**3. REPORT OF THE PORTFOLIO COMMITTEE ON HIGHER EDUCATION AND TRAINING ON THE 2017/18 FIRST QUARTER REPORT OF THE DEPARTMENT OF HIGHER EDUCATION AND TRAINING, DATED 01 NOVEMBER 2017**

The Portfolio Committee on Higher Education and Training having considered the first quarter performance report 2017/18 of the Department of Higher Education and Training (DHET) on 23 August 2017 reports as follows:

**1. INTRODUCTION**

The Department presented the first quarter report of the 2017/18 financial year to the Committee as required by Section 32 of the Public Finance Management Act, 1999 (Act No. 1 of 1999). The report covers the financial and non-financial performance of the Department’s programmes and activities during the period 1 April 2017 to 30 June 2017. This report accounts for the work undertaken by the Committee during the assessment of the first quarter report of the Department, and further makes recommendations for consideration by the Minister of Higher Education and Training.

**2. OVERVIEW AND ASSESSMENT OF THE DEPARTMENT’S 2017/18 FIRST QUARTER SERVICE DELIVERY PERFORMANCE**

**2.1. Overview of the First Quarter Performance, 01 April to 30 June 2017**

During the quarter under review, the Department’s six budget programmes had a combined total of 33 targets. Of these targets, 22 were achieved within the reported timeframes, which represents 67 percent of the achieved targets and 11 (33 percent) were not achieved. Of the 11 targets that were not achieved within the reporting timeframes, three (27 percent) were subsequently achieved outside of the reporting timeframes.

**2.2. Overview of programme service delivery performance**

**2.2.1. Programme 1: Administration**

The purpose of this programme is to provide strategic leadership, management and support services to the Department. The programme has 12 planned targets for the 2017/18 financial year. Of these, two were to be achieved at the end of the first quarter, 30 June 2017 and 10 targets were to be fully achieved by the end of 31 March 2018. The Department committed to report quarterly milestones towards achievement of the yearly targets. For the quarter under review, the Department committed to achieve five outputs, of which four (80 percent) were achieved as planned and one (20 percent) output was not achieved as planned.

The achieved outputs include: the development of a revised human resource plan; the development of a plan to improve human resource recruitment and selection; the development of a plan to reduce the number of days to resolve disciplinary cases; and the development of an improvement plan for information and communication technology (ICT) support.

The target to develop a system for tracking invoices from creditors in order to pay them within 30 days was not achieved. The Department reported that the approval for the appointment of the service provider could not be finalised in time.

The non-achievement of this target had contributed to R9.7 million lower than projected spending in this programme for the quarter under review. It is important to note that if the service provider is not appointed on time to develop the invoice tracking system, a variance in the projected spending for the second quarter may be experienced.

**2.2.2. Programme 2: Planning, Policy and Strategy**

The purpose of the programme is to provide strategic direction in the development, implementation and monitoring of Departmental policies and the human resource development strategy for South Africa.

The programme had 12 targets planned to be fully achieved at the end of the fourth quarter, 31 March 2018. For the quarter under review, the Department committed to report milestones towards achieving seven of the 12 yearly targets. The programme had achieved all the seven (100 percent) outputs during the reporting timeframe. This include: the development of a list of occupations in high demand and a concept note on occupations in high demand which was due for the second quarter; the development of a policy framework on disability; the annual report on the implementation of social inclusion in post-school education and training; the annual report on open learning policy in post-school education and training, the annual report on career development service; the annual statistics on post-school education and training (PSET) report, and the design of the management information system (MIS) for public CET colleges.

The programme expenditure of R86.2 million for the quarter under review was in line with the planned spending for the year up to this quarter, and was also commensurate to service delivery performance of the programme.

**2.2.3. Programme 3: University Education**

The purpose of this programme is to develop and coordinate the policy and regulatory framework for an effective and efficient university education system. Furthermore, it provides financial support to universities, the National Student Financial Aid Scheme (NSFAS) and the National Institute for Higher Education (NIHE).

For the 2017/18 financial year, the programme has 20 planned targets. There were four targets to be reported on during the quarter under review. Of these, three (75 percent) were achieved and one (25 percent) was not achieved.

The achieved outputs include: the development of a central application service policy; the amendments of the National Student Financial Aid Scheme (NSFAS) Act, 1996 (Act No. 56 of 1996) where the review process and the task team was constituted, and the development of a national plan for the PSET. The target not achieved was the development of a policy framework on collaboration between professional bodies, government departments and quality councils.

**2.2.4. Programme 4: Technical and Vocational Education and Training**

The purpose of this programme is to plan, develop, implement, monitor, maintain and evaluate national policy, programmes, assessment practices and systems for TVET.

This programme has 28 targets planned for the 2017/18 financial year. For the quarter under review, the Department committed to deliver on 11 outputs. Of these, three (27 percent) were achieved within the reporting timeframe and 8 (73 percent) of the outputs were not achieved. Of the eight (8) outputs that were not achieved, three (37.5 percent) were subsequently achieved outside of the reporting timeframes.

The targets that were achieved include: the development of a revised plan for the review of the curricular within the TVET system for the 2018 academic year; the development of a plan for TVET college lecturer development, and the development of a draft national infrastructure asset management framework for TVET colleges.

The targets that were not achieved as planned include: the development of the performance draft reporting policy for TVET colleges; the development of draft policy for the South African Institute for Vocational and Continuing Education and Training (SAIVCET; the development of a draft policy for administration/management of student admission for TVET colleges; the review of the funding framework for TVET colleges; a report on the conduct of public TVET college examination centres during national examinations and assessments for the 2016 academic year; a report on certification backlog eradication, and a report on the implementation of the IT examination services system.

It was concerning that the Department did not achieve 73 percent of its planned targets within the set timeframes. Of critical importance to note was that these targets were critical to ensure the effective functioning of the TVET college sector. The non-achievement of the target on the review of the funding framework for TVET Colleges should concern the Department. The challenges experienced in the TVET College sector were as a result of the funding framework that has had undesirable effects in the sector in terms of expanding access to education and training opportunities, infrastructure development, maintenance and refurbishment of the existing facilities, equipment and machinery and the quality of teaching and learning. The Department should expedite the review of the funding framework to avoid delays with the commencement of the consultation process, which often takes longer than planned, and result in the non-achievement of the targets within the reporting timeframes.

The target in the report on certification backlog eradication, which had been achieved outside of the reporting period is critical to ensure that the certification backlog is eradicated. The performance rate of the programme during this quarter has decreased significantly as compared to the performance of 75 percent recorded in the same quarter of the prior financial year. The programme also experienced a higher than projected spending of R22.7 million during the quarter under review.

**2.2.5. Programme 5: Skills Development**

The purpose of the programme is to promote and monitor the National Skills Development Strategy (NSDS III) and to develop a skills development policy and regulatory framework for an effective skills development system.

This programme has eight planned targets for the 2017/18 financial year. For the quarter under review, there were three targets planned and they were achieved. The targets were: the review of the skills development plan; a report on the implementation of the National Skills Development Strategy (NSDS) by the Sector Education and Training Authorities (SETAs) and the planned 100 days average lead time from qualifying trade test applications received until trade test is conducted.

The service delivery performance in this programme was commensurate to the spending, which was in line with the projected expenditure for the quarter. The performance of this programme during the quarter under review had improved significantly as compared to the same period in the prior year, where the overall performance was 24 percent.

**2.2.6. Programme 6: Community Education and Training**

The purpose of this programme is to plan, develop, implement, monitor, maintain and evaluate national policy, programme assessment practices and systems for community education and training.

For the 2017/18 financial year, the programme had six planned targets. There were three outputs due for reporting at the end of the first quarter. Of these, two (67 percent) outputs were achieved and one (33 percent) output was not achieved. The achieved outputs were the development of the CET service delivery model and the development of the reporting policy for CET colleges. The output not achieved was the development of the draft funding framework for CET colleges. Though this programme achieved 67 percent of the planned targets for the quarter under review, the spending for the quarter was higher than projected by R51.9 million due to compensation of employees.

**3. OVERVIEW AND ASSESSMENT OF THE DEPARTMENT’S 2017/18 FIRST QUARTER FINANCIAL PERFORMANCE**

**3.1. Overview and assessment of the overall budget and expenditure**

**Table 1: 2017/18 First Quarter budget and expenditure**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Programme** | Main Appropriation R'000 | Q1 Actual expenditure R'000 | Expenditure as % of available budget | Q1 projected expenditure  | Variance from projected expenditure | % variance from projected expenditure |
| **Administration** | 403 356 | 86 177 | 21.40% | 95 915 | 9 738 | 10.20% |
| **Planning, Policy and Strategy** | 73 298 | 13 560 | 18.50% | 15 063 | 1 503 | 10.00% |
| **University Education** | 41 943 533 | 21 956 156 | 52.30% | 22 398 403 | 442 247 | 2.00% |
| **Technical and Vocational Education and Training** | 7 408 249 | 1 918 156 | 25.90% | 1 896 050 | -22 710 | -1.20% |
| **Skills Development** | 244 293 | 59 527 | 24.40% | 59 448 | -79 | -0.10% |
| **Community Education and Training** | 2 234 910 | 526 576 | 23.60% | 474 665 | -51 911 | -10% |
| **Total** | 52 307 939 | 24 560 756 | 47.00% | 24 939 544 | 378 788 | 1.50% |
| **Current Payments**  | 8 845 780 | 2 002 527 | 22.60% | 1 948 255 | -54 272 | -2.80% |
| Compensation of employees | 8 425 378 | 1 923 769 | 22.80% | 1 854 382 | -69 387 | -3.70% |
| Goods and Services | 420 402 | 78 758 | 18.70% | 93 873 | 15 115 | 16.10% |
| **Transfers and Subsidies** | 43 452 720 | 22 556 815 | 51.90% | 22 988 078 | 431 263 | 1.90% |
| **Payments for Capital Assets** | 9 139 | 1 414 | 15.50% | 3 211 | 1 797 | 56.00% |
| **Total** | 52 307 639 | 24 560 756 | 47.00% | 24 939 544 | 378 788 | 1.50% |
| **Direct charge against the National Revenue Fund** | 16 641 456 | 3 915 592 | 23.50% | 4 160 361 | 244 769 | 5.90% |
| National Skills Fund | 3 328 291 | 567 114 | 17.00% | 832 071 | 264 957 | 31.80% |
| Sector Education and Training Authorities | 13 313 165 | 3 348 478 | 25.20% | 3 328 290 | -20 188 | -0.60% |
| **Total** | 16 641 456 | 3 915 592 | 23.50% | 4 160 361 | 244 769 | 5.90% |
| **Grand Total** | 68 949 095 | 28 476 348 | 41.30% | 29 099 905 | 623 557 | 2.10% |

**Source: National Treasury, Standing Committee on Appropriations 1st Quarter Expenditure**

**Report 2017/18 Financial Year**

The Department received a total allocation of R68.9 billion for the 2017/18 financial year. This was made of R52.3 billion for the Department and R16.6 billion allocated from direct charges against the National Revenue Fund for the Sector Education and Training and Authorities (SETAs) and the National Skills Fund (NSF). For the quarter under review (1 April to 30 June 2017), the projected expenditure amounted to R24.9 billion excluding direct charges. However, the actual expenditure for the quarter amounted to R24.6 billion, which was 47.0 percent expenditure as a percentage of the available budget for the 2017/18 financial year. This was R378.8 million lower than projected spending for the first quarter.

The allocation for expenditure on current payments amounted to R8.8 billion for the 2017/18 financial year. For the quarter under review, the Department’s projected expenditure amounted to R1.9 billion, of which R1.8 billion was projected expenditure on compensation of employees and R93.8 million for goods and services. The actual expenditure on compensation of employees for the first quarter amounted to R1.9 billion, which was 22.8 percent of the available budget for the 2017/18 financial year. The Department’s actual expenditure amounted to R69.4 million higher than the projected spending. The higher than projected spending for the first quarter was attributed to the late payment of claims to markers, examiners and moderators for the November 2016 examinations at TVET and CET Colleges, as well as salary back pay to TVET and CET college lecturers.

Of significance to note was that the late payment of claims to markers, examiners and moderators has been a recurring challenge, which continued to cause variance in compensation of employees’ expenditure. The Department also conceded during the consideration of the 2016/17 first quarter report that the expenditure on markers, examiners and moderators was annually at a high risk. National Treasury also cautioned that throughout the year, this would be reflected in lower than projected spending in some quarters and higher than projected spending in other quarters. The Department should put measures in place to ensure that the claims for markers, examiners and moderators are submitted timeously so that payments can be processed within the required timeframes and the spending for the quarters on the item would be in line with the projected expenditure.

In terms of good and services, an amount of R420.4 million was allocated for the 2017/18 financial year. For the first quarter under review, the Department’s projected expenditure was R93.8 million. However, the actual spending amounted to R78.7 million, which represents 18.7 percent of the available budget for the 2017/18 financial year. The lower than projected spending of R15.1 million which represents 16.1 percent variance from projected spending was recorded in the first quarter.

With regard to transfers and subsidies, the total allocation for the 2017/18 financial year amounted to R43.4 billion. The projected expenditure for the first quarter amounted to R22.8 billion and the actual spending amounted to R22.5 billion which represented 51.9 percent of available budget for the year. The lower than projected spending of R431.2 million, which represented 1.9 percent variance from projected expenditure was recorded during the quarter under review.

In terms of direct charges against National Revenue Fund, the total budget for the year amounted to R16.6 billion, of which R3.3 billion was allocated to the National Skills Fund and R13.3 billion was for SETAs. For the quarter under review, the projected expenditure amounted to R4.2 billion and the actual expenditure was R3.9 billion, representing 23.5 percent of available budget for the 2017/18 financial year. The lower than spending of R244.7 million was recorded in the first quarter.

For the quarter under review, the Department’s projected to spend R29.09 billion, including direct charges. The actual expenditure for the quarter amounted to R28.4 billion, which was 41.3 percent expenditure (including direct charges) of total available budget for the 2017/18 financial year. The overall lower than spending of R623.5 million was recorded during the quarter under review, which was 2.1 percent variance from the projected expenditure.

Comparatively, the overall spending rate in this quarter under review was higher than spending in the same quarter of the prior financial year (2016/17). The overall spending rate increased by 2.2 percent from 39.1 percent in the 2016/17 to 41.3 percent in 2017/18.

**3.2. Overview and assessment of the programme budget and expenditure for 2017/18 first quarter**

**3.2.1. Programme 1: Administration**

The allocation for expenditure on the programme for the 2017/18 financial year amounted to R403.3 million. The projected expenditure for the first quarter amounted to R95.9 million and the actual expenditure amounted to R86.2 million, which represented 21.4 percent of the available budget for the year. The programme recorded a lower than projected spending of R9.7 million, which was 10.2 percent variance from projected expenditure.

Comparatively, the spending rate in the quarter under review was slower than spending in the same quarter of the prior financial year (2016/17). The spending rate decreased by 2 percent from 23.4 percent in the first quarter of 2016/17 to 21.4 percent in 2017/18 first quarter.

The lower than projected spending of R9.7 million for the 2017/18 first quarter was due to the outstanding invoices from various goods and services items that were not received timeously for payment in the first quarter. One of the targets of the programme was to develop a system for tracking of invoices from creditors in order pay them within 30 days, with the aim to improve efficiency in the processing of invoices through an automated solution. The target was not achieved as planned in the first quarter. This means that the challenges currently experienced with the outstanding invoices would continue, and may also affect the projected spending in the second quarter. The Department should expedite the development of invoice tracking system to address the current challenges. This would ensure that invoices for the services rendered are processed and paid within the set timeframes so as to ensure that Department spending for the quarter is in line with the projected expenditure.

**3.2.2. Programme 2: Planning, Policy and Strategy**

This programme received an allocation of R73.3 million for the 2017/18 financial year. The projected expenditure for the quarter amounted to R15.06 million and the actual expenditure amounted to R13.6 million which represented 18.5 percent of available budget. The lower than projected spending of R1.5 million was recorded during the quarter. The programme expenditure for the quarter was in line with the planned spending for the year up to this quarter.

Comparatively, spending rate in this quarter under review was higher by 1.8 percent from the spending rate of 16.7 percent in the same quarter of the prior financial year (2016/17).

**3.2.3. Programme 3: University Education**

The allocation for expenditure in this programme in the 2017/18 financial year amounted to R41.9 billion. The Department’s projected expenditure for the quarter under review amounted to R22.4 billion and the actual expenditure amounted to R21.9 billion, which represented 52.3 percent of available budget for the year. The programme recorded a lower than projected spending of R442.2 million during the quarter under review, which was attributed to delays in the payment of the infrastructure earmarked grants to higher education institutions. The spending rate in this programme for the quarter under review increased by 1.2 percent to 52.3 percent from 51.1 percent in the same quarter in 2016/17.

The lower than projected spending of R248.6 million was also experienced in 2016/17 first quarter due to similar delays in payment of infrastructure earmarked grants. It was cited that the infrastructure earmarked grants were released once the higher education institutions made submissions to the Department, which were analysed against the necessary criteria before disbursements are made. The Department also noted in 2016/17 first quarter that the process of analysis of the submissions by institutions of higher learning took longer than anticipated. The delays in analysing the submissions by institutions would have negative impact on the institution’s ability to expand new infrastructure as well as maintenance and refurbishment of the existing facilities. Universities had been experiencing acute shortage of student housing and inadequate capacity of teaching and learning facilities to student’s access to higher education. The delays in the transfer of infrastructure earmarked grants would also impact on government’s goals of producing a skilled and capable workforce for all the socio-economic sectors of the country.

It was important that the Department put measures in place to fast-track the analysis of the submission by institutions of higher learning so as to facilitate the timeous payment of infrastructure earmarked grants to institutions as planned.

**3.2.4. Programme 4: Technical and Vocational Education and Training**

The programme received an allocation of R7.4 billion for the 2017/18. For the quarter under review, the Department’s projected expenditure amounted to R1.8 billion and the actual expenditure amounted to R1.9 billion, which represented a 25.9 percent spending rate of available budget for the year. The higher than projected expenditure of R22.7 million was incurred in the compensation of employees due to the delays in processing and payment of claims from markers, examiners, examiners and moderators for the 2016 November examinations at TVET Colleges, as well as a salary back pay due to some TVET College lecturers for the recognition of qualifications and the coinciding upgrading of salary levels.

Comparatively, the spending rate in the quarter under review decreased by 3.7 percent rate from 29.6 percent spending rate in the same quarter of the prior financial year (2016/17).

**3.2.5. Programme 5: Skills Development**

The Skills Development programme received an allocation of R244.3 million for the 2017/18 financial year. The programme’s actual expenditure for the quarter amounted to R59.5 million from the projected expenditure of R59.4 million. The programme’s quarterly expenditure was in line with planned spending for the year up to this point.

**3.2.6. Programme 6: Community Education and Training**

The allocation for expenditure on this programme for the 2017/18 financial year amounted to R2.2 billion. The programme’s actual expenditure for the quarter under review amounted to R526.6 million from a projected expenditure of R474.7 million. The higher than projected expenditure of R51.9 million was on compensation of employees as a result of the late payment of claims to markers, examiners and moderators for the November 2016 examinations at CET colleges, as well as the salary back pay to CET lecturers for the recognition of qualifications and the coinciding upgrading of salary levels. It was noted in the National Treasury report that the transfer to CET colleges exceeded the projected amount for the quarter so that colleges could meet commitments incurred at the start of the academic year.

The spending rate in this programme for the quarter under review was 8.9 percent higher than the spending rate of 14.7 percent recorded in the same quarter in 2016/17. This was due to higher than projected spending mainly on compensation of employees.

**3.2.7. Irregular expenditure, wasteful and fruitless and unauthorized expenditure incurred in the 2017/18 first quarter**

For the quarter under review, the Department incurred an irregular expenditure amounting to R228 000 for procuring media services. An irregular expenditure amounting R345 000 for procurement of legal services in the CET programme was also reported during the consideration of the 2016/17 fourth quarter.

The Public Finance Management Act, 1999 (Act No. 29 of 1999) section 38(1)(c) (ii) states that the accounting officer for a department, trading entity or constitutional institution must take effective and appropriate steps to prevent unauthorised, irregular and fruitless and wasteful expenditure losses resulting from criminal conduct. Of concern to note is that the action plans developed to address prior year findings were not effectively implemented, owing to recurrence of a similar findings.

The PFMA further state in section 38(1)(h) that the accounting officer for a department, trading entity or constitutional institution must take effective and appropriate disciplinary steps against any official in the service of the department, trading entity or constitutional institutions who – (i) contravenes or fails to comply with a provision of this Act; (ii) commits and act which undermines the financial management and internal control system of the department, trading entity or constitutional institution; (iii) makes or permits an unauthorised expenditure, irregular or fruitless and wasteful expenditure. At the time of reporting, the employee who procured media services without following the supply chain management processes was still working at the Department, pending the investigation.

**3.2.8. Concluding remarks on the 2017/18 first quarter financial performance**

The Department was able to spend 41.3 percent of the total allocated budget of R68.9 billion for the 2017/18 financial year, including direct charges. For the quarter under review, the Department’s projected to spend R29.09 billion but the spending was lower than projected expenditure by R623.5 million. The lower than projected spending of R9.7 million and R442.2 million was recorded programme 1: Administration and programme 3: University Education respectively. Programme 4: TVET and programme 6: CET recorded higher than projected spending at R22.7 million and R51.9 million respectively. This higher than projected expenditure was attributed to the late payment of claims to markers, examiners and moderators for the 2016 November examinations at TVET and CET Colleges, as well as salary back pay to TVET and CET college lecturers. The overall spending rate increased by 2.2 percent from 39.1 percent in the 2016/17 to 41.3 percent in 2017/18. The Department was able to achieve 67 percent of the targets planned for the quarter.

**4. COMMITTEE OBSERVATIONS**

The Committee having assessed the first quarter performance report 2017/18 of the DHET made the following observations:

4.1. The Committee welcomed the significant reduction in the National Certificate Vocational NC(V) backlog. The Department indicated that as at 14 August 2017, there were two (2) outstanding NC(V) certificates.

4.2. The Committee expressed a concern about the challenges experienced by the National Student Financial Aid Scheme (NSFAS) in the first phase of rolling-out the student-centred model, especially at TVET colleges. The Committee further noted that the delays in the payment of allowances due to the students by NSFAS contributed to the high drop-out rate at universities and TVET colleges.

4.3. The Committee expressed a concern about the overall poor performance of the TVET branch in the quarter under review.

4.4. The Committee expressed a serious concern relating to the irregular expenditure that occurred during the quarter under review. The Committee was also concerned that the employee involved in this irregularity was still employed by the Department. The Department indicated that the transaction involved an employee who procured media services without following the supply chain management processes. The transaction involved was R280 000 and the investigation was underway to finalise the disciplinary action to be instituted against the employee.

4.5. The absence of the internal audit representatives and the DDGs for University Education, Skills Development and TVET programmes to account on the finances and performance of the Department during the quarter under review was noted as a concern.

4.6. The Committee expressed a concern about the delays in the approval of the funding frameworks for the CET and TVET sectors.

**5. Recommendations**

The Committee recommends that the Minister consider the following:

5.1. Noting the delays in payment of allowances due to eligible NSFAS beneficiaries and the impact it had on the high drop-out rates in the higher education and training sector, NSFAS must expedite the payment of allowances to students.

5.2. The Department should strengthen its internal control systems and supply chain management processes to prevent the cases of irregularities recurring. The Department should accelerate its internal investigation concerning the employee involved in the procurement of media services without following due processes. Furthermore, consequence management should be implemented to employees involved in irregularities.

5.3. The Department must ensure that all internal audit representatives and respective DDGs are present during quarterly report presentation to account on the finances and performances of their sector.

5.4. Adequate monitoring systems must be put in place to ensure that the TVET programme improves its performance in relation to its planned outputs.

5.5. Adequate monitoring systems must be in place to ensure that the Department improves its performance, especially in core delivery programmes.

Report to be considered.