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The Financial Viability of Low-Fee Private Schools in South Africa

July 2015

The Centre for Development and Enterprise, South Africa's leading development think tank, focuses on vital national development issues and their relationship to economic growth and democratic consolidation. Through examining South African realities and international experience, CDE formulates practical policy proposals for addressing major social and economic challenges. It has a special interest in the role of business and markets in development.

Series editor: Ann Bernstein

This report is based on two research papers written for CDE by Dr Tshepo Moloi and Jonathan Carter of Cornerstone Economic Research. The report was written by Dr Jane Hofmeyr (CDE's Education Policy and Advocacy Director) and Professor Stefan Schirmer (CDE's Senior Research Consultant).

The research was funded by the FirstRand Empowerment Foundation. The funders do not necessarily agree with the views expressed in the report.

This report, as well as the background report, is available on the website www.cde.org.za

Cover: School pupils from a township (Photo by Gallo Images)

Published in July 2015 by The Centre for Development and Enterprise
5 Eton Road, Parktown, Johannesburg 2193, South Africa
P O Box 1936, Johannesburg 2000, South Africa
Tel +27 11 482 5140 • Fax +27 11 482 5089 • info@cde.org.za • www.cde.org.za

ISBN: 978-1-920653-22-4

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Acronyms

ANAs	Annual National Assessments
CDE	Centre for Development and Enterprise
CSI	Corporate Social Investment
DBE	Department of Basic Education
ISASA	Independent Schools Association of Southern Africa
LER	Learner to Educator Ratio
MEC	Member of the Executive Council
NECT	National Education Collaboration Trust
NNSSF	National Norms and Standards for School Funding
NSC	National Senior Certificate
PAEPL	Provincial Average Estimate (of expenditure) Per Learner
PBO	Public Benefit Organisation
PED	Provincial Education Department
SACE	South African Council for Educators
SASA	South African Schools Act

EXECUTIVE SUMMARY

Low-fee private schools (officially known as 'independent schools') are growing rapidly in South Africa. In its 2015 report, *Low-Fee Private Schools: International experience and South African realities*, the Centre for Development and Enterprise (CDE) estimated that low-fee independent schools, charging annual school fees of less than R12,000,[1] are educating an estimated 250,000 learners across the country. These schools provide access to good education where there are no, insufficient or dysfunctional public schools in disadvantaged communities.

The growth of the independent school sector has been fuelled in recent years by the emergence of for-profit and not-for-profit chains of independent schools at all fee levels. The increasing interest of donors and investors in 'affordable' independent schools has given rise to important questions: Is it worth investing in low-fee independent schools? How financially viable are they? What is needed to ensure they offer quality education?

This report presents the findings of CDE's analysis and modelling of the financial viability of low-fee independent 'stand-alone' schools and chains of schools to determine the key factors that influence financial viability and what interventions might assist in this process. 'Financially viable' is defined as a school's or chain's ability to generate sufficient income to meet its operating expenses and other financial obligations, while 'sustainable' is used to mean financially viable over the longer term.

CDE's researchers obtained rich qualitative insights and financial information from visits to 23 registered stand-alone, low-fee independent schools. In addition, financial information from four chains of schools was analysed. This enabled the development of cost models, using both public and independent school benchmarks.

Key Findings

CDE's analysis and modelling found that:

- **The state subsidy is critical for the financial viability of low-fee independent schools**. Their main sources of income are the school fees, government subsidy, and donations in the case of a lucky few. The state subsidy is limited to not-for-profit independent schools that serve disadvantaged communities.[2] Schools that qualify are subsidised according to a sliding scale. Based on the level of their published fees, they can obtain between 15 and 60 per cent of what a province spends on the education of a public school learner (some R12,000 a year in 2014).[3] To obtain a 60 per cent subsidy the school fees have to be below R6,000 a year, and between R6,000 and R12,000 for a 40 per cent subsidy.
- **Independent schools that charge fees below R6,000 a year are typically survivalist**, living from month to month, not knowing whether they will be able to meet their financial obligations. Those that qualify for a state subsidy are heavily dependent on it being paid in full and on time.
- **Two types of 'hypothetical' low-fee schools are financially viable**: a 'no-frills' primary school offering a good but basic education, and an innovative secondary school delivering quality schooling through a blend of classroom teaching and online learning.
- **Stand-alone low-fee schools would be viable if they are not-for-profit and obtain a state subsidy**. These schools would need to charge fees of R11,700 a year (2013 fees), obtain a 40 per cent subsidy, and enrol some 600 to 700 learners by the third year of operation. This will enable them to repay a loan of some R30 million at 5 per cent interest over 20 years.
- **Economies of scale make a significant difference to operational costs of low-fee schools**. If this hypothetical school is part of a chain of three schools with centralised administration, it could reduce costs and would be more viable. School size matters: a large learner enrolment makes a school more cost-effective.
- **A for-profit chain of ten schools** charging fees of R11,700 per annum, with over 600 learners in each school and centralised administration, would be viable and able to cover the finance costs of a R30 million loan at 5 per cent interest over 20 years.
- **The modelling indicates that low-fee financially viable independent schools could provide better value for money than public schools in terms of a lower operating cost per learner**. Even with lower learner:educator ratios, the operating cost per learner in the 'no-frills' independent primary school is lower than in a primary public school. With a learner enrolment of 720, the operating cost per learner of the independent primary school is R12,413 per annum as opposed to the average operating cost of a learner in a public primary school of R15,955 per annum. In the case of the innovative low-fee secondary school, its per capita operating cost is lower than both the independent and public primary schools.
- **The majority of the sample of 23 stand-alone low-fee schools had existed for a long time**, although they did

not necessarily meet the requirements of CDE's hypothetical models. The CDE models were based on conservative cost assumptions to strengthen their financial viability. In reality, low-fee schools survive because they are located in basic premises, which they do not own, are poorly resourced, pay low teacher salaries, and in some cases receive donations. Typically they have never taken out a loan.

Challenges and Risks

CDE's analysis identified considerable challenges and risks in establishing and sustaining low-fee independent schools:

- **The regulatory environment is increasingly disabling**. The complex maze of legislation from all sectors of government impedes the establishment of new schools and imposes very high compliance costs which low-fee independent schools struggle to meet. More accountability (with severe sanctions for non-compliance) is demanded from independent schools than public schools.
- **The lack of capacity in government departments and statutory bodies** results in delays in registration, payment of subsidies, and accreditation. If a new school does not become registered in good time or the subsidies are reduced or late, the cost of establishing and running a low-fee school increases significantly.
- **Securing affordable premises** is one of the greatest challenges for low-fee independent schools.
- **The lack of access to loan finance at affordable interest rates** prevents them from expanding to a cost-effective size, buying or building new premises.
- **A high turnover of teachers** results from low salaries.
- **Timely and full payment of school fees and subsidies, tight control over income and expenditure, high learner enrolment, and quality teaching and learning** are key to a school's financial viability.
- **The selection of the right principal and teachers is the 'secret sauce'**, critical for the success of the school. They have to embed a values-based ethos, establish sound discipline, and set high academic standards.
- **Low-fee independent schools wrestle with a perpetual tension between school fees, access for poor children, and quality**. If the fees are set higher, fewer parents will be able to enrol their children, but the quality is likely to improve. If the fees are too low, the quality of education and the viability of the school will be at risk.

CDE Recommendations

To enable low-fee schools to become more financially stable and provide affordable, good quality education to even poorer communities, CDE proposes a number of reforms by government and interventions by the private sector.

Government reform

- Simplify the legislation governing independent schools, remove duplicative processes, and develop more supportive policies that still ensure sufficient accountability. All these would reduce the heavy compliance costs for both the schools and government departments/bodies.
- Increase the level of state subsidy per learner in not-for-profit low-fee independent schools. This reform would enable them to decrease their fees and serve poorer communities, at a lower cost to government. The 2006 National Norms and Standards for School Funding (as amended in 2008) make provision for a provincial Member of the Executive Council (MEC) to increase the subsidy level in consultation with the Department of Basic Education.

Private interventions

Corporate investors and donors can increase the viability of low-fee independent schools in many ways. They can:

- Advocate a more enabling policy framework that would reduce regulatory requirements and costs and increase subsidies through policy engagement with government at national and provincial levels and in stakeholder forums, such as the National Education Collaboration Trust.
- Establish growing numbers of innovative and cost-effective low-fee schools and chains.
- Provide affordable loan finance to new or expanding schools, with a grace period before repayment begins, so the school can reach a cost-effective size.
- Widen the dominant focus of corporate social investment (CSI) on public schools to include support for low-fee independent schools. This could involve assisting the development of new low-fee schools; strengthening existing ones to become registered, accredited and financially viable; and supporting the piloting of innovations.
- Make technical expertise available to enable schools to develop sound strategic and business plans, establish financial and administrative systems, and acquire appropriate technology.
- Fund a school position for an instructional leader, such as an academic deputy-head, to strengthen academic quality.

- Fund additional research and advocacy interventions to support regulatory reform, innovation, quality assessment, and cost-effectiveness.

Concluding Remarks

CDE's modelling points to the potential of low-fee independent schools to provide affordable, good schooling to poor communities on a sustainable basis. The research has identified viable financial models of stand-alone and chains of low-fee independent schools that could be of benefit to investors, 'edupreneurs', donors, the independent school sector, and ultimately the country.

In the context of a struggling public schooling system, the development and expansion of independent schools serving poorer communities is a positive trend that needs greater support and a more enabling policy environment. It is in South Africa's interests for low-fee schools to reach even poorer communities. For this to happen subsidies should be higher and compliance costs reduced so that schools are able to charge lower fees and sustain quality education.

INTRODUCTION

Low-fee private schools (officially known as 'independent schools') are growing rapidly in South Africa. The Centre for Development and Enterprise (CDE) found that low-fee independent schools, charging annual school fees of less than R12,000, are educating an estimated 250,000 learners across the country (see CDE's 2015 report, *Low-Fee Private Schools: International experience and South African realities*). These schools provide access to good education where there are no, insufficient or dysfunctional public schools in disadvantaged communities.

The growth of the entire independent school sector has been fuelled in the last few years by the emergence of for-profit and not-for-profit chains of independent schools at all fee levels. The growing interest of corporate foundations and investors in 'affordable' independent schools has given rise to key questions: Is it worth investing in low-fee independent schools? How financially viable are they? What is needed to ensure they offer quality education and are financially sustainable?

This report outlines the findings of CDE's analysis and modelling of the financial viability of low-fee independent 'stand-alone' schools and chains of schools to determine the key factors that influence financial viability and what would be required to make them financially viable. 'Financially viable' in this analysis is defined as a school's or chain's ability to generate sufficient income to meet its operating expenses and other financial obligations, while 'sustainable' is used to mean financially viable over the longer term.

CDE's modelling points to the positive potential of low-fee independent schools to provide affordable, good quality schooling to poor communities on a sustainable basis

CDE's modelling points to the positive potential of low-fee independent schools to provide affordable, good quality schooling to poor communities on a sustainable basis. Two types of financially viable, 'hypothetical' low-fee schools were identified: a 'no-frills' primary school that offers a good but basic education, and a secondary school which delivers quality schooling through innovative teaching and learning methods.

However, there are challenges and risks in establishing and sustaining such schools, not least of all arising from their contexts and the regulatory frameworks. To enable low-fee schools to become more financially stable and provide affordable, good quality education to even poorer communities, CDE has investigated and recommended a number of reforms and interventions by government and the private sector. These are set out in detail at the end of this report.

RESEARCH METHODOLOGY

The R12,000 per year fee ceiling that CDE uses to define a low-fee school is significant for two reasons: it roughly equates to the provincial average estimate (of expenditure) per learner (PAEPL) in an ordinary public school,[5] and the calculation of the percentage subsidy a not-for-profit independent school can receive is based on the PAEPL.[6]

To investigate the financial viability of low-fee schools, CDE undertook two different pieces of research:

- A CDE researcher visited 23 registered, stand-alone low-fee schools in urban and rural areas and interviewed the principal or owner and completed a questionnaire focused on financial questions at each of them. The sample was distributed between Gauteng (16 schools), Mpumalanga (six schools), and Limpopo (one school). These schools are all stand-alone ones and only one owner had plans to grow the school into a chain. The questionnaires produced insights into the many challenges low-fee schools face and how they manage limited resources while striving to provide quality education.

- A consulting company of financial analysts and economists, commissioned by CDE, investigated four chains of independent schools (as well as schools that had plans to become chains), and principals and owners were interviewed. Not all these schools fell strictly into the low-fee band, but their financial situation and models, as well as the innovative ways they organised and staffed their schools, merited investigation.

From this research, some school budgets, financial statements, management accounts, a building plan with cost estimates, information on investment and financial strategies, and key expenditure ratios were obtained. In addition, financial information was sourced from the website and other public documents of the Curro Group.

Benchmark data was also obtained from the public school system, such as a public school budget and the salary scale of public school teachers, to assist in developing benchmarks for the Excel models that were built.

The modelling identified two financially viable, 'hypothetical' low-fee schools: a 'no-frills' primary school that offers a good but basic education, and an innovative secondary school which delivers quality schooling through innovative teaching and learning methods.

These are explained later in this report and in the background report that can be downloaded from the CDE website, www.cde.org.za. The technical report of the consultants is available on request.

However, to understand the key elements of the financial modelling and the findings, an overview of the nature of low-fee schools and the challenges they face is necessary.

The research identified key issues in the operating environment and the nature of low-fee schools that affect their finances, scalability and sustainability

CHALLENGES OF LOW-FEE INDEPENDENT SCHOOLS

The research identified key issues in the operating environment and the nature of low-fee schools that affect their finances, scalability and sustainability.

POLICY ENVIRONMENT

International experience has shown that the policy environment influences the rate at which independent education sectors expand, and the access and quality they provide. A disabling environment inhibits the expansion of the independent sector and its important contribution to access to schooling and quality outcomes. An enabling environment would focus on learner outcomes, limit the regulatory requirements to only those needed to ensure acceptable teaching and learning conditions and the proper use of public money, without high compliance costs. It would also provide support to those independent schools needing it, and encourage innovation.

In South Africa, the Constitution (1996) and the foundational legislation are supportive of independent schools. Their right to exist subject to certain conditions is guaranteed[7] and the South African Schools Act (SASA) of 1996 enables the provincial education departments (PEDs) to grant a subsidy to registered, not-for-profit independent schools that serve disadvantaged communities. No for-profit or high-fee schools can qualify for a state subsidy.

Other foundational legislation, such as the Income Tax Act (1962) and the Municipal Property Rates Act (2004), provide tax exemption to not-for-profit, registered public benefit organisations (PBOs), as well as reduced property rates for the not-for-profit independent schools which qualify for these benefits.

However, the policy environment is rapidly becoming disabling because of ill-considered legislation from all the different levels and sectors of government, with onerous requirements and unintended consequences. An example is the National Credit Act (2005) which renders schools incidental credit providers that must register with a credit bureau if they offer 'discounted' fees to parents who pay for the whole year's school fees in one single payment.

Poor implementation by PEDs compounds the problems. New schools of all fee levels often have to wait years for registration, and subsidies are arbitrarily reduced, paid late or not paid at all. Many education officials, especially at district level, are not familiar with the legislation under which independent schools exist and treat them like public schools.

Independent schools are subject to regulatory requirements from numerous state bodies

The ever expanding maze of legislation threatens the two pillars of independent schools' sustainability: enough independent 'space' to follow their distinctive missions and be innovative, and sufficient resources to be viable. Between 2010 and 2013, the policy unit of the Independent Schools Association of Southern Africa (ISASA) identified 246 pieces of legislation that affect independent schools. In the first half of 2015 it analysed 36 new or amended policies.[8]

REGULATORY REQUIREMENTS

Independent schools are subject to regulatory requirements from numerous state bodies. They have to meet the strict requirements of the key statutes that govern their legal status, such as the Companies Act. For registration, independent schools have to meet the conditions set by the PEDs and their teachers must be registered with the South African Council for Educators (SACE).

All independent schools have to be accredited by Umalusi, the statutory accrediting body. This is an extensive and very costly exercise in compliance, with monitoring reports every two years, portfolios of evidence, and site-visit inspections.

If a school is not-for-profit and its fees are not more than 2.5 times the PAEPL, it can apply to the PED for subsidy, one year after it has opened as a registered school. To qualify for a subsidy it has to meet a new set of management and financial conditions, and submit annual audited financial statements.

More is required of independent schools than public schools. Many public schools, especially those in poor communities, would be unable to meet the standard of provision required for registration, and no public schools have to be quality assured for accreditation.

Many low-fee independent schools find it difficult to comply with all the regulations relating to their registration, subsidies and accreditation. All the regulatory requirements are actively implemented and schools face severe sanctions if they fail to meet them: closure as illegal schools if not registered, or if registered, they can be de-registered by the province; the refusal or removal of their accreditation by Umalusi; or the loss of their subsidy.

The compliance burden can be a significant barrier to the establishment of new registered independent schools, especially the lowest-fee ones with limited resources. Without registration they are illegal, which can result in low pupil enrolment and growing debt.

SCHOOL SIZE

School size is vital for financial viability as a significant proportion of a school's costs are fixed. A key difference between public and independent schools is that most independent schools start with only a few grades and then grow 'taller and fatter' as they add grades and classes. This means it takes a number of years to build up their enrolments to a cost-effective level.

Teachers' salaries are the major cost item and, if this is not spread over a large number of learners, the per capita costs become very high. Enrolling additional learners to reach economies of scale requires expanding the school's facilities, and access to capital is essential for this. However, CDE's research shows that most stand-alone low-fee schools have never taken out a loan – either because they were unable to qualify for one, but mainly because they could not afford to repay it at a high rate of interest.

School size is vital for financial viability as a significant proportion of a school's costs are fixed

ISASA's rule of thumb is that on average a primary or secondary school requires a minimum enrolment of 150 learners to move out of 'survival mode', but in the case of low-fee schools one of the experienced principals insisted that at least 300 learners was essential.

The models indicate that to become financially viable and pay back a loan, the no-frills primary school should enrol some 700 learners, and the innovative secondary school 600 or more learners.

LAND AND PREMISES

One of the biggest challenges for new and expanding low-fee independent schools is to find suitable land or premises, at an affordable cost, and to obtain security of tenure when they do. Many of the schools rent facilities, and most of them will have moved a few times since they opened in an attempt to find larger or cheaper premises.

Too often, the lack of access to capital leads to a catch-22 for successful low-fee schools. They typically begin in small, affordable, rented premises and grow incrementally. However the original premises seldom allow them to reach a learner enrolment of 150 learners – let alone 300 – to achieve economies of scale. When the demand for places exceeds the number of classrooms and other facilities on that site, they need to expand them or move. However, because they do not own their property and cannot access capital, their only recourse is to find larger rented premises. If these are in cities, the monthly rental costs are high. They then face a real dilemma: once the learner enrolment increases beyond 150 learners they become cost-effective, but in the short-term they may not be able to afford the cost of the move and a higher rental.

FINANCES

A significant proportion of the stand-alone schools struggle to make ends meet. Most of them experience high staff turnover and low rates of payment of fees, and depend on state subsidies to survive. On the whole they have a survivalist orientation. Only a few stand-alone schools claim they are financially viable and provide quality education. Those that do charge higher fees, pay teachers higher salaries, and provide for teacher training. This results in much lower staff turnover.

The finances of the chains of schools are sounder than the stand-alone ones. The two not-for-profit established chains that were studied (Vuleka and Get Ahead Project) obtain substantial direct financial and in-kind support, in addition to their fee and subsidy income.

The two chains of for-profit low-fee independent schools that were examined are the Curro Meridian Schools and SPARK Schools. At the time the latter consisted of only one school, with another in the pipeline, but the chain has grown to five schools in 2015. The viability of these schools depends on careful strategic and financial planning and sound management to attract and maintain the support of their partners and investors. It will take some time before the chains generate any returns and the path to profitability is not certain.

The three main sources of income are fees, government subsidies and, in a few cases, donations

INCOME SOURCES

The three main sources of income are fees, government subsidies and, in a few cases, donations. A few of the more enterprising schools in the sample also engaged in income-generating activities, such as developing an adventure camp with accommodation for rental.

In many poor communities, low-fee schools find that there is a fee level beyond which the parents cannot afford the fees. In an informal settlement, like Orange Farm outside Johannesburg, this was approximately R6,000 in 2014. With this low-fee level, only a large learner enrolment will make the school viable. Because the state subsidy is paid per learner, it too becomes a key issue.

State subsidies are critically important for the viability of low-fee independent schools. The 1996 National Norms and Standards for School Funding (NNSSF) limited state subsidies to not-for-profit independent schools that serve disadvantaged communities, with the level of their published school fees used as the indicator. The NNSSF makes provision for the PEDs to subsidise such schools according to a sliding scale based on each province's PAEPL. The per learner subsidy given to a school ranges from 15 per cent to a maximum of 60 per cent of the PAEPL. No high-fee or for-profit independent school can qualify for a subsidy.

COST STRUCTURES

Teacher salaries are the biggest cost item at all schools. Depending on how teachers are deployed, staff costs usually range from 60 to 80 per cent of a school's budget.

Establishment and maintenance costs are the next largest expenditures. The amount a school needs to spend on these will depend on its facilities. To build a school without sports facilities and modest, but adequate, teaching facilities for 720 learners, can cost about R30,000 per learner. The maintenance of this school will be approximately R4,300 per learner per year.

COST SAVINGS

While it is imperative that the cost reducing strategies do not undercut the schools' capability to provide quality education, there are a number of ways in which schools can effectively reduce costs:

- **Managing their staffing strategically:** Independent schools can do this in ways that public schools cannot. Independent schools can employ a mix of staff that includes a few highly skilled and experienced teachers, who oversee and support less experienced teachers or interns. The modelling of teacher costs shows that, with salaries at the lower end of the public teacher salary scale, a primary school can reduce the salary cost per learner per year by R1,500 by using teaching staff effectively. A secondary school that adopts an innovative approach to teaching and learning can reduce its total salary bill by 45 per cent.
- **Employing innovative teaching and learning methods**: In the sample there were only two schools using innovative teaching and learning methods. Typically these approaches seek to leverage contact time with teachers with group work, peer-to-peer learning, independent work, the use of online learning, and an efficient mix of smaller and larger teaching and learning spaces.
- **Keeping the facilities, range of subjects and extra-curricular activities basic**: This keeps to a minimum the number of staff needed and the maintenance costs. The good schools make explicit to parents and learners that they provide a 'no-frills' education with maximum attention to quality teaching and learning.
- **Reducing rentals of premises**: Most low-fee independent schools rent the property from which they operate, at considerable cost. Some schools manage to keep the rents affordable or negotiate lower rentals on condition that they maintain the facility, and a few share the rent of a building with another organisation.
- **Managing budgets very carefully**: Schools must ensure that no resources are wasted and costs minimised. Teaching and learning support materials should be sourced at the lowest cost and looked after carefully to ensure they last. The same applies to desks and chairs. Income must be watched and bad debts managed. If a parent does not pay the fees this must be addressed swiftly.
- **Outsourcing 'nice-to-have' services, such as a tuckshop or sports**: This enables a school to make the services available without locking up capital.
- **Insourcing certain costs**: The scale of the Curro chain enables it to reduce the cost of construction by insourcing construction capacity.
- **Centralising services and decentralising management**: The school chains centrally manage the finances, student enrolment, procurement, curriculum

There are a number of ways in which schools can effectively reduce costs

development, and teacher development of each of their schools. This achieves economies of scale and thus reduces unit costs.
- **Developing partnerships** with high-fee schools, universities, training colleges, municipalities and sports clubs to use their facilities when they are idle at no, or a greatly reduced, cost.

THE MODELLING

Both the quantitative and qualitative information from the two pieces of research undertaken for CDE informed the modelling.

The amount of quantitative data that could be obtained from the stand-alone schools was limited: budgets and financial statements for three schools were obtained and management accounts for two schools. One of these schools also provided a building plan with cost estimates. A fourth school indicated that it was not willing to share financial data owing to non-disclosure agreements, but did explain its investment and financial strategies, as well as some key expenditure ratios.

During the research two hypothetical models of financially viable schools were identified: a 'no-frills' primary school and an 'innovative' secondary school

The Curro Group's financial information, annual reports, and presentations to annual general meetings and investors were obtained from their website. Unfortunately, this information is not disaggregated into the different categories of schools within the group, thus no data specific to the low-fee Meridian Schools was obtained. Nonetheless the data did inform the upper limit of the benchmarks for the Excel models.

Despite the limitations of the quantitative data from the schools themselves, the rich qualitative information from the school interviews and surveys was sufficient for the analysts to understand the 'business structures' of low-fee schools.

To develop benchmarks for the Excel models, the analysts also used the budget of a large public primary school in Pretoria, draft norms for infrastructure in public schools, realistic building costs, sensible maintenance expenditure, operational costs that would ensure water and electricity accounts could be paid, and most importantly, teacher salaries based on the public teacher salary scale, and thus good enough to attract and retain teachers. In short, the datasets are credible and the benchmarks were developed to promote sustainability.

During the research two hypothetical models of schools were identified:

1. The first type is an **independent primary school that offers a good but basic education**. The quality of teaching and learning is comparable to an 'ex-model C' primary school in a suburb, but it does not have its own sports facilities or a library. This is referred to as the 'no-frills school.'
2. The second type is an **innovative independent secondary school which delivers quality schooling** and has most of the basic facilities for teaching, including science laboratories, and only a few sports fields. This school implements innovative teaching and learning methods that allow it to reduce salary costs. This is called the 'innovative school.'

Excel cost models for each type of school were built to capture the cost elements of the different structures of the schools. Income and revenue assumptions were then tested in each model to identify the points at which the revenue that could be generated exceeded the costs of running the school.

A number of scenarios were modelled for both not-for-profit and for-profit versions of the two independent school types. A critical consideration was the level at which to set the school fees. If a not-for-profit school's fees are half or less of the PAEPL, it is classified as a Category 1 school which can qualify for a subsidy of 60 per cent of the PAEPL. With an average PAEPL of some R12,000 across the provinces, the fees had to be lower than R6,000 per annum in order to qualify for the 60 per cent subsidy. A Category 2 subsidy of 40 per cent of the PAEPL applied if the school's fees were between R6,000 and R12,000.

The income that could be generated by schools charging Category 1 fees as well as Category 2 fees was modelled, with and without a state subsidy. It was assumed that the school would run at full capacity with a 98 per cent fee payment. The costs that would be incurred from expanding facilities or building new ones with a 20-year loan, at both 5 and 10 per cent interest, were included.

For the purpose of analysis, a Category 1 school's tuition fees were taken as R5,700 a year and a Category 2 school's tuition fees as R11,700 a year. After factoring in a few additional considerations for the modelling, it was assumed that a school in Category 1 would have an income per learner per year from fees and subsidies of about R12,800. A Category 2 school would have an income per learner from fees and subsidies of just over R16,400.

The assumptions of the models are fully explained in the background report on the CDE website, www.cde.org.za.

The state subsidy is critical for the financial viability of stand-alone low-fee independent schools

MAIN FINDINGS

The modelling produced a number of key findings:

- **To be financially viable and able to pay back a loan, the fees of a stand-alone subsidised school or a chain of 10 for-profit schools could not be lower than about R11,700 a year** (2013 fees), and there need to be some 600 to 700 learners in every school.
- **The state subsidy is critical for the financial viability of stand-alone low-fee independent schools.** This means that a stand-alone school needs to be not-for-profit so that it can obtain a subsidy and increase its income per learner.
- **Economies of scale make a significant difference to operational costs of low-fee schools.** If the stand-alone school is part of a chain of three or more schools with a central administration, there would be cost savings per school and their viability will improve.
- **If a for-profit chain of 10 schools charges fees of R11,700 a year, it could cover the finance costs through the fee income** with a learner enrolment of at least 600 learners per school and reduced costs from centralised administration.
- **If a school accesses loan finance, it needs a grace period** that will allow it to accumulate and capitalise operating deficits, as long as it reaches capacity in the third year of operation.
- **A no-frills primary school can pay off a R30 million loan with the above grace period at 5 per cent interest over 20 years.** The school must have 720 or more

learners from the third year of operation onwards. The same school can repay a loan of 10 per cent over 20 years, but only if it opens with 720 or more learners.

- **An innovative secondary school can pay off a loan with the above grace period at 5 per cent interest over 20 years.** To do so, it will need 600 or more learners from its third year of operation. The income this model of school generates is just short of the level of income required to pay off a loan at 10 per cent interest over 20 years with the above grace period, but the school will be more likely to achieve this if it caters for an additional 150 learners.
- **The modelling indicates that low-fee financially viable independent schools can provide better value for money than public schools in terms of a lower operating cost per learner, even with lower learner to educator ratios (LERs) in the independent schools.** When there are 720 learners in both primary schools, the average operational cost in the public primary is R15,955, compared to R12,413 – a difference of 22 per cent. When the public primary school with 960 learners is compared with the no-frills primary independent school with 720 learners, the per capita cost is only 4 per cent lower in the former, but its LER is 22 per cent lower. In the case of the innovative low-fee secondary school, its per capita operating cost is lower than both the independent and public primary schools.

Independent schools that are providing education at a fee-level of around R11,700 a year exist in South Africa and are expanding in encouraging ways

Independent schools that are providing education at a fee-level of around R11,700 a year exist in South Africa and are expanding in encouraging ways. These are positive developments.

However, as CDE has argued, and this research has confirmed, to provide access to quality education in even poorer communities where the need is greatest, the annual fees should be no higher than R6,000, and ideally even less.

This research and previous CDE surveys have shown that many low-fee schools do exist that charge fees of less than R6,000 a year. It is also true that most of the stand-alone low-fee schools in the research sample do not match all the assumptions and criteria of the hypothetical models above. With lower fees and lower learner enrolments, they have survived over many years, indicating a level of sustainability.

How can this be explained?

- The hypothetical CDE models were based on conservative cost assumptions to strengthen the financial viability of a low-fee school and minimise risks for donors and investors.
- The CDE modelling investigated whether schools could pay low-interest loans to build or expand their facilities and included those costs. However, the research found that most low-fee schools have never taken out a loan and so would not have had to finance it.
- The stand-alone low-fee schools charging fees below R6,000 in the sample were largely survivalist, living from month to month or year to year, not sure if they had enough money to pay their teachers and meet essential expenses. They were very dependent on the provincial subsidy being paid on time and in full.
- Such schools survive because they provide good education although they are in basic premises (that they do not own), are poorly resourced, and pay considerably lower teacher salaries than public schools. They also struggle to comply with the regulatory demands of government, so some exist illegally as unregistered schools.

- A number of the long-standing schools receive generous donations and are involved in partnerships with high-fee schools, other educational institutions, organisations, and public entities. If these sources of support dry up, the schools may not be financially viable.

INVESTMENT CONSIDERATIONS

CDE's analysis and modelling generated a number of important findings relevant to commercial or philanthropic investors who may be considering investing in or supporting low-fee schools.

QUALITY OF LOW-FEE INDEPENDENT SCHOOLS

For any potential investor or donor, the quality of teaching and learning in a low-fee independent school is as important for its viability as its financial health. If the quality of education offered by the school proves to be too low, learner enrolment will decrease and ultimately the school will go out of business.

The tension between access and quality is the key challenge facing low-fee independent schools in all developing countries. If schools raise their fees too high, they will exclude large numbers of poor pupils, but if the fees are too low, they will not be able to achieve the quality that parents and the state require.

What do we know about the quality of low-fee independent schools in South Africa?

In 2008 and 2009 CDE researched low-fee independent schools in six poor areas of South Africa. It found that on average learners in the low-fee independent schools scored higher in the tests administered than those in nearby public schools.[9] Considerable research in other developing countries has found the same.[10] However, as analysts have pointed out, even if the learner results of low-fee independent schools are 'better than' their neighbouring public schools, that does not necessarily mean that their quality is good.

In South Africa the quality of low-fee schools is controlled through the extensive and strict regulatory requirements for registration, accreditation and subsidisation.[11]

To become registered, an independent school has to meet a standard of provision that ensures adequate teaching and learning conditions, and its teachers have to be registered with the South African Council for Educators (SACE).

In common with other developing countries, there are a number of unregistered low-fee independent schools in South Africa, as CDE's 2010 research showed. Some of these may well be exploitative 'fly-by-nights', typically unregistered, that give the independent sector a bad name, and the provinces are responsible for closing them down.

Other unregistered schools may be doing a good job with very limited resources, but they just cannot meet all the PED conditions for registration. Alternatively, their registration may be delayed or their application lost by the department – common occurrences.

All independent schools have to obtain full accreditation from Umalusi and that is an indicator of a school's institutional capacity to deliver its curriculum at a high standard.

The quality of teaching and learning in a low-fee independent school is as important for its viability as its financial health

The learner results of independent schools are carefully monitored. If a school obtains a state subsidy, its learners' results have to be at least equal to the provincial average in the Annual School Assessments (ANAs) or the National Senior Certificate (NSC) examinations to qualify for subsidy the following year. If the school is for-profit, it does not qualify for a subsidy, but its learner results are carefully monitored because they affect the overall provincial results.

If a registered low-fee school does belongs to an association, there is a better chance that it is of acceptable quality, especially if it is a member of ISASA, the only association that quality assures schools for membership and regularly thereafter. However, only about half of all registered independent schools belong to one of the eight national associations of independent schools.

However, the challenge for investors is that a new low-fee independent school will be too young to have met all government's quality requirements, or have a track record of pupil achievement in the ANAs or NSC.

Only a site visit and investigation of their teaching and learning could be used to judge their quality, but this would not be adequate to assess their financial viability for investment or donor support. Additional processes and instruments are needed for this purpose.

Teacher salaries must be adequate to prevent high staff turnover. Low-fee schools that pay low salaries suffer ongoing staff turnover

FINANCIAL CONSIDERATIONS

The modelling produced some additional findings about investing in low-fee schools:

- **It is less costly to build a school in one go,** than phase construction over a number of years, even when the cost of finance is considered. However, most low-fee schools do not have sufficient capital to do this.
- **A loan of around R30 million, which includes provision for operating deficits,** would be needed for either the no-frills primary school or the innovative secondary school with some 700 learners each.
- **To be viable the schools need to grow to capacity within three years**. Bad planning, delayed registration of the school or no/late payment of the subsidy can cause the operating deficits that accumulate before the school reaches a break-even point to become insupportable. Likewise if the growth during the first few years is sluggish, the deficits can mount to a size the school cannot finance.
- **Teacher salaries must be adequate to prevent high staff turnover**. Low-fee schools that pay low salaries suffer ongoing staff turnover. Consequently, in the modelling teacher salaries were set at the lower end of the public teacher salary scale. The starting remuneration of a qualified public school teacher with no experience is more than R20,000 per month, including benefits. However, in many of the stand-alone, survivalist independent schools surveyed, teacher salaries range between R5,000 and R8,000 per month with no benefits. Some are as low as R2,000, which lays the schools open to high staff turnover and poor quality teaching.
- **The staffing of a chain of schools is a key consideration.** It is relatively easy to staff a no-frills primary school, of which many exist in South Africa. The more innovative models of teaching, however, will require the investment of time and money in appointing and training experienced teachers, who can then train other staff to implement the teaching approach required, and to use the digital

technology which must be purchased. However, to find enough skilled teachers at an affordable salary will not be easy.

- **Non-payment of fees is a serious challenge**. The research suggests that there is a threshold value of tuition and registration fees that 'blocks out' non-payers. Once the fees reach about R1,000 a month and the school requires an annual registration fee of a similar amount, the number of non-payers decreases sharply. Below this threshold, parents who are unsure whether they can afford the fees take a chance, and if they run into financial difficulties move their children to a public school. However, it seems they are less likely to do this if they also stand to lose the registration fee.
- **Tight financial control over income and expenditure is essential.** A small drop in the number of learners or an increase in bad debts would cause the schools to run at a loss. This changes only slightly where schools are in a chain in which administrative costs are shared.
- **The margin for error is small** and this is a business in which errors can easily be made. Over-estimating staffing requirements or poor hiring decisions can push a school into a loss-making position from which it will take time to recover. Under-estimating staffing requirements can result in poor quality education and reputational damage that will take even longer to correct.
- **'Soft' factors like ethos, discipline and values are the foundations for the effectiveness of low-fee schools.** To ensure that these become embedded in a school takes time and requires strong leadership. Appointing the right principal with excellent people skills to ensure a school is 'run like a tight ship' and is a happy working environment is vital. This is probably the closest thing there is to the 'secret sauce' required to make low-fee schools viable.
- **Possibilities for higher returns exist.** The Excel models are based on certain assumptions and some simple but realistic cost estimates. Higher returns could be achieved by cutting salary and maintenance costs, which may create financial buffers or increase returns. Judgement, appropriate to the context in which it is applied, is required to ensure such reductions do not lead to false economies. It is also probable that larger schools than those that were modelled can be managed on a sustainable basis, which suggests there is potential for better returns.
- **Investors in low-fee independent schools should be aware of the range of risks involved**. Changes in the government regulations, new compliance costs, and bureaucratic inefficiency can cause major problems. Late subsidy payments can be managed, but non-payment or a mid-year cut in the level of the subsidy places the low-fee schools under tremendous financial pressure.

'Soft' factors like ethos, discipline and values are the foundations for the effectiveness of low-fee schools

ROLE OF THE PRIVATE SECTOR

CDE's research has identified viable financial models of low-fee independent schools which can assist edupreneurs to establish growing numbers of innovative, cost-effective low-fee schools, produce returns for investors, and enable low-interest loans to be repaid.

Moreover, it is clear that existing low-fee schools offer many opportunities for donors to support and strengthen them, so enabling them to expand and provide quality teaching and learning to even more children in disadvantaged communities. This would involve widening the focus on public schooling of corporate social investment (CSI) funds to include support for low-fee independent schools.

Corporate investors and donors can increase the viability of low-fee independent schools in many ways. Some of the most important forms of private sector support include:

- **Engaging with public policy:** While it is important that the state maintain regulatory oversight over the quality of education in independent schools and the expenditure of public money, the current regulatory framework is not enabling, imposes high compliance costs, and demands more of independent schools than public ones. Private sector organisations, investors and opinion-makers can influence government to reform the current policy environment to make it more facilitative, thus contributing to the growth and sustainability of low-fee independent schools. The National Education Collaboration Trust (NECT) as a multi-stakeholder forum provides a vehicle for this.

  State subsidies are particularly important because the modelling has shown that they are a critical component of the income of viable low-fee schools. However, currently most PEDs do not calculate the PAEPL correctly or pay the subsidies in full on time. The private sector should urge the Department of Basic Education to use its monitoring power to ensure that the PEDs do so, in accordance with the requirements of the NNSSF.

  In addition, the private sector can lobby for higher state subsidies than the current maximum of 60 per cent of the PAEPL, because this will enable low-fee schools to reduce their fees and so reach even poorer children and become more financially stable. Given the significant cost savings to the state that independent schools provide, why should the state subsidy not be raised to, say, 90 per cent, as in Chile, where the state contracts low-fee schools to deliver quality education to disadvantaged communities?

  The NNSSF make provision for a provincial Member of the Executive Council (MEC) to increase the subsidy level in consultation with the national DBE.[12]

  Another urgent reform needed is the removal of the unfair 2008 amendment to the NNSSF, which changed the national requirement that a subsidised school must achieve 50 per cent or more in the NSC, to the average annual provincial pass rate in the NSC (which varies across the provinces), to continue to receive its subsidy in the following year.

  As the provincial average pass rates change every year in every province, it is impossible for the schools to know in advance, when preparing their budgets for the next year, whether that year's matric class will meet that province's matric pass rate. The school will only know in January of the next year, when the matric results are announced, whether it has met the provincial matric pass rates, and if it has not, the whole school loses its subsidy. By then the school will have informed the parents of its fees for that year based on obtaining a subsidy, and when the subsidy amounts to some 30 to 55 per cent of its expected income, losing it is a financial disaster.

- **Providing access to capital and affordable loan finance:** Almost none of the schools surveyed had obtained loans to finance the building or expansion of the school. In many cases, the person who started the school funded its establishment with pension money, or other private sources. If a low-fee school takes out a loan, typically this is secured by an insurance policy or a bond on the home of

Private sector organisations, investors and opinion-makers can influence government to reform the current policy environment to make it more facilitative the principal/owner. Donors and companies could provide low-interest loans to low-fee schools to expand school facilities, buy or build new premises, and/or cover operational expenses while they grow, so that the schools can attain the economies of scale that will strengthen their sustainability.

It is important to note that while CSI funding typically comprises grants, low-interest loans would be recoverable and will usefully supplement CSI funds.

- **Supplying technical expertise:** Technical expertise provided by the private sector can make a significant difference to a low-fee school. This could include:
  - Subsidising an external fundraising service for the schools or training them on how to fundraise and write proposals.
  - Helping schools to develop a strategic plan and business model, effective financial management systems and policies, and efficient administrative capacity and systems, to meet all the requirements for registration and/or a subsidy. Most low-fee schools struggle with the skills, time and money needed to obtain and prepare all the documents, policies and certificates that the PEDs require. However, if a low-fee school has been assisted to produce and implement the key requirements of the PEDs, its strengthened planning and organisational capabilities will help to put it on the path of sustainability. In the case of Umalusi many of its additional requirements for accreditation are unnecessarily onerous and expensive.
  - Supporting new technology for learning. With limited resources and a shortage of staff with specialised skills, introducing new technology would be a significant challenge for most low-fee schools. This is another area where donors could fund the new technology, assist schools to implement it and train the teachers, and make computer technicians available to low-fee schools in the same area.
- **Funding a school position for an instructional leader,** such as an academic deputy-head, to strengthen its academic quality**.** Many of the low-fee schools cannot afford to pay the level of salary that would attract a high quality, experienced educator to direct, support and oversee the quality of teaching and learning and raise learner achievement. A number of independent schools have successfully asked donors to fund the top-up to their normal teacher salaries for a number of years to attract and retain such an academic leader, resulting in significantly improved learner performance.
- **Paying for membership of associations:** Membership of an independent school association can bring significant benefits and cost savings for a school and donor/investor, because the attention and services the associations provide support quality teaching and learning and assist schools with compliance. A number of low-fee schools have indicated that paying a school's annual subscription fees would be a valuable form of donor assistance. For instance, in 2014 schools in the two lowest fee categories of ISASA paid annual subscriptions of R15 or R38 per learner per year, depending on their fee level. In a school of 700 learners this will amount to R10,500 and R26,600 respectively, for which it would obtain 50 supportive services.
- **Funding research:** This research has highlighted important areas for further research which donors and investors interested in supporting the sector should fund in order to fully understand its nature and potential. Among these are:

Technical expertise provided by the private sector can make a significant difference to a low-fee school

Schools that provide quality education will attract a growing number of learners, achieve economies of scale, and therefore have a better chance of becoming sustainable

- Processes and instruments to assess the quality and viability of a low-fee school: As discussed above, the financial viability and the quality of instruction are intimately inter-connected. Schools that provide quality education will attract a growing number of learners, achieve economies of scale, and therefore have a better chance of becoming sustainable.

  Investors and donors need appropriate processes or instruments to assess quality and financial viability before investment or funding. There are some instruments in South Africa that could assist in this regard, such as the ISASA Application for Membership, but these have not been specifically designed for the purposes of an investor or donor.

  CDE is researching and analysing what is available in South Africa and internationally for this purpose. In India, where low-fee independent schools proliferate, an instrument has been developed that combines access to finance with quality assessments. These provide both the donors and the schools with information about the schools' capabilities and are linked to achievable ways in which the schools can improve the quality of their schooling.

  Compliance demands and costs: Compliance with government regulations is a major cost for all independent schools, but proportionally more so for low-fee ones. In Britain and other countries the mounting compliance costs have led to independent school associations undertaking research that has costed, in monetary terms, the compliance burden imposed on an independent school.

  CDE is undertaking a similar research exercise in South Africa to quantify the time, skill levels, and direct costs for independent schools in meeting all the regulatory requirements, and the impact on them. This will be important information for investors and donors to take into account in their planning and interventions. It will also illuminate for government and other stakeholders where the costs of requirements and processes are excessive and duplicative, and thus assist in reforming the regulatory framework for independent schools.
- Innovation in low-fee schools and chains: CDE's modelling shows that innovation is essential for the scalability and sustainability of low-fee schools. Indeed, the future of teaching and learning in all schools cannot be 'more of the same' traditional models, and low-fee independent schools, in particular, have to find new, cost-effective ways of facilitating learning.

  Internationally, considerable experimentation is taking place with new instructional approaches using online learning to develop high-level cognitive skills. One of these is the 'flipped classroom', where foundational knowledge of a topic is acquired by the learner at home through online learning, and class time is used to solve problems with the help of the teacher. Learning also takes place in multiple learning spaces, not only conventional classrooms.

  The use of mobile technology, like tablets and smart phones, is becoming a key element of learning. The cost of mobile devices is decreasing all the time, and they engage learners, who will become more and more disenchanted by traditional models of schooling, bearing no relationship to their world of social media and information technology.

Donors should fund research and pilot projects in low-fee schools with an external independent evaluation to determine the efficacy and cost savings of innovative digital learning.

– The cost-effectiveness of low-fee independent schools: The modelling suggests that low-fee independent schools could offer better value for money than public schools. This requires deeper and broader investigation to develop a clearer picture of the cost-effectiveness and learner achievement of these independent schools when compared with similar public schools. This information is of national importance for both the public and private sectors. Because the socio-economic contexts and challenges of low-fee independent schools are very similar to many public schools in poor communities, positive results from researching and piloting innovations in these independent schools may well be applicable to public schools.

CONCLUDING REMARKS

CDE's modelling points to the potential of low-fee independent schools to provide affordable, good schooling to poor communities on a sustainable basis. The research has identified viable financial models of stand-alone and chains of low-fee independent schools that could be of benefit to investors, edupreneurs, donors, the independent school sector, and ultimately the country.

The modelling suggests that low-fee independent schools could offer better value for money than public schools

CDE's research has shown that low-fee independent schools that charge fees below R6,000 a year struggle to survive and find the environment in which they have to operate very challenging. Because they manage to provide good education, the majority of the schools in the sample have existed for a long time, even though most of them did not meet the requirements of the hypothetical models. This is promising for donors or investors interested in assisting them to expand cost-effectively, innovate, and enhance their quality.

There are multiple ways in which investors and donors could strengthen this sector: by engaging with public policy for regulatory reform; establishing new innovative schools and helping existing ones to expand with affordable loans; funding key components of their quality and financial viability; providing technical expertise; and funding research which will support quality improvement, innovation and sustainability.

In the context of a struggling public schooling system, the development and expansion of independent schools serving poorer communities is a positive trend that needs greater support and a more enabling policy environment. It is in South Africa's interests for low-fee schools to reach even poorer communities. For this to happen subsidies need to be increased and compliance costs reduced so that schools are able to charge lower fees and sustain quality education.

ENDNOTES

1. CDE defines low-fee schools as those that charge fees below R12,000 per annum, which roughly equates to the 2014 national average of provincial expenditure per learner in a public school.
2. Department of Basic Education, South African Schools Act No. 84 of 1996: National Norms and Standards for School Funding (as amended in 2008) (Pretoria: DBE, 2008).
3. No high-fee or for-profit independent school can qualify for a subsidy.
4. Department of Basic Education.
5. The 'estimate' per learner refers to the estimated expenditure in the provincial education budget for the following financial year as opposed to the actual expenditure in the previous financial year. 'Public ordinary schools' exclude those public schools for learners with special educational needs and technical secondary schools, where the costs per learner are significantly higher than in public ordinary schools.
6. A not-for-profit independent school with fees higher than R12,000 a year can obtain a subsidy, but this decreases according to its fee level. Once a school's annual fees are more than 2.5 times higher than the PAEPL (above about R30,000 in most provinces), it cannot qualify for a subsidy.
7. The right of independent schools to exist is guaranteed provided that they do not discriminate on the basis of race, are registered with the state, and maintain standards that are not inferior to those of comparable public schools.
8. Figures supplied by ISASA in June 2015.
9. Centre for Development and Enterprise, Hidden Assets: South Africa's low-fee independent schools (Johannesburg: CDE, 2010).
10. C. McLoughlin, Low-cost Private Schools: Evidence, approaches and emerging issues (Birmingham: University of Birmingham, 2013).
11. Registration requirements include submitting extensive documentation; meeting building requirements; complying with health, safety and fire regulations; registration of all teachers with the South African Council for Educators; and inspection of the premises by departmental officials.

    All independent schools must be accredited by Umalusi to quality assure their institutional capacity to deliver the curriculum at a high standard. This involves an onerous, lengthy process of monitoring reports, portfolios of evidence and on-site inspections.

    To obtain a state subsidy, an independent school has to meet another set of management and financial requirements, submit annual audited financial statements and undergo unannounced departmental inspections, as well as audits from time to time.
12. See Department of Basic Education, Clause 174: "The national norms apply uniformly in all provinces. However, a provincial MEC may vary them, so long as their intent and spirit is maintained. The Head of Department must consult the national DOE on this matter." In addition, in Clause 192: "A PED may, therefore, alter the fee levels and/or corresponding percentage subsidies levels except for the 0% subsidy level applicable to school fee level 5 … after consultation with the DOE."

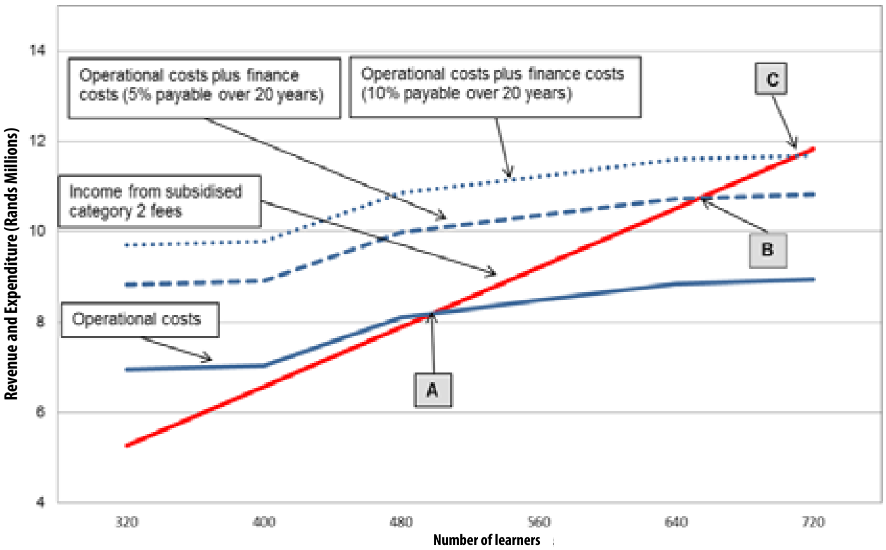
APPENDIX A: MODELLING THE FINANCIAL VIABILITY OF LOW-FEE INDEPENDENT SCHOOLS

CDE's modelling identified two financially viable, 'hypothetical' schools:

THE 'NO-FRILLS' PRIMARY SCHOOL

The first type is an independent primary school that offers a good but basic education. The quality of teaching and learning is comparable to an 'ex-model C' primary school in a suburb, but it does not have its own sports facilities or a library. This is referred to as the 'no-frills school'.
The viability analysis of the no-frills primary school is represented graphically in Figure 1.

Figure 1: Viability analysis of the growth stages of a no-frills primary school



Source: CDE (2015)

Figure 1 shows that if this school does not need to cover finance costs from fees, it will be viable:

- At point A, which represents 500 learners (about 70 per cent capacity), if the school is subsidised, and charges Category 2 fees.

If the school has to cover finance costs from fees, then it will only be viable:

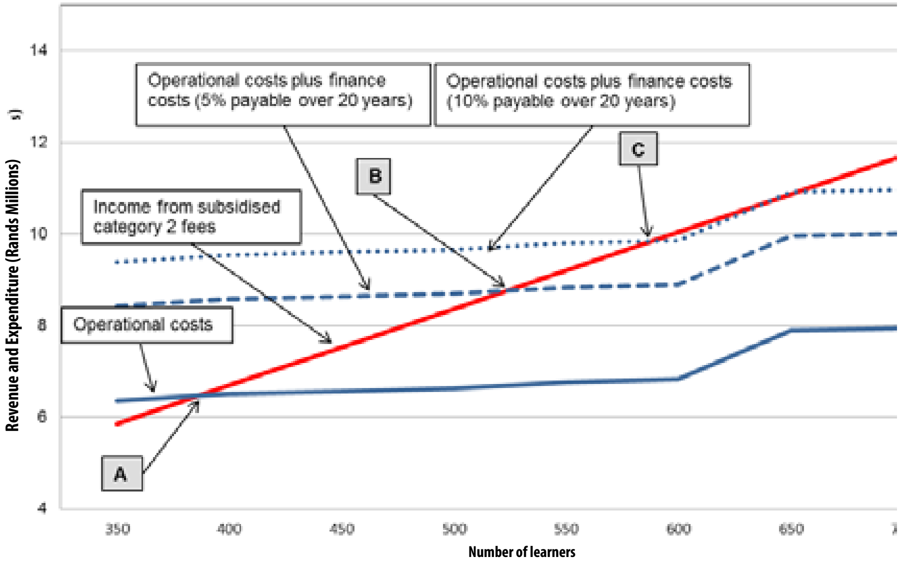
- At point B, if finance costs run at 5 per cent interest, the school enrols 640 learners (90 per cent capacity), is subsidised, and charges Category 2 fees.
- At point C, if finance costs are at 10 per cent, the school is at full capacity (720 learners), is subsidised, and charges Category 2 fees.

THE 'INNOVATIVE' SECONDARY SCHOOL

This is an independent secondary school which delivers quality schooling and has most of the basic facilities for teaching, including science laboratories, and only a few sports fields. This school implements innovative teaching and learning methods that allow it to reduce salary costs. This is labelled the 'innovative school'.

The viability analysis of the innovative secondary school is represented graphically in Figure 2.

Figure 2: Viability analysis of the growth stages of an innovative secondary school



Source: CDE (2015)

Figure 2 shows that if this type of school does not need to cover finance costs from fees, it will be viable:

- At point A, with just under 400 learners (about 56 per cent capacity), if it is subsidised, and charges Category 2 fees.

If it has to cover finance costs from fees, then it will only be viable:

- At point B, it can pay off its building costs at 5 per cent, when the school has more than 500 learners (above 71 per cent capacity) or more, is subsidised, and charges Category 2 fees.
- At point C, the same school will be able to pay off its building costs at 10 per cent, if it has just under 600 learners (84 per cent capacity) or more.

The analysis above compares income to operational costs plus finance charges on the cost of building and equipping the schools for specific numbers of learners. It does not take into consideration the growth of the school prior to reaching those numbers, and the operating deficits prior to the school breaking even.

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CENTRE FOR DEVELOPMENT AND ENTERPRISE

Informing South African Policy

5 Eton Road, Parktown, Johannesburg, South Africa

P O Box 1936, Johannesburg 2000, South Africa

Tel 27 11 482 5140 • Fax 27 11 482 5089

info@cde.org.za • www.cde.org.za

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This CDE project was funded by the FirstRand Empowerment Foundation