



■ Education Budget Brief 2016

Public Service Accountability Monitor
Eastern Cape, South Africa



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Introduction

The South African Constitution commits government departments to the progressive realisation of various socio-economic rights within available resources. These rights include the right to education, healthcare, housing and social welfare.¹ The PSAM defines social accountability as the obligation by public officials and private service providers to justify their performance in progressively addressing the above rights via the provision of effective public services. In order to effectively realise these rights through the delivery of public services, state departments and private service providers responsible for the management of public resources must implement effective accountability and service delivery systems. These include: planning and resource allocation systems; expenditure management systems; performance monitoring systems; integrity systems; and oversight systems. The effectiveness of these systems can be established by monitoring their information outputs. To evaluate these systems, the PSAM has developed a set of evidence-based tools for monitoring the information produced annually by each system.

The South Africa government has committed to ensuring that it addresses the most pressing social and economic needs of those it serves through the prioritisation of public resources within the

¹ Constitution of the Republic of South Africa. Act 108 of 1996, Chapter 2, Sections 26, 27 and 29.

annual budget. This budget brief analyses the Eastern Cape Department of Education's ability to implement effective and efficient infrastructure delivery systems in 2016 as well as into the 2016/17 Medium Term Expenditure Framework.

Policy Priorities

Section 29 of the South African Constitution provides for every citizen's right to a basic education, including adult basic education.² On both the national and provincial scale, spending on education remains the single largest government budget allocation. Provincially, education has been allocated a total of R 31 billion- accounting for 44.5% of the total provincial budget for 2016/17- followed by the Department of Health at R 20.2 billion.³ In relation to national senior certificate (matric) pass rates and infrastructure, the Eastern Cape Department of Education has a history of high investment and poor returns. Some of the challenges that the Department faces are exacerbated by the fact that it is the largest Provincial Education Department in relation to the number of schools within its jurisdiction.⁴ It is the second largest, however, after KwaZulu-Natal in terms of learner and educator numbers.⁵

The Eastern Cape Treasury has increasingly played a significant oversight and supporting role within the provincial education sector. In outlining key challenges within its 2016/17 financial year- Provincial Treasury identifies the following priorities which are worth noting;

- i. The continued economic climate that continues to have adverse impacts on the overall fiscal outlook as well as revenue collection
- ii. A resulting reduction in the provincial equitable share over the MTEF period (2016/17 to 2018/19) of R 2.1 billion
- iii. A reduction of Treasury's own budget over the same period of R 169.5 million
- iv. And- perhaps most worryingly- that *"Since the implementation of the PFMA⁶ and MFMA⁷ started, many Eastern Cape departments and municipalities are still grappling with the implementation of basic fundamental principles of financial accounting and management thus leading to poor audit outcomes"*⁸

Provincial Treasury plans for 2016/17 include further shoring up of support for infrastructure delivery and procurement with a particular focus on the Eastern Cape Department of Education (ECDoE). Over the MTEF- Treasury will place greater emphasis on *"... socioeconomic infrastructure backlogs, by developing (the) Provincial Infrastructure Delivery Framework (PIDF)"* According to the Provincial Treasury, the objective of the PIDF is to provide support to provincial departments in the

² Constitution of the Republic of South Africa, Act 108 of 1996, Chapter 2, Section 29; Subsection 1a

³ Eastern Cape Provincial Treasury. 2016. *Estimates of Provincial Revenue and Expenditure 2016/1*. Vote 6; Education. p. 292

⁴ It is not currently clear how the current processes of school closures will impact on the overall comparative size of this provincial education department as these plan remain in flux.

⁵ Eastern Cape Department of Education, *Five-year Strategic Plan 2009/10-2015/16*.

⁶ Public Finance Management Act

⁷ Municipal Finance Management Act

⁸ Eastern Cape Provincial Treasury. 2016. *Estimates of Provincial Revenue and Expenditure 2016/17*. Vote 12: Provincial Treasury. p. 675.

implementation of long term plans and in the monitoring of infrastructure performance in order to “enhance public spending and ensure value for money”.⁹

It is evident that the Provincial Treasury has prioritised the ECDoE through the allocation of its own departmental equitable share in order to provide critical support. In certain programmes specific line items such as Goods and Services and Compensation of Employees have seen increases in order to cater for the ECDoE ‘administrative intervention strategy’ which entails both financial governance and human resource capacity support.¹⁰ Included in these interventions is the staffing of the Treasury’s Technical Support Unit (TSU).

Fourth Quarter Spending Results for 2016: Implications for Poor Education Capital Expenditure and the Power of Provincial Department

The National Development Plan (NDP) recognises investment in public infrastructure as a priority in not only for its role in economic development but for its potential role in the creation of inclusive growth and development opportunities.¹¹ Such investment, according to the NDP, should focus on poor communities that have experienced decades of neglect and under-investment within water, transport, social and telecommunication infrastructure (NDP, 2013). The NDP further highlights that public infrastructure investment is at “low levels by historical standards” - necessitating higher levels of capital spending on infrastructure if the pace of growth is to be faster and more inclusive.

In the national budget tabled by the Minister of Finance in February 2016, national infrastructure projects were allocated a total of R 129.5 billion across all government departments. The fourth quarter spending results emanating from the 2015/16 fiscus paint a rather dreary picture in relation to provincial capital expenditure particularly in the Eastern Cape. This is despite government intentions to shift spending trends away from consumption spending towards expenditure on capital assets. This budget brief seeks to highlight concerns relating to capital spending and maintenance expenditure with a specific focus on basic education at the provincial level. Two key questions arise;

- i. to what extent are provinces or provincial education departments genuinely able to influence spending priorities within the sector and
- ii. what are the implications of poor spending on capital projects on provincial education delivery?

In addition to this, four key trends emerge from the 2015/16 provincial financial results and 2016 Division of Revenue Act;

- i. There is an overall low investment in education infrastructure maintenance and within that there exists low spending of resources available for maintenance
- ii. A majority of provinces depend almost entirely on conditional grant funding for infrastructure development

⁹ Eastern Cape Provincial Treasury. 2016. *Estimates of Provincial Revenue and Expenditure 2016/17*. Vote 12: Provincial Treasury. p. 676.

¹⁰ Eastern Cape Provincial Treasury. 2016. *Estimates of Provincial Revenue and Expenditure 2016/17*. Vote 12: Provincial Treasury. p. 674, 690-691.

¹¹ National Planning Commission. 2011. *National Development Plan 2030: Our Future – Make it Work*. Pretoria: National Planning Commission.

- iii. The Eastern Cape reflects the lowest levels of capital expenditure despite being one of three provinces with the most severe capital needs
- iv. While provinces are responsible for the execution of education budgets, the degree to which they are able to influence spending priorities and allocations in favour of capital spending seems disproportionately limited

The 4th quarter financial results reflect some positive expenditure trends in the Eastern Cape- although the province illustrated the lowest spending across all nine provinces overall (96.8% of its total allocation).¹² Some of the arguable improvements in spending include;

- i. A gradual curbing of over-expenditure trends within the personnel line item at 97.3% of the R 23.3 billion adjusted budget for 2015/16 for education
- ii. An overall increase (10.6%) in year-on-year provincial capital expenditure (albeit within the context of low expenditure as compared to other provinces)

I. Low investment in Infrastructure Maintenance: Building towards a Bigger Backlog Burden!

In 2011, a report by the South African Institute of Civil Engineers (SAICE) found that;

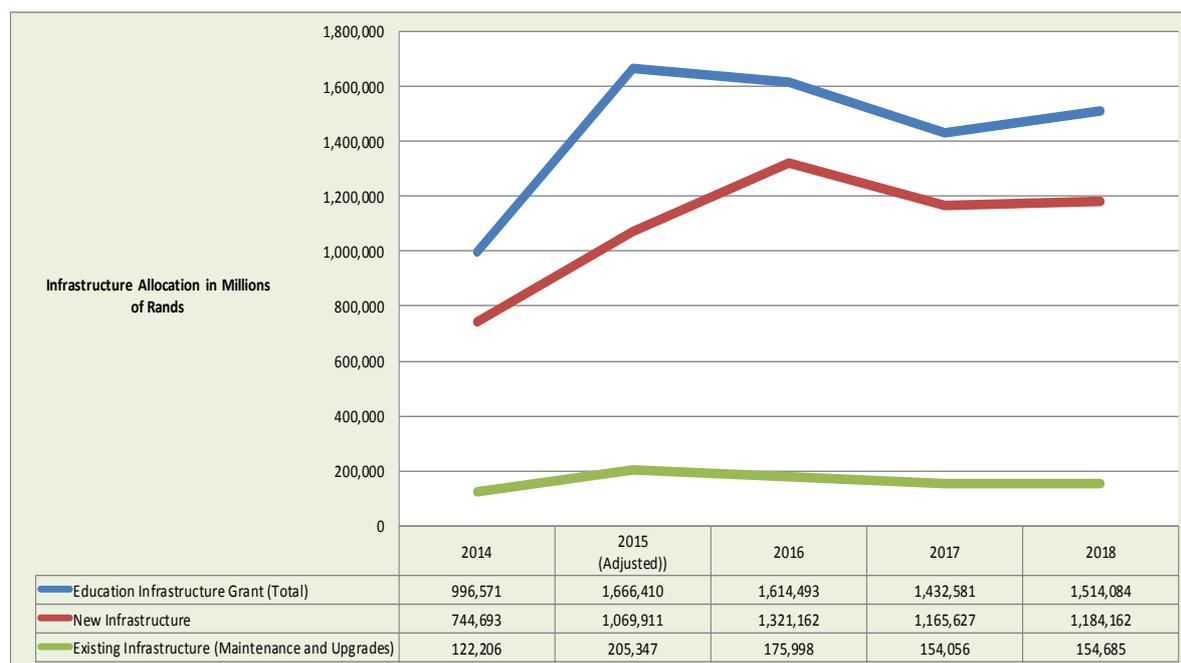
“In general, maintenance of education infrastructure in South Africa has been limited, resulting in conditions deteriorating across all provinces. However, there is some variation in school infrastructure condition, with urban and ex-Model C schools being generally better maintained than rural schools. Degradation over time means that many schools now need urgent maintenance to ensure environments are suitable for teaching and learning, and to avoid expensive unplanned repairs.”

This finding emphasises the notion that poor investment in the general upkeep of schools often proves overwhelmingly difficult to redress in the medium to long-term. It also implies that the current trends in maintenance may well serve to deepen inequality as far as the school infrastructure quality is concerned with better-resourced, wealthier schools being better maintained than rural schools. There is no shortage of schools across the provinces that are examples of the severe deterioration that results from inadequate building maintenance. Without improved spending on maintenance, this burden can only worsen. This is particularly pertinent in provinces where substantial new school infrastructure investments are planned. It is imperative that plans to build new schools are accompanied by carefully costed, strategic maintenance plans that accommodate under-resourced schools whose annual budgets do not adequately cover maintenance costs.

Figure 1 below reflects the expenditure and allocation trends between 2014/15 and the 2016/17 Medium Term Expenditure Framework (MTEF). While both the Education Infrastructure Grant and the specific budget for new infrastructure exhibit general increasing trends over the period- the maintenance budget does not. Remaining below R 200 million (with the exception of the 2015/16 Adjusted Appropriation, the maintenance budget decreases between 2015/16 and 2016/17 by approximately 14.29% (see Figure 2).

¹² National Treasury of the Republic of South Africa. 2016. Media Release: May 2016: Provincial Budgets 2015/16 Financial Year 4th Quarter Year to Date Provincial Budgets and Expenditure Reports (Preliminary Outcomes)

Figure 1: Eastern Cape Infrastructure Budget Trends (2014/15 – 2018/19 (projected))



A further decrease within the MTEF is projected from an estimate of R 176 million in 2016/17 to R 154 million in 2017/18. The projected nominal increase between 2017/18 and 2018/19 is a meagre R 629 000.00 to an estimated R 154.5 million. It is important to note that the costed maintenance budget accounts for existing infrastructure only and not new infrastructure built over the same period.

It is also worth noting that across all three infrastructure programmes listed in Figure 1 there is a projected decrease in budget allocations which is not clearly explained in the 2016/17 provincial estimates of expenditure and revenue. However, as provincial infrastructure plans and budgets must be carefully aligned to meet sectoral priorities- an analysis of the department's strategic plans alongside budget priorities should easily yield this information.¹³

II. Provincial Dependence on Conditional Grants for Education Infrastructure

The Eastern Cape Province allocates only 6% (R 100 million) from the Education equitable share towards education infrastructure (Table 1). The rest is accommodated within the national, centrally controlled conditional grant. Thus the 2016/17 the conditional grant allocation for education infrastructure was R 1.6 billion of a total infrastructure budget of R 1.7 billion. This is the third highest infrastructure allocation to the province rivalled only by Human Settlements at just under R 2 billion and the Department of Roads and Public Works at R 2.2 billion. For the former- this entire allocation is accommodated within the conditional grant while for Public Works 36% of the allocation is from the within the province (Table 1). Several provincial departments with infrastructure budgets ranging from R 9.1 million to R 526.6 million fund their infrastructure entirely

¹³ The PSAM published annual Strategic Plan Evaluations that seek to determine the extent to which government department plans effectively plan to utilise public resources to deliver against 'SMART' objectives.

from the equitable share namely; Social Development, the Office of the Premier, Transport, Provincial Treasury and the Department of Cooperative Governance and Traditional Affairs.

While not explicitly identified as a rural development programme in national policy, the eradication of infrastructure backlogs has a direct bearing on the delivery of social programmes in rural areas. To this extent - the heavy leaning on nationally controlled conditional grant should raise questions of effectiveness as well of the extent of responsiveness of such grants to heterogeneous, highly dynamic rural contexts such as the Eastern Cape.

Table 1: Equitable Share vs Conditional Grant Infrastructure Allocations by Department (2016/17 Division of Revenue)¹⁴

DEPARTMENT	TOTAL INFRASTRUCTURE BUDGET (2016/17) R MILLION	CONDITIONAL GRANT ALLOCATION R MILLION	EQUITABLE SHARE ALLOCATION R MILLION	CONTRIBUTION FROM EQUITABLE SHARE AS A %E OF TOTAL INFRA. BUDGET
Education	1,714,493	1,614,493	100,000	6%
Health	1,402,776	622,867	779,909	56%
Human Settlements	1,991,457	1,991,457	0	0%
Social Development	55,517	0	55,517	100%
The Office of the Premier	4,600	0	4,600	100%
Transport	9,100	0	9,100	100%
Provincial Treasury	526,600	0	526,600	100%
Sports, Recreation, Arts and Culture	43,200	24,450	18,750	43%
Cooperative Governance and Traditional Affairs	10,004	0	10,004	100%
Rural Development and Agrarian Reform	196,695	108,195	88,500	45%
Roads and Public Works	2,159,713	1,373,677	786,036	36%

In addition to higher infrastructure conditional grant allocations to rural provinces;

- what other measures are taken to ensure budgets respond effectively and efficiently to identified needs?
- are allocations primarily based on the number of projects identified or are there other considerations that are taken into account such as topographical, spatial, geological and social condition that influence allocations?¹⁵
- what measures are in place to ensure not only the optimal use of available resources but also accurate alignment of infrastructure needs to resources at the provincial level?

¹⁴ Eastern Cape Provincial Treasury. 2016. *Eastern Cape Estimates of Provincial Revenue and Expenditure 2016/17*. 772 pp.

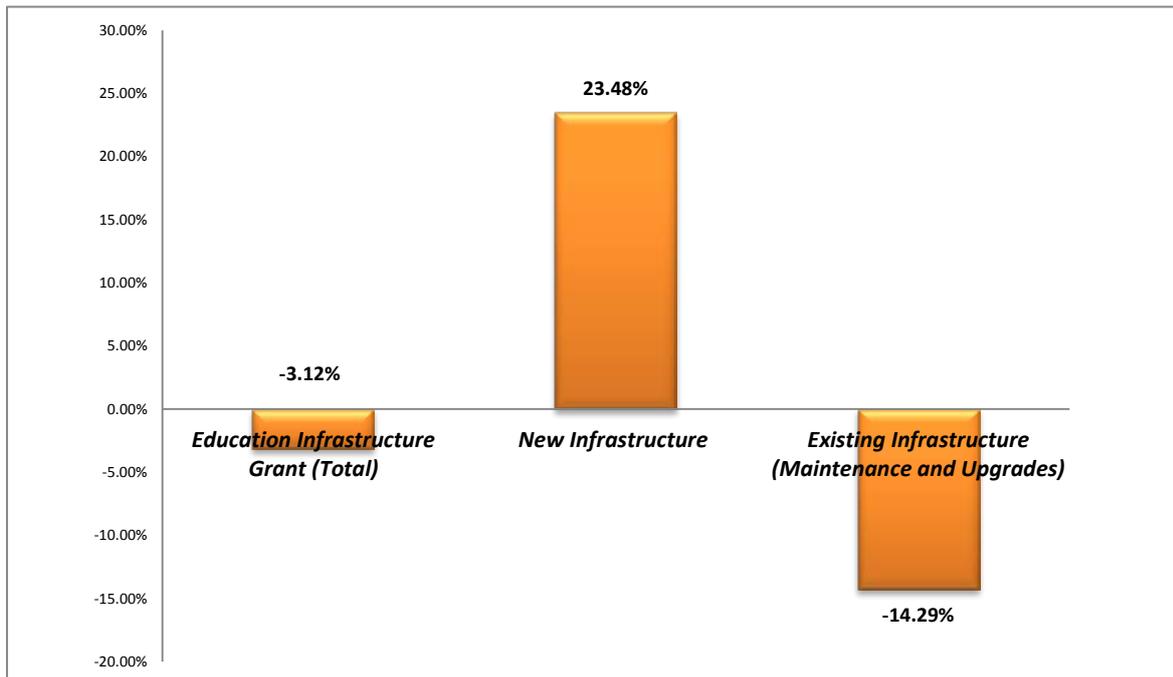
[NOTE: The Departments of Safety and Liaison, Provincial Legislature and Economic Development, Environmental Affairs and Tourism have been omitted from this table given negligible infrastructure budgets]

¹⁵ A recent circular dated 8th June 2016 and issued by the National Treasury's Office of the Chief Procurement Officer (entitled "*Cost Model for the Establishment of Control Budgets for Primary and Secondary Schools*") explicitly identifies characteristics such as topography and climatic variation in relation to 'extraordinary development conditions' that might necessitate changes to standard school building classifications- and possibly their costing. It is not evident, however, whether this model has previously been utilised in relevant provincial contexts in the interest of optimising infrastructure expenditure.

- how is the sustainability of current infrastructure funding mechanisms for education infrastructure determined?

The Financial and Fiscal Commission (2016:100), for instance, argues that provincial health and education allocations from the conditional grants, while exhibiting a rural bias, do not easily demonstrate the extent to which these investments in public infrastructure have contributed to eradicating the rural infrastructure backlogs that they are intended to address.

Figure 2: Percentage (Nominal) Change in Education Infrastructure Allocations between 2015/16 and 2016/17¹⁶



The Education Infrastructure Grant (EIG) is the primary conditional grant through which the national government disbursed funds targeted specifically towards the building of schools. The decrease noted in Figure 2 of 14.3% towards maintenance of existing infrastructure is partially explained by the Eastern Cape Treasury as being due to;

“... prioritisation of new infrastructure assets as a result of rationalisation of small schools, realignment of schools and the provision of water, electricity, and sanitations (sic) to schools that do not have these basic services...”¹⁷

While these are clearly important projects- careful strategic planning should ensure that both infrastructure priorities and planned future projects are better accommodated without the need to

¹⁶ Eastern Cape Provincial Treasury. 2016. *Eastern Cape Estimates of Provincial Revenue and Expenditure 2016/17*. 772 pp.

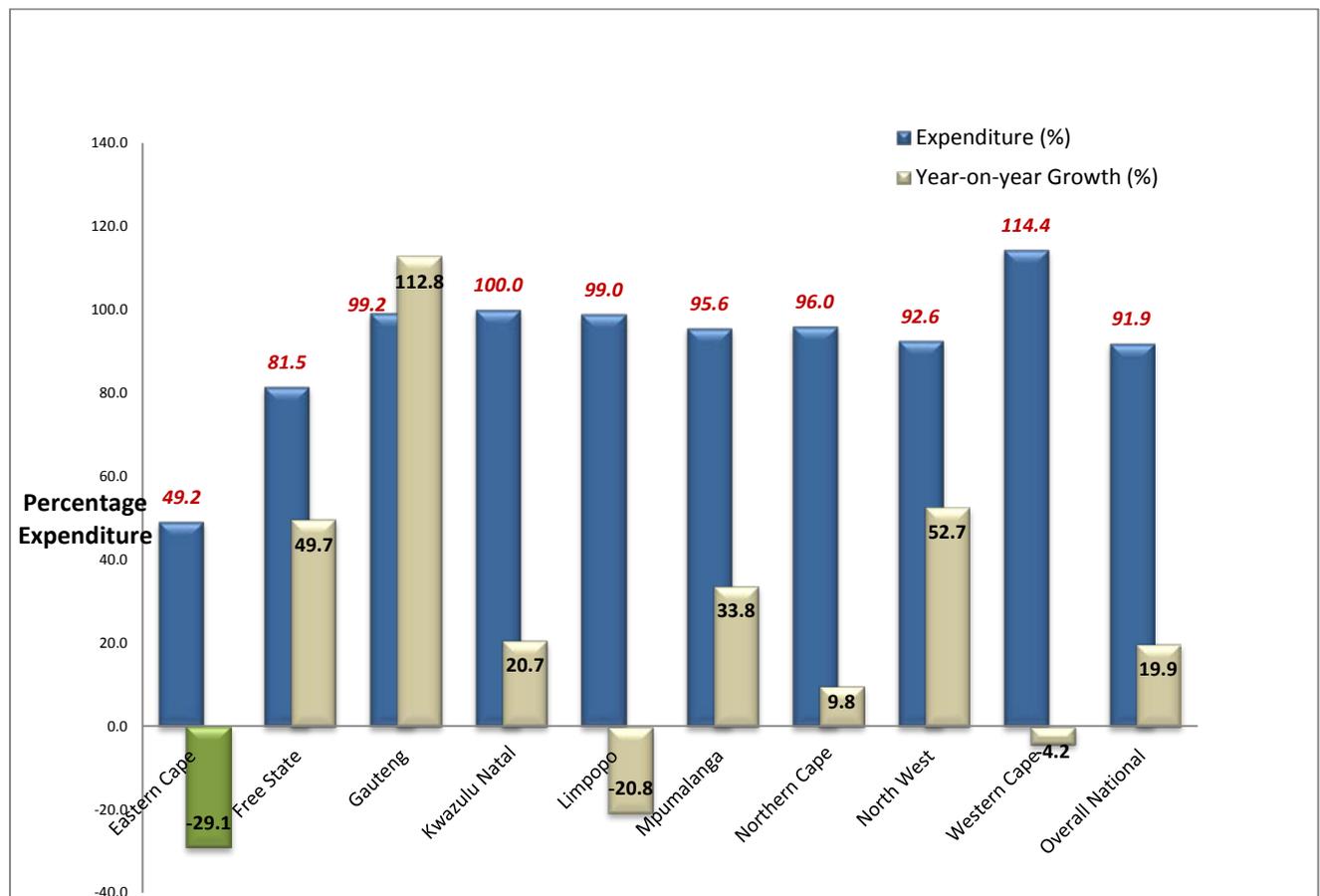
¹⁷ Eastern Cape Provincial Treasury. 2016. *Eastern Cape Estimates of Provincial Revenue and Expenditure 2016/17: Vote 6: Education*. P. 294.

abruptly decrease expenditure on something as critical as maintenance. There can be little justification of, in effect, allowing further deterioration of existing infrastructure in favour of new assets which may well also have a compromised lifecycle as a result of under-prioritisation of maintenance.

III. Under Spending on Capital Expenditure for Education; “Forgone or Postponed Investments”

According to National Treasury (2016), the South African government has sought to limit expenditure on the consumption (such as wages and goods and services) and move towards improved capital expenditure.¹⁸ Underspensing on capital assets as reflected in Figure 3 below is especially noteworthy in predominantly rural provinces. Across the 9 provinces- the Eastern Cape exhibits the lowest capital expenditure for Education and is the sole province with an expenditure outcome below 50%. Secondly, a comparative glance at the year-on-year growth figures (Figure 3) shows that the province is one of only three that have seen a reduction in spending from 2014/15 at 29.1% followed by Limpopo at 20.8% and the Western Cape at 4.2%.

Figure 3: illustration of 2015/16 Provincial Capital Expenditure and Year-on-Year changes (2014/15 to 2015/16) Adapted from National Treasury Outcomes Bulletin, May 2016



¹⁸¹⁸ National Treasury of the Republic of South Africa. 2016. *Process and Structures for the 2016 Budget*.

Available Online:

<http://www.treasury.gov.za/publications/guidelines/Process%20and%20structures%20for%20the%202016%20Budget.pdf>

What implications does this have for the delivery of public education services? The Financial and Fiscal Commission (FFC) outlines that under spending at the municipal level, for example, means that municipalities fail to adequately prioritise pressing infrastructure needs such as maintenance, implying ineffective and inefficient resource use and “*forgone or postponed investments*”.¹⁹

There is therefore an undeniable need not only to arrest these trends but to also ensure that continuous monitoring and evaluation of capital expenditure projects is undertaken on a regular and rigorous basis. Both National and Provincial Treasury must create - and publicise- clear accountability and oversight mechanisms through which departments such as the ECDoE can be supported and held to account for education service delivery failures.

IV. How much control do Provincial Education Departments *really* have over Education Budgets?

*“In spite of what appears to be an elaborate budgetary decision-making process, provinces have little or insignificant control over a considerable proportion of expenditure items. More than 90% of primary and secondary school allocations are earmarked for employees’ salaries, leaving provinces with fewer resources for other essential non-personnel non-capital (NPNC) education inputs, such as learning and teaching support material (LTSM), school maintenance and other day-to-day operational costs.”*²⁰

The FFC’s observation above is important to consider in the context of provincial maintenance challenges. In addition to this- and related to Section 2 on Conditional Grants- it is important to consider the extent to which infrastructure allocations can be influenced at the provincial level when the majority of the budget for key departments emanate from Conditional Grants (Table 1 and Table 2).

Table 2: Eastern Cape Provincial Departments Infrastructure Allocations as a % of Total Provincial and Departmental Equitable Share Allocation (2016/16 Budget)²¹

DEPARTMENT	TOTAL BUDGET IN R MILLION (2016/17)	TOTAL INFRASTRUCTURE BUDGET IN R MILLION	INFRASTRUCTURE AS A PERCENTAGE OF TOTAL DEPARTMENT BUDGET	DEPT. INFRASTRUCTURE AS A PERCENTAGE OF PROVINCIAL BUDGET
<i>Education</i>	31,002,644	1,714,493	5.53%	2.46%
<i>Health</i>	20,244,339	1,402,776	6.93%	2.02%
<i>Human Settlements</i>	2,349,036	1,991,457	84.78%	2.86%
<i>Social Development</i>	2,383,626	55,517	2.33%	0.08%
<i>The Office of the Premier</i>	585,519	4,600	0.79%	0.01%
<i>Transport</i>	1,750,698	9,100	0.52%	0.01%
<i>Provincial Treasury</i>	1,034,013	526,600	50.93%	0.76%
<i>Sports, Recreation, Arts and Culture</i>	843,698	43,200	5.12%	0.06%

¹⁹ Financial and Fiscal Commission (FFC). 2016. Submission for the Division of Revenue 2017/18, May 2016.

²⁰ Financial and Fiscal Commission (FFC). 2014. *Chapter 4: Equitable Resourcing of Schools for Better Outcomes in Submission for the Division of Revenue 2015/16: For an Equitable Sharing of National Revenue*. p.56.

²¹ Eastern Cape Provincial Treasury. 2016. *Eastern Cape Estimates of Provincial Revenue and Expenditure 2016/17*. 772 pp.

<i>Safety and Liaison</i>	89,273	0	0.00%	0.00%
<i>Cooperative Governance and Traditional Affairs</i>	1,010,156	10,004	0.99%	0.01%
<i>Rural Development and Agrarian Reform</i>	2,209,319	196,695	8.90%	0.28%
<i>Roads and Public Works</i>	4,459,193	2,159,713	48.43%	3.10%
<i>Provincial Legislature</i>	481,930	0	0.00%	0.00%
<i>Economic Development, Environmental Affairs and Tourism</i>	1,147,490	0	0.00%	0.00%
<i>Eastern Cape Province</i>	69,590,934	8,114,155	11.66%	11.66%

Conclusion

While there have been some positive changes in the overall expenditure patterns of the Eastern Cape Department of Education at the end of 2015/16; the under-spent capital budget presents a worrying scenario. The explicit reductions in school infrastructure maintenance budgets within the 2016/17 Medium Term Expenditure Framework presents further concern given the context of increased maintenance needs of existing infrastructure and new infrastructure currently being built. The delaying and overall under-prioritisation of maintenance is likely to add to backlog burdens in the not too-distant future. This must become a provincial strategic priority. An additional concern is the extent to which current funding mechanisms- primarily through conditional grants- effectively, efficiently and sustainably respond to provincial infrastructure needs.

To address these and other fundamental questions; the Eastern Cape Treasury, Eastern Cape Legislature and National Treasury must collectively create better planning and monitoring and evaluation structures not only to perform oversight of departmental infrastructure projects and effect accountability but (perhaps most importantly) to provide critical administrative and technical support. The current pace and efficiency with which education infrastructure projects are rolled out in the Eastern Cape continues to perpetuate historical patterns that served to marginalise poor rural communities. It is therefore incumbent not only on the ECDoe to ensure that this changes but on the provincial Legislature and Treasury departments to ensure that they carry out their legislated mandates tirelessly and rigorously.



Above: A combination of policy, planning and governance failures resulted in the vandalising of this school in Grahamstown to a point beyond repair. This followed its closure due to low learner numbers amongst other problems. [Photographer: Z. Kota]

Acknowledgements

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