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Special OBEN/23/01

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SARB Special Occasional Bulletin of Economic Notes August 2023

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Special OBEN 2301* – July 2023

Review of administered prices in South Africa: Basic education

Fouche Venter

Abstract

Despite the high priority education is given in the state's budget, school fees are necessary to supplement state funding for public ordinary schools in South Africa. School fee inflation puts upward pressure on the overall Consumer Price Index (CPI). Except for 2021, since 2012, school fee inflation has consistently exceeded CPI. The main drivers of school fee inflation include decreasing state funding relative to enrolments, increasing reliance on School Governing Body teachers, an aging workforce, and cost-side inflationary pressures (wages and other operational costs).

1. Introduction

The South African Constitution enshrines the right to basic education for all South Africans. It places the responsibility on the state to “make it [basic education] progressively available and accessible”.¹ The Department of Basic Education, with the nine Provincial Departments of Education (PEDs), takes the lead in realising this right. The National Development Plan (NDP) – the country's central priority-setting mechanism – highlights education as one of the three most important priorities:²

1. Raising employment through faster economic growth.
2. **Improving the quality of education**, skills development and innovation.
3. Building the capability of the state to play a developmental, transformational role.

The share of the government's consolidated budget allocated to basic education further reveals the sector's importance. Although its share has decreased over the past eight years, as shown in Figure 1, it is still the budget group³ receiving the highest budgetary priority. In the 2021/22 fiscal year, basic education was the only budget group to still receive more than debt-servicing – the fastest-growing budget area in the past decade.

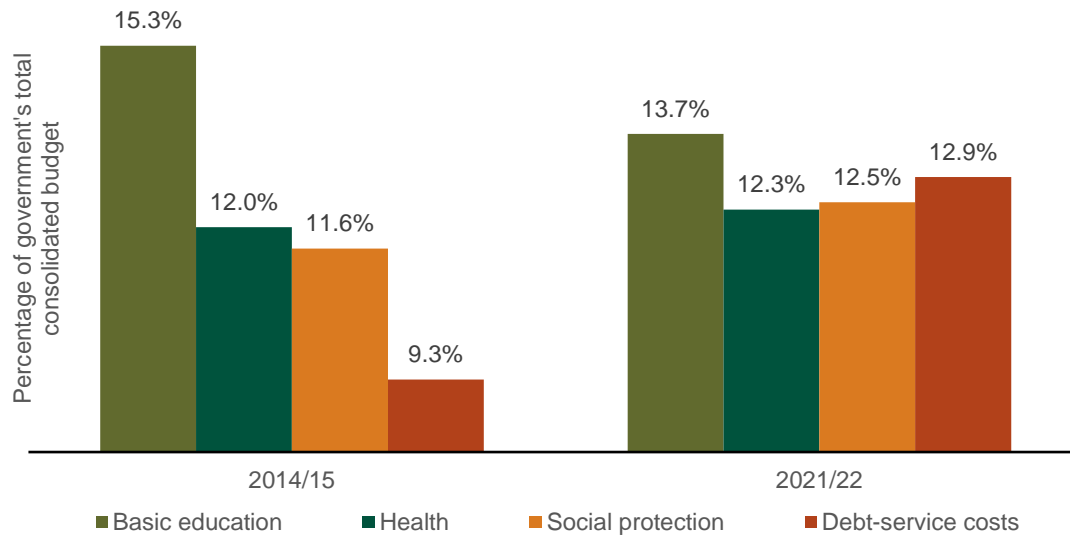
¹ Republic of South Africa, 1996.

² National Planning Commission, 2011.

³ Budget groups are subcategories of functional areas within government Standard Charts of Accounts.

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Figure 1: Share of the budget for the functional areas receiving the highest budgetary priority in South Africa (2014/15 and 2021/22)



Source: National Treasury, 2022.

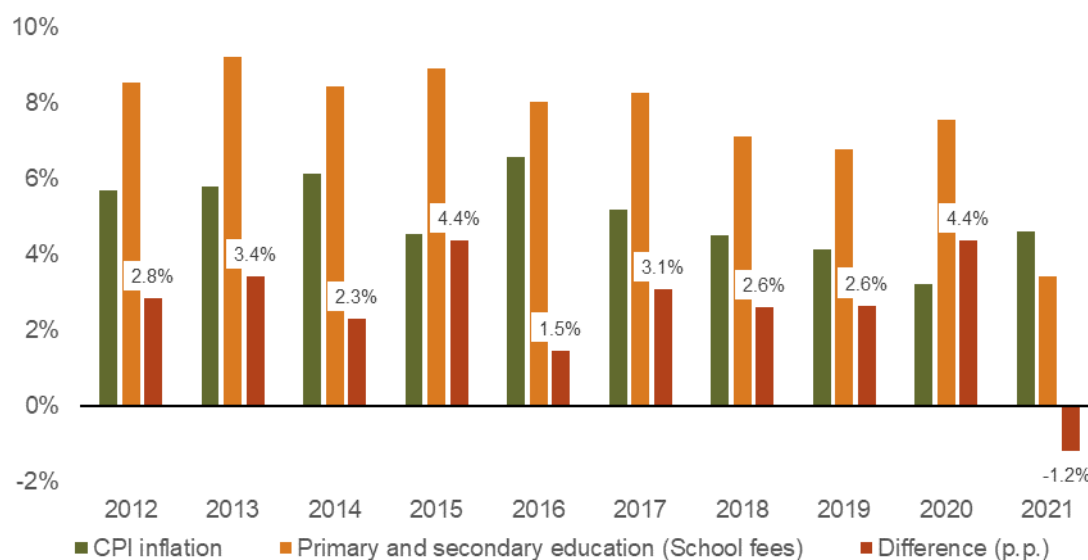
Despite the large budget, school fees are necessary to supplement state funding. These fees are especially useful in addressing equity and redress. By applying an ability-to-pay principle, state funding can favour schools in poorer areas while parents⁴ from affluent areas hold greater responsibility for school fees.

School fee (tuition) information is collected by Statistics South Africa once per year, in March, as part of the consumer price index (CPI) survey. Figure 2 presents the annual growth in school fees (green) and compares it to annual CPI inflation (orange). It shows that school fee inflation generally puts upward pressure on overall CPI. Since 2012, the only time CPI inflation exceeded school fee inflation was in 2021, after the peak of the COVID-19 pandemic – a period in which households’ ability to pay was severely depressed.⁵

⁴ For the purposes of this note, “parents” refers to all caregivers responsible for paying school tuition.

⁵ The relationship between ability to pay and school fees is discussed in more detail in Section 3.3.

Figure 2: Relationship between CPI and school fee inflation (2012–2021)



Source: Statistics South Africa, 2022.

This economic note reviews the potential drivers of school fee inflation. Section 2 describes the school fee-setting mechanism and identifies potential drivers of inflation, Section 3 analyses these drivers to gain insight into their influence on school fee escalation, and Section 4 summarises the findings and proposes potential recommendations to achieve price stability.

2. The current price-setting mechanism

The analysis in this note focuses on school fees at ordinary public schools, where more than 95% of South African learners are enrolled.⁶ A high-level review of other emerging market economies indicates that South Africa is not unique in its approach to funding public school education. Most countries employ differential funding, with some favouring poorer schools, like South Africa, and others favouring lower grades, like Indonesia, Colombia and the Republic of Korea. In general, those favoured by the funding allocations do not charge school fees. Schools that can charge fees have the autonomy to set the level, with no evidence of significant tuition fee regulation.

The South African Schools Act 84 of 1996 (SASA) aligns with the constitutional requirements by providing “for a uniform system for the organisation, governance and funding of schools”.⁷ Chapter 4 of the Act, covering the funding of public schools, is particularly important for this review. It obligates the state to “fund public schools from public revenue on an equitable basis in order to ensure the proper exercise of the rights of learners to education and the redress of past inequalities in education provision”.⁸

Figure 3 shows the funding flow from each PED to their schools and personnel. The PEDs fund ordinary public schools through the Public Primary Level and Public Secondary Level budget subprogrammes in the Public Ordinary School Education budget programme. State-

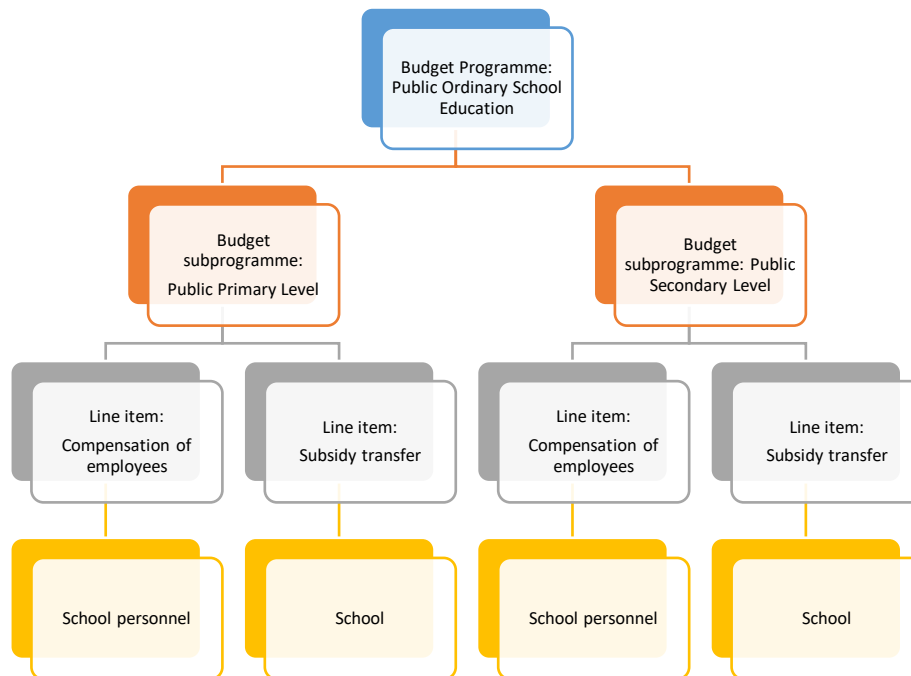
⁶ Department of Basic Education, 2015–2021.

⁷ Republic of South Africa, 2011.

⁸ Republic of South Africa, 2011.

funded school personnel are allocated their salaries, benefits and allowances directly from the Compensation of Employees line item, while a lump sum allocation is provided to schools through a direct subsidy transfer for non-personnel operational costs.

Figure 3: Provincial department of education funding flow to schools and their personnel



Personnel funding is determined by the number of posts funded by the department, guided by the post-provisioning norms and the wages negotiated with the teacher unions. The subsidy transfer to the school is determined by the national table of targets for per-learner allocations gazetted by the Minister of Basic Education each year, which the province adjusts based on available funding.

Both the post-provisioning norms and the targets for per-learner subsidy allocations are designed to be, among other things, progressive. The post-provisioning norms include a poverty factor, which increases the weight of learners in schools with higher poverty ratings. It requires the PED to “set aside a certain percentage of its available posts for poverty redress based on the department’s relative level of internal inequality”.⁹

For the subsidy transfer, schools are categorised by income quintiles, with the lowest quintiles receiving the highest allocation per learner, decreasing progressively as the quintile increases. Schools in the lowest three quintiles are categorised as ‘no-fee schools’, meaning that they are prohibited from charging school fees. The national allocation table for 2021–2023 is provided below as an example.

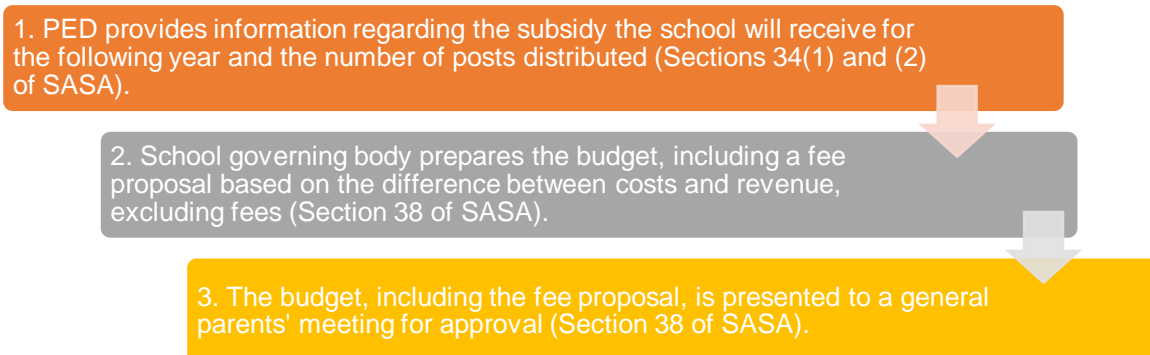
⁹ Department of Basic Education, 2003.

Table 1: National table of targets for the school allocations (2021–2023)

Allocation per learner	2021	2022	2023
National quintile 1– 3	R1 466	R1 536	R1 610
National quintile 4	R735	R770	R807
National quintile 5	R254	R266	R279

Given that public funding may be insufficient and that there are parents able and willing to pay, the Act allows schools to supplement state funding and the state-funded staff complement through, among other things, school fees (Section 39 of SASA). Figure 4 shows the annual budgeting and school-fee-setting process.

Figure 4: Process for fee-paying schools to set annual school fees



For fee-paying schools, school fees close the gap between budgeted expenses and the amount the state provides. This means that if the school budget escalates or state funding decreases, school fees will likely increase. This framework guides the identification of the inflation drivers reviewed in the next section.

3. Inflation drivers

3.1 Compensation of employees

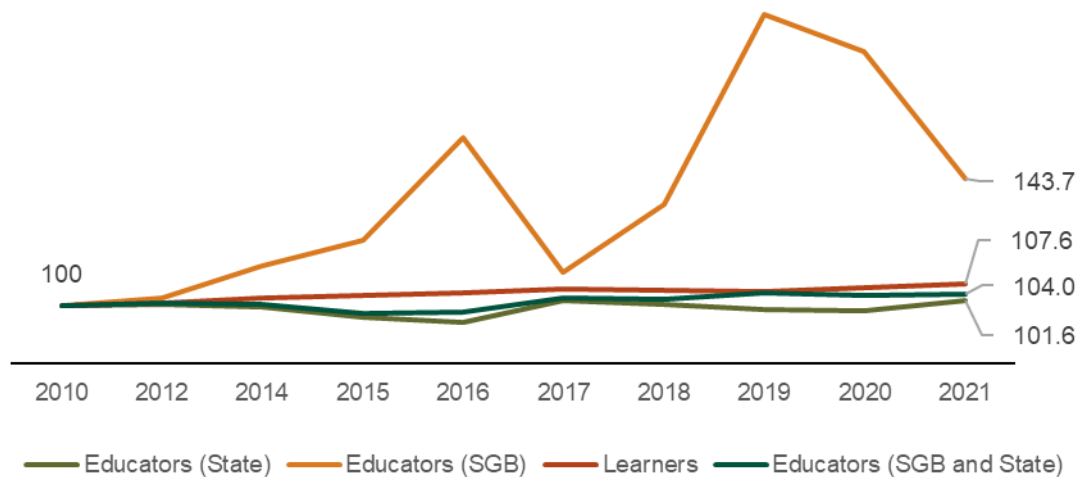
3.1.1 School governing body-funded teachers

School governing bodies (SGBs) are empowered to hire additional teachers if they deem the number of state-assigned posts to be insufficient. These additional posts are then funded through school fees. Consequently, if there is a meaningful decrease in the number of state-funded posts, average school fees will increase as SGBs attempt to ensure adequate staffing.

The number of state-funded teachers relative to the number of learners has decreased over the past decade. Spaul, Lilenstein and Carel (2020) found that, between 2012 and 2016, the number of state-employed teachers decreased by 2% despite an increase of 3.4% in enrolments over the same period. Figure 5 shows that this trend has been prevalent for the larger part of the past decade and that SGBs have been partially successful in compensating for it. On average, the number of SGB-funded posts has increased faster than the number of state-funded posts and the number of enrolled learners. Between 2010 and 2021, on average,

state-funded teachers have increased by just under 1.6%, compared to SGB posts, which increased by 43.7%. However, total employed teachers increased by only 4% compared to the 7.6% that would have been required to compensate for the relative decrease in state-funded teachers.

Figure 5: Growth in state-funded educators compared to SGB-funded educators in ordinary public schools



Source: Department of Basic Education, 2015–2021.

The occurrence of SGBs attempting to compensate for fewer state teachers relative to learners is particularly apparent between 2010 and 2016. During this period, the number of learners increased by 4.5% while the number of state-funded teachers decreased by 2%, leading to a 58% increase in the number of SGB posts – mostly funded by school fees. The same trend is observed between 2017 and 2019.

The opposite is observed from 2019 onwards. Between 2019 and 2021, state-funded teachers increased by 3% and SGB-funded teachers decreased by 28.3%, leading to a net decrease in total teachers of 0.5%. During the same period, learners increased by 2.4%, leading to a decreased teacher-learner ratio. The decrease in SGB teachers after 2019 was too large to maintain the teacher-learner ratio.

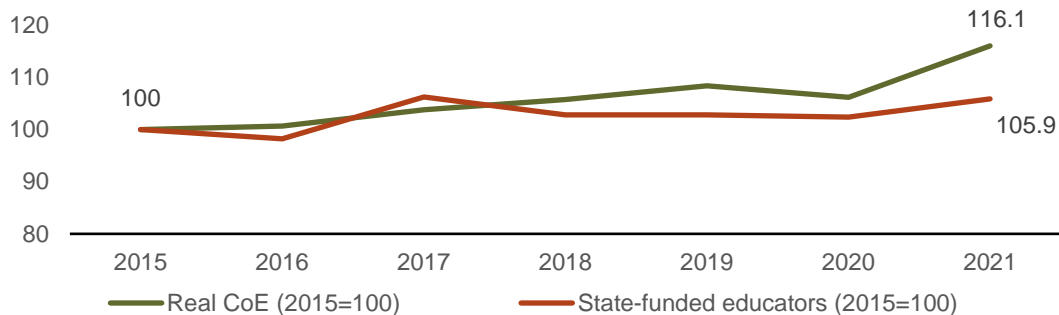
Although the picture changes somewhat after 2019, school fee inflation has likely been driven significantly by fee-paying schools increasingly relying on SGB posts as the number of state-funded teachers decreases despite increasing learner numbers.

3.1.2 Wages

Increasing wages drive up school budgets. Spaul, Liliensteing and Carel (2020) indicate that, between 2008 and 2019, educator wage inflation has consistently outpaced CPI inflation, averaging 9.2% over the period. Figure 6 indicates similar results. As a proxy for teacher salaries, the graph compares the growth of PED spending on compensation of employees in ordinary public schools, in real terms, to the growth in the number of teachers funded by PEDs.

The significantly faster growth in real compensation implies consistently above-inflation salary increases.

Figure 6: Growth in PED spending on compensation of employees in ordinary public schools compared to the number of state-funded educators



Source: National Treasury, 2022; Department of Basic Education, 2015–2021.

There are two salary drivers:

1. *Teacher unions have consistently been able to negotiate above-inflation increases in salary notches*

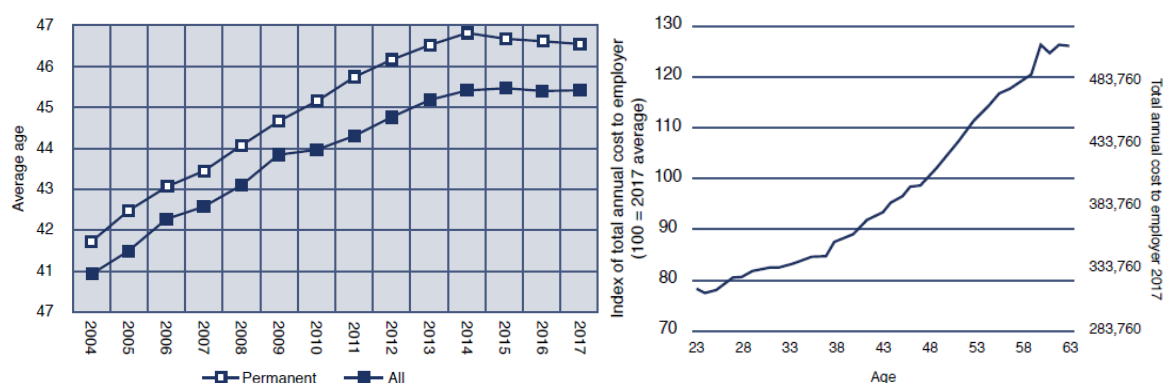
Importantly, based on research by Gustafson and Maponya (2020), South African teachers' pay is not excessive by international standards, and when purchasing power is considered, South African teacher salaries are comparable to those in other middle-income countries. Collective bargaining, therefore, seems to result in reasonable outcomes.

However, the disconnect between the wage increases negotiated with organised labour at a national level and the budgets allocated to PEDs causes difficulties. When the negotiated wage increases are higher than the planned compensation budget increases, PEDs have no option but to decrease post-provisioning. School fees are consequently driven up by SGBs employing more teachers (See Figure 5) and paying them above-inflation wage increases as centrally negotiated increases.

2. *South Africa has an ageing teacher workforce*

In Figure 7, the graph on the left shows South Africa's average teacher age and how it has increased over time. The graph on the right shows the relationship between age and average wage. When considering these two graphs together, it is clear that South Africa's ageing teacher population is putting further upward pressure on PED and SGB compensation budgets.

Figure 7: Ages and wages



Source: Spaul, Lilenstein and Carel, 2020¹⁰.

The Department of Basic Education’s 2020 Action Plan to 2024 shows that most South African teachers are aged between 45 and 60. This major cost pressure will decrease in the future as retiring teachers are replaced with entry-level ones. It has been estimated that the transition could decrease the average salary by up to 15%.¹¹ Besides the substantial fiscal relief, it will also relieve the cost pressure on schools for SGB-funded teacher salaries.

The most important caveat to this outcome is that enough young teachers are trained and employed. The Funza Lushaka Programme is a full-cost bursary programme offered to university students on the condition that they teach in the public schooling system after completing their studies. Although there are challenges, the programme has successfully driven up the supply of teachers aged 30 and below.¹²

Above-inflation negotiated wage increases and an ageing teacher population have driven compensation of employees up, putting upward pressure on schools’ budgets. Because provinces have not been able to adjust budgets to the wage increases, fewer state-funded teachers have been employed, leading to more SGB posts, higher compensation budgets and, ultimately, higher school fees.

3.2 Non-personnel recurrent spending

3.2.1 Subsidy transfer

The subsidy transfer is earmarked for non-personnel operational costs: “Recurrent and small capital items required by the schools as well as normal repairs and maintenance to all the physical infrastructure of the school. Moreover, the school allocation is primarily and exclusively intended for the promotion of efficient and quality education in public ordinary schools.”¹³

¹⁰ Spaul, Lilenstein and Carel, 2020, sourced these graphics from work done by Gustafson (2019). Unpublished memo on PERSAL 2004-2017: Ages and wages. Department of Basic Education.

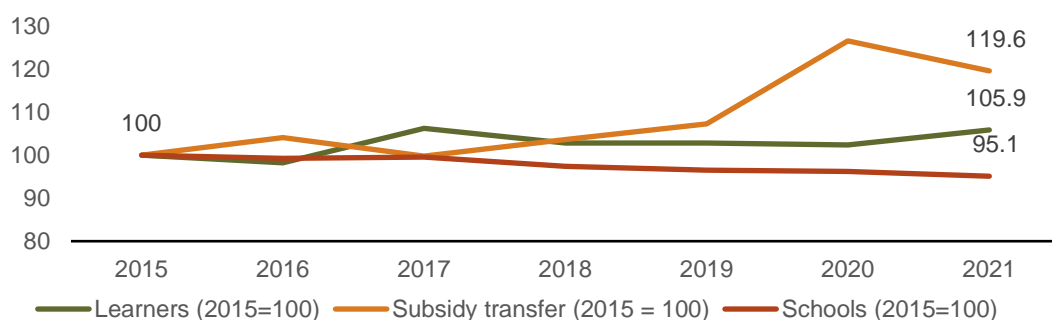
¹¹ National Treasury, Department of Basic Education, KwaZulu-Natal Provincial Treasury, Western Cape Provincial Treasury, 2017.

¹² Department of Basic Education, 2020.

¹³ Department of Basic Education, 2006.

Figure 8 compares subsidy growth (aggregated across provinces and adjusted for inflation) to the growth in the two major cost drivers – the number of students and the number of schools. It shows rapid subsidy growth, indicating a real increase in the average allocation per learner and school over time.

Figure 8: Growth in the PED subsidy transfer, in real terms, compared to the number of schools and enrolled learners



Source: National Treasury, 2022; Department of Basic Education, 2015–2021.

The growth in school fees (Figure 2) is not due to PEDs decreasing their subsidy funding relative to the number of schools and learners over time. In fact, the subsidy transferred per student has increased in real terms at an average rate of 2.4% per year since 2015.

An important caveat to this finding is set out in Section 3.2.3, where the appropriateness of using CPI to convert from nominal to real prices is discussed.

3.2.2 Progressive school funding

Redressing past inequalities and applying the ability-to-pay principle is central to South African public-school funding. The funding table in the introduction (Table 1) sits at the centre of this principle by providing poorer schools with more funding per learner. This redress is important, but it comes at a price. The more progressive the funding, the more fee-paying schools must rely on school fees to fill the gap between their budgets and their state allocation. This puts upward pressure on school fees when the gap widens between the per-learner allocation to quintiles 1 and 5 schools.

Since 2014, the quintile allocation per learner has remained at 17.3% of the allocation to quintiles 1, 2 and 3 schools.¹⁴ Therefore, the real increase in the subsidy transfer shown in Figure 8 has been to the equal benefit of schools across the income quintiles. Neither the CPI-adjusted total amount of state subsidy funding nor its distribution among schools has been a driver of school fee inflation.

3.2.3 Cost pressure

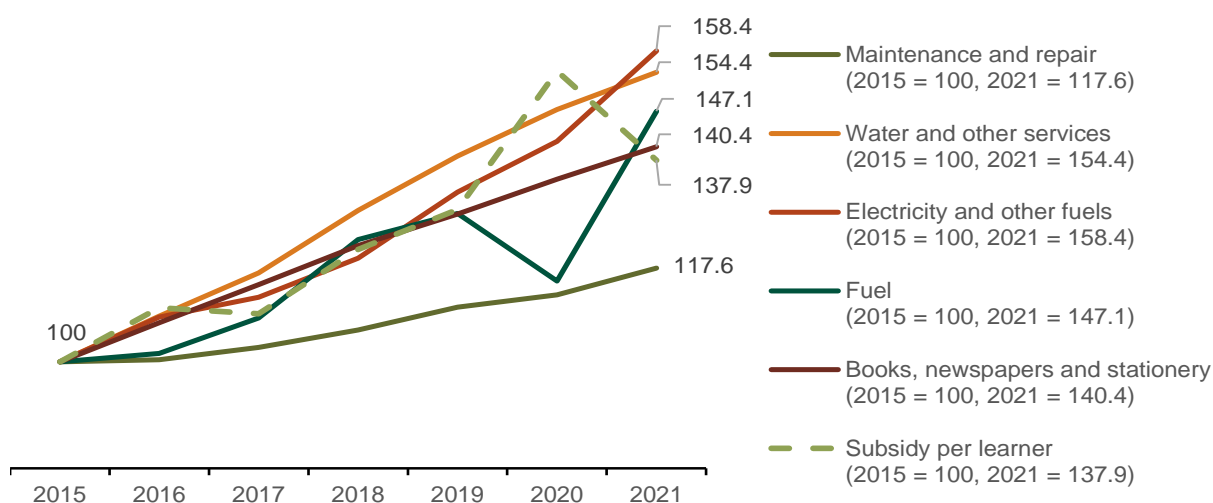
Sections 3.2.1 and 3.2.2 reviewed the subsidy allocation to schools meant for non-personnel recurrent spending. The review indicated a real increase in per-learner and per-school subsidy

¹⁴ Department of Basic Education, 2014–2021.

spending over time. However, the conversion of nominal to real was done using overall CPI, which does not consider school-specific spending. Ideally such an index would be created for this analysis, but the data to determine the correct weights is unavailable. Nevertheless, the growth rates in the prices of the spending items known to be most significant in a school's budget can be compared. This comparison is presented in Figure 9. The selection of items was based on the most prominent school spending items according to the Amended National Norms and Standards for School Funding for which CPI data is collected.

Except for maintenance and repair, and a spike in 2020 in the subsidy per learner,¹⁵ the prices of the spending items have consistently outpaced the subsidy. While the subsidy per learner increased by an average rate of 5.5% per year, Figure 9 shows that, between 2015 and 2021, water prices (tariffs) increased by 7.5%, electricity by 8%, fuel by 6.6%, and books and stationery by 5.8%.

Figure 9: Subsidy transfer per learner growth compared to price growth of most significant school spending items (2015–2021)



Source: Statistics South Africa, 2022.

Although these salient prices have not outpaced the subsidy by large margins, the differences are likely to be significant and are likely putting upward pressure on school budgets and fees.

3.3 Willingness and ability to pay

There are two types of school fee non-payments: those in arrears and those exempted through regulation. For the latter, SASA and its regulations allow parents with insufficient income to apply for an exemption. If the school fees payable is more than 10% of their income (combined, in the case of two caregivers), parents are fully exempted. If less than 10%, they can be partially exempted on a graded scale. In addition, orphaned learners and those benefiting from social grants are automatically exempted.¹⁶

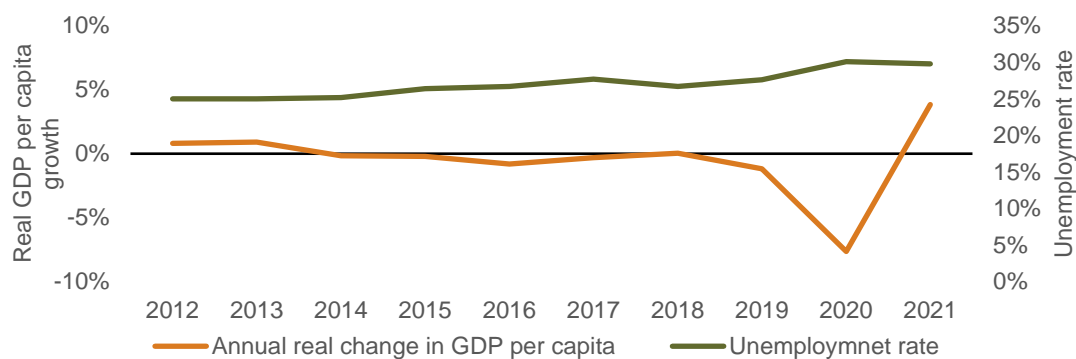
¹⁵ Caused by a drop in enrolments, not an increase in the total subsidy.

¹⁶ Dass and Rinquest, 2017.

The prevalence of non-payment can be a significant driver of school fees. If the school's spending requirements remain the same while the pool of non-paying parents increases, the remaining fee-paying parents will have to pay more to make up the difference.

South Africa's economy has struggled to grow consistently and meaningfully over the last decade. Figure 10 shows a slow but steady upward trend in unemployment and a nearly constant negative growth in per capita GDP since 2014. Over the same period, the official unemployment rate increased from 24.8% in 2012 to 34.8% in 2021. In real per capita terms, South African GDP per capita is 5.7% lower than in 2012. Although the COVID-19 pandemic caused significant spikes in both measures in 2020, real per capita GDP in 2019 – before the pandemic – was already 1.7% lower than in 2012, and the unemployment rate was 2.6 percentage points higher.

Figure 10: South African performance since 2012 in terms of real per capita GDP and the unemployment rate



Source: Statistics South Africa, 2022.

The constrained economic environment has likely increased the number of learners that qualify for exemptions and the prevalence of unpaid school fees. Beyond the signals communicated in Figure 10, there is no specifically reliable and robust data that show actual increases in these phenomena. The one exception is possibly the 2020 School Fee Payment Monitor by TPN, a registered credit bureau servicing the education and property markets in South Africa. The monitor shows that, during the COVID-19 pandemic in 2020, the percentage of paid-up parents decreased from 61.5% in January 2020 to just 45.9% by August that same year. An important caveat to this data is that the source document, and, therefore, a description of its data collection approach, is unavailable online. Although this is during a very specific period in which the economy was struggling immensely, it may point to the relationship between economic performance, income and the ability of parents to stay up to date on school fees.

The significant deterioration in the South African economy during the COVID-19 pandemic and the subsequent slow recovery affected the space available for schools to increase fees. Schools are generally sensitive to parents' ability to pay under severely constrained economic circumstances. However, during the less severe economic constraints of the preceding years, school fees continued their rapid upward trajectory. When possible, schools will shift the burden of non-payment to paying parents for the sake of maintaining quality. But they are also

willing to contain spending, at the expense of quality, in times of severe and pervasive economic downturns.

Although the data required to prove it is unavailable, an argument can be made that an increasing proportion of non-payment among parents at fee-paying schools had likely led to some of the increases in school fees observed before 2019.

4. Summary and recommendations

The basic education funding model emphasises equity by allocating higher subsidies and more posts per learner to schools in poorer areas, prohibiting poorer schools from charging school fees and exempting poorer and orphaned learners.

Recognising that state funding may be insufficient, schools in national income quintiles 4 and 5 can charge school fees provided they do not place undue pressure on the South African consumer. However, although somewhat contained in 2021 – most likely due to external economic factors – school fees have mostly increased faster than CPI inflation. Over the past decade, school fee inflation exceeded CPI inflation by an average of 2.6 percentage points. Although primary and secondary tuition fees constitute just 1.57% of the CPI basket, it is significant. If the CPI and the school fee index were equal in 2011, by 2021, the school fee index would have been 22.8% higher than the CPI. Stabilising school fee inflation is essential.

Introducing competition is a common option for bringing down or stabilising prices, but this is not a viable option for public schools. In South Africa, catchment areas are allocated to prevent learners from having to go to schools far from their homes. These catchment area demarcations are essential from an equity and fairness perspective. They also automatically prevent competition. Nevertheless, there are other potential avenues for containing school fee inflation. The following recommendations are based on the analysis of the most significant drivers.

1. *Ensure informed participation of parents in schools' fee-setting processes*

The public school fee-setting mechanism in South Africa is essentially a negotiation between parents and the SGB. According to SASA, school fees are determined and charged only if a resolution (which includes the fee amount and the exemption rules) has been adopted by a majority of parents attending an annual general meeting where the school's budget and proposed fees are presented. Once adopted, the only recourse for parents is to appeal to the provincial department head to be fully or partially exempted. A few concerns are worth highlighting regarding this process:

- Are parents sufficiently informed of their influence on the fee-setting process?
- Are parents sufficiently informed of the steps available when they deem the fees unreasonable or unaffordable?
- Should parents be allowed to appeal the annual fee escalation and not just their exemption status?

- Is the voting at the annual general meeting done by secret ballot or are parents vulnerable to scrutiny by other parents?

These questions are avenues for future research. If the interactions between parents and the SGBs are found to be sub-optimal, it will be necessary to include policy stipulations that ensure parents are informed and capacitated to influence the annual fee-setting process.

2. *Align wage agreements with organised labour and compensation of employee budgets at PEDs*

Because the PEDs' compensation of employee budgets are fixed over a period, post-provisioning is adjusted downward when wage increases are higher than expected. The adjustment leads to fewer state-funded teachers relative to learners and more teachers employed by the SGB. The school-level spending increases on compensation of employees necessitate school fee increases.

To curb this dynamic, PEDs must be able to adjust their budgets according to wage agreements. If this is not possible, the required adjustment to the post-provisioning should be made clear to unions so that the necessary trade-off within a fixed budget is explicit in all negotiations.

3. *Ensure a sufficient supply of entry-level teachers to replace retiring ones*

One of the reasons for the increasing average wage is the ageing teacher population. However, since 2014, the average age has stabilised, indicating that entry-level teachers might be replacing retiring ones. This transition puts downward pressure on the compensation budget given that salaries differ based on years of experience. Research at Research on Socio-Economic Policy shows that a large wave of retirements is expected over the next 20 years. According to some estimates, this could lead to a natural decrease in the average teacher wage of about 15%.

This cost-saving is only realised if there are enough entry-level teachers available to replace the retiring ones. South Africa has to ensure an adequate supply of young teachers to prevent a situation in which teachers who should be retiring are contracted at much higher pay. The Funza Lushaka bursary programme has successfully increased the supply of young teachers. It is important that this programme and similar initiatives continue to receive funding and resources to take advantage of this demographic transition.

4. *Develop an education sector-specific price index*

The analysis in Section 3.2.1 showed that when adjusting for CPI inflation, the subsidy transferred to schools has increased relative to the number of learners. Although this is important, it disregards the fact that the schools' spending capacity may differ from the average consumers. Section 3.2.3 showed the extent to which a selection of spending items prominent to the average school had increased much faster than the average subsidy transferred per learner. Even though it may look like the subsidy transfer is proportionately increasing over time in real terms, when considering the actual spending composition of

schools, it may be telling the opposite story. A school-specific price index that considers the average amount that schools spend could serve two purposes:

- **Improve government budgeting:** The school-specific index could improve budget planning and analysis by replacing the CPI as the primary baseline guidance for funding growth.
- **Cap annual fee increases:** Schools could potentially be required to obtain permission to increase by more than the set upper limit. Importantly, such a measure should be considered with caution. Expecting schools to cap increases while state funding decreases in real terms would inevitably lead to undue declines in the quality of teaching.

5. *Provincial-level analysis*

Some of the dynamics observed in the data may differ among provinces. Although there is only a 70 basis point difference between the province with the highest and lowest education inflation between 2010 and 2022, the results may be driven by different factors. Comparing and contrasting the findings from the different provinces may provide deeper insight into the significance of each inflation-driving factor. It would also mean that the approach to stabilising inflation may differ by province.

It will be interesting to observe whether school fee inflation continues its pre-2020 trajectory in 2023. If parents' incomes improve significantly, schools may have the space to increase school fees again. They will be especially inclined to do so if state funding does not increase in a way that fully considers schools' most prominent spending items and sufficiently incorporates the negotiated wage agreements.

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