

GOVERNMENT NOTICE
MINISTRY OF EDUCATION

No.

2003

HIGHER EDUCATION ACT, 1997 (ACT No. 101 OF 1997)

FUNDING OF PUBLIC HIGHER EDUCATION

I, Professor Kader Asmal, MP, Minister of Education, in accordance with section 39(1) of the Higher Education Act, 1997 (Act No. 101 of 1997), and after consulting the Council on Higher Education and with the concurrence of the Minister of Finance, hereby determine the policy for the funding of public higher education as set out in the Schedule hereto

Professor Kader Asmal, MP
Minister of Education

SCHEDULE

FUNDING OF PUBLIC HIGHER EDUCATION

November 2003

1 Introduction

1.1 In Education White Paper 3: A Programme for the Transformation of Higher Education (July 1997), it was stated that a new funding framework was required to facilitate the transformation of the higher education system.

1.2 The White Paper argued that the new funding framework must be goal-oriented and performance-related in order to enable it to contribute to fulfilling the vision and goals for the transformation of the higher education system, which include:

- “more equitable student access
- improved quality of teaching and research
- increased student progression and graduation rates, and
- greater responsiveness to social and economic needs.”
(White Paper: 4.14).

- 1.3 The implementation framework for achieving the vision and goals of the White Paper was outlined in the National Plan for Higher Education (NPHE), which was released in February 2001. The NPHE established indicative targets for the “size and shape of the higher education system, including overall growth and participation rates, institutional and programme mixes and equity and efficiency goals”, including benchmarks for graduation rates (NPHE:12).
- 1.4 The National Plan, furthermore, indicated that the “planning process in conjunction with funding and an appropriate regulatory framework will be the main levers” for achieving the goals and targets set. The National Plan goes on to state that the “effective use of funding as a steering lever requires the development of a new funding formula based on the funding principles and framework outlined in the White Paper (NPHE:12).
- 1.5 The current funding framework, which was introduced in 1982, is not suitable as a steering mechanism to achieve the policy objectives and goals for the transformation of the higher education system. Apart from its origins in the apartheid past, it is based on a market-driven model, which precludes its use as a steering mechanism to address national goals and objectives. The role of the Government in this model is limited to funding student demand and to correcting any market failures that may occur. However, under apartheid the market model was itself distorted by ideological factors, which restricted and constrained institutional and student choices and decisions.
- 1.5.1 In addition, the current framework is cost-driven, that is, the starting point for determining the allocation of funds is the generation of an “ideal income” for individual institutions based on the determination of actual costs, irrespective of affordability criteria or whether the costs are linked to the principal activity of higher education institutions, that is, teaching, research and community service.
- 1.6 The White Paper argued that the development of the higher education system cannot be left to the vagaries of the market as it was singularly ill-suited to addressing the legacy of the past and the reconstruction and development challenges of the future. The White Paper proposed the replacement of this market model with a planning model in which the development of the higher education system would be steered and national policy goals and objectives achieved through a combination of instruments, namely, national and institutional three-year rolling plans, that is, “indicative plans which facilitate the setting of objectives and implementation targets that can be adjusted, updated and revised annually”, a responsive funding framework and an appropriate regulatory framework. According to the White Paper:

“A three year planning cycle, with data, resource estimates, targets and plans annually updated, enables the planning of growth and change in higher education to be more flexible and responsive to social and economic needs, including market signals (while avoiding the rigidity of old-style ‘manpower planning’), permits adjustments to be made on the basis of actual performance, and introduces greater predictability and hence stability into the budget process”
(Education White Paper 3: 2.9).

- 1.7 The planning model of higher education funding therefore involves three steps; (i) the Ministry determines national policy goals and objectives; (ii) institutions develop institutional three-year rolling plans indicating how they intend to address the national goals and objectives; (iii) interaction between the Ministry and institutions resulting in the approval of institutional plans, which would be the trigger for the release of funds based on the quantum of funds available.
- 1.8 The funding framework outlined below is therefore radically different from the existing framework. It replaces the market-cum-cost model with a planned model in which the starting point for the allocation of funds to higher education institutions is not institutional costs, but affordability linked to the achievement of national policy goals and objectives. The new framework accepts the principle that institutional costs tend to be functions of income, that is, of what is available to be spent. In this regard, funds allocated by the Government to institutions are not designed to meet specific kinds or levels of institutional costs, but are intended to pay for the delivery of teaching and research-related services linked to approved institutional three-year “rolling” plans. In short, the new framework is a goal-oriented and performance-related distributive mechanism, which explicitly links the allocation of funds to academic activity and output, and in particular to the delivery of teaching-related and research-related services which contribute to the social and economic development of the country.
- 1.9 The fact that costs are not the starting point of the model does not mean that they are unimportant or that it would not be possible to excavate the underlying unit costs underpinning institutional activities. It is critical for institutions to monitor costs as it is their responsibility to decide how they design and manage their academic activities with the available funds. In the event that this leads to an unmanageable financial burden, which precludes institutions from discharging their academic activities and meeting output targets, the Government would have to review the quantum of funds available and make the appropriate adjustments after consulting the affected institutions and/or the higher education sector as a whole.
- 1.10 The new funding framework and the associated planning processes are in line with the Government’s Medium-Term Expenditure Framework (MTEF), which underpins the national budget process. The MTEF involves the development of three-year rolling budgets, which are adjusted, updated and revised annually based on a review of factors such as the growth of departmental budgets in the context of revenue generation and affordability, the relationship between departmental policy priorities and the Government’s strategic objectives, expenditure patterns, inflation adjustments, and sector specific issues. In the case of higher education, examples of such sector specific issues are enrolment and output patterns and trends, cost pressures and efficiency measures, in particular, in relation to personnel and infrastructure, and special policy initiatives such as the current institutional restructuring process.
- 1.11 The Minister of Education will release an Annual Statement on Higher Education Funding for the MTEF period, which would contain the review of key trends and indicate what changes, if any, are to be made in determining the

allocation of funds to the different categories and sub-categories of the funding framework. The Minister will consult the higher education sector and the Council on Higher Education before major changes are made to any of the elements of this funding framework. The main features of this Annual Statement are set out in section 6 below.

- 1.12 The Ministry began work on the development of a new funding framework in 1998. The long gap between the initiation of the developmental work and the release of the framework is largely due to the fact that, although the White Paper outlined the principles that should guide the development of a new funding framework, key policy issues relating to the restructuring of the higher education system remained unresolved. These issues have been addressed in the National Plan for Higher Education, thus enabling the finalisation of the new funding framework.
- 1.13 The introduction of the new funding framework closes a key gap in the instruments necessary to give full effect to the planning model for the transformation of the higher education system outlined in the White Paper. All the instruments are now in place – planning, funding, regulatory and quality assurance, to enable a sustained focus on meeting the policy goals and priorities outlined in the National Plan for Higher Education, thus paving the way for a transformed higher education system, which is affordable, sustainable and contributes to the skills, human resource and knowledge needs of South Africa.

2 Division of the Higher Education Budget between Categories of Grants

- 2.1 The government funding of higher education institutions will be based on two main elements:
- Block grants, which are undesignated amounts to cover the operational costs of higher education institutions linked to the provision of teaching and research-related services.
 - Earmarked grants, which are designated for specific purposes.
- 2.2 The allocation of block and earmarked grants will be determined by:
- The total quantum of public funds available in a given year for higher education.
 - The teaching and research-related services, as well as other objectives, that the Government expects the public higher education system to deliver.

- 2.3 The Minister of Education will determine the proportions of the higher education budget that are to be allocated to block and earmarked grants. The Minister will also determine the allocations to various sub-categories of the block and earmarked grants. The Minister will make these determinations annually within the context of the MTEF, that is, as three-year forward determinations. This implies that if changes were to be made to the proportions of the national higher education budget allocated to any category or sub-category, these would be implemented at the earliest in the third year of the next MTEF triennium.
- 2.4 As is indicated in 1.11 above, the Minister will consult the higher education sector and the Council on Higher Education before any major changes are made to categories and sub-categories of the funding framework.

3 Block Grants

The block grants for higher education institutions will consist of four sub-categories:

- Research output grants.
- Teaching output grants.
- Teaching input grants.
- Institutional factor grants.

3.1 Research Output Grants

3.1.1 The National Plan proposes that:

- Research resources should be concentrated in institutions where there is demonstrated capacity and/or potential based on approved mission and programme profiles.
- There should be greater accountability for the use of research funds.
- Research productivity should be enhanced.

In line with these proposals, the new funding framework makes no provision for research input grants. Instead, research funding, apart from research development funds (which are discussed below) will be determined solely on the basis of research outputs.

3.1.2 Research output grants will be determined on the basis of the following:

- Publication units (as in the current formula).
- Research masters and doctoral graduates.

The Ministry recognises that basing research funding on publication units and graduate outputs may not be adequate in relation to the emerging national research policy framework, including the emerging higher education quality assurance framework. The Ministry is therefore committed to considering the inclusion of additional indicators of research outputs in future years, as new national research policies are developed and implemented.

3.1.3 The allocation of research funds to institutions will be determined on the basis of two sets of research output calculations as follows:

- An actual weighted total of the research outputs produced by each institution.
- A normative weighted total of the research outputs, which each institution should have produced in accordance with benchmarks laid down by the Minister of Education.

The annual research output grant of an institution will be based on the proportion its actual total represents of the normative total for the system. Any shortfall between an institution's normative and actual research output may be allocated to it as a research development grant on the submission of an approved research development plan. During the initial years of the introduction of the new framework, the research development grants for which institutions may be eligible will be added to their block grants, without the prior submission of a research development plan. The Minister of Education will indicate in the Annual Ministerial Statement the time-frame for the linking of the research development grants to the submission of research development plans. However, it is imperative that institutions in their current planning and budgeting take into account that in future the research development grants would not be available as part of the block grant.

3.1.4 The Minister of Education will on an annual basis in the context of the MTEF three-year rolling projections determine the following in respect of the research output grants:

- What constitutes research outputs.
- The weightings to be attached to the different research outputs.
- The benchmark ratios of research outputs in relation to instruction/research staff in universities, universities of technology and comprehensive institutions.

- Whether formal applications have to be submitted for the use of research development funds.

3.2 Teaching Output Grants

- 3.2.1 The National Plan for Higher Education emphasises the importance of improving student success, throughput and graduation rates from their current low levels. In line with this, the funding framework makes provision for teaching output grants to act as an incentive to encourage institutions to put in place steps to improve their success, throughput and graduation rates.
- 3.2.2 In the short-to-medium-term teaching output grants will be determined on the basis of completed non-research degrees and diplomas. The inclusion of degree credits in the determination of teaching output grants will be considered in the longer-term. However, the Ministry accepts that the new dedicated distance education institution merits attention as a special case in relation to the inclusion of degree credits. The Ministry is committed to undertaking the necessary investigations relating to the dedicated distance education institution, with a view to making the necessary adjustments in the 2005/2006 MTEF triennium.
- 3.2.3 Research masters and doctoral graduates will not be considered for inclusion in the determination of teaching output grants as they are included in the determination of research output grants (discussed in 3.1 above).
- 3.2.4 Teaching output grants will be determined on the basis of the following:
- An actual weighted total of the teaching outputs produced by each institution.
 - A normative weighted total of the teaching outputs which each institution should have produced, in accordance with benchmarks laid down by the Minister of Education.
- 3.2.5 The annual teaching output grant of an institution will be based on the proportion its actual total represents of the normative total for the system. Any shortfall between an institution's normative and actual teaching output totals may be paid to it as a teaching development grant. During the initial years of the introduction of the new framework, the teaching development grants for which institutions may be eligible will be added to their block grants, without the prior submission of a teaching development plan. The Minister of Education will indicate in the Annual Ministerial Statement the time-frame for the linking of the teaching development grants to the submission of teaching development plans. However, it is imperative that institutions in their current planning and budgeting take into account that in future the teaching development grants would not be available as part of the block grant.

3.2.6 The Minister of Education will on an annual basis in the context of the MTEF three-year rolling projections determine the following in respect of the teaching output grants:

- What constitutes teaching outputs.
- The weightings to be attached to teaching outputs.
- The benchmark ratios for teaching outputs in relation to the head count totals of enrolled students.
- Whether formal applications have to be submitted for the use of teaching development funds.

3.3 Teaching Input Grants

3.3.1 Teaching input grants will be generated by enrolled totals of full-time equivalent (FTE) students, which (i) have been weighted according to ratios contained in a teaching input grid; (ii) conform to student enrolment plans approved by the Minister of Education.

3.3.2 The teaching input grid, which will be contained in the Annual Ministerial Statement, is based on aggregations of educational subject matter categories (CESM categories), which are subject to weightings by funding group and course level.

3.3.3 The teaching input grid will be reviewed and adjusted if:

- New national academic policies are introduced.
- Course classifications and levels are changed.
- Future cost analyses, which would be undertaken at regular intervals, indicate that the location of fields of study within the grid should change.

3.3.4 The Ministry's approval of institutional three-year rolling plans, which will include approval of student enrolment plans will be consolidated into system-wide totals of FTE student places to be funded by government during the next MTEF triennium.

3.3.5 An institution's teaching input grant for any given year will be generated by the actual total of FTE student enrolments, adjusted, if necessary, in line with the student enrolment plan approved by the Minister of Education. The adjustment process would be as open and transparent as possible. Institutions would be invited to make submissions to explain deviations in their FTE enrolled totals from those approved by the Minister.

3.3.6 The Minister of Education will on an annual basis in the context of the MTEF three-year rolling projections determine the following in respect of the teaching input grants:

- The teaching input grid groupings, its weightings by Classification of Education Subject Matter categories and its aggregations by course level.
- The planned totals of FTE student places (i) for the higher education system; (ii) for each higher education institution.
- The adjustment of FTE enrolled student totals for any given year to enable them to serve as proxies for the planned FTE student places needed for the calculation of the grant.

3.4 Institutional Factor Grants

3.4.1 The current funding framework makes provision for institutional set-up subsidies, which compensate institutions for basic running costs, irrespective of the size of their student body. A similar provision has not been included in the new funding framework as it is inconsistent with the fundamental principle of the new framework, that is, that government funds higher education, not to defray costs, but for the delivery of teaching-related and research-related services.

3.4.2 However, institutional adjustment factors will be included to take account of special circumstances related to the teaching services offered by institutions. In the initial years of the implementation of the new framework, the teaching input grants of institutions may be adjusted to take account of these two special circumstances:

- The proportion of disadvantaged students enrolled by the institution, and the additional teaching input required to deal with these students' under-preparedness for higher education studies.
- The approved size of the institution in terms of its FTE enrolments, and the economies of scale, which result from increased enrolments.

3.4.3 The Minister of Education will on an annual basis in the context of the MTEF three-year rolling projections determine the following in respect of the institutional factor grants:

- The categories of students that are deemed to be disadvantaged.
- The institutional weighting factor for calculating disadvantage.
- The institutional weighting factor for calculating size.

3.4.4 The Ministry is committed to the introduction of an institutional factor to take into account the needs of multi-campus institutions, which would emerge as a

result of the current institutional restructuring process. The Ministry will, during 2004/05, undertake investigations into the operations of the newly merged and other multi-campus institutions to determine the basis for the allocation of an appropriate institutional factor.

4. Earmarked Grants

4.1 Earmarked grants are funds allocated to institutions for specific or designated purposes. These will be used for the following broad purposes:

- The National Student Financial Aid Scheme.
- Teaching (including foundation programmes), research and community development.
- Interest and redemption payments on loans approved and guaranteed before 1991.
- Institutional restructuring, including mergers and the re-capitalisation of institutions.
- The higher education quality assurance framework.

4.2 The Minister of Education will on an annual basis in the context of the MTEF three-year rolling projections determine the following in respect of earmarked grants:

- The division of earmarked grant allocation between the different categories.
- The allocation earmarked grants to individual institutions.

5 Implementation of the New Funding Framework

The Ministry is committed to ensuring that the implementation of the new funding framework does not have a de-stabilising effect on the higher education system. This would be done through a number of strategies in the first triennium, i.e. 2004/05-2006/07. The key features of these strategies are outlined below.

5.1 Calculating Block Grants during the Transition

5.1.1 Calculations will be made for each institution of the total subsidy grant, which it would receive in 2004/05, if the block grant allocation in the national higher education budget were to be distributed according to the provisions of the current formulas for universities and technikons. This will be considered to be the baseline grant B of the institution.

5.1.2 Calculations will then be made for each institution of the new formula grant N, which it would receive in the new funding year 2004/05 under the provisions of

the new framework. N divided by B will then be expressed as a percentage, and will be restricted to a range determined by the Minister of Education.

- 5.1.3 The final grant F to be awarded to an institution will be its baseline grant B multiplied by the range-restricted percentage determined by dividing B by the institution's new grant funding total N .
- 5.1.4 The base line B for each subsequent year in a triennium will be the final grant of the previous year multiplied by the increase provided in the MTEF budget for block grants. A calculation will be made of the institution's new funding total N for that year, and a new range-restricted percentage will be derived by dividing the new N by the new baseline B . The final grant F for an institution for this new year will be its new baseline grant multiplied by the newly determined percentage.
- 5.1.5 The Minister of Education will determine the specific strategies that are to be employed during the implementation phase of the new funding framework. These strategies will deal with both merging institutions and non-merging institutions.

5.2 Planning Restrictions

- 5.2.1 The funding implementation strategy outlined in 5.1 above is based on an assumption that there will be stability, during the triennium 2004/05 to 2006/07, in the shares which institutions have of total FTE student enrolments in the public higher education system. The strategy assumes further that changes in the relative shares which institutions have of block grant totals will occur only if some are able to increase their shares of research and teaching output totals. This implies that institutions must, during the initial implementation period, attempt to keep growth in their FTE student enrolments to at most 5% per annum for contact programmes and 0% for distance programmes.
- 5.2.2 The Minister of Education may make adjustments to the approved funded FTE student places of institutions, which exceed these guidelines.

6 Annual Ministerial Statement

The Minister of Education will issue an annual statement on government funding of the public higher education system, which will include the following:

- 6.1 A forecast of the grant totals likely to be available for distribution to the public higher education system during the next triennium.
- 6.2 A forecast of the public higher education system's likely totals of outputs and of planned student inputs for this triennium.
- 6.3 Details of how the data required for input, output and institutional factor calculations will be determined.
- 6.4 Details of the input and output weightings, and of the various benchmarks to be employed in the calculation of block grants.

- 6.5 Details of how unallocated proportions of output block grants will be redistributed.
- 6.6 Details of how institutional factor grants will be calculated.
- 6.7 An account of the implementation of the framework, and of the steps taken to ensure that the public higher education system is not de-stabilised.