**Memorandum from the Parliamentary Office**

**NATIONAL ASSEMBLY**

**FOR WRITTEN REPLY**

**QUESTION 1629**

**DATE OF PUBLICATION OF INTERNAL QUESTION PAPER: 09/06/2017**

**(INTERNAL QUESTION PAPER 21 OF 2017)**

**Mr D America (DA) to ask the Minister of Higher Education and Training:**

1. Which (i) universities and (ii) technical and vocational education and training colleges are considered by his department to be in financial distress and (b) what plans has his department put in place to alleviate the distress in each case?

**NW1835E**

**REPLY:**

1. (i) The Department has assessed all universities’ ability to continue as going concerns and has no reason to believe that any university will not be a going concern in the years ahead. Nevertheless, some universities are experiencing some financial distress. One of the key financial indicators to determine if an institution is suffering financial distress is the total surplus/deficits generated by an institution on their unrestricted Council controlled funds over the previous 3-year period. The table below shows the 13 universities that have been experiencing some financial distress and indicates the surplus/ deficit for the 2013, 2014 and 2015 financial years.



1. (i) The Department provides financial support to each institution through the funding framework for universities. This is made up of a block grant subsidy and a range of earmarked grants, including National Student Financial Aid Scheme (NSFAS) funding. Block grant funds are Council controlled unrestricted funds mainly used to fund teaching and learning, and operational activities. Earmarked funds are utilised to steer developments in the system, for example, access to higher education to previously excluded groups through NSFAS, and infrastructure renewal and development. It is the fiduciary responsibility of each university to ensure that they manage their finances effectively and efficiently. Institutions receive funding from different sources, including the Department and must work within their budgets to ensure their long-term sustainability. A major factor that is causing financial stress is increasing student debt. This is being alleviated through substantial additional funds to support students to pay their fees though NSFAS.

(a)(ii) In terms of the National Norms and Standards for Funding TVET Colleges (NNSF-TVET Colleges), the Department is required to fund Ministerial approved programmes at 80% of the full programme costs. However, due to financial constraints and over-enrolment in the TVET system, the Department can only fund TVET colleges at a 57% funding level. This therefore requires TVET colleges to subsidise State funded programmes from other private sources of funding and/or available cash reserves. This will eventually lead to cash-flow constraints and financial distress.

The Department retains funds, annually, from the subsidy allocation to public TVET colleges, in order to remunerate employees in posts established by the Minister for the TVET college. The portion of the subsidy allocation retained by the Department is 63% of the full cost of the TVET funded programmes according to paragraph 117 of the NNSF-TVET Colleges. The Department then transfers the remaining 37% of the subsidy allocation to TVET colleges for operational costs.

In terms of paragraph 117 of the NNSF-TVET Colleges, the unspent funds on Compensation of Employees (CoE) must be paid back to TVET colleges on a claim basis by 31 March of each year. The utilisation of the unspent funds will be as per the conditions prescribed in the funding norms.

The following table provides a list of potential TVET colleges in financial distress due to excessive CoE expenditure (above the 63% retention budget) as well as cash reserves below R20 million which will in-adversely reduce the College subsidy and contribute to increased cash-flow challenges:

**TVET Colleges CoE analysis: 31 March 2017 including low cash reserves (<R20 Million)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **TVET College** | **CoE Budget** | **CoE Expenditure for the 2016/17 year** | **Over-expenditure** | **% Expenditure ratio (above 63%)** | **Cash Balances as at 30 April 2017** |
| Mthashana | R 60 195 273 | R 66 469 495 | -R 6 274 222 | 69.57% | R 17 851 371 |
| Esayidi | R 107 485 328 | R 116 505 712 | -R 9 020 384 | 68.29% | R 19 220 168 |
| Umgungundlovu | R 62 253 685 | R 66 791 851 | -R 4 538 165 | 67.59% | R 18 764 908 |
| Thekwini | R 71 925 729 | R 75 969 102 | -R 4 043 373 | 66.54% | R 10 127 935 |
| Sekhukhune | R 61 544 424 | R 62 773 431 | -R 1 229 007 | 64.26% | R 9 384 104 |
| Goldfields | R 51 997 586 | R 52 709 601 | -R 712 015 | 63.86% | R 10 009 350 |
| Ikhala | R 65 189 168 | R 65 962 526 | -R 773 358 | 63.75% | R 8 042 623 |

(b)(ii) The liquidity ratios of TVET colleges are monitored by the Department on a monthly basis to be able to identify upfront colleges with potential cash-flow challenges. In addition to the monthly monitoring, the Department has set aside R200 million (funded as an unconditional grant from the National Skills Fund) as a contingency measure to deal with emergency cash-flow challenges at TVET colleges. However, this mitigation is not sustainable over the long term and TVET colleges are required to budget and effectively manage their financial resources.

 The emergency cash-grant only provides for critical operational requirements such as emergency and critical repairs to infrastructure, payments to creditors (for items related to teaching and learning materials, text books, etc. including consumables) as well as urgent services such as water and electricity.

 In addition to the emergency cash-flow grant, the Department submits requests for additional funding to National Treasury on an annual basis through the Medium Term Expenditure Framework (MTEF) processes.

COMPILER/CONTACT PERSONS:

EXT:

DIRECTOR – GENERAL

STATUS:

DATE:

QUESTION 1629 APPROVED/NOT APPROVED/AMENDED

Dr BE NZIMANDE, MP

MINISTER OF HIGHER EDUCATION AND TRAINING

STATUS:

DATE: