

Transformation in Provincial Education Budgets: The Case of the Free State Education Department's Budget 2002/03

By Russell Wildeman and Sasha Poggenpoel¹

Budget Brief No. 121
December 2002

For more information contact Russell Wildeman at russel@idasact.org.za or tel.: (021) 467-5653.

Executive Summary

The key findings of this study are:

- Free State's provincial equitable share grew by almost 7% from last year, while over the MTEF, it is projected to grow by 10.5%.
- In contrast, the provincial education budget declines by 2.4% from last year and is projected to grow by less than 1% in real terms over the MTEF.
- Because of under-estimation of salary and inflation related costs, the subsequent funding deficit resulted in reductions in capital expenditure and transfers to households.
- Capital spending is however projected to recover over the MTEF and the Free State Department of Education plans to effect a better balance between school construction and the maintenance and renovation of the existing building stock.
- The public school budget increases by less than 1% from last year, and is expected to grow by 2.7% over the MTEF. The maintenance part of the school funding norms was reduced, while the Learner Support Material component actually increased in real terms.
- The most significant growth rates were recorded for Special Education and ECD, which are projected to grow by 6.8% and 164% respectively over the MTEF. In the case of ECD spending, real growth is caused by increases in the number of community-based ECD sites funded.
- Free State is only now beginning to develop funding systems for the ECD, ABET and FET-technical college programmes to address transformation needs in the province.
- With the exception of public schools, no form of explicit poverty targeting exists for the main programme budgets, and we argue that given huge learning needs and limited budgets, poverty targeting is inevitable in the nearby future.

¹ Sasha Poggenpoel is an intern based in the Provincial Fiscal Analysis Project.

1. Introduction

Provincial education departments are under increasing pressure to deliver services and extend access to quality education for poor learners. This may sound simple enough, but when education budgets do not grow in real terms and the majority of schooling communities are poor, the stakes are considerably higher. Demands for the transformation of programme budgets to serve poor constituencies imply that additional space has to be found in the budget to continue implementing both existing policies as well as some of the new policy and legislative challenges in education. Provincial education departments are therefore in a position where both the maintenance and transformation of key service delivery programmes are called for. Additional fiscal resources would have enabled education departments to deal with this situation, but all such actions must now take place within a context of budgets that are not predicted to grow. Re-allocating funding, terminating some programme activities and effecting efficiency savings in the budget are some of the potential measures that would apply in this situation. In summarising the main challenge faced by departments, it could be argued that:

- on the one hand, they have to **maintain** programme budgets that are not predicted to grow in real terms over the medium term,
- on the other hand, they have to engineer programme budgets that must become more responsive to national and provincial service delivery needs that involve **development and transformation**.²

From the problem stated above, this study aims to answer the following questions in the budget of Free State Department of Education:

- A description of aggregate growth patterns in the Free State Department of Education's budget for 2002/03 and over the medium term.
- A programme analysis assessing programme budgets and their relationship to sectoral policy developments.
- A description of the state of transformation in the department's budget and implications for service delivery to poor schooling communities.

2. Aggregate growth patterns in the Free State Department of Education's budget 2002/03 and the medium term

As of this year, National Treasury has implemented a revision to the horizontal equitable share formula. Previously, enrolment numbers were based solely on Census 1996 data. In 2002/03, the formula for the education component has been updated to include average provincial education enrolment over the academic years 1998, 1999 and 2000. The primary motivation was to have more accurate enrolment numbers on which to base the division of education funds in the equitable shares formula.

² "Transformation" refers to the adjustment of programme budgets to accommodate new spending demands as a result of key policy shifts and changes. Transformation implies either the addition of new cost drivers and variables that cannot be funded from the current programme budget, or structural changes in the programme budget to accommodate new spending demands.

Table 1: FSED's share of the education component in the horizontal split formula (in thousands)

	2001	2002
Enrolment		
Provincial Enrolments	12335	12184
FSED's Enrolment	808	784
FSED's percentage share of total enrolment	2.2	2.1
School Age		
Provincial School Age Totals	10930	10930
FSED's School Age Totals	680	680
FSED's percentage share of School-Age	4.2	4.2
FSED's percentage share of the total provincial education share	6.3	6.3

Source: Adapted from Budget Review 2002

Table 1 shows clearly that this change did not have any impact on the share allocated to the Free State Provincial Government—the figure remains static at 6.3%. What the table does reflect is a significant reduction in enrolment numbers from the 1996-based Census figures of 2001 to the average enrolment for the last three academic years used in 2002. The new enrolment numbers evince a 24% reduction from the 1996 estimates, but we should be careful to remember that this decline reflects a consistent decline in learner numbers over the last few years. Also pertinent here is growing evidence of migration patterns, and it is not surprising that neighbouring Gauteng has actually increased enrolment numbers in the latest 2002 weighted enrolment estimates. Part of the objective of this brief would be to examine how declining learner numbers impact on various parts of the education budget.

Table 2 provides a breakdown of the provincial equitable share and the Free State's share of these resources.

Table 2: Free State's provincial equitable share allocations and allocations made to the Free State Department of Education, 2001/02 to 2004/05 (R'000)

	Est. Actual 2001	Voted 2002/03	MTEF 2003/04	MTEF 2004/05	Real Change from Est. Actual 2001/02 to 2002/03³	Real Change over the period Est. Actual 2001/02 to 2004/05	Real average change over the period 2001/02 to 2004/05
The total equitable share for the FS Province	7017865	7996034	8538456	9111482	6.98%	10.58%	3.53%
41% of the Provincial Equitable Share	2877325	3278374	3500767	3735707.6	6.98%	10.58%	3.53%
FS Education Department's actual share (less conditional grants & own revenue)⁴	3289793	3192058	3381366	3593752	-6.10%	-6.96%	-2.32%
Total Budget for FS Education Department⁵ (including conditional grants, own revenue and supplementary allocations⁶)	3368536	3479950	3697850	3966850	-3.00%	0.30%	0.10%

Source: Free State Provincial Government 2002

³ In this, and all subsequent tables, GDP deflators were used to adjust the nominal time series for projected inflation. 2001/02 was used as the base year, 2002/03 (1.065), 2003/04 (1.12251), and 2004/05 (1.174145).

⁴ In order to calculate the equitable shares that the Free State Education Department actually receives from Provincial Treasury, only the budgeted amounts that are on the education department's budget were used. This means that spending by Public Works was not used to arrive at the equitable share allocation of the Free State Education Department.

⁵ These numbers still exclude Public Works spending. These figures are, however, included in the economic classification and programme spending tables. This is done to reflect more comprehensively what actually accrues to the education department, its learners and institutions.

⁶ The supplementary allocation is a grant received by provincial treasury (from its national treasury) and is to be used to supplement budgets where necessary or to aid departments in improving their financial management. The conditions attached to this type of grant relate to, for example, compliance with the PFMA, taking active steps to improve own revenue, etc.

Transformation in Provincial Education Budgets: The Case of the Free State Education Department's Budget 2002/03

Key observations in table 2 are:

- From last year, the equitable share allocated to the Free State has increased by almost 7%.
- The equitable share allocated to Free State is projected to grow by 10.58% over the entire MTEF at a real annual average growth rate of 3.53%.
- Education's share of the equitable share has declined by 6.10% from the last financial year. Negative growth of almost 7% is projected over the MTEF.
- What the table seems to reflect is that while the total equitable share allocated to the Free State Province projects demonstrable real growth, the education department does not seem to share in this growth. This could be due to reprioritisation⁷ within the province, or as a result of policy uncertainty surrounding the funding of key education programmes⁸.
- The total education budget (including conditional grants, own revenue and the supplementary allocation) actually declines by 3% in real terms from last year, while remaining static over the MTEF.

Table 3 provides information on the economic classification of spending in the Free State education budget.

Table 3: The economic classification of education expenditure in the Free State, 2001/02 to 2004/05 (R'000)⁹

R'000	Est. Actual 2001	Voted 2002/03	MTEF 2003/04	MTEF 2004/05	Real Change from Est. Actual 2001/02 to 2002/03	Real Change over the period Est. Actual 2001/02 to 2004/05	Real average annual change over the period Est. Actual 2001/02 to 2004/05
Current Expenditure							
Salaries and wages ¹⁰	2812064	2953763	3133906	3333914	-1.37%	0.97%	0.32%
Use of goods and services	327651	271733	257401	265550	-22.13%	-30.97%	-10.32%
<i>Transfer</i>							

⁷ The Free State is placing greater emphasis on economic activities as a result of its high unemployment rate. Source: Free State Provincial Budget (2002:2).

⁸ Funding norms for the ECD and ABET sectors must still be published by the national Department of Education. In the case of FET, provincial education departments are still grappling with the practical implementation of programme-based funding.

⁹ If one adds the sub-totals for current expenditure and capital expenditure (excluding extra-departmental spending), then the amounts tally with the budgeted figures in official documentation of the provincial government budget. This applies to all financial years in the table.

¹⁰ Salaries and Wages also include 'other remuneration,' which includes non-wage benefits.

Transformation in Provincial Education Budgets: The Case of the Free State Education Department's Budget 2002/03

<i>Payments</i>							
Local Government	6336	7672	8064	8443	13.70%	13.49%	4.50%
Households	8767	2013	4013	6013	-78.44%	-41.59%	-13.86%
Non-profit organisations	50824	100435	139461	146529	85.55%	145.55%	48.52%
Sub-Total Current Spending	3205642	3335616	3542845	3760449	-2.30%	-0.09%	-0.03%
Total Current	3205642	3335616	3542845	3760449	-2.30%	-0.09%	-0.03%
Capital Expenditure							
Building and structures	125827	116326	131782	180083	-13.19%	21.89%	7.30%
Machinery and equipment	37067	28008	23223	26318	-29.05%	-39.53%	-13.18%
Sub-Total Capital	162894	144334	155005	206401	-16.80%	7.92%	2.64%
<i>Plus spending by Public Works¹¹</i>		21116	22172	23502	-0.95% ¹²		
Total Capital	162894	165450	177177	229903	-4.63%	20.20%	6.73%
Total GFS expenditure	3368536	3501066	3720022	3990352	-2.41%	0.89%	0.30%

Source: Free State Provincial Government 2002

Before we attempt a discussion of the main expenditure categories, we comment briefly on the assumptions, which have informed the construction of the provincial education budget. In terms of the budget process, National Treasury provides inflation and other salary-related forecast to departments in the previous financial year. Departments accordingly use this information to budget for annual increases. In the financial year 2001/02, departments were provided with a projected 5.5% increase for salary-related and inflationary costs. This turned out to be an under-estimation as revised estimates indicate a 9% increase in salary and inflation-related costs. This obviously left the education department with a funding deficit it did not plan for. Given the fact that salaries are determined nationally, this expenditure item constitutes the first claim on additional resources. Adjustments for salary and inflationary costs were made with the publication of the Medium Term Budget Policy Statement (MTBPS), but this does not negate the funding difficulties and trade-offs that had to be made at the start of the financial year. The discussion that follows, therefore attempts to understand the impact that under-estimated salary and inflationary forecasts had on the non-personnel part of the education budget.

¹¹ The amount in the Public Works, Roads and Transport Vote contains allocations for capital in the strict economic sense. This implies that all allocations for maintenance/repairs occur in the Education budget.

¹² Since no amount for 2001/02 is available, the figure here reflects the real change from 2002/03 to 2004/05, i.e. this figure therefore reflects a change for two, not three years.

Personnel Expenditure

Personnel expenditure decreases by 1.37% from last year. Examining personnel expenditure over the entire MTEF shows that the Free State Education Department is keeping real growth of this expenditure component below 1%. Since 1996 just over 1380 severance packages had been approved. As at October 2002, from a total of 23 373 educators, 387 educators were classified as being in excess.¹³ The majority of these educators are employed in public schools and very few of the lecturers remaining at teaching colleges are included in this number. In addition, between 2000 and 2001, 613 promotional posts had been created. According to the Department, further promotional posts could not be created in 2002/03 due to lack of funds. This reflects a broader concern that the filling of these management posts are urgent, especially in the light of evidence that cites management and the quality of management as crucial components in the overall success of schools.¹⁴ The main dynamics in personnel provisioning in the province are summarised in the following bullets:

- According to the Free State department of education, the merging of farm schools does not have an impact on the provisioning of personnel. Farm schools present a problem because of the small average size of these schools, learner educator ratios tend to be relatively low, thus leaving other schools with relatively high learner educator ratios. Free State argues that in most instances, educators have to relocate to other schools or be retained by the merged school until such time when a post becomes available.
- The department still pays the salaries of some pre-school educators that were registered as state-aided schools before the 1994 election. The department plans to phase-out these posts when they become vacant due to natural attrition, even though no time period has been set for the phasing-out process. The main plan is to phase-out all publicly funded personnel posts in the ECD sector and converts these to subsidy per learner funding.
- Uncertainty in the restructuring of the technical colleges sector is cited as the main reason why the department of education is not yet in a position to estimate the impact of restructuring on educator provisioning.
- With the incorporation of teaching colleges into the higher education system, lecturers were offered severance packages. Some lecturers have been absorbed within education departmental posts, whereas others remain at the Teacher College to oversee final examinations for those students who are about to complete their studies in 2003. It is not yet clear how these remaining lecturers will be accommodated once the pipeline students have finally been phased-out.

Uncertainties in the ECD and technical college sectors make it difficult to obtain an unambiguous picture of future personnel provisioning in the department. This may indirectly impact on the ability of the department to fund the additional promotional posts it sees as an important priority. The fact that many schools-and most likely historically disadvantaged schools- are not yet properly provided for with the necessary management staff is great cause for concern. There may indeed be a very strong

¹³ 'Educators in excess' refers to permanently appointed educators in the employ of the Free State Education Department whose posts have been scrapped. Scrapping of posts takes place when posts are converted into subsidies, or when, in terms of a department's post-establishment provisions, some institutions have more educators than formally funded posts.

¹⁴ Crouch, L and Mabogoane, T (1998) *No magic bullets, just tracer bullets*

correlation between these schools and scores of dysfunctional schools identified in the department's 2001 Annual Report. The funding deficit in 2002/03 has therefore worsened the redress of these personnel imbalances, and it remains unclear whether the education department would secure the resources in the medium term to address personnel backlogs.

Additional complications in personnel provisioning could result from the new personnel provisions issues by the national Department of Education.¹⁵ This model introduces poverty targeting and is aimed at addressing educator backlogs at poor schools. Like the school funding norms model, there are already questions about the exclusion of poor schools that would not be able to cope with losses in the number of teaching posts. Because developments in this regard are fresh, we are not in a position to indicate how this model would affect poor schools in Free State.

Transfers to households

These are transfers made to hostels in the form of bursaries or subsidies. According to the School Funding Norms, this type of subsidy must be allocated if a learner's transport time to school is greater than 1 ½ hours, if there are no schools near the learner's place of residence and/or where parents of the learner cannot afford the per-child hostel costs.¹⁶ Of the three types of transfers, transfers to households (hostels) have demonstrated the biggest real decline from 2001/02 to 2002/03 (78.44%). Transfers to households are projected to decline further by 41.59% over the MTEF and annually at almost 14%. According to the Department of Education's Annual Report, 2001/2002, there are plans underway to gradually provide hostel facilities at merged farm schools¹⁷. The department intends to provide 2 hostels per district between 2002 and 2005. Given the cost implications, there does appear to be discrepancies between such policy intentions and the allocation of resources for hostels.

Transfers to Non-profit Organisations

Non-profit organisations get the bulk of transfers in this department. In the case of the Early Childhood Development pilot funded through a conditional grant, the department had to pay an NGO that performed the training of ECD educators in the various community-based sites. Transfers to these organizations have shown a sizable increase of 85.55% between 2001 and 2002. Taking into account growth over the MTEF (2001/02 to 2004/05), a real growth rate of 145.55% is projected. This translates to a real annual average of 48.52%. With the increase in the conditional grant, which is targeted to end in 2003/04, one may assume that training needs in the sector have intensified, thus explaining the real increases from last year and over the MTEF. However, it must be borne in mind that these transfers are relatively small amounts in the context of the total education budget. Large percentage increases therefore reflect more funds and the fact that increases in small amounts are susceptible to large percentage variations.

¹⁵ Early reports suggest that many school governing bodies and teacher unions are deeply concerned about the potential impact this new model has on poor schools unable to supplement losses in staff through the school's own income. See "Schools in chaos in face of teacher axings" in *Cape Times*, November 20 2002 and "Cape poorer schools suffer under new scheme" in *Cape Argus* November 21 2002.

¹⁶ See the *National Norms and Standards for School Funding, 1998* section 122 (a-c).

¹⁷ Free State Province, Department of Education, Annual Report (2001/2002:38).

Capital

Capital expenditure has three different sources:

- Provincial Treasury allocates funds to the Public Works, Roads and Transport Vote based on the needs of the different departments, including education. With regards to the education department, Public Works handles the planning and execution of all capital projects¹⁸.
- The Department of Education's Works Directorate receives funds for capital expenditure as well. These funds, which are located on the provincial education budget, are used mainly for day-to-day maintenance, renovations and upgrading at existing schools.
- Infrastructure, Rehabilitation and Reconstruction Grant. The purpose of this grant is to enable provinces to fund construction, maintenance and rehabilitation of infrastructure. Initially this grant was allocated to provinces affected by the 1999/00-flood disaster. The aim of this grant has been expanded to introduce some bias in favour of provinces with large backlogs while, at the same time, supporting those that inherited infrastructure from the previous dispensation.¹⁹

Capital expenditure declines by almost 5% from last year, although over the MTEF, it is projected to grow by more than 20% at an annual average of just below 7%. It appears as if capital expenditure took the knock of the unanticipated increases in salary-related costs, while at the same time, the department appears to believe that capital spending will recover over the MTEF. It is important to bear in mind that such growth does not obtain for all the sub-components of capital spending. In this regard, the capital allocation for education handled by Public Works shows a real decline of just under 1% for the MTEF. In itself, such information is not necessarily surprising, given the large decline in learner numbers from 1996 to 2002. The department argues that in some instances, the number of empty classrooms has proliferated. Given these developments, the education department argues that a review of its spending on capital has become urgent. It argues that more attention should be given to renovating existing schools and providing additional facilities, such as laboratories, as required by the implementation of the new curriculum.

None of this reduces the significance of capital backlogs, but it appears as if the department wants to force a better balance between maintenance spending and the construction of new school facilities. According to the Free State's own estimates, approximately R2 billion²⁰ is needed to cover the current capital backlog. Progress in addressing this backlog is currently being hampered by the outsourcing of projects to the Public Works, Roads and Transport Vote. This process tends to be very time consuming. As a result, there has been much under-spending, which effectively hampers service delivery. A good example of this was the under-spending of approximately 44% of the R17 million Infrastructure, Rehabilitation and Reconstruction Grant allocated to the Free State education department in 2001/02. Of this R17 million, only R9.6 million was actually spent, with the balance being rolled over to 2002/03. According to the education department, within the first 9 months of a capital project, just over 15% of the estimated contract amount is actually spent. The Department is,

¹⁸ This includes the erection of new schools as well as additional facilities at existing schools.

¹⁹ See Budget Review 2001, page 272.

²⁰ Established in personal communication with the Free State Works Directorate.

however, trying to solve this problem and has signed a Service Level Agreement with the Department of Public Works, Roads and Transport.

Table 4 details the percentage split between personnel and capital expenditure.

Table 4: The split between personnel expenditure and capital expenditure in the Free State Education Department, 2001/02 to 2004/05(including spending by Public Works Department)²¹

	2001 est. actual	2002/03	2003/04	2004/05
Salaries and wages	83.48%	84.37%	84.24%	83.55%
Capital expenditure: Includes Machinery and equipment plus spending by Public Works department	4.84%	4.73%	4.76%	5.76%

Source: Free State Provincial Government 2002

Table 4 shows that in spite of reduced spending on capital in 2002/03, Free State is planning to recover capital spending over the rest of the MTEF. Capital spending is projected to grow from 4.8% in 2001/02 to almost 6% at the end of the current MTEF. At the same time, personnel's share is stabilised at around 84%, thus improving on the often-quoted norm of 85%-15% for personnel and non-personnel expenditure respectively. In the light of the need to overhaul promotional post backlogs, such estimates may be optimistic, but the potential balancing factor could be the new personnel provisioning model announced by the national Department of Education

Table 5 provides information on per capita spending in the Free State education department. This department is still some way behind Northern Cape and Gauteng. The latter two spent R5600 and approximately R5200 in 2002/03 as against the R4466 of Free State. Given a budget that is not projected to grow in real terms, overall per capita spending will therefore stagnate as well. In order to advance government's anti-poverty strategy, this department will have to consider more aggressively the benefits and costs of poverty targeting. In the discussions about programme budgets, this point is discussed at greater length.

²¹ If capital spending by the Public Works Department is deducted from the total education budget, personnel expenditure constitutes 84.88% of total education spending in 2002/03, 84.75% in 2003/04 and 84.04% in 2004/05.

Table 5: Nominal and Real Per capita spending in FSED, 2001/02 to 2004/05 (in Rands)²²

	2001	2002	2003	2004
Nominal	4297	4466	4745	5090
Real	4297	4193	4227	4335

Source: *The Free State Provincial Budget 2002*

In answering the question about the impact of the funding deficit on categories of spending, we conclude that in 2002/03, personnel expenditure constituted the first claims on the existing budget. Capital spending seems to be the main casualty in 2002/03, although a recovery of capital spending is planned for the rest of the MTEF. Due to re-positioning of capital spending, maintenance spending and renovations of existing stock are to receive prime attention in future budget cycles. Transfers to households have also suffered, and unlike capital spending, there does not appear to be a reverse of the real decline of 2002/03 over the MTEF. Finally, the increases in transfers to NGOs are unrelated to the main Free State education budget as these increases are funded through a national conditional grant.

Having examined the main spending aggregates of Free State, we now examine programme budgets and their relationship to sectoral policy developments.

3. A programme analysis assessing programme budgets and their relationship to sectoral policy developments

Table 6 provides a breakdown of the main programmes in Free State education budget.

Table 6: Programmes in the budget of the Free State Education Department, 2001/02 to 2004/05 (R'000)

Programmes	Jun-05	2002	2003	2004	Real change from last year	Real change for 2001/02 to 2004/05	Real average annual change for 2001/02 to 2004/05
Administration	321160	299882	319131	382317	-12.3%	1.4%	0.5%
Public ordinary schools	2606278	2800025	2964847	3143562	0.9%	2.7%	0.9%
Independent school education	14580	13000	13500	13500	-16.3%	-21.1%	-7.0%
Special school education	80366	87745	94184	100809	2.5%	6.8%	2.3%
Teacher training	66915	30018	31582	32091	-57.9%	-59.2%	-19.7%

²² Although the learner enrolment for 2001/02 was 743 721 and 704 697 for 2002/03, in order to facilitate consistent comparisons across years, we used the average learner enrolment figure of 1998, 1999 and 2000 (784 000) to calculate per capita spending in FSED. The budget totals used in the calculations include spending by Works.

Transformation in Provincial Education Budgets: The Case of the Free State Education Department's Budget 2002/03

Technical college education	86520	85833	97018	104114	-6.8%	2.5%	0.8%
Adult Basic Education and Training	49277	5451	5834	7227	-89.6%	-87.5%	-29.2%
Early Childhood Development	13654	37332	42832	42316	156.7%	164.0%	54.7%
Auxiliary and associated services	129786	120664	128922	140914	-12.7%	-7.5%	-2.5%
Sub-total	3368536	3479950	3697850	3966850	-3.0%	0.3%	0.1%
<i>Plus spending on Works and property related expenditure</i>		21116	22172	23502			
Total	3368536	3501066	3720022	3990352	-2.4%	0.9%	0.3%

We focus below on programmes that directly benefit learners in the department. The two programmes that are not covered are "Administration" and "Auxiliary and Associated Services." Public schools, independent schools, technical colleges, special schools, adult basic education and training, ECD and teacher education constitute the main focus.

Public schools²³

The public school budget is projected to grow by 0.9% in the current financial year. Over the MTEF, real positive growth of 2.7% is projected at an average annual growth of 0.9%. This is more than the annual average of 0.3% for the total provincial education budget. The small real increase is attributed to increases in educator salaries following negotiations at the national level. Learner numbers have been dropping steadily in public schools, prompting the department to re-think strategies about the resourcing of public schools in the province. Table 7 details changes in learner numbers over the period 1996 to 2002.

Table 7: Learner numbers for the Free State Education Department for the academic years, 1996-2002

Academic year	1996	2000	2001	2002
Learner numbers	785217	744627	743721	704697
Percentage change between the various academic years		-5.2%	-0.1%	-5.2%
Percentage change between 1996 and 2002				-10.3%

Sources: Personal communication with Free State education department and data sourced from the School Register of Needs 2000

Table 7 shows how learner numbers decreased by more than 10% between the academic years 1996 to 2002. In fact, between 1996 and 2000, learner numbers decreased by more than 5%. This decrease in learner numbers has forced a re-thinking in terms of the key areas of school education. Especially affected is the school building programme and here the department indicates that many schools are currently empty. Their main budget response now involves a shift towards renovation and the provision of additional facilities

²³ The amounts for public schools include provision for the paying of pre-primary educator salaries, even though there is separate provision for ECD on the Non-Formal Education programme budget.

associated with the new curriculum such as laboratories. The appropriateness of this policy and budget response is partly confirmed in the smaller number of classrooms needed in 2000 as opposed to 1996.

Table 8 expresses current classroom needs as a ratio of existing classrooms.

Table 8: Total number of classrooms needed by Free State Education Department as a ratio of existing classrooms in 1996 and 2000

Classrooms required in 1996	Ratio of classrooms needed to existing classrooms in 1996	Classrooms required in 2000	Ratio of classrooms needed to existing classrooms in 2000	Average classrooms per school required in 2000
3186	0.15	1759	0.08	4.5

Source: School Register of Needs 2000

Whereas the department needed 15% more classrooms than what were available in 1996, this percentage dropped to 8% in 2000. The decrease in the total number of additional classrooms needed cannot be purely attributed to a school building exercise, but this reduced figure clearly reflects the large dip in learner numbers between 1996 and 2000. With this department being forced to reduce overall expenditure on capital, the possibility is broached that the recurrent component relating to school funding may have grown in real terms.

Table 9 details real year-on-year growth of the school funding norms allocation between 2000 and 2002

Table 9: Real year-on-year growth of the school funding norms allocations between 2000 and 2002 (Rand values in millions)²⁴

Academic/fiscal Year	2000	2001	2002
Nominal allocations	R113.9	R142.1	R91.8
Real allocations	R123	R142.1	R86.2
Real year-on-year percentage Change		16.5%	-39.3%

Sources: Personal communication with Free State Education Department and Wildeman, R (2000) and (2001)

Table 9 shows how the school funding norms allocation grew by almost 17% from 2000 to 2001. However, the same allocation decreases by almost 40% in the current fiscal year. One has to interpret such a large change with caution as the discussion in the preceding section on reduced learner numbers makes clear. Although there has been a 5.2% decline in learner numbers in 2002, the sharp reduction in the real value of the school funding allocation is still worrying. This, together with reduced capital spending in 2002/03 is the most visible evidence of the impact of the funding deficit in the department's budget.

²⁴ Consistent with the rest of the brief, 2001/02 is used as a base year. 2000 (0.934), 2001 (1), 2002 (1.065).

Differentially, the impact of such reduced funding is likely to hit harder in the areas of maintenance funds and the payment of municipal utilities for schools. We say this, because the real value of the learner support material allocation (LSM) has in fact grown.²⁵ In addition, with varying school sizes in the Free State and especially the unfavourable resource circumstances of large public schools, one can draw a conclusion that these schools will be harder hit by these reductions.

Overall, it appears as if some components of the school funding allocation and capital spending by the department have been severely affected by the funding deficit. In the case of capital spending, medium term estimates project a modest recovery of the capital spending. The same view does not exist for the school funding norms allocations. Free State's situation and that of other provincial education departments may have prompted the MTBPS' 2002 statement that more funds will be set aside for education to service key non-personnel areas.²⁶

Independent schools

Unlike the Western Cape, this programme is funded exclusively through current transfers, thereby aiding the management of expenditure. The fact that personnel expenditure is not funded through this budget allows variation in expenditure, without disrupting the entire provision of independent school services. In 2002/03, the independent school budget declines by 16.3% in real terms. Over the MTEF period, it is projected to decline by 21% in real terms. What has to be kept in mind is the fact that there are only 66 independent schools in the province. The real reduction in the budget relates to the fact that the department does not have accurate numbers on the total number of learners in these schools. The 2002/03 provincial budget puts the learner numbers at 9770, while the latest official departmental estimates put this number at 11145. This discrepancy is also fed through budget numbers, because the 2002/03 budget estimate is put at R13 million, while the department estimates that it may spend as much as R15.2 million in the same year due to the number of unknown learners. However, the small size of the independent schooling sector means that budgetary variations may overstate the extent to which the department does not provide sufficient funding.

Special Education

Budget spending on the special education programme increases by 2.5% in real terms in 2002/03, while over the MTEF it grows positively by 6.8% in real terms. Personnel expenditure is the largest spending item on the budget, and with the aforementioned salary increases, real budget growth was expected. The other important component of this budget is current transfers, which are used to fund the operating costs of these institutions. These transfers show a real positive growth of almost 30% over the MTEF. These increases are attributed to the fact that a larger sum of money had been committed through the distribution formula. The distribution formula makes provision for libraries, laboratories and workshops, the operational costs associated with wages and administration, as well as the operational costs for physical facilities. Apart from wages and operational costs mentioned above, increases in the budget were also forced by non-payment of hostel, school and LSM fees; the funding of feeding schemes; rising municipality rates and taxes; learner transportation as well as the maintenance of vehicles and repairs.

²⁵ Provision for learner support materials grew from R71.1 million last year to R84.3 million in 2002. This represents a real increase of just more than 11%.

²⁶ Department of Finance (2002) *Medium Term Budget Policy Statement 2002*, page 7

There are currently 19 special school institutions in the province with a learner population of almost 4500 learners. In addition, there are 2 Places of Safety institutions, which are run under the auspices of the provincial Social Development department. Similar to the Western Cape, the number of learners with disabilities outside the formal schooling system is significantly higher than the number of learners currently enrolled. Free State puts this estimate at 15000 learners. This is almost four times the size of the current population and raises questions about the ability of the department to absorb such costs should these learners be integrated into both ordinary and special schools. We were not able to obtain a breakdown of the learners as to assess whether the majority of these learners will be placed in special schools or ordinary public schools. Although the fundamental gist of the White Paper on Special Needs Education promotes a situation where most learners with disabilities should be integrated into ordinary public schools, lack of information on the identity of these learners obscures any realistic cost projections for this budget programme.²⁷ In spite of resource constraints in the province, no form of poverty targeting is done for the sector and funding is equally distributed based on learner numbers at special schools. However, the immediate implementation of policy aims to target areas that fall under the identified nodal areas.²⁸

Overall, this budget reflects increased funding commitment to existing special schools, especially by increasing their allocations for operating costs. However, in the context of the large number of learners outside the system, the gradual incorporation of these learners seems the most realistic budget response. Although poverty targeting is not a feature of this programme budget currently, the incorporation of learners outside the formal schooling system may expedite such a decision. This means that sooner rather than later, Free State may be forced to review the way in which this budget is allocated.

FET Institutions: Technical Colleges

The budgets of technical colleges decline by 6.8% in real terms from the last financial year. For the entire MTEF period, it records a small growth rate of 2.5%. Similar to special education, the main spending items are personnel and current transfer to FET institutions. Personnel expenditure grows by 4% over the MTEF, while current transfers to FET institutions increase by 44% from 2001/02 to 2004/05. However, most of this change occurs in the change from 2001 to 2002, while over the rest of the MTEF (2002/03-2004/05), transfers actually decline in real terms. Current transfers are paid in the form of a subsidy to FET institutions, which up until the current financial year, were largely based on the size of the technical college. In terms of the Further Education and Training Act, programme-based funding will now become the main criterion against which to determine funding at the institutional level. Although this method of funding is formal policy, provincials departments-including Free State-must still determine how this is practically done.

The department argues that the fragmented development of FET institutions has largely contributed to its neglected status in the post-1994 educational dispensation. Underfunded, these institutions lacked clear institutional identities and it is hoped that with the

²⁷ The Free State Education Department indicates that it uses the clinics of the provincial health department and the services of social workers in the province to facilitate the search for learners with disabilities who are outside the formal schooling system.

²⁸ The Free State is currently considering converting two public ordinary schools into resource centres in line with the White Paper on Special Education. Alternatively, it plans to convert two ordinary schools in full service schools.

establishment of 4 mega-institutions in 2001, many of these identity problems will vanish. Central to the Free State provincial government concerns are job-creation²⁹ and in this regard, the education department has tried to position FET institutions within these broad developments. Both the provincial development and skills plans are central to the way in which FET institutions will be funded in future. >From these broad policy documents, the department hopes to establish and develop relevant programme offerings. Given the fact that the province relied for a long time on the primary sector (mining and agriculture), institutions have been encouraged to identify growth areas outside of the traditional primary economic sectors. There will however be a time lag between when these programmes are approved and accredited and therefore the expectation is that for the next financial year at least, programme-based funding will still not be a reality.

Restructuring brings with it many new cost drivers. The most important ones are highlighted in the following bullets:

- The establishment of student support units. Psychological support staff is needed and there are plans to appoint personnel.
- The development and implementation of the new curriculum implies re-training of teachers and expertise in the development of relevant programme offerings.
- As student numbers increase at FET institutions, there will be more pressure for student financial aid.
- FET institutions are encouraged in education policy objectives to broaden their base of students. This implies a more diverse clientele and as such, the need for more specialised staff.
- The development of programme-based funding that focuses funding more directly at institutional level requires human resources at provincial head office level.

There are very few budget signals in the technical college budget for 2002/03 to indicate that significant additional funds are destined for the sector. What adds to the pessimism about this sector is that the MTBPS 2002 speaks about two main priorities in education that on the surface do not appear to involve additional funding for technical colleges. Special attention will be devoted to increased allocations for learner support materials in schools and tertiary institutions will be compensated for restructuring efforts. One may argue that technical colleges will benefit indirectly through the increased provision of textbooks and other learner support materials. Vital to the funding debate is the recent announcement by the Ministry of Education to conduct an audit of facilities at technical colleges nation wide. This exercise will only be meaningful in the development of funding norms and standards at the national level. In the absence of these funding norms and without a comprehensive register of the location of needs, technical colleges budgets will remain neglected and inadequate. The underlying logic of this budget suggests that the Free State Department of Education is content to wait for these national policy and funding signals before meaningful additional allocations are made. Provincial education departments, however, should exploit promises of additional funding for higher education restructuring, given the fact that technical colleges are undergoing similar changes.

²⁹ The Free State is placing greater emphasis on economic activities as a result of its high unemployment rate. Source: Free State Provincial Budget (2002:2).

Early Childhood Development (ECD)³⁰

ECD budgets are projected to grow by 156% in real terms from last year, while over the MTEF period, it is planned to grow by 164% in real terms. The main reason for the real increase is attributed to increases in the ECD conditional grant funding, which in turn is related to increases in the number of registered ECD sites. There are currently 180 Grade R ECD sites at public schools registered with the education department. The community-based ECD sites will be registered in 2003. ECD funding in the current 2002/3 education budget makes provision for educator salaries at some pre-schools that were registered with the department as state-aided schools before the elections in 1994. The other source of funding is through the national conditional grant, which is terminated at the end of 2003/04. The Free State education department indicates that up until now, they have focused on the 285 community-based sites. Preparation for the putting in place of funding systems for Grade R beyond the scope of the conditional grant is only now being done.

As was indicated, the department funds 300 public pre-school posts at public schools. In line with ECD policy, the department aims to phase-out these posts and convert them into per capita subsidies. Because these educators are employed under the same regulations as other public educators, certainty can not be attached to the period when all the posts will be phased-out. However, any post vacated now will be abolished and immediately converted into subsidy funding for ECD centres.

In terms of the conditions of the conditional grant, the education department plans to fund approximately 285 community-based sites by means of a per learner subsidy. The targeted number of learners so funded is 8550, and in this financial year, more than half of the learners are funded in this way (4800). The other half of these learners will be funded from 2003. An immediate concern is the fact that conditional grant funding will be terminated in 2003/04, leaving the department with less than one year to fund the other half of these learners. The department plans to continue funding these centres after the termination of the national conditional grant in March 2004. If one takes a more comprehensive view of ECD needs in the province as a whole, the department estimates that there are approximately 80 000 learners who are eligible for ECD education. This means that the current conditional grant would effectively fund only 10% of the eligible learner population at the end of 2004. This clearly shows the huge funding challenges that this programme faces, and in the absence of any form of poverty targeting, the task of funding all learners is clearly beyond the department's resource capacity in the medium term. This does not even factor in the challenge of delivering a balanced ECD service portfolio that deals with both the community and the public schooling sector.

For Grade R, the department has proposed a per learner subsidy of R12. This differs from the current subsidy in the sense that presently, ECD centres receive a subsidy amount of R1000 per annum and it is not calculated according to the per capita method. There are therefore many large ECD centres that would be inadequately funded through the current subsidy amount. Moving towards a per capita subsidy may not solve all the funding problems, but will at least bring minimal equity in the provision of these grants. Because public schools have established infrastructures, the departmental response to the funding of ECD is likely to be favourably biased towards public schools in the sheer number of sites to be funded.

³⁰ ECD funding includes amounts for pre-primary educators on the public school budget, the amounts for ECD on the non-formal education budget, and the ECD conditional grants on the same budget.

With the implementation of the ECD White Paper high on the priority list of the department, the grant-in-aid to deserving ECD sites seems far away and it is reasonable to assume that the grant may only be introduced after the 2004/05 budget cycle. The development of poverty criteria has not been completed, and this remains clearly one of the most important tasks for the department.

Adult Basic Education and Training (ABET)³¹

The ABET budget declines by 90% in real terms in 2002/03, while over the MTEF, it declines by almost 88% in real terms. The main reason for this dramatic decline is that this sub-programme used to pay the salaries of Grade 12 ABET and FET educators who were involved in ABET centres. Since the start of the 2002/03 financial year, these salaries have been paid by the Human Resource Directorate. The department plans major changes in the budget process for allocating ABET funding. These changes are planned for the 2003/04 budget cycle. Most of the requirements of ABET centres were met in the past by the department purchasing materials and sundries on behalf of these centres and then distributing it to the various centres. Up until now, ABET budgets had been calculated at provincial head office level, with little or no reference to ABET centres or Districts. The new budget process aims to allocate funds to three different entities. It is only in 2002/03 that ABET budgets made provision for the administration costs of Districts. Funding for Districts will be allocated based on their transport costs, provision for subsidised vehicles, provision for senior managers to attend meetings, workshop funding as well as ordinary administrative costs. Funds in the 2003/04 budget cycle will therefore be allocated to ABET centres, Districts and head office. In terms of policy, both head office and Districts have monitoring roles, and head office is still primarily responsible for the implementation of ABET policy. However, the logistical arrangements have not been worked out and it is not clear what financial and expenditure role Districts will play.

A very important fact pertaining to service delivery is that almost all of the ABET centres are part of public ordinary schools. Because these schools are considered host schools, the Finance section in the education department makes available a current transfer to public schools for the payment of water and electricity used by ABET service providers. This transfer is separate from the school funding norms for public schools and only deals with the costs incurred by ABET centres at public schools. The department also plans to hire photocopying facilities for ABET centres and make these selectively available in some of the ABET centres. Current funding for the ABET centres is based on the number of learners and no explicit poverty targeting criteria are used in allocating ABET budgets. A snap survey conducted in March 2002 revealed that there are 16 960 adult learners enrolled in ABET centres. This number must be understood against an estimated total of 240 000 adult learners without any form of formal education in the province. Add to this the fact that a large percentage of learners in ABET centres are FET (Grade 12) learners, then the nature of the policy and funding challenge becomes clear. Overall, there are 1584 ABET educators against 962 for Grade 12 educators in ABET centres. If one discounts the latter, then it means that if Free State should achieve full enrolment of adult learners, the learner-educator ratio would be 1: 249. Further

³¹ Adult basic education and training is defined as all learning and training programmes for adults from level 1 to level 4. Level 4 is equivalent to Grade 9 in public schools: *Adult Basic Education and Training Act, No 52, 2000*. An "adult" is defined as any learner older than 16.

provision for the training of educators is inevitable, even if a gradual targeting of poor adult learners is planned.

The systematic expansion of ABET provisioning has also been delayed because of weak provincial departmental level co-operation. In Free State, current inter-departmental co-operation takes place between Correctional Services and the Police Services where the education department pays the salaries of educators, while the other departments provide the classrooms. No broader provincial level agreement has been made enabling the rapid expansion of ABET for selected target groups. With budgetary and service delivery pressures so strong, it is hard to believe that Free State education has not yet devised some form of poverty targeting. In fairness to the department, one may argue that because Free State is a poor province, the development of such criteria may in fact overlook the complexity and pervasiveness of poverty in the province. Targeting is done for those centres that participate in the Ikwehlo Project, which are funded through an indirect conditional grant from the national department of Education, but no explicit form of poverty targeting is employed.

Teacher education

Teacher education decreases by 58% from last year, while over the MTEF, it declines by a further 60%. Pre-service training has since 2001 been transferred to the national Department of Education, and the budgetary expenses that remain make provision for lecturers still at these institutions and students completing their training. Full phasing-out is expected by the end of 2003/04. These colleges have already been transformed into 4 FET institutions following the FET policy of mergers and rationalisation. Unlike Western Cape, these facilities will not be used for in-service training. Most of the educator personnel at these institutions have either accepted severance packages or had been incorporated into the education department bureaucracy.

4. A description of the state of transformation and its implications for poor schooling communities

The transformation of programme budgets to afford greater access and alignment with national and provincial priorities invariably implies the addition of new cost drivers. In most cases, this involves the expansion of services to disadvantaged communities and/or a resultant change in the method of funding.

In a budget that is predicted to stay constant in real terms, service delivery decisions have to be made to fulfil two conditions:

- Any re-prioritisation must be done within current spending envelopes.
- Re-definition of the target beneficiaries of service delivery.

Free State education fits the bill as a department whose budget remains static over the medium term, while at the same time, it is expected to overhaul inequalities in access and quality of education provisioning. So what exactly is the nature of the "transformative" response by the Free State education department? This department is engaged in the following transformation efforts pertaining to service delivery and programme budgets:

Transformation in Provincial Education Budgets: The Case of the Free State Education Department's Budget 2002/03

- The department has identified promotional personnel backlogs as an important priority. It feels that redress in especially historically disadvantaged areas have not yet been completed and therefore more personnel funds are needed.
- It aims to re-position total spending on building stocks by trying to create a better balance between capital spending and maintenance/renovation spending.
- With the establishment of the 4 mega FET institutions, it aims to mediate the adverse economic effects of unemployment by creating a vibrant FET sector able to create jobs.
- The department aims to support learners with disabilities (and in many instances, these are poor learners) by converting selected public schools into resource centres. At the same time, it plans to convert some ordinary public schools into full service schools to more responsively deal with these learners.
- In ECD provisioning, it aims to move from a funding model that distributes a lump sum subsidy to a model that takes into account the number of learners at ECD centres. It also aims to continue to fund community-based centres after the termination of the conditional grant from own its departmental budget.
- In the ABET programme, the department has positioned Districts to be the main agency in the monitoring of service delivery and it did this by incorporating Districts as part of the new funding model planned for 2004. ABET centres will also be brought into the funding equation directly to enable more realistic and fair budgets.

In all of the efforts mentioned above, the current budget and that of the MTEF prove inadequate to deal with the myriad of challenges. Evidence of this was provided in the estimates of learners eligible for ECD, special needs and ABET compared to the number of those who are currently benefiting from funding. The differences are so large that even if real increases are allocated for the main service delivery programmes for the next five years, serious backlogs will still remain. Based on the above, it is possible to argue that Free State has in many ways only just started to work out a coherent transformative response. Evidence of this is the fact that for some programmes such as ABET and ECD, new funding systems are only in planning stage and therefore preciously little of normal implementation problems can begin be discussed. The same applies to the FET institutions, because in spite of the provisions for programme-based funding, a lot of practical work has to be done to ensure that creative institutions are provided funding support. Similarly, in terms of funding support for needy students at these institutions, financial aid is far from being a reality. It is almost as if Free State has now begun to formalise the mechanisms and policies needed to advance the cause of poor learners in the province. In the biggest programme, namely public schools, the real reduction in the school funding norms is great cause for concern. However, we should be careful not to make general statements about this as the data show that the largest part of this allocation-namely learner support materials-is protected and show real gains.

In addition, it appears as if small poor farm schools will still retain maximum benefits from funding redress, even though there are questions about the sustainability of funding for larger poor public ordinary schools. What is clear is that gains for poor young and adult learners are uncertain, and it is especially the former that is most disconcerting. It would not be difficult to imagine a link between ill-prepared young schools starters and the scores of dysfunctional schools in the province. Without attacking the funding problems of ECD, the sustainability of many transformative efforts are seriously in doubt.

In spite of all the funding and policy problems mentioned, and with the exception of public schools, there exists no form of explicit poverty targeting for the main service delivery programmes. This may be related to the level of administrative support and technical expertise in these directorates, but it may also relate to Free State's vision of a public education system for the broadest majority of learners. Whatever the main reason, poverty targeting is inevitable. This does not mean that poverty targeting is a panacea for all the transformation problems, because we were able to show elsewhere that exclusion of income-poor learners often follows strict poverty targeting.³² In Free State, what complicates matters is the overall poverty of its inhabitants, which will force difficult decisions about the prime recipients of redress. Here at least the department would be able to draw from the school funding norms targeting process, where in the first two years of implementation, Free State recognised just how difficult it is to re-distribute small resource envelopes to so many poor learners.

5. Concluding remarks

We were able to show that the Free State Province experiences robust growth in its equitable share over the rest of the MTEF. However, the Free State education department does not share in this small real growth. Factors, which are key in the stalling of the education budget, are unfinished national funding norms for some education sub-sectors and Free State's own level of preparedness in implementing funding and policy systems geared towards transformation.

Larger than expected wage and inflationary-related costs meant severe pressure on the non-personnel components of the budget. The main casualties of this pressure were capital spending, maintenance spending, the payment of municipal utilities and current transfer funding of hostels. Learner support materials, which constitute the biggest portion of the school funding norms were however protected and show real gains from last year. Declining learner numbers have also forced a re-think of the nature of spending on building stock, and the department plans to spend more on the maintenance and renovation of building stocks in future budget cycles.

Transformation is still in its conception stage, and unlike other departments that have begun to transform programme budgets to serve poor learners, the existing evidence does not even allow passing comments on teething problems of transformation. It remains an open question whether Free State must allow the status quo, where, with the exception of public schools, no form of explicit poverty targeting exists. What is clear is that increasing pressure to deliver to poor constituencies may well force this decision. Although poverty targeting suffers from many weaknesses, at least Free State will be led to establish more carefully how its funding policies affect the poor and what needs to be done to extend redress to the broadest majority of the poor. Until now, it has not been exercised by these difficult issues, but it remains vulnerable to the charge of not spending the little they have on those who need it most.

³² See Wildeman, RA (2001) *School funding norms 2001: are more poor learners benefiting?* Cape Town: Idasa

IDASA—Budget Information Service

Budgets responsive to the poor

Telephone: (021) 461-2559

Fax: (021) 462-0162

Website: www.idasa.org.za/bis

Transformation in Provincial Education Budgets: The Case of the Free State Education Department's Budget 2002/03