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## GOVERNMENT NOTICE

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### MINISTRY OF EDUCATION

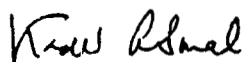
No. 1791

9 December 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.