

# Addressing quality through school fees and school funding

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The idea of free schooling is primarily about removing the financial barriers to education. Two mechanisms have been introduced to alleviate the financial costs of schooling for poor children: School-fee exemptions, introduced by the South African Schools Act of 1996 and outlined in the regulations of 2006, and the no-fee school policy outlined in the Amended National Norms and Standards for School Funding of 2006.

Although these policies are ostensibly about addressing financial barriers to education, they are also part of a broader education funding strategy designed to promote more equitable access to better quality education.

This essay outlines the two fee-waiver policies and describes how they are meant to work in practice, and then considers the implementation and effect of no-fee schools as a redistributive mechanism:

- What policies govern school fees and school funding?
- How are the school quintiles determined for no-fee schools?
- How has the quintile system been implemented?
- Are the current funding allocations adequate?
- What are some of the implementation challenges facing no-fee schools?
- How does the policy impact on school revenue and quality education?

This essay draws partly on a study of the implementation and impact of the no-fee and exemption policies, commissioned by the Alliance for Children's Entitlement to Social Security (ACCESS) in 2008. The study combined policy and literature reviews with primary research and secondary analysis of data from three provinces. An analysis of national Education Management Information System (EMIS) data was undertaken by the Children's Institute and is presented here for the first time.

## What policies govern school fees and school funding?

Post-apartheid funding policy in education aimed to support the development of a new national system of education that, according to the Schools Act, aimed to "redress past injus-

tics in educational provision [and] provide an education of progressively high quality for all learners".

Education funding policy is therefore explicitly oriented towards improving the quality of school education by redressing the historic inequalities in school funding. Given the spatial distribution of schools and the communities they serve, it is extremely difficult to equalise resources and reduce inequality. More importantly, the norms and standards funding model relates to a very small part of the education budget, while the bulk of spending (on teaching salaries) is not redistributive.

As discussed in the previous essay, national policy in the 1990s required cuts in the number of teaching staff to boost expenditure on equipment and learning materials. If anything, this approach increased disparities in the quality of education: Schools with relatively wealthy parent bodies were able to raise funds to employ more teaching staff, while education suffered in schools serving poor communities. The Amended Norms and Standards acknowledge the irony that, "given the emphasis on redress and equity, the funding provisions of the Act appear to have worked thus far to the advantage of public schools patronised by middle-class and wealthy parents." School-fee exemptions and no-fee schools are both attempts to redistribute resources and improve access to quality education, but they fail to address unequal teaching capacity because salaries are not allocated on a pro-poor basis.

## School-fee exemption

The school-fee exemption is meant to be redistributive in that it enables children from poor areas to access fee-charging schools in better resourced areas. In effect, paying parents directly subsidise poorer learners. As school fees are set by the school governing body (SGB), they vary according to what the school community considers necessary and affordable.

Having set the fees at the 'affordable' level, the school is required to exempt learners from households with incomes that fall below a prescribed means test. The formula for the means test takes into account the combined income of the parents and number of school-going children they support in relation to the annual school fees set by the SGB. In addition, certain categories of children (or their caregivers) are automatically eligible for full exemptions, irrespective of their

income, including children in foster care, kinship care or child-headed households, and those receiving social grants.

The main criticism of the policy is that it is unfunded: Schools are not reimbursed, so each exemption is a loss of revenue for the school, with implications for the quality of education it offers. A counter-argument is that it may not be an equitable use of public resources to spend large proportions of the education budget on reimbursing schools that charge fees, at the expense of investments in poorer schools. While the debate has largely been polarised between an 'all or nothing' approach, a compromise allowing for partial reimbursement could be considered. The Department of Education (DoE) has indicated that it is investigating possible compensation for fee exemptions.

The lack of compensation has made schools extremely reluctant to implement the exemption policy, and even to accept learners who may be unable to pay fees. Numerous commentators, including Veriava and Fiske and Ladd, reported that almost no exemptions were applied for or granted in the first few years.

Two important developments have increased implemen-

tation of the exemption policy. First, the exemption regulations of 2006 made it compulsory for schools to inform parents about the policy and how to apply for a fee exemption. This included a sample letter and form to send to all parents to confirm that they had been made aware of the exemption.

The second event was a High Court judgment in 2007, which clarified that the exemption policy must be implemented by schools and enforced by provincial education departments (see case 4).

### No-fee schools

In 2007, a new funding policy was implemented nationally, in which the poorest 40% of schools were granted no-fee status. No-fee schools may not charge fees; instead, funding allocations are skewed to ensure that the poorest schools receive the largest per-learner allocations. The no-fee policy is reliant on a national poverty ranking system which divides all schools into quintiles. This forms the basis of a spatially targeted, pro-poor funding approach. From its inception, the no-fee policy has been applied to both primary and secondary schools, including the Further Education and Training phase (grades 10 – 12).

## Case 4: Fee exemptions at the Hunt Road Secondary School

In 2006, the mothers of two children attending a Durban secondary school were sued for school-fee arrears. Both women were poor, black, single mothers with multiple dependants, who qualified for fee exemptions. With the help of the Centre for Applied Legal Studies (CALS) at the University of the Witwatersrand, they took the school, its governing body, the provincial and national ministers of education to court. The main complaint was that they had not been given an opportunity to apply for the fee exemption because the school was not following the correct procedures required to implement the policy.

The defence for the school and its governing body (SGB) put forward two main arguments. First, it was argued that the school had limited resources and was already struggling to provide the necessary teachers and facilities to ensure an adequate education for its learners. CALS countered that a school's financial difficulties are no justification for failing to comply with the law, and that rather than (unlawfully) pursuing fee payments from poor parents, the school could approach the provincial education department for funding review. They pointed out that much of the school's response constituted a grievance against the department rather than the impoverished mothers of learners. For instance, the school had suggested that despite being in a middle-income area, it should be classified as a "township" school because many of its learners commuted from townships. This indicated a problem in the school's classification and funding allocation.

Second, the school argued that it had actually complied with the legal framework, and that the mothers had not applied for exemptions. However, the applicants pointed out several instances where the school and SGB failed to comply with the procedural requirements for the exemption. For instance, it issued an annual circular to parents which, instead of explicitly informing them of the policy and application procedure (as required by regulation), emphasised that parents must pay school fees and hinted that parents in financial difficulty could contact the school to discuss alternatives. In response to evidence that the mothers had been turned away when asking about exemptions, the school said it was because they had asked about "bursaries" rather than exemptions. The applicants said this reduced the issue to a matter of semantics, and showed that the school and its SGB had not acted in good faith.

Adv Faranaaz Veriava at CALS emphasised that the case was not an isolated one — rather, it illustrated a systemic problem in the design and implementation of policy. The judgment, in favour of the applicants, affirmed that schools must comply with the law and implement the exemption policy. An important implication of the judgment is a shift in the onus of responsibility: Parents of learners in public schools cannot be sued for non-payment of fees unless the school has determined that they do not qualify for an exemption, and has given them an opportunity to appeal.

Neither the provincial or national departments defended the action. The DoE publicly supported the judgment, which required schools to comply with the legislation.

**Source:** *Centre for Applied Legal Studies and Others v Hunt Road Secondary School and Others*, Case No. 10091/2006. High Court of South Africa, Durban and Coast Local Division (DCLD) [Unreported]



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### How are school quintiles determined?

South Africa's schools are divided into five categories or "quintiles", according to their poverty ranking. The poorest schools are included in quintile 1 and the least poor in quintile 5. There are two steps in the classification of schools. First, a national poverty table, prepared by the Treasury, determines the poverty ranking of areas based on data from the national census including income levels, dependency ratios and literacy rates in the area. Provinces then rank schools from quintile 1 to 5, according to the catchment area of the school. Each national quintile contains 20% of all learners, with quintile 1 representing the poorest 20% and quintile 5 the wealthiest 20%. However, provincial inequalities mean that these quintiles are unevenly distributed across provinces. According to the 2003 Plan of Action, the rationale for national ranking (according to the previous provincial ranking) is to ensure that "equally poor learners across the country will be subject to the same pro-poor targeting".

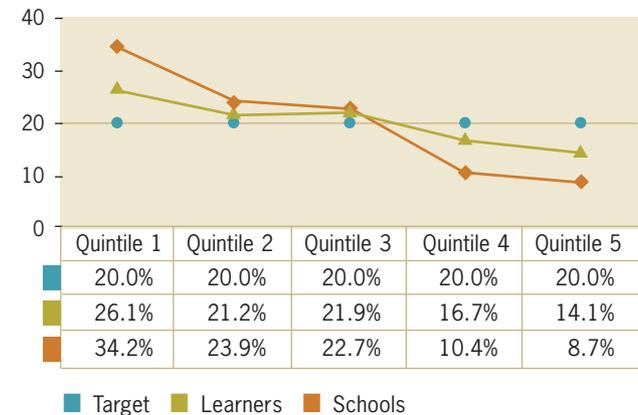
The quintile ranking of a school is important because it determines the no-fee status of the school. Each year the Minister of Education determines the quintiles or parts of quintiles where schools may not charge compulsory school fees. In 2007, quintiles 1 and 2 were identified as no-fee schools.

The quintile ranking determines the amount of money that a school receives. The poorest schools receive the greatest per-learner allocation, based on the assumption that schools in wealthier communities are better able to raise funds and require less support from government. The policy requires that 60% of the available resources must be distributed to the poorest 40% of learners (ie quintiles 1 and 2).

### How are learners and schools distributed across quintiles?

Although quintile rankings are allocated to schools, the proportions refer not to the institutions, but to the number of

**Figure 7: Distribution of schools and learners across quintiles, compared to national targets**



**Source:** Department of Education (2008) Education Management Information System data. Pretoria: DoE. Analysis by Katharine Hall, Children's Institute, UCT.

**Note:** Data are based on public ordinary schools in 2008, and exclude 275 out of 24,710 schools where quintile was unspecified.

learners in each quintile. Lower quintile schools are smaller, on average, than upper quintile schools — for instance, the mean number of learners in quintile 1 schools is 331, compared with just over 700 learners in quintile 5 schools, based on analysis of 2008 EMIS data. About a third (34%) of schools nationally were allocated quintile 1 status in 2008. This achieved coverage of 26% of learners nationally, resulting in a slight over-representation of learners in quintile 1, where the maximum per-learner allocation applies. Conversely, schools in quintile 5 are relatively large, and only 8.7% of schools were allocated quintile 5 status, covering 14% of learners nationally.

The national poverty distribution table stipulates what proportion of learners in each province should be accommodated in each quintile. The quintile system attempts to address the uneven distribution of poverty across provinces, with the poorest provinces having the greatest number of learners in quintiles 1 and 2. For example, 34.8% of learners in the Eastern Cape should be accommodated in quintile 1

**Table 5: National poverty distribution table — targets and actual quintiles, 2008**

	National quintiles										
	1 (poorest)		2		3		4		5 (least poor)		Total
	Target %	Actual %	Target %	Actual %	Target %	Actual %	Target %	Actual %	Target %	Actual %	%
Eastern Cape	34.8	34.6	21.6	31.2	21.0	20.3	11.6	7.8	10.9	6.0	100
Free State	30.8	64.1	14.9	12.5	20.1	10.2	18.8	6.9	15.4	6.3	100
Gauteng	10.5	11.0	11.4	10.6	27.4	31.4	27.2	26.5	23.6	20.5	100
KwaZulu-Natal	24.2	34.2	18.8	23.3	25.6	23.6	17.3	10.7	14.1	8.2	100
Limpopo	34.0	40.3	22.3	30.8	24.9	22.2	11.6	4.4	7.2	2.2	100
Mpumalanga	16.7	25.9	20.2	29.6	29.8	20.6	19.9	14.2	13.5	9.7	100
North West	22.7	36.2	15.2	19.3	30.5	40.2	20.5	2.1	11.0	2.2	100
Northern Cape	26.3	41.7	17.7	25.0	21.6	15.0	14.8	7.9	19.6	10.5	100
Western Cape	6.5	19.5	8.0	8.4	23.1	17.2	27.7	23.3	34.6	31.6	100
<b>SOUTH AFRICA</b>	<b>20.0</b>	<b>34.2</b>	<b>20.0</b>	<b>23.9</b>	<b>20.0</b>	<b>22.7</b>	<b>20.0</b>	<b>10.4</b>	<b>20.0</b>	<b>8.7</b>	<b>100</b>

**Sources:** Department of Education (2006) Regulations Relating to the Exemption of Parents from Payment of School Fees in Public Schools. *Government Gazette* No. 29311, Government Notice No. 1052, 18 October 2006. Pretoria: DoE. Department of Education (2008) Education Management Information System data. Pretoria: DoE. Analysis by Katharine Hall, Children's Institute, UCT.

**Note:** EMIS data are based on public ordinary schools in 2008, and excludes 275 out of 24,710 schools where quintile was unspecified. An updated poverty table, with revised quintile rankings, is included in the no-fee schools lists for 2009, published in October 2008 and available on [www.education.gov.za](http://www.education.gov.za).

schools, as opposed to 6.5% of learners in the relatively wealthy Western Cape.

An analysis of the actual allocation of quintiles shows the provincial disparity in quintile allocations and demonstrates the redistributive nature of the policy. When comparing the target and actual distribution, a much larger proportion of learners nationally attend schools in the no-fee category (quintiles 1 and 2) than envisaged. This raises questions about whether provincial budgets are sufficient to provide the appropriate level learner allocation to so many learners.

### How has the quintile system been implemented?

Primary research commissioned by ACCESS in 22 schools across three provinces identified several challenges with the ranking of schools. Principals of participating schools in the upper quintiles called for a review of their quintile status based on learner demographics. The main disputed areas were:

- **Outdated source data:** Spatial targeting it is not always precise. The main national data source used to determine the poverty score is the census, which is quickly outdated in the context of urban migration.
- **Ranking errors:** In some instances schools in the same area are ranked differently, resulting in unequal allocations to schools serving the same community.
- **Failure to consider learner demographics:** Poor schools close to less poor areas may be prejudiced by the relative

wealth of their neighbours, and ranked in a higher quintile than appropriate. The ranking system only considers the physical location of the school and does not take into account learner demographics. For many reasons, including freedom of choice, quality of education and necessity, some poor children go to school in other areas, but the spatial-targeting approach does not allow the learner subsidy to 'follow the child'. This, coupled with the lack of compensation for fee waivers, means that schools that accept these children suffer financially.

- **Masking inequality:** Quintile rankings can mask large disparities between schools that are ranked equally (within and across provinces).
- **Poor communication:** Poor communication and lack of consultation leave schools and parents confused about schools' status and rank. Misleading statements by politicians about free education have added to the confusion, and resulted in parents refusing to pay fees.

A circuit manager in the Eastern Cape remarked:

*Everybody is fuming with rage with the issue of quintiles ... People do not understand the tools used by the department to determine which school should fall into quintile 5 or 1. In the same locality, one [school] can be in quintile 1 and 2 while the one next to it is in quintile 4. The policy can only be successful if parents fully understand it.*

Schools can apply to change their quintile ranking, but it is not a straightforward process.

## Are the current funding allocations adequate?

The recommended per-learner allocation for each quintile is determined by the DoE and published annually in the *Government Gazette*. A national “table of targets” indicates the per-learner amount that provinces should allocate to schools in each quintile to cover non-capital and non-personnel costs. The school allocation is then calculated by multiplying the learner allocation by the number of learners enrolled at the school.

The national targets, in table 6, are pro-poor in that the year-on-year increases in allocations to schools are greatest in the lower quintiles, while increases for the upper quintiles barely keep pace with inflation. The intention is that allocations to the poorest schools will increase disproportionately over time, creating a more even distribution of school resources.

**Table 6: National targets for the school allocation, 2007 – 2010**

	Annual per-learner allocation			
	2007	2008	2009	2010
Quintile 1	R738	R775	R807	R855
Quintile 2	R677	R711	R740	R784
Quintile 3*	R554	R581	R605	R641
Quintile 4	R369	R388	R404	R428
Quintile 5	R123	R129	R134	R147

**Sources:** Department of Education (2006) Amended National Norms & Standards. *Government Gazette* No. 29179, 31 August 2006. Pretoria: DoE.  
Department of Education (2007) National Norms and Standards for School Funding. *Government Gazette* No. 30332, Notice No. 883, 26 September 2007. Pretoria: DoE.

**Note:** \*The quintile 3 allocation corresponds to the ‘adequacy benchmark’ set by the DoE.

The Education Department sets an ‘adequacy benchmark’ — the minimum amount needed to meet the non-personnel and non-capital costs of a learner’s education. (Teachers’ salaries are paid directly by the department.) However, Wildeman has raised concerns about whether this amount is sufficient to enable schools — particularly those in poor rural areas — to function effectively.

Provinces receive an equitable share of the total education budget. Poorer provinces have a greater proportion of poor schools and are therefore required to pay out more learner allocations to schools in the no-fee quintiles than richer provinces. This may result in wide disparities in funding allocated to schools in different provinces.

## What are some of the implementation challenges facing no-fee schools?

The ACCESS research highlighted a number of challenges relating to the management and expenditure of school allocations.

**Provincial variability:** The actual transfer of funds to schools is managed by provincial education departments, but there is some variation in the way this is managed in different provinces, which in turn makes it difficult to establish a consolidated monitoring system.

**Transfer delays:** Late or unreliable transfers in some provinces played havoc with school cash flows. This may improve as a recent amendment to the norms and standards places an obligation on provincial departments to transfer payments to public schools before 15 May each year.

**Inflexible budgets:** Allocations for different budget line items are often fixed and inflexible. For instance, allocations for municipal services are sometimes insufficient to cover costs, and schools are unsure how or where to access funds to cover arrears. Some rural schools received specific allocations for municipal services, but had no piped water or electricity — and were unsure whether or how the funds could be reallocated to other line items.

**Financial management and poor communication:** In section 21 schools, SGBs are required to monitor all funds received and spent, keep financial records, and prepare budgets at the start of the new year. Yet schools are not always informed of the exact amount, purpose and date of transfer of allocations, making budgets difficult to manage. Provincial departments are required to notify schools in writing once a transfer has been made — but this was not always done.

**Lack of capacity:** Despite efforts to provide financial management training to SGBs, the financial reporting requirements remain complex and onerous, and proper budgetary management is beyond the capacity of many schools. Apparently schools in Limpopo that did not submit annual financial statements by mid-year were penalised by forfeiting 70% of their allocation.

**Poor management of funds on behalf of section 20 schools:** Where provincial departments manage expenditure on behalf of section 20 schools, challenges include delays in procurement and service payments, and difficulties in keeping track of expenditure. Schools are therefore unable to reconcile their spending against their budgets, but are still expected to operate within the confines of their budget allocations.

Better support and training, combined with clear mechanisms to track all transfers into school accounts will promote better financial management and accountability.

## How does the policy impact on school revenue and education quality?

The changes in funding allocations to schools over the period 2005 to 2008 have been redistributive in nature, with the largest increases going to the poorest schools.

In order to calculate whether no-fee schools are better or worse off than before, it is necessary to compare the income of schools before no-fee status (smaller norms and standards allocation + school fees) versus the income after being declared a no-fee school (larger norms and standards allocation + no school fees).

Information on school fees for the three-year period 2005 to 2007 was collected from 1,326 schools in Limpopo, enabling comparison of school revenue over the period when the no-fee policy was introduced. The Limpopo data showed a net benefit for no-fee schools, even when taking into account the loss of fee revenue. In 2006, 92% of schools that became no-fee increased their revenue by an average of R60,000 per year. A principal from a Limpopo school commented:

*The school used to charge R55 per learner... which was very hard to collect from all the parents. Now we receive a lump sum, which is a great improvement for our budget.*

Self-reported school expenditure items before and after no-fee status suggested large increases in the number of schools employing support staff (although the allocation is meant to be spent on non-personnel costs), as well as on equipment rental, maintenance, telephones and other services. Some schools said that they now had a budget for additional teaching resources and extra-curricular activities, such as sports and music, that were previously unaffordable. Although a small sample, these findings suggest that no-fee schools are better off than before.

On the other hand, schools in quintiles 3 – 5 received a lower per-learner allocation in real terms in 2007 than in 2005. The research strongly suggests that the introduction of the no-fees policy has worsened the situation in fee-paying schools and that some are forced to function on less than the amount the government considers as minimally adequate to educate a child. The primary reason for the worsening situation in fee-paying schools appears to be the decline in fee-paying behaviour.

## What are the conclusions?

The introduction of the no-fee schools policy has resulted in increased revenue for most no-fee schools, while simultaneously relieving the burden of school fees on poor parents. However, increased funding does not imply sufficient funding, or necessarily result in quality improvements. Many schools continue to operate on a budget that does not allow for the

delivery of quality education or the provision of school infrastructure that is conducive to learning. Moreover, non-personnel resources are merely tools that can support delivery of education, but the allocation of teachers and personnel budgets remains inequitable. There remains a need to review the school funding policy and legislative framework as a whole to ensure that the policy achieves the objective of equitable access to quality education.

Funding policy cannot on its own resolve issues of inequitable access and poor quality. Commentators have noted the danger of regarding funding mechanisms as a substitute for more direct and difficult interventions to improve education quality. Comparative country studies have shown that financial inputs do not necessarily translate into improved educational outcomes. Hanushek warns that South Africa should be wary of an approach where “eager to improve quality and unable to do it directly, government policy typically moves to what is thought to be the next best thing — providing added resources to schools”. Other essays in this publication discuss non-financial ways to address education quality in South Africa.

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