reporting across departments is standardised. National Treasury publishes detailed guidelines that describe how the different classifications can and cannot be used. The quality and potential usefulness of analyses of Vulindlela data depends on:

- appropriate classifications categories in SCOA,
- adequate guidance being provided regarding how to capture particular types of transactions, and
- the officials capturing the transactions follow the relevant guidelines consistently.

As all the segments add a layer of detail about a transaction, rich information about expenditure can be retrieved from Vulindlela. However, when it comes to provincial functions this detail will only be useful for analytical purposes if all provincial departments follow the same reporting process and use each of the segments in a consistent manner. Even within a department, such as education, there are likely to be inconsistencies between how provinces report.

Assuming that provincial departments follow the rules properly, there are two key benefits:

- Apples can be compared with apples. All provinces should record similar transactions in exactly the same way. This enables detailed comparisons of expenditure across provinces. Much more detail can be extracted from Vulindlela than from the published budgets, facilitating a deeper understanding of government spending.
level of analysis. There is a limit to how much useful information can be shown in budgets before they become too detailed to present in an A4 printed format.

- There is accountability for expenditure. Appropriate standard classifications remove discretion in the financial reporting process. If the classifications are set up properly, provinces have less space to hide irregular, wasteful or fruitless expenditure. If there is improper expenditure, it should be easy to pick up through Vulindlela and link it directly to the person responsible for managing the relevant cost centre, and therefore responsible for approving the transaction. The SCOA classifications enable more meaningful comparisons of how much is spent on various activities as well as whether or not key processes were followed. This is helpful in process-driven activities, especially those that benefit from standardisation – such as infrastructure expenditure.

Table 6 below demonstrates how the “Item” segment in SCOA is structured.

Transactions are recorded at the “posting” level. In Table 6, the posting level is where the (1) in the grey-shaded square is. If a transaction is entered into the system with the description “OWN:T&S DOM:FIXED DAILY ALLOWANCE”, it is automatically recorded as (5) Travel and Subsistence. Because data is structured in a hierarchy, it is possible to perform analyses at various levels of detail. For instance, one may be interested in T&S DOMESTIC, which is the code for domestic travel and subsistence. A filter can be applied at that level and all expenditure recorded under domestic travel and subsistence will be shown.

As one goes down the hierarchy (from left to right), the number of classifications increases.

![Table 6: The “Item” segment in SCOA](image)

The other segments in SCOA are structured in a similar way. Data in all the segments are arranged in hierarchies as shown above. However, not all of the segments have as many levels as the “Item” segment shown in Table 6.

### 6.2.1 The usefulness of SCOA

Vulindlela is the programme used to extract data from BAS. Unfortunately analyses of Vulindlela cannot be shown unless explicit permission is granted by National Treasury to use the information. But previous experience with Vulindlela has yielded very useful analyses and shown that small changes to the SCOA could potentially lead to very useful expenditure data being shown. For instance, in Social Development...
provinces reported all transfers to non-profit organisations against “Transfers to NPIs”. The national department requested that provinces add a level of reporting to show which type of non-profit organisations the funds were being transferred to. As a result of this small change, it is now possible to work out how much is being transferred to early childhood centres compared to transfers to other types of partial care facilities, which is very important information in that sector.

Unfortunately, detail from the Infrastructure Segment cannot be shown here. However, if that segment is correctly structured and aligned with infrastructure planning processes, it is possible to include reporting requirements that will force provinces into showing they are complying with correct planning processes. This is done by including expenditure classifications that refer to specific steps in the planning process. This example is especially applicable to infrastructure planning, and there may be other aspects of education planning where a similar logic may be applied.

6.3 PERSAL

As mentioned above, PERSAL is the programme in which information and expenditure about personnel working for government departments is recorded.

PERSAL is structured very differently to SCOA. For each employee, about 170 fields of data are collected. However, many fields are small variations of other fields, and therefore only a small proportion of the fields are potentially useful. This means that there are potentially about 30 useful fields.

Unfortunately, there is no information about PERSAL in the public domain. One needs to get explicit permission from a government department, usually DPSA or National Treasury, to use it because it contains sensitive HR information. The following analyses are examples of what can be performed if access to PERSAL data is obtained.

- Number and cost of professionals by programme – this enables analysis of the composition of staff by type of work e.g. professional vs administration per programme. This also allows one to analyse average salaries by job type, by programme. If the province has set up PERSAL correctly, it’s possible to perform this analysis by sub-programme.
- Number and cost of professionals in different geographical areas. One would be able do in depth analyses of the education workforce by district and possibly school.
- Age and experience of the workforce. PERSAL can be used to analyse how long people have worked in public service, how long they have worked in the position they are in, and what age they are. This can all be done by type of post, qualification, area, budget programme and others. This enables an analysis of how the workforce is ageing and what plans need to be put in place to bring in younger workers.
- Permanence of the workforce. The composition of the workforce on contract or in permanent positions can be analysed. For instance, one could look at what proportion of teachers are permanent. One can add the end date of the contract to the analysis to show how much longer the contract workers will be employed for.

6.4 Quarterly budget reports

In terms of the PFMA, national and provincial departments are required to report monthly and quarterly on their expenditures. National Treasury also releases a quarterly report showing “Year to Date Provincial Budgets and Expenditure Report”. That report discusses high level expenditure and revenue trends. For education and health, the report shows total departmental expenditure, infrastructure expenditure and personnel expenditure. An example of how the expenditure is reported is shown on the following page.
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Table 4: Provincial Personnel Expenditure: Education as at 31 December 2015

<table>
<thead>
<tr>
<th>Province</th>
<th>Adjusted budget R'000</th>
<th>Actual payments as at 31 December 2015 R'000</th>
<th>% share of Personnel to total expenditure</th>
<th>% share of Personnel to total Education expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eastern Cape</td>
<td>23 284 750</td>
<td>17 053 973</td>
<td>73.2%</td>
<td>54.6%</td>
</tr>
<tr>
<td>Free State</td>
<td>8 843 034</td>
<td>7 035 341</td>
<td>79.8%</td>
<td>52.0%</td>
</tr>
<tr>
<td>Gauteng</td>
<td>26 814 567</td>
<td>19 269 581</td>
<td>71.9%</td>
<td>50.0%</td>
</tr>
<tr>
<td>KwaZulu-Natal</td>
<td>35 079 207</td>
<td>25 936 452</td>
<td>73.9%</td>
<td>55.3%</td>
</tr>
<tr>
<td>Limpopo</td>
<td>21 054 513</td>
<td>15 523 436</td>
<td>73.7%</td>
<td>54.9%</td>
</tr>
<tr>
<td>Mpumalanga</td>
<td>13 230 011</td>
<td>9 315 883</td>
<td>74.0%</td>
<td>58.2%</td>
</tr>
<tr>
<td>Northern Cape</td>
<td>3 932 160</td>
<td>2 939 495</td>
<td>74.6%</td>
<td>50.2%</td>
</tr>
<tr>
<td>North West</td>
<td>10 342 967</td>
<td>7 480 359</td>
<td>72.3%</td>
<td>52.2%</td>
</tr>
<tr>
<td>Western Cape</td>
<td>13 345 499</td>
<td>9 303 975</td>
<td>73.5%</td>
<td>48.1%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>155 926 798</strong></td>
<td><strong>114 978 495</strong></td>
<td><strong>73.7%</strong></td>
<td><strong>53.2%</strong></td>
</tr>
</tbody>
</table>

Note that the same table is produced for total education budgets, education infrastructure expenditure and education personnel expenditure (above). Although this is high level information, it does allow one to track provincial expenditure during the year. If under-expenditure is identified, then questions can be raised through provincial legislatures and the media.

6.4.1 Tracking spending on conditional grants

Every quarter National Treasury publishes a “Quarter Statement of Receipts and Payments”, which reviews key pieces of provincial spending. Figure 7 below combines sections of the report for KwaZulu-Natal from 30 June 2016 relevant to education.

Figure 7: Provincial 1st Quarter Statement of Receipts and Payments end 30 June 2016

The above information is published for all provinces and updated on a quarterly basis. Additional columns are added each quarter to include information from events that arise in the quarter. To keep this discussion simple, only the first quarter report is shown.

From this table one can see:

- The total allocation due over the year – under “Division of Revenue Act, No 3 of 2016”.
- The total amount the national department should have transferred at the time of the report – under “Provincial Payment Schedule (National Allocation)”.

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- The total the national department has transferred from the conditional grant to the province in year up to the date of the report – under “Transferred from National to Province”.
- What the province has received from the grant – under “Received by Province (National Allocation)”.
- And then the most valuable piece of data regarding how much the province has spent from grant up to the date of the report – under “Provincial Actual Payments”.

The comparisons worth making are:

1. Is there a difference between the amount that should have been transferred (Provincial Payment Schedule) and the amount that provinces have received (Received by Province)? A difference between these amounts will show that something has happened that has resulted in the national department withholding a portion of the grant. Possible reasons are discussed below.

2. What proportion of the grant received has the province spent at the time of the report – i.e. what is the difference between “Received by Province” and “Provincial Actual Payments”. If “Provincial Actual Payments” is only a small proportion of the other amount, this shows that spending performance by the province is slow.

Note that the report does not show expenditure against the Schedule 4 grants, as these grants supplement the provincial budget.

6.4.2 Reasons for transfers from national departments differing from the Payment Schedule

A perceived benefit of conditional grants is that national government can use the conditions to force provinces to spend the grant in a particular way. When provinces do not comply with the conditions and/or do not spend the grant, then the national department may, or in many cases must, withhold or stop the transfer of funds.

There is a process that national departments are required to follow when there is non-compliance. The first part of the process requires the national department to provide written warning that funds may be withheld. If the province does not provide an adequate motivation for non-compliance or underspending, the national department can then withhold funds. If the situation is not remedied after the funds are withheld, the national department may then stop the transfer and allocate the funds to another province.

When funds are withheld or stopped, it will become clear in the quarterly report discussed above as there will be a difference between the “Provincial Payment Schedule” and the amount “Received by Province”. The annual Division of Revenue Act only allows a national department to withhold conditional grants after non-compliance and/or underspending and also the process of advising the province and receiving their response. Therefore, that funds have been withheld suggests there is a problem at the provincial level.

6.5 Reporting on school infrastructure expenditure

Section 13 (1) of the Division of Revenue Act (2016) imposes stringent reporting requirements on provinces with respect to infrastructure grants.
This is a lot of information to process, but in summary PEDs must prepare the following:

- A list of all infrastructure projects funded partially or fully from the education infrastructure grant, which must be tabled with their budget. If this list changes during the year, the amended list must be tabled with the provincial adjustments budget.
- Report on a monthly basis to the provincial treasury on the implementation of the projects. These reports must be submitted to the Department of Basic Education and the National Treasury.
Within 2 months after the end of year, submit an evaluation of the infrastructure programmes to the DBE, provincial treasury and National Treasury.

The wording "partially or fully funded infrastructure programmes" can be interpreted in a few ways. As the education infrastructure grant is a Schedule 4 (supplementary) grant, it should supplement existing budgets on education infrastructure – i.e. it should just be mixed in with funding allocated to infrastructure from the provincial equitable share and own revenues. There is no requirement on provinces to distinguish between equitable share funding and Schedule 4 grant funding. Therefore, in principle, as the education infrastructure grant supplements the education infrastructure budget, there should not be a distinction between grant and non-grant funded infrastructure projects. In other words, all infrastructure projects are at least partially funded by the education infrastructure grant. So, the above reporting requirements should apply to all education infrastructure expenditure.

Most provinces published the list of projects mentioned with their 2016 budgets. These lists are shown at the very end of the provincial education budget. The purpose of the lists is to make the detail about infrastructure plans publicly available so that the public can hold the provinces accountable for delivering on their plans.

Provinces like to group projects by municipality and/or district. Provinces are also encouraged to package a few projects together into one project. Therefore, in some cases it is not possible to have details about individual projects, which limits opportunities to hold the province accountable for delivering on planned projects.

The following letter from National Treasury to provinces from the Acting Deputy Director General, signed 26 April 2016, was found on the National Treasury website.

National Treasury will publish provincial government infrastructure financial and non-financial information from the 2016/17 financial year. This information will be published on a quarterly basis for the current year. Monthly publication will be considered from the 2017/18 financial year and beyond. The quality of information to be published is critical and requires departments to provide credible data when capturing information on reporting systems.

The system that is used to capture financial information is Basic Accounting System (BAS) while the format to report provincial infrastructure information is the Infrastructure Reporting Model (IRM). It is also noted that there are project management systems that

The above letter refers to an annexure, which was signed by Chief Director: Provincial and Local Government Infrastructure and included the following statements:

Publishing

During the 2016/17 financial year, provincial government infrastructure financial and non-financial performance will be published. The source of information to be used will be the IRM.

At the time this report was prepared, none of the reports referred to above could be found, nor could the reports required by Section 13 of the Division of Revenue Act shown above be found. Therefore, the value of these reports could not be assessed or explained. It is likely that these reports will provide valuable information about infrastructure expenditure and will be worth tracking down for those with an interest in provincial infrastructure expenditure.
Currently reporting on education infrastructure expenditure is weak. The DBE publishes a range of information relating to school infrastructure. However,

- The DBE very seldom publishes time-series information on school infrastructure (or any other education-related issues). This is a real obstacle to analysing trends. It also raises questions as to whether the DBE itself is analysing such trends on an ongoing basis.
- It appears that the DBE and the PEDs are not reporting on key information related to school infrastructure.
  - There is no regular reporting on the number of schools and classrooms that were built and taken into use each year.
  - There is no reporting on the number of schools (and classrooms) that were closed each year.
  - There is no recent information on the number of classrooms.
  - There are no area-based lists of school/classroom infrastructure backlogs as required by the national funding norms and standards.
- There are inconsistencies in the information reported. For instance, the DBE published three documents presenting information on the number of public ordinary schools that existed in 2009: each document gives a different figure. This is strange. Schools are buildings and institutions established by Government Gazette. How is it that the PEDs do not seem to have accurate up-to-date registers of them?
- Despite the critical importance of school infrastructure, the DBE does not publish a dedicated annual analysis of the status of school infrastructure reflecting progress made in addressing backlogs and setting out future plans.

### 6.6 Summary of important sources of expenditure information

<table>
<thead>
<tr>
<th>What</th>
<th>Why</th>
<th>When</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annexure W1</td>
<td>Explains in detail in one place the policy decisions underpinning allocations to provinces. Also contains the Minister’s response to recommendations made by the Select and Standing committees on the MTBPS.</td>
<td>Tabled with the annual budget in February.</td>
</tr>
<tr>
<td>Division of Revenue Bill</td>
<td>Contains the conditional grant frameworks to provinces.</td>
<td>Tabled with the annual budget in February.</td>
</tr>
<tr>
<td>Medium Term Budget Policy Statement</td>
<td>Describes government’s policy priorities that will underpin the next budget.</td>
<td>Tabled in October.</td>
</tr>
<tr>
<td>Quarterly Reports (read the Press Release and the Quarter Statement of Receipts and Payments).</td>
<td>Describes in-year reporting of provincial expenditure, including reporting on all conditional grants.</td>
<td>Usually two months after the end of the quarter.</td>
</tr>
<tr>
<td>Infrastructure Project Lists</td>
<td>Shows planned infrastructure projects over the MTEF.</td>
<td>Is tabled by provinces with budgets. Usually at the back of the projects.</td>
</tr>
<tr>
<td>FFC Recommendations</td>
<td>FFC may make recommendations that are relevant.</td>
<td>Recommendations are usually tabled in May.</td>
</tr>
</tbody>
</table>
7 Conclusions

The primary intention of this paper is to assist people who want to influence allocations to basic education to understand what the opportunities for advocacy are. Key to this is understanding the intergovernmental fiscal system in South Africa and how funds are allocated in budgets.

Basic education is a provincial function, and therefore provinces are responsible for budgeting for it. They receive funding through the provincial equitable share, conditional grants and own revenues. Provinces have discretion over how they allocate their equitable share. They have to allocate their conditional grants to specific budgets, but conditional grants make up less than 20 per cent of allocations to provinces. The implication of this for education is that the size of a provincial education budget is an outcome of the priority placed on education by the provincial executive – it is NOT a decision taken by national government.

Conditional grants can be used to influence budget allocations at the margin. The most effective mechanism the DBE has for influencing provincial allocations to education are legislated national norms and standards. These can be used by the national department to ensure provinces provide education in specific ways and meet set standards. This indirectly coerces provinces into allocating adequate budgets for education.

In truth, influencing the budget is difficult. This holds even for officials working in government. It is even more difficult to influence the budget during constrained economic conditions that force government into cutting budgets. No department wants to cut their budget, but under the current circumstances that is what is needing to happen for money to be made available for new or other priorities.

Influencing the budget involves a forward-thinking game that is built around strategic interventions at specific times in the budget process; a forward thinking, long term view that involves building relationships with key allies. The focus should not be on the annual budget, but on getting funds into the baseline by focusing on the outer year of the medium-term expenditure framework. The train for the national budget process leaves the station in about July, and if there is no buy-in or commitment from the department by that time, the opportunity is lost and the focus should shift to getting the proposal in before the next cycle. At the provincial level, the relevant date is about August.

National Treasury publishes a lot of useful budget and expenditure information. It is all publicly available, but accessing it requires understanding a very complicated website. All budget information relevant to education can be downloaded, including excel spreadsheets of “estimates of provincial revenue and expenditure”, also known as provincial budgets. Therefore, these budgets can be analysed quickly and easily. National Treasury also publishes quarterly reports on departmental expenditures; however, this information is of limited value. During 2016/17, detailed expenditure information on education infrastructure may start to be published on a quarterly basis too. Unfortunately, much of the expenditure information is only published two months after the expenditure that is being reported on occurred. This is because data management processes must be allowed to run their course, but it does mean that the gap between when a problem arises and when knowledge about it emerges is usually too great to prevent substantial losses.

A final thought is that there is valuable expenditure information in PERSAL and BAS. This data allows for incredibly rich analysis of government expenditure. This data cannot be accessed without National Treasury or another department’s permission, or at the provincial level it may be possible to access provincial files with the permission of the provincial treasury. Such access is likely only to be granted in relation to a specific project undertaken jointly with a government entity. Any serious strategy aimed at influencing government expenditure should take a long-term approach that would include investing the time in such joint research efforts that allow access to BAS, and possibly, but very unlikely, PERSAL too (due to issues of confidentiality).
### Annexure A: Example of Detailed Economic Classification

#### Table: Top Half: Detailed payments by economic classification

<table>
<thead>
<tr>
<th>R thousand</th>
<th>Adjusted appropriation 2015/16</th>
<th>Revised estimate 2016/17</th>
<th>Medium-term estimates 2017/18</th>
<th>2018/19</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current payments</strong></td>
<td>1,210,352</td>
<td>1,209,888</td>
<td>1,375,786</td>
<td>1,411,136</td>
</tr>
<tr>
<td>Compensation of employees</td>
<td>835,455</td>
<td>835,011</td>
<td>974,195</td>
<td>1,045,219</td>
</tr>
<tr>
<td>Salaries and wages</td>
<td>731,408</td>
<td>730,941</td>
<td>854,459</td>
<td>916,746</td>
</tr>
<tr>
<td>Social contributions</td>
<td>104,047</td>
<td>104,070</td>
<td>119,736</td>
<td>128,473</td>
</tr>
<tr>
<td><strong>Goods and services</strong></td>
<td>374,897</td>
<td>374,877</td>
<td>119,736</td>
<td>128,473</td>
</tr>
<tr>
<td>Administrative fees</td>
<td>713,408</td>
<td>730,941</td>
<td>854,459</td>
<td>916,746</td>
</tr>
<tr>
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<td>374,897</td>
<td>374,877</td>
<td>119,736</td>
<td>128,473</td>
</tr>
</tbody>
</table>
Table: *Bottom Half*. Detailed payments by economic classification

<table>
<thead>
<tr>
<th>Transfers and subsidies</th>
<th>68,515</th>
<th>68,979</th>
<th>46,752</th>
<th>65,348</th>
<th>69,140</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provinces and municipalities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provinces</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provincial Revenue Funds</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provincial agencies and funds</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Municipalities</td>
<td></td>
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<tr>
<td>Municipalities</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Municipal agencies and funds</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Departmental agencies and accounts</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Social security funds</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Provide list of entities receiving transfers</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Higher education institutions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign governments and international organisations</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public corporations and private enterprises</td>
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<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Public corporations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subsidies on production</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other transfers</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Private enterprises</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Subsidies on production</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other transfers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-profit institutions</td>
<td>51,824</td>
<td>51,841</td>
<td>40,101</td>
<td>58,312</td>
<td>61,695</td>
</tr>
<tr>
<td>Households</td>
<td>16,685</td>
<td>15,840</td>
<td>6,645</td>
<td>7,030</td>
<td>7,439</td>
</tr>
<tr>
<td>Social benefits</td>
<td>16,685</td>
<td>15,840</td>
<td>6,645</td>
<td>7,030</td>
<td>7,439</td>
</tr>
<tr>
<td>Other transfers to households</td>
<td>1,289</td>
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<tr>
<td>Payments for capital assets</td>
<td>34,086</td>
<td>34,086</td>
<td>32,341</td>
<td>34,216</td>
<td>36,198</td>
</tr>
<tr>
<td>Buildings and other fixed structures</td>
<td></td>
<td>18</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buildings</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other fixed structures</td>
<td></td>
<td>18</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>32,246</td>
<td>32,228</td>
<td>32,341</td>
<td>34,216</td>
<td>36,198</td>
</tr>
<tr>
<td>Transport equipment</td>
<td>17,338</td>
<td>17,621</td>
<td>18,652</td>
<td>19,733</td>
<td>20,877</td>
</tr>
<tr>
<td>Other machinery and equipment</td>
<td>14,908</td>
<td>14,607</td>
<td>13,689</td>
<td>14,483</td>
<td>15,321</td>
</tr>
<tr>
<td>Heritage Assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Specialised military assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Biological assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land and sub-soil assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Software and other intangible assets</td>
<td>1,840</td>
<td>1,840</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payments for financial assets</td>
<td>4,829</td>
<td>4,829</td>
<td>5,128</td>
<td>5,425</td>
<td>5,740</td>
</tr>
<tr>
<td>Total economic classification</td>
<td>1,317,782</td>
<td>1,317,782</td>
<td>1,460,007</td>
<td>1,516,125</td>
<td>1,618,029</td>
</tr>
</tbody>
</table>
Annexure B: Calculation of the PAEPL

**PAEPL and the National Norms and Standards for School Funding**

Chapter 7 of the NNSSF describe the norms for subsidies to independent schools. The norms apply uniformly across provinces; however, a provincial MEC may vary them, provided their intent and spirit is maintained. The figure below shows the categories of subsidies to independent schools as contained in the norms and standards.

<table>
<thead>
<tr>
<th>Figure 4. Allocation table for independent school subsidies</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>School fee level as on the date in Paragraph 183</strong></td>
</tr>
<tr>
<td>1. Up to 0.5 times (50%) of the separate provincial average estimate per learner in the primary and secondary phases of ordinary public schools respectively in the fiscal year, following the date in paragraph 183.</td>
</tr>
<tr>
<td>2. Higher than 0.5 and up to 1.0 times the separate provincial average estimate per learner in the primary and secondary phases of ordinary public schools respectively in the fiscal year, following the date in paragraph 183.</td>
</tr>
<tr>
<td>3. Higher than 1.0 and up to 1.5 times the separate provincial average estimate per learner in the primary and secondary phases of ordinary public schools respectively in the fiscal year, following the date in paragraph 183.</td>
</tr>
<tr>
<td>4. Higher than 1.5 and up to 2.5 times the separate provincial average estimate per learner in the primary and secondary phases of ordinary public schools respectively in the fiscal year, following the date in paragraph 183.</td>
</tr>
<tr>
<td>5. Higher than 2.5 times the separate provincial average estimate per learner in the primary and secondary phases of ordinary public schools respectively in the Fiscal year, following the date in paragraph 183.</td>
</tr>
</tbody>
</table>

Source: Government Gazette 29179, page 52
Subsidies are paid on a five-point progressive scale with 60 per cent of the PAEPL in public ordinary schools being the highest subsidy an independent school can receive (category 1), and 15 per cent the lowest (category 4), depending on the independent school’s fee level. Independent schools that charge fees of more than 2.5 times the PAEPL are not eligible for a subsidy.

Provincial departments can deviate from these norms, after consultation with the DBE, if the application of the norms will:

- cause the province’s expenditure on subsidies to independent schools to deviate from a three-year historical moving average by more than 10 per cent in real terms in any given year;
- contribute to over-expenditure on the province’s budget in the year they are applied; or
- result in the total independent school programme receiving year-to-year budget cuts (or increases) in any given year that are significantly larger (or smaller) than other programme areas in the province’s budget.

Note that the first and last of these two provisions are intended to protect the level of funding flowing to independent schools so as to ensure there is stability in the amount of subsidies.

The amount a province is required to spend on subsidies to independent schools is subject to the number of learners at eligible independent schools in the particular province, as well as the number of independent schools whose fees fall within categories 1–4. For instance, the Western Cape and Gauteng could have the same number of independent schools, but the number of independent schools that qualify for a subsidy in Gauteng may be very different to the number of qualifying schools in the Western Cape. It is therefore difficult to make direct comparisons between provinces.

**How the PAEPL is calculated**

On pages 52 and 53 of Government Gazette 29179, the NNSSF details how the PAEPL should be estimated. There are separate PAEPLs for primary and secondary learners. The following steps are involved:

1. The first step in estimating the PAEPL is to calculate the ratio between the sub-programmes for “Public Primary Schools” and “Public Secondary Schools”. The ratio differs by province and depends on the allocation to the two sub-programmes in the provinces. The differentiation is a policy decision, but does ensure that the PAEPLs are based on differential expenditure needs between primary and secondary learners.
2. The next step is to divide the budgeted amount for all other sub-programmes in the Public Ordinary Education programme between primary and secondary schools according to the ratio calculated in step one.
3. In the third step, the total budget for Primary Schools and the total budget for Secondary Schools are estimated.
4. In the fourth step, the PAEPL is calculated by dividing the respective budgets estimated in the third step by the number of respective learners in the province (primary learners are all Grade 1 to 7 learners at public ordinary schools, secondary school learners are all Grade 8 to 12 learners at public ordinary schools) as counted in the SNAP survey in the January of the given year.

It should be noted that provinces can and do change their budget structures from time to time. Generally, sub-programmes are not moved between programmes, but sub-programmes within a programme may be split into two or more sub-programmes or two or more sub-programmes may be grouped together to form one sub-programme. There is inconsistent practice across provinces with respect to showing conditional grants in Programme 2. For instance, in the 2013/14 MTEF budget Gauteng shows “conditional grants” as a sub-programme, whereas KwaZulu-Natal has a sub-programme for each of the conditional grants. Concerns have been raised that this affects the calculation of the PAEPL and subsidies to Independent Schools. The school funding norms explicitly require the sub-programmes for “Public Primary Schools” and “Public Secondary Schools” be separated out, and then the rest of the
calculations be applied to "all other sub-programmes". The sub-programmes Public Primary Schools and Public Secondary Schools are always sub-programmes of the Public Ordinary Schools Education Programme (programme 2). The structure of the other sub-programmes may change, but the total contents and therefore the combined value of those sub-programmes do not change. Gauteng changes the way they show conditional grants occasionally. This does not change the budgeted amounts for all the "other sub-programmes". This therefore does not impact on Step 2 noted above.
Annexure C: Provincial Spending on School Infrastructure

Information on the PEDs’ spending on education infrastructure was gathered from provincial budget documents available on the National Treasury website. The table below shows audited outcomes since 2003.

<table>
<thead>
<tr>
<th>Education Infrastructure</th>
<th>Audited Outcomes</th>
<th>Revised estimate</th>
<th>Medium-Term Estimates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eastern Cape</td>
<td>72,269</td>
<td>268,869</td>
<td>235,111</td>
</tr>
<tr>
<td>Free State</td>
<td>64,803</td>
<td>16,874</td>
<td>34,661</td>
</tr>
<tr>
<td>Gauteng</td>
<td>192,415</td>
<td>466,996</td>
<td>361,789</td>
</tr>
<tr>
<td>KwaZulu-Natal</td>
<td>417,953</td>
<td>440,498</td>
<td>677,835</td>
</tr>
<tr>
<td>Limpopo</td>
<td>272,538</td>
<td>352,479</td>
<td>360,849</td>
</tr>
<tr>
<td>Northern Cape</td>
<td>211,185</td>
<td>129,232</td>
<td>173,406</td>
</tr>
<tr>
<td>North West</td>
<td>23,966</td>
<td>158,574</td>
<td>30,056</td>
</tr>
<tr>
<td>Western Cape</td>
<td>149,915</td>
<td>128,842</td>
<td>234,179</td>
</tr>
<tr>
<td>Total</td>
<td>1,470,422</td>
<td>2,088,149</td>
<td>2,378,395</td>
</tr>
</tbody>
</table>

The data for 2003-2010 covers capital spending on public ordinary schools (programme 2). In the 2013 budget documents, programme 8 (Infrastructure Projects) was introduced and all capital spending was shifted into that programme. From 2011 onwards programme 8 data is used. It should be noted that most provinces’ data for programme 2 does not correlate with information that was later restated in programme 8. The Eastern Cape is the only province where the spending numbers on programmes 2 and 8 correlate. The Northern Cape budgets show the most inconsistency: in some years there is no budget allocation for capital infrastructure in programme 2. In this case, the total capital expenditure for the whole department was used.