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Advisory Note

06

2030 READING PANEL

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Education and the 2023 Budget[1]

1. Introduction

South Africa faces a range of economic, fiscal, and social challenges. The country's fiscal challenges are deeply rooted in prolonged economic stagnation. Post-2000, a commodity super-cycle boosted national income and eased financial strains, allowing for increased expenditure and reduced tax rates. However, since the end of this cycle around 2012, the country has witnessed stagnant per capita GDP, and deteriorating financial conditions. Since the Covid-19 pandemic, growth has fallen far below the interest rate, and debt service costs are increasingly crowding out social spending. Government has responded with across-the-board expenditure cuts. This intensified austerity is contributing to lower growth, rising inequality and a weakened state.

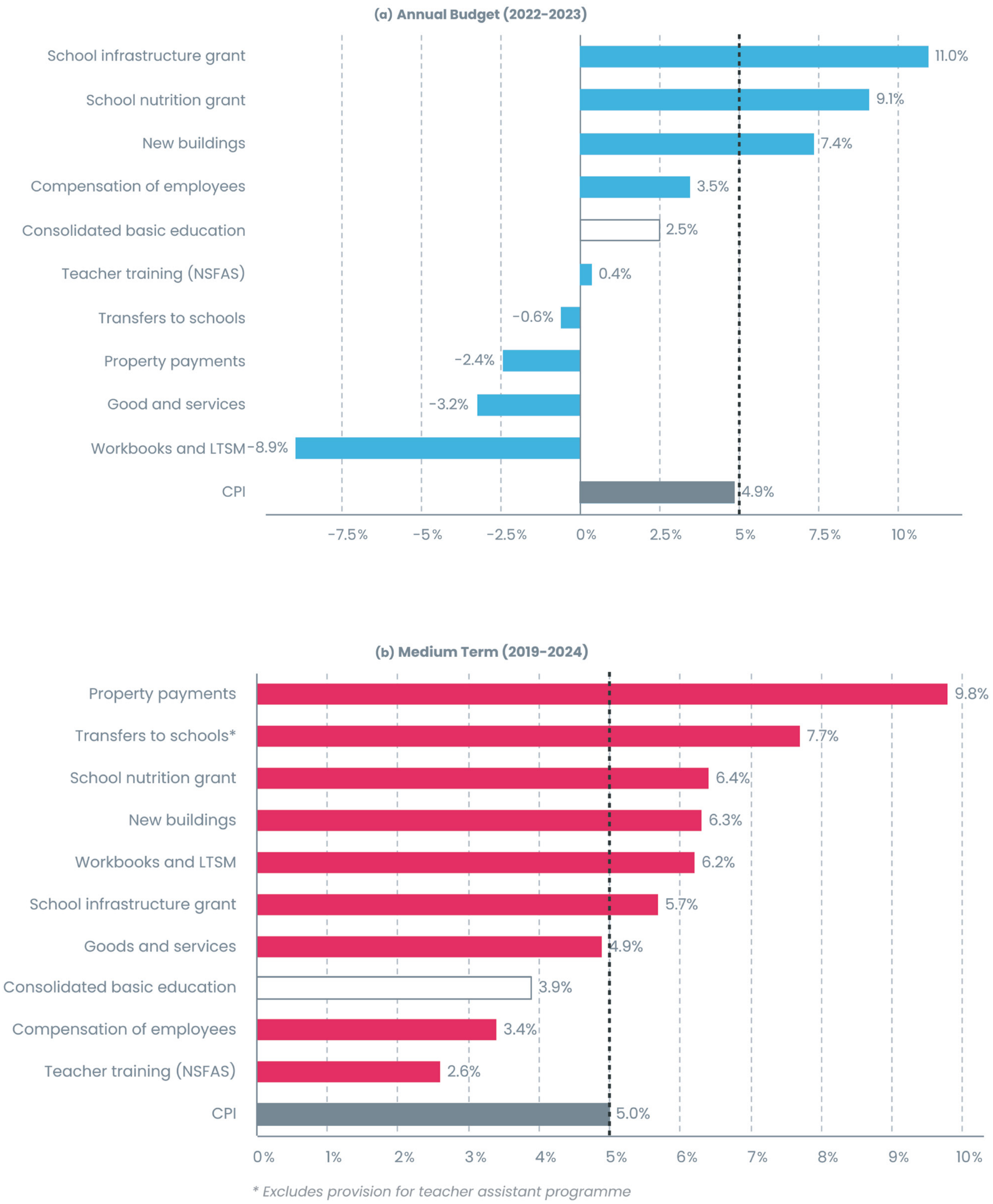
Cuts are focussed particularly on "consumption spending", which the education sector (together with healthcare and criminal justice) is particularly intensive in. In other words, a large share of the education budget is inevitably concentrated in employee compensation and procurement of goods and services. As such education faces a double-burden of austerity – affective first by the overall spending limits, and second by the intention to shift the composition of expenditure from consumption to capital within these limits.

2. Basic Education

In basic education, reductions in real spending per learner are expected to intensify in the period ahead. Real consolidated basic education spending for each enrolled learner was more than R24 000 in 2020 but will fall to R21 635 by 2025. This comes against the backdrop of significant learning losses associated with schooling lockdown during the Covid-19 pandemic. It is notable that no clear plan or budget was tabled to reverse the impact of the school shutdown, or catchup on learning losses. A recent review concluded that "There has been no attempt to recoup time to remediate learning losses, apart from very recent attempts in one province. The insistence on a largely business-as-usual approach to curriculum implementation fails to recognise and address the severe educational impact of the pandemic, especially on learners in the poorest communities" (Hoadley, 2023: p1).

1 Note that the numbers used in this analysis are drawn from the budget tabled in February 2023. The MTBPS (tabled in October) envisaged significant further cuts, including cuts to education budgets, but these have not been included in the note as it remains unclear whether and to what extent the intentions contained in the MTBPS will be translated into the next budget, due to be tabled in February 2024. A revised analysis will be generated following the tabling of the 2024 budget.

Figure 1: Basic education spending growth in the 2023 Budget



Source: National Treasury budget data; Public Economy Project calculations

Budget estimates for basic education illustrate how lack of clarity about key budget issues make it very difficult to gauge government's policy intentions from the budget numbers (see Figure 1). On the one hand the budget proposed to cut spending on workbooks and other learning materials from R6.4 billion in 2022 year to R5.9 billion in 2023. Cash transfers to schools (which cover a sizable share of their operational costs) were also lower in nominal terms. Estimates for school property payments declined too, despite rising utility bills. All these items, however, have grown robustly in recent years and – if medium-term projections are to be believed – the cuts in 2023 were to be fully reversed over the following years. However, the MTBPS tabled in October 2023 substantially changed this commitment, envisaging a lower path of expenditure from 2024 on.

The 2023 budget envisaged that funding for new school buildings would increase over the medium term. The school feeding schemes was also protected in the budget, retaining its value both after inflation and taking account of the rise in learner numbers. Allocations by the Department of Basic Education to fund teacher training through NSFAS bursaries, however, have been falling for some time (in constant price terms) and this trend looks set to continue.

These estimates were, however, placed into doubt, however, by the conclusion of the 2023 wage agreement which created significant shortfalls in the current year and over the medium term. While the MTBPS signalled additional funds to cover the shortfall in 2023, these were clearly insufficient. Moreover, new provision was announced for 2024, despite the fact that the agreement is for an inflation related cost of living adjustment. These shortfall will probably lead to reducing employment in the sector, which would have a huge and negative impact on learning outcomes, including through rising learner-to-educator ratios. Indeed, National Treasury has itself acknowledged this, stating in the MTBPS that:

"Although additional funding has been provided to implement the 2023 public-service wage agreement, provincial education departments are constrained in hiring additional teachers. This could lead to larger class sizes and higher learner-teacher ratios, possibly resulting in weaker education outcomes" (p34)

At the same time, other options for funding the shortfall might include reduced funding for new school buildings, school nutrition, learning materials, or transfers to schools over the medium term. A third possibility is that resources will be added to the budget to make up for the shortfall. It is likely that a balance between these three options – reducing headcounts, defunding other line items to support compensation spending, or adding new resources into the education budget - will be sought in the next budget, resulting in a combination of these measures.

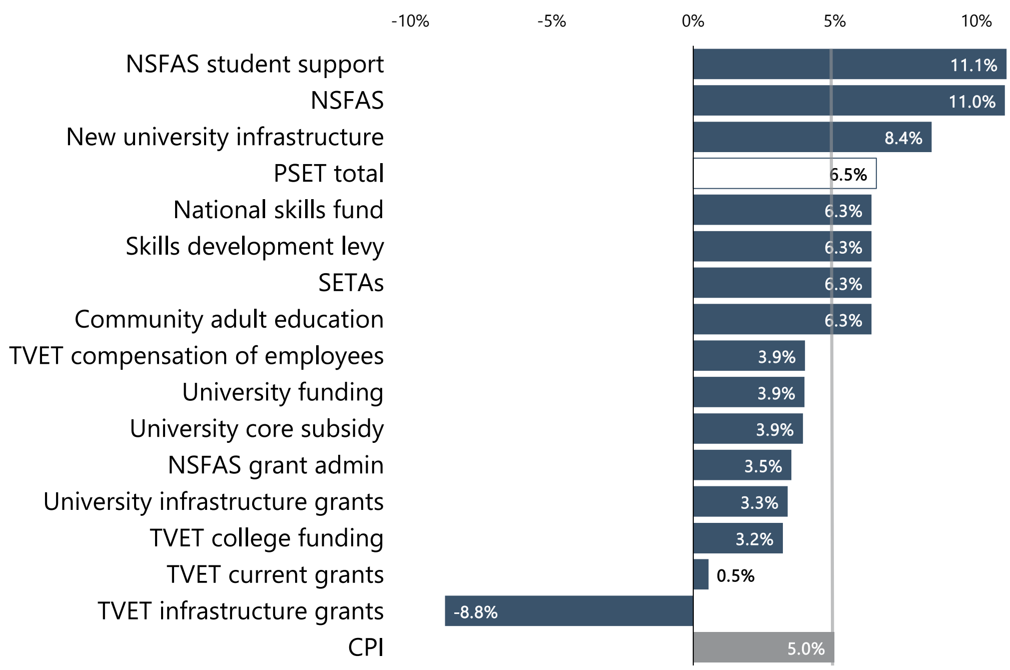
Added to all of this is uncertainty about the funding for teaching assistants, which makes up the lion's share of the President's flagship employment stimulus. A table in an online annex to the budget review indicates that R6.5 billion will be added to the equitable share in 2023 to fund the programme, but no resources are envisaged in 2024 and beyond. The MTPBS proposed to fund programme by "repurposing" the EPWP and CWP. However, the combined expenditure on the EPWP/CWP in 2022 was R7,3 billion, whereas the Presidential employment stimulus spent R9 billion. While evidence points to the potential benefits of teacher assistants when carefully selected and properly supported (see Ardington and Henry 2021), the significant resources allocated to this programme needs to be set against the concurrent fall in educator numbers and their real incomes, and the failure of government to allocate a budget to catch up from learning losses arising from the Covid-19 pandemic.

3. Early Childhood Education

The subsidies going to early learning centres were significantly extended. In the 2023 Budget The Early Childhood Development grant was allocated R520 million in 2019, increasing to a planned R1.7 billion in 2024 (a 30% increase). Relative to need however, the amounts remain small. The national grant is sufficient for 238 000 learners in 2022 rising to 486 000 by 2025[2]. However, it is estimated that there are more than 1.6 million eligible children (World Bank and DBE 2022). Moreover, the value of the grant is insufficient, and needs to be roughly doubled to be adequate programme operating costs at a minimum level of service (Ibid). Instead, the grant has been fixed at R17 per child per day since 2019, implying an 18% fall in its real value since then. There are also serious question marks about the shape of the ECD sector going forward. While the subsidy is currently channelled to independent ECD centres, the Minister of Basic Education said in her budget speech that "the current model of funding ECD programmes as NPOs, must be reviewed … it is important that a new holistic and inclusive model includes all communities of trust in the ECD space" (Motshekga 2023). It is unclear what this implies, but the Minister is keen to stress the role of state departments over independent service providers and appears to favour an downward extension of the formal schooling system, building on the success of grade R enrolments over the last decade. An ECD system based in government schools would be in stark contrast with the current approach and, if implemented, would likely involve a significant escalation of the programme's costs.

Figure 2: Post-school education spending growth (2019-2024)

Selected items | Average annual nominal growth rate



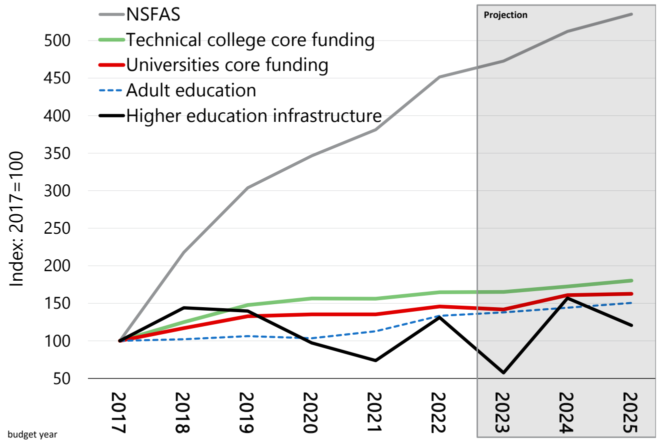
Source: National Treasury budget data; Public Economy Project calculations

Funding for the increase in the ECD grant was partly found by reducing the budget for higher education. The ENE reports that cabinet-approved decrease of R1.8 billion to the 2023 baseline to fund early childhood development. This has mainly been drawn from the capital budgets, with funding for university infrastructure slashed in 2023 to just R673 million, down from R3.5 billion last year.

2 This reflects the number of children that the national ECD conditional grant can finance. These funds are, however, complemented by provincial allocations out of the equitable share, which raise the number of learners benefitting from government programmes to the region of 630 000. Nevertheless "provinces report insufficient budget to reach all children eligible for the subsidy" according to the recent expenditure review (World Bank and DBE 2022:ix).

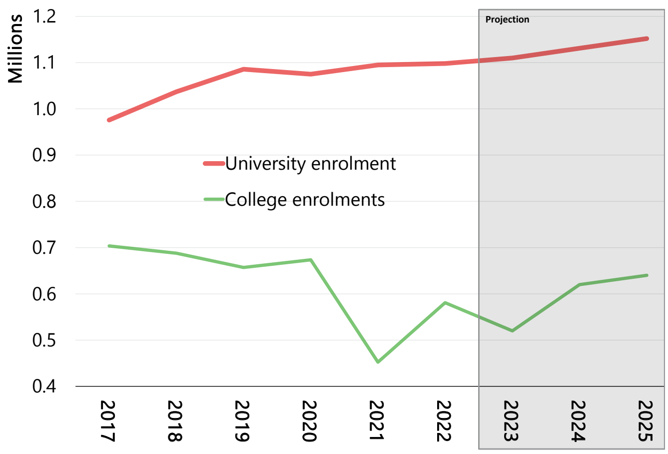
4. Higher Education

Figure 3: Index of Higher education spending growth



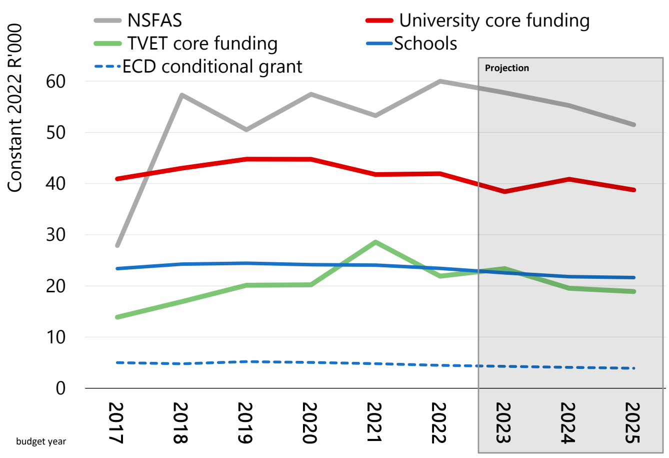
Source: National Treasury budget data; Public Economy Project calculations

Figure 4: Students enrolled in universities and technical colleges



Source: Estimates of National Expenditure

Figure 5: Real spending per learner



Source: National Treasury budget data; StatsSA, DBE, Public Economy Project calculations

Although the medium-term plan is to return to normal funding levels in 2024, the budget pencils in an amount for university infrastructure grants in 2025 that is below the amount spent in 2017. Capital allocations for construction of the new Sol Plaatjies and Mpumalanga universities have also been cut in all three years of the MTEF, as has the budget for technical college infrastructure. Funding from these infrastructure budgets has (in addition to supporting ECD grant) also been shifted to finance the construction of nine Community Colleges, which aim to provide learning opportunities for adults.

Against this backdrop, it is surprising that the Minister of Higher Education said in his budget speech that the construction of two new Universities would commence "in the next year or two" (Nzimande 2023). The wisdom and feasibility of establishing a new "University of Science and Innovation" in Ekurhuleni and Crime Detection University in Hammanskraal, seems flawed and based on populist impulses rather than clear policy choices. At the very least, it is wholly inconsistent with the numbers presented in the department's own budget.

The cuts to capital budgets for universities and technical colleges come as funding for new student enrolments through NSFAS massively outpaces the rest of the budget (see Figure 3). The implication could be that a rising number of university undergraduates face a dwindling resource base as spending for lecturers, infrastructure and operating payments is cut. Such imbalances may lead to a deterioration in the quality of learning and teaching at higher education institutions, while the ability of universities to sustain research and post-graduate learning is also likely to come under continued pressure.

Despite this, expanded enrolment is clearly top of mind for the minister, who also declared that "the time has arrived for us to drastically increase intake in TVET and Community Colleges" (ibid). The first goal of the national PSET plan is the "massification" of the sector, with targets of 1 million enrolled in Community Colleges and 2.5 million learners in public and private technical colleges by 2030. These claims, however, are not backed by the performance targets reported in the ENE, which see robust growth in university enrolment contrasting with recent falls in technical college students. Although college enrolments are planned to increase, by 2025 they would not have reached the level of enrolment recorded in 2020 (see Figure 4).

5. Conclusion

Even assuming these modest enrolment figures, the budget for higher education implies a falling real spending per learner Figure 5). NSFAS looks to be stretching each rand further, allocating less resources per learner in the period ahead. Core funding for universities and technical colleges will fall faster, with real funding per learner dropping by 9% and 3% respectively between 2019 and 2024. Schools, on the other hand, face a much larger real cut over this period, amounting to 11%. The value of the national ECD grant per early learner will have fallen by 22% by 2025.

These are powerful indicators of inverted spending priorities in the education sector. The recent finding that 81% of learners in grade 4 cannot read for meaning in any language underscores the strong argument that failures at pre-school and foundation phase reverberate powerfully throughout the whole education system, and largely explain the high costs and poor learning outcomes of senior and post school education. Yet government continues to prioritise funding to the latter, in a perhaps futile attempt to reverse the consequences of failure to allocate greater resources to the former.

Fiscal consolidation is the “new normal” and claims that fiscal consolidation will “end” after the medium-term are not likely to be borne out. The path of consolidation has been intensified in-year through the 2023 adjustments and over the medium-term, with the government planning to cut significant funds to frontline service departments in 2023, 2024 and 2025. The main burden of the consolidation continues to be on government consumption which will hurt critical frontline services over the medium-term. Baseline budgets for health, basic education, social development (excluding allocations to grants) and the police grow below inflation over the 2024 MTEF period.