

# **MINISTRY OF EDUCATION**

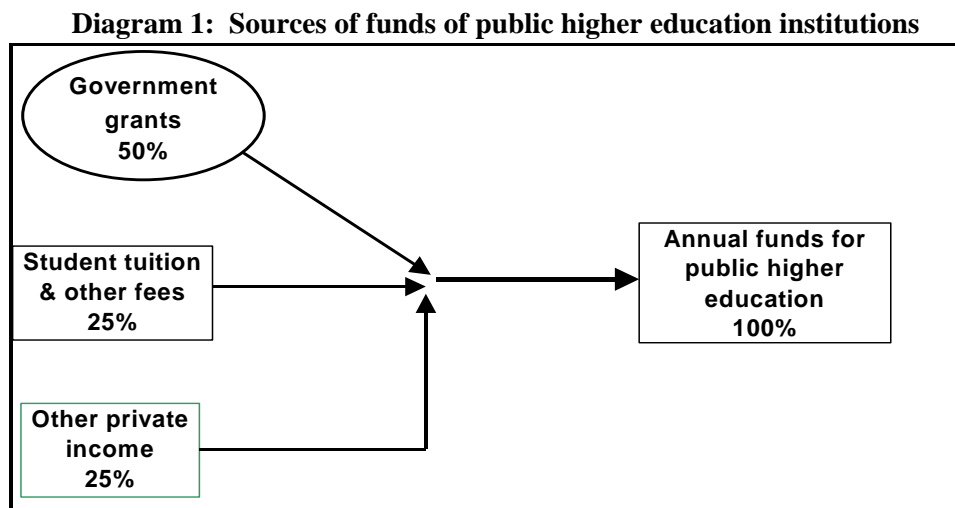
## **A NEW FUNDING FRAMEWORK: HOW GOVERNMENT GRANTS ARE ALLOCATED TO PUBLIC HIGHER EDUCATION INSTITUTIONS**

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**February 2004**

## 1 INCOME SOURCES OF PUBLIC HIGHER EDUCATION INSTITUTIONS

The diagram below offers a broad summary of the ways in which funds flow to public universities and technikons in South Africa.



The proportions reflected in the diagram are averages for the system as a whole. These proportions can differ widely between institutions. For example, government grants as a proportion of total income can be as low as 35% if an institution is able to raise large amounts of private funds through research contracts, donations and investments and can be as high as 65% in the case of institutions which are not able to generate substantial amounts of private income.

The Ministry of Education has direct control over only government grants to public universities and technikons. The Ministry furthermore takes no account of income raised from student fees and other private sources when distributing government grants to individual institutions. These institutions are however required, as public entities, to submit to the Ministry annual financial statements which reflect all expenditures and all income from all public as well as private sources.

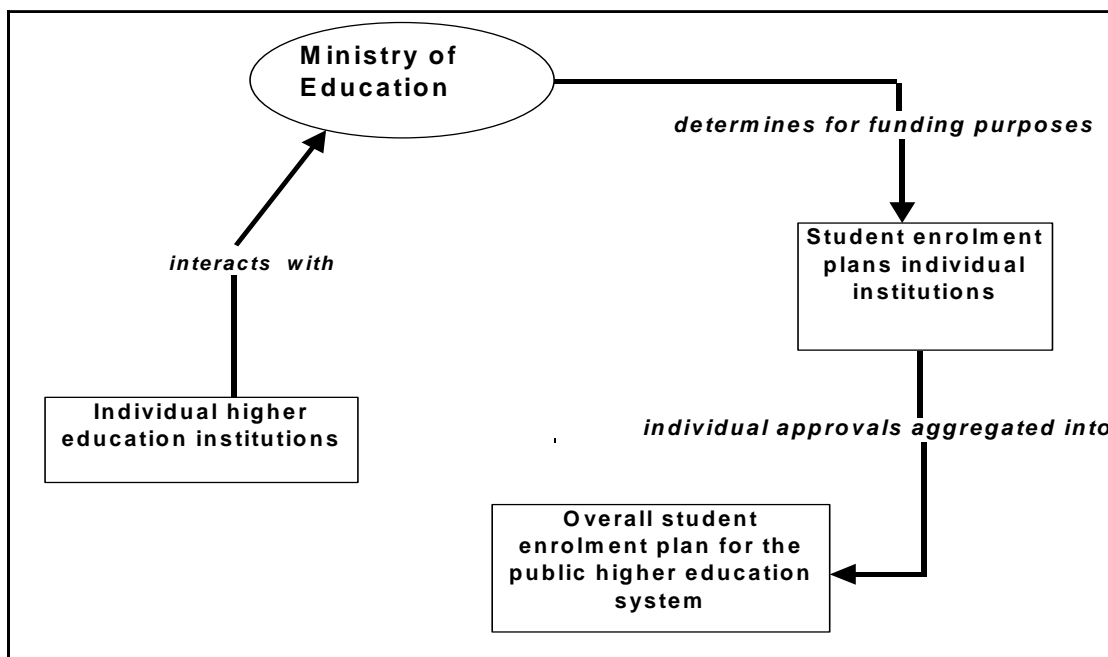
This paper explains how the Ministry of Education distributes government grants to public universities and technikons in terms of the new funding framework. This new framework was approved in the Government Gazette (Vol 462, number 25824) of 9 December 2003, and has been used for the first time allocating grants for the 2004/05 funding year.

## 2 THE NEW FUNDING FRAMEWORK: AN OVERVIEW

A basic feature of the new framework is that it links the awarding of government higher education grants to national and institutional planning. This funding/planning link makes the new framework essentially a goal-oriented mechanism for the distribution of government grants to individual institutions, in accordance (a) with national planning and policy priorities, (b) with the quantum of funds made available in the national higher education budget, and (c) the approved plans of individual institutions. This section of this report offers brief overviews of the planning/funding processes which have been built into the new framework.

Diagram 2 below lays out the key aspects of the planning processes which have been built into the new framework.

**Diagram 2: Planning aspects of the new funding framework**

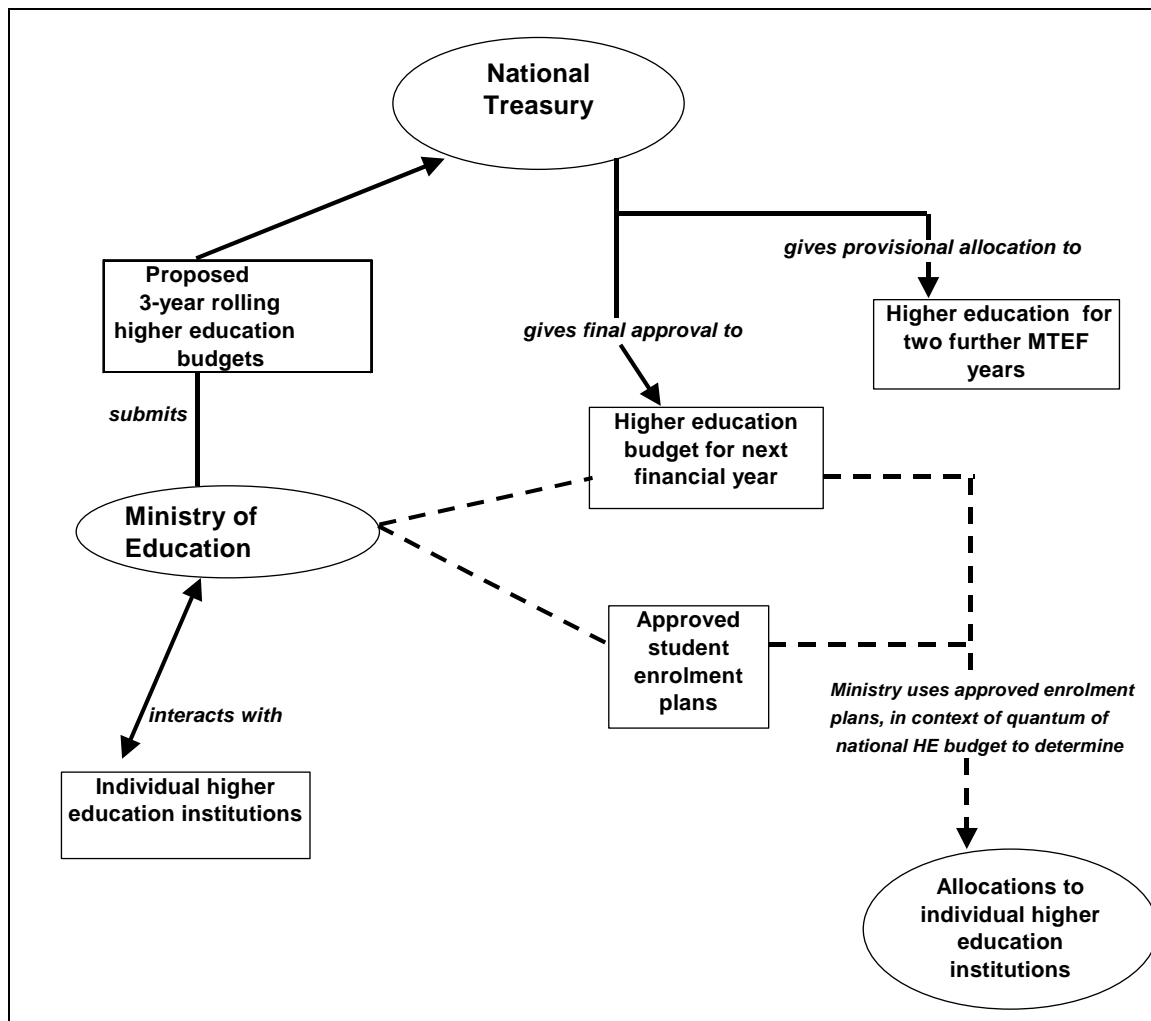


The main features of the planning process are these:

- ◆ The Ministry begins the process by analysing each institution’s actual student enrolment data across a 4 to 5 year time period. It also analyses each institution’s student output performance in the context of approved national benchmarks. The Ministry also takes account of any recent plans (e.g. three-year rolling plans, equity plans and operational plans) which institutions were required to submit to it.
- ◆ After completing these analyses, the Ministry gives each higher education institution a preliminary indication what its funded student enrolment size and shape is likely to be for the next cycle of funding years. The Ministry gives institutions an opportunity to react to these preliminary proposals, and to submit alternative or amended proposals to it. These are then discussed with the institutions concerned.
- ◆ At the end of this iterative process, the Ministry sets rolling student enrolment planning and rolling totals of funded FTE student places for each institution for a specified planning period. The individually approved institutional plans are consolidated by the Ministry into system-wide totals of FTE student places to be funded by government during this planning period.
- ◆ The approved institutional enrolment plans are rolling ones in the sense that each is subject to review each year, to take account of changing external circumstances or changing institutional performances.

Diagram 3 below shows how the planning processes outlined in Diagram 2 become integral parts of the new framework's government funding processes.

**Diagram 3: Integration of planning and funding in the new framework**



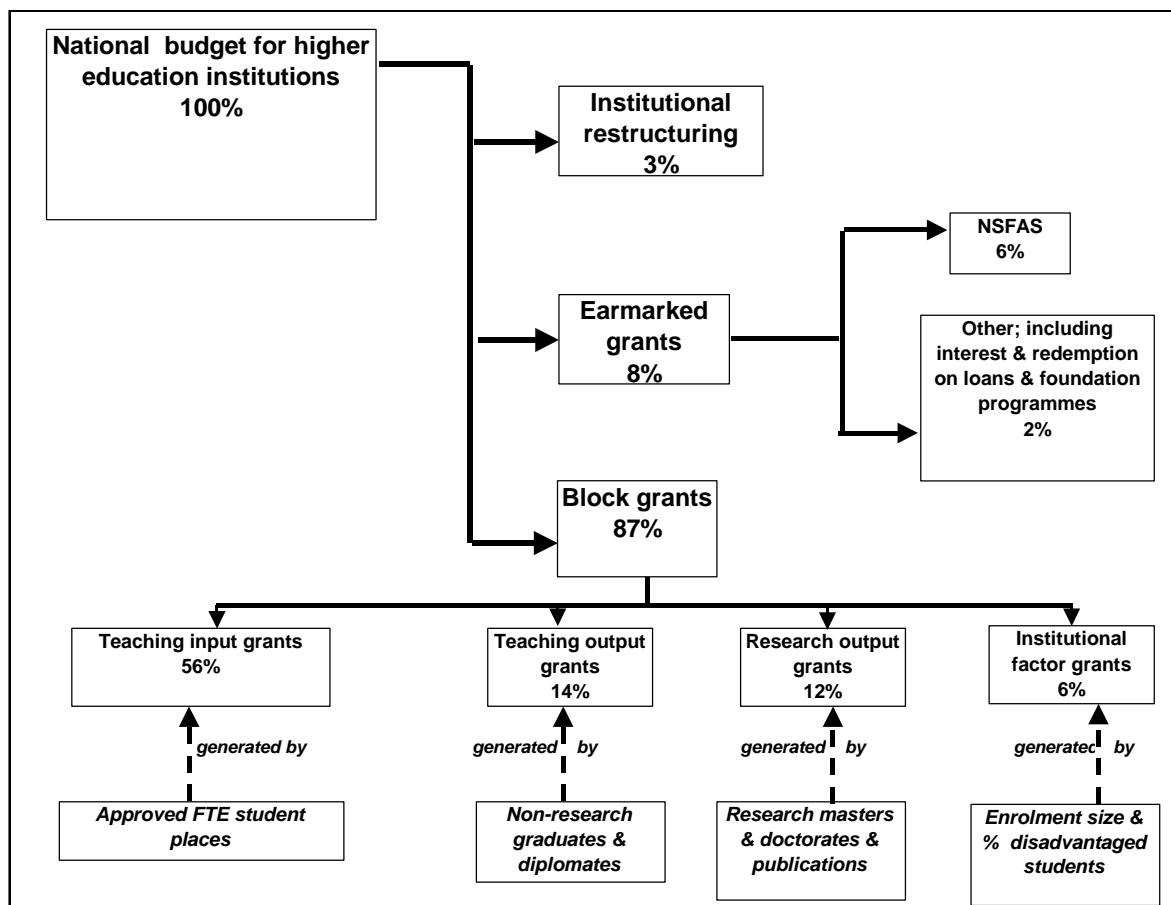
The key steps in the integrated planning and funding processes are these:

- ◆ The Ministry of Education, on the basis of its readings of the national higher education environment and its interactions with institutional planning processes, submits Medium Term Expenditure Framework budget proposals, as well as proposals for the final budget for the next year, to the National Treasury.
- ◆ The National Treasury approves provisional three-year rolling budgets for the higher education system. It also finalises the higher education budget for the next financial year.
- ◆ The Minister of Education approves the allocation of grants to institutions for a specific funding year, taking account (a) of the total amounts allocated to higher education by the National Treasury and (b) of the enrolment plans approved for each institution.

### 3 DIVISION OF THE GOVERNMENT BUDGET FOR HIGHER EDUCATION INTO CATEGORIES AND SUB-CATEGORIES OF GRANTS

The Minister of Education divides, on a three-year rolling basis, the higher education budget into its various components. Diagram 4 below shows what division has been approved for the triennium 2004/05 to 2006/07. The reference to “three-year rolling basis” indicates that no substantial changes to these allocations would be made to this division of funds before 2007/08 at the earliest.

**Diagram 4: Division of government budget between grant categories: 2004/05 to 2006/07**



#### 3.1 Institutional restructuring grants

Institutional restructuring grants are special earmarked amounts used to assist institutions which will be merging in either 2004 or 2005. The Ministry of Education allocates these grants, after consideration has been given to the business and academic plans of merging institutions

#### 3.2 Earmarked grants

Diagram 4 shows that most of the earmarked budget is set aside for funds for the National Student Financial Aid Scheme (NSFAS). A small proportion of earmarked funds (2%) are available for other specific purposes, such as interest and redemptions payments on approved government loans.

NSFAS is a statutory body which receives an annual allocation of funds from the National Treasury through the Ministry of Education. NSFAS also raises funds from South African and international donors. The amounts available for student financial aid are allocated to institutions by the NSFAS board.

**3.3 Block grants**

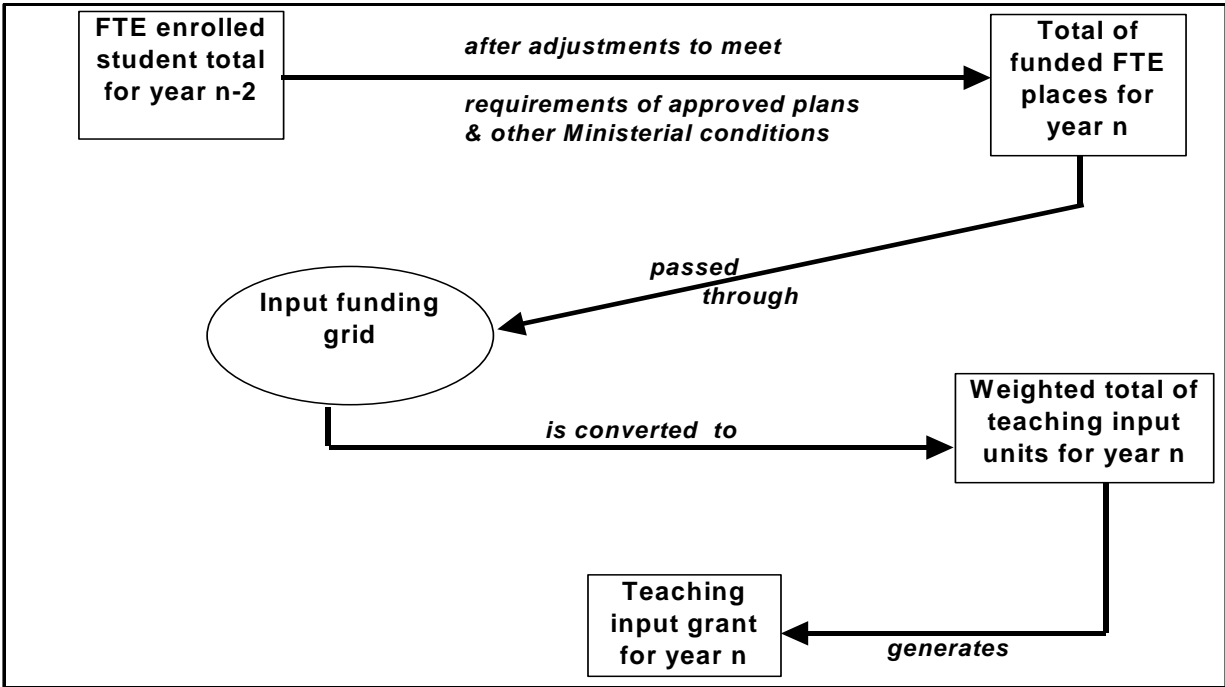
The boxes at the bottom of Diagram 4 summarise the relationship between institutional data and the different sub-components of block grants. The sections which follow offer explanations and examples of how an institution’s shares of the various parts of the overall block grant are generated by its data.

**4 TEACHING INPUT GRANTS**

**4.1 Determining an institution’s teaching input grant**

The diagram below summarises the processes involved in the calculation of the teaching input grant for any institution in any funding year n.

**Diagram 5: Flow chart for the calculation of teaching input grants**



The key steps involved in the calculation of any institution’s teaching input grant are these:

- 4.1.1 The institution’s total of FTE enrolled students for year n-2 is taken to be a proxy for its approved total of FTE student places for year n, subject to adjustments being made (a) to correct data errors, (b) to make the n-2 total consistent with either student rolling

plans approved by the Minister of Education or (ii) other conditions laid down by the Minister.

4.1.2 The adjusted FTE total for year n-2 is passed through a grid which is approved on a rolling three-year basis by the Minister of Education. This grid places FTE enrolments into categories which are weighted according to (a) course material, (b) course level, and (c) instruction-delivery mode. The funding grid approved by the Minister of Education for 2004/05 to 2006/07 has 32 cells which can be represented in the two tables below. Table 1 shows which CESM categories have been included in each funding group for this period, and Table 2 gives weightings by instruction-delivery mode, by funding group and by course level.

**Table 1**

<b>Funding groups by CESM categories: 2004/05 to 2006/07</b>	
<b>Funding group</b>	<b>CESM categories included in funding group</b>
1	07 education, 13 law, 14 librarianship, 20 psychology, 21 social services/public administration
2	04 business/commerce, 05 communication, 06 computer science, 12 languages, 18 philosophy/religion, 22 social sciences
3	02 architecture/planning, 08 engineering, 10 home economics, 11 industrial arts, 16 mathematical sciences, 19 physical education
4	01 agriculture, 03 fine and performing arts, 09 health sciences, 15 life and physical sciences

**Table 2**

<b>Weighting factors for teaching inputs by funding group and course level: 2004/05 to 2006/07</b>								
<b>Funding group</b>	<b>Undergraduate &amp; equivalent</b>		<b>Honours &amp; equivalent</b>		<b>Masters &amp; equivalent</b>		<b>Doctoral &amp; equivalent</b>	
	<b>Contact</b>	<b>Distance</b>	<b>Contact</b>	<b>Distance</b>	<b>Contact</b>	<b>Distance</b>	<b>Contact</b>	<b>Distance</b>
<b>1</b>	1.0	0.5	2.0	1.0	3.0	3.0	4.0	4.0
<b>2</b>	1.5	0.75	3.0	1.5	4.5	4.5	6.0	6.0
<b>3</b>	2.5	1.25	5.0	2.5	7.5	7.5	10.0	10.0
<b>4</b>	3.5	1.75	7.0	3.5	10.5	10.5	14.0	14.0

Table 2 shows that, during this period, there will be no distinction in weightings between FTE masters and doctoral students in distance and contact education programmes.

4.1.3 Suppose that the result of passing any institution's adjusted FTE enrolled student total through the funding grid is a weighted teaching input total **a**. Suppose also that the sum of all adjusted and weighted teaching inputs for the public higher education system ( $\Sigma \mathbf{a}$ ) = **A**. If the sum allocated in the national budget for teaching inputs = **I**, then any institution's teaching input grant **i** will simply be the proportion its weighted input units have of the total for the system, multiplied by the total amount allocated for

teaching inputs in the national budget. The formal representation of these calculations is:

$$i = [a/A] * I$$

## 4.2 Example of the calculation of an institutional teaching input grant for 2004

A straightforward example of the calculation of a teaching input grant for the 2004 funding year would be this:

- 4.2.1 Suppose that institution X had an (adjusted) total of 10 000 FTE enrolled students in 2002, and suppose further that these are distributed, in the way shown in Table 3 below, between the various cells in the teaching input funding grid. If the FTE students included in the table are all enrolled **in contact courses**, then the weighted total of teaching input units generated by Table 3 for X for the **2004/05 funding year** would be 24 650.

**Table 3**

<b>Example of distribution of approved FTE enrolled student total for 2004/05</b>					
<b>Funding group</b>	<b>Undergraduate</b>	<b>Honours &amp; equivalent</b>	<b>Masters</b>	<b>Doctoral</b>	<b>Total</b>
<b>1</b>	3 500	200	600	100	4 400
<b>2</b>	2 500	100	500	200	3 300
<b>3</b>	1 000	150	300	100	1 550
<b>4</b>	500	50	100	100	750
<b>Total</b>	<b>7 500</b>	<b>500</b>	<b>1 500</b>	<b>500</b>	<b>10 000</b>

- 4.2.2 Suppose now that the total of weighted teaching inputs for the public system for **2004/05** is 870 000 and that the government allocation for teaching inputs for 2004 is R5 500 million. X's teaching input allocation for 2004/05 would then be:

$$[24650/870000] * 5496 \text{ million} = \mathbf{R155.7 \text{ million}}$$

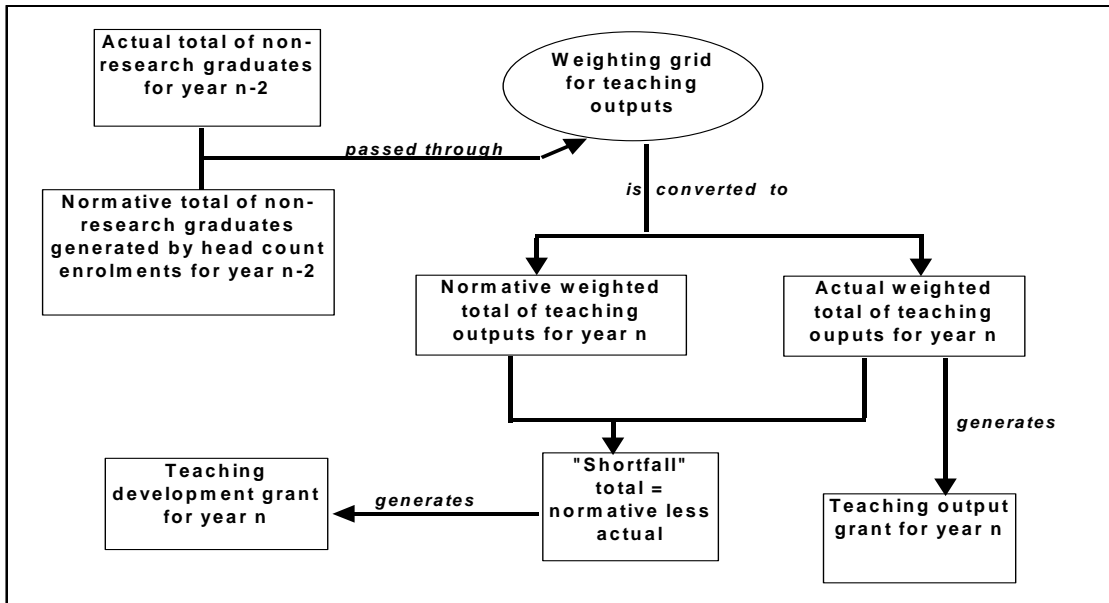
## 5 TEACHING OUTPUT GRANTS

### 5.1 Determining an institution's teaching output grant

An institution's teaching output grant for any funding year n is dependent on (a) an **actual** total of non-research graduates and diplomates for the year n-2, and (b) a **normative** total of non-research graduates and diplomates which it should have produced in terms of national benchmarks. These totals produce different grants for an institution, as is shown in the flow diagram below.



**Diagram 6: Flow chart for the calculation of teaching outputs**



The key steps involved in these calculations of an institution’s teaching output grants for year n are these:

5.1.1 The institution’s output of non-research graduates and diplomates for year n-2 are weighted in accordance with a grid approved by the Minister of Education on a rolling three-year basis. The resulting total is the institution’s actual weighted total of teaching outputs for funding year n-2. The grid approved for 2004/05 to 2006/07 is set out in Table 4 below:

**Table 4**

<b>Weighting factors for teaching outputs: 2004/05 to 2006/07</b>	
1st certificates and diplomas of 2-years or less	0.5
1st diplomas and bachelors degrees: 3 years	1.0
Professional 1 <sup>st</sup> bachelor’s degree: 4 years and more	1.5
Postgraduate and postdiploma diplomas	0.5
Postgraduate bachelors degrees	1.0
Honours degrees/higher diplomas	0.5
Non-research masters degrees and diplomas	0.5

5.1.2 A normative total of teaching outputs for the institution is then calculated. This normative total is based on the institution’s head count student enrolments for year n-2 and a set of benchmarks approved by the Minister of Education on a rolling three-year basis the benchmarks contained in Table 5 below. The outcome of the benchmark calculation is a normative total of graduates/diplomates, which must be passed through the weighting grid in Table 4 above. The benchmarks approved for 2004/05 to 2006/07 are set out in Table 5 below:

**Table 5**

<b>Graduation benchmarks for contact and distance programmes: 2004/05 to 2006/07</b>		
	<b>Graduates/diplomates as % of head count enrolments</b>	
	<b>Contact</b>	<b>Distance</b>
Undergraduate: up to 3 years	22.5%	13.5%
Undergraduate: 4 years or more	22.5%	13.5%
Postgraduate: up to honours	18%	9%
Postgraduate: up to masters	54%	27%

5.1.3 Suppose that the result of passing any institution's total of actual graduates/diplomates for year n-2 through the grid in Table 4 is a weighted teaching output total **c**. Suppose also that normative total of graduates/diplomates (generated by applying the benchmarks in Table 5 and the weighting grid in Table 4 to the same institution's head count student enrolment for year n-2) produces a normative weighted teaching output total of **d**. Suppose that the sum of all **actual** weighted teaching outputs for the system ( $\Sigma c$ ) = **C**, and that the sum of all weighted **normative** teaching outputs for the system ( $\Sigma d$ ) = **D**. If the sum allocated in the national budget for teaching outputs = **O**, then any institution's teaching output grant **o** will be the proportion its **actual** weighted output units have of the weighted **normative** total for the system, multiplied by the total amount allocated for teaching outputs in the national budget. The formal representation of these calculations is:

$$o = [c/D] * O$$

5.1.4 It is likely that the normative total of weighted teaching outputs for the system (**D**) will for some time exceed the actual total (**C**). It follows from the calculations in 5.1.3 that the actual amount disbursed in the form of teaching output grants ( $\Sigma o$ ) will be less than the sum provided in the national budget (**O**). Suppose now that the budget allocation for teaching outputs less the actual amount dispersed = **S**. This "surplus" **S** will be distributed as a teaching development grant, in the way described in 5.1.5 below, to institutions whose actual total of teaching outputs are less than their normative totals. An institution's **eligibility** for a teaching development grant will be determined in the following way:

A calculation will be made, using only institutions where  $c < d$ , of a total **E** of teaching output shortfalls. If the output shortfall of a specific institution = **e**, then the teaching development grant for which the institution is eligible will be the proportion its shortfall total **e** represents of the shortfall total **E**, multiplied by the "surplus" **S** on teaching output grant allocations. The formal representation of these calculations is:

$$\text{possible teaching development grant} = [e/E] * S$$

## **5.2 Allocating teaching output grants to institutions**

The allocating of teaching output grants to institutions will be handled differently (a) during and (b) after the funding migration period discussed in Section 8 which follows.

5.2.1 During the triennium 2004/05 to 2006/07, the teaching development grants for which institutions may be eligible will be added to their block grants. This will be done without any prior application being necessary. Institutions will be entitled to use these

additional funds for purposes other than teaching development, but should note that their block grant totals could fall when teaching development grants are allocated in the ways prescribed by the new framework. This practice of adding teaching development grants to block grants will continue until a date to be determined by the Minister of Education.

- 5.2.2 At the end of the migration period and after the date determined by the Minister, institutions which are eligible for teaching development grants will be required to submit formal applications for these amounts. If an application is approved for year n, then the institution will receive, without having to submit further applications, the teaching development allocations for which it is eligible in year n+1 and n+2. Allocations for further three-year periods will be dependent on assessments of (a) new applications and (b) institutional achievements in teaching development during the previous triennium.

### 5.3 Example of calculation of an institutional teaching output grant for year n

- 5.3.1 Suppose that institution X had in year n-2 a total of 3 300 graduates and diplomates, which were divided into the qualification categories in the table below. Suppose too that X had in year n-2 the head count student enrolments set out in Table 7.

**Table 6**

<b>Institution X's non-research graduates and diplomates by qualification category in year n-2</b>	
1st certificates and diplomas of 2-years or less	0
1st diplomas and bachelors degrees: 3 years	1 600
Professional 1 <sup>st</sup> bachelor's degree: 4 years and more	750
Postgraduate diplomas	200
Postgraduate bachelors degrees	350
Honours degrees/higher diplomas	200
Non-research masters degrees and diplomas	200
<b>TOTAL</b>	<b>3 300</b>

**Table 7**

<b>Institution X's head count enrolments by qualification category in year n-2</b>			
	<b>Contact</b>	<b>Distance</b>	<b>Total</b>
1st certificates and diplomas of 2-years or less	0	0	0
3-year diplomas and bachelors degrees:	8 000	3 000	11 000
4-year professional 1 <sup>st</sup> bachelor's degrees	4 000	1 500	5 500
Postgraduate diplomas	1 000	0	1 000
Postgraduate bachelors degrees	500	500	1 000
Honours degrees	500	0	500
Non-research masters degrees	1 000	0	1 000
<b>TOTAL</b>	<b>15 000</b>	<b>5 000</b>	<b>20 000</b>

- 5.3.2 The institution's actual weighted teaching output total is determined by applying weightings contained in Table 4 to the graduate/diplomate totals Table 6. This actual

weighted teaching output total for year n = 3 375. The institution's normative weighted teaching output total is determined by applying the benchmarks contained in Table 5 to the headcount enrolment totals Table 7. The normative output total for the institution for year n is 4 575.

5.3.3 Suppose now that the following system-wide totals hold for teaching outputs for year n:

- ◆ normative total of weighted teaching outputs for the system = 121 000
- ◆ actual total of weighted teaching outputs = 90 000
- ◆ shortfall counting only those institutions whose actual totals are less than their normative totals = 29 500
- ◆ budget allocation for teaching outputs = R1 378 million

These totals would generate an unallocated teaching output surplus for year n of:  
[(121000-90000)/121000] \* 1378 million = R353 million.

5.3.4 Institution X's **teaching output grant** for year n would, on these figures, be:

[Actual weighted teaching output total/ normative total for system] \* total budgetary allocation for teaching outputs = [3 375/121 000] \* 1378 million = **R38 million**.

5.3.5 Because Institution X's actual weighted total of teaching outputs is below its normative total, it would in year n be **eligible** for a **teaching development grant**. This would be calculated in this way:

[Shortfall between X's normative and actual totals and total shortfall of institutions with shortfalls] \* unallocated national teaching output surplus = [1400/29500] \* 353 million = **R17 million**.

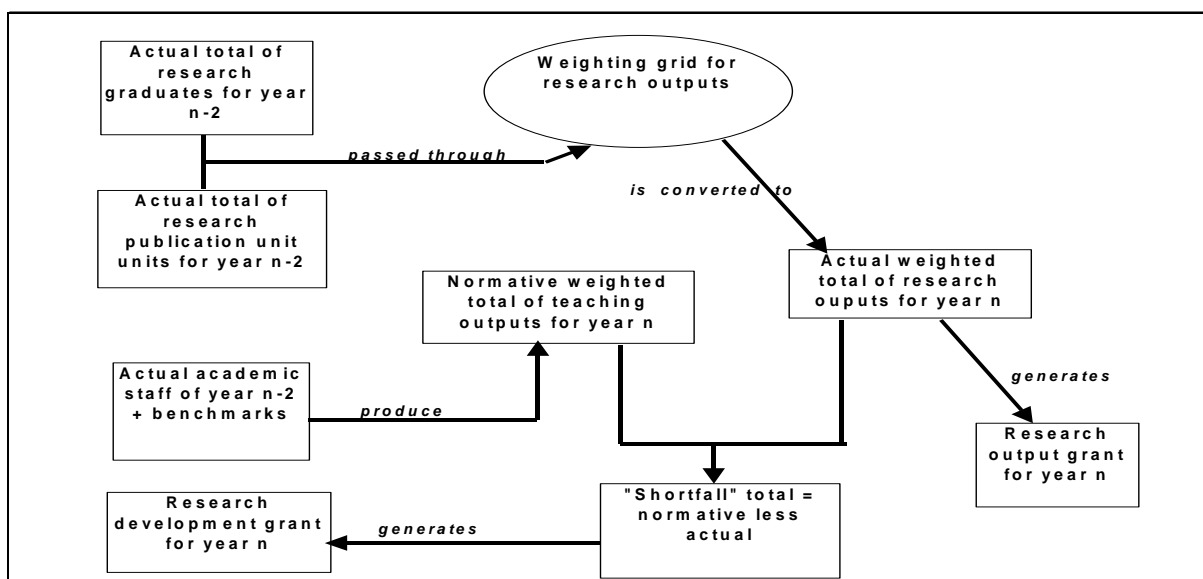
5.3.6 During the funding migration period, this R17 million will be added automatically to X's block grant. After the migration period has ended, if X wishes to make use of the R17 million as a teaching development grant, then it would have to submit an application to the Department of Education.

## 6 RESEARCH OUTPUT GRANTS

### 6.1 Determining an institution's research output grant

An institution's research output grant for any funding year n is dependent on (a) **actual** totals of research graduates and research publication units for the year n-2, and (b) a **normative** total which it should have produced in terms of national benchmarks. These totals produce different grants for an institution, as is shown in Diagram 7 below.

**Diagram 7: Flow chart for the calculation of research outputs**



The key steps involved in the calculation of any institution's research output grants are these:

6.1.1 The institution's output of research graduates and publications for year n-2 are weighted in accordance with a grid which is approved on a three-year rolling basis by the Minister of Education. The resulting total is the institution's actual weighted total of research outputs for funding year n-2.-The grid approved for the period 2004/05 to 2006/07 is set out in Table 8 below

**Table 8**

<b>Weightings for research outputs: 2004/05 to 2006/07</b>	
Publication units	1
Research masters graduates	1
Doctoral graduates	3

6.1.2 A normative total of research outputs for the institution is then calculated. This normative total is based on the institution's total of permanently appointed instruction/research staff for year n-2 and a set of benchmarks which are approved on a three-year rolling basis by the Minister of Education. The benchmarks approved for the period 2004/05 to 2006/07 are set out in Table 9 below

**Table 9**

<b>Ratios of weighted publication units to permanently appointed instruction/research staff: 2004/05 to 2006/07</b>	
Universities	1.25
Technikons	0.5

6.1.3 Suppose that the result of passing any institution's total of research graduates and publication units for year n-2 through the grid in Table 8 is an actual weighted research output total **f**. Suppose also that the normative total of weighted research outputs (generated by applying the benchmarks in Table 9 to the same institution's total of permanently appointed instruction/research staff for year n-2) is **g**. Suppose

that the sum of all weighted **normative** research outputs for the system ( $\Sigma g$ ) = **G**. If the sum allocated in the national budget for research outputs = **Q**, then any institution's research output grant **r** will be the proportion its **actual** total of weighted output units has of the weighted **normative** total for the system, multiplied by the total amount allocated for research outputs in the national budget. The formal representation of these calculations is:

$$r = [f/G] * Q$$

- 6.1.4 It is likely that the **normative** total of weighted research outputs for the system will exceed the actual weighted total produced. It follows from the calculations in 6.1.3 that the actual amount disbursed in the form of research output grants ( $\Sigma r$ ) will be less than the sum provided in the national budget (**Q**). Suppose now that the budget allocation for research outputs less the actual amount dispersed = **U**. This "surplus" **U** will be distributed as a research development grant, in the way described in 6.1.5 below, to institutions whose actual total of research outputs are less than their normative totals. An institution's **eligibility** for a research development grant will be determined in the following way:

A calculation will be made, using only institutions where  $f < g$ , of a total **H** of research output shortfalls. If the output shortfall of a specific institution = **h**, then the research development grant for which the institution is eligible will be the proportion its shortfall total **h** represents of the shortfall total **H**, multiplied by the "surplus" **Q** on research output grant allocations. The formal representation of these calculations is:

$$\text{possible research development grant} = [h/H] * Q$$

## 6.2 Allocating research output grants to institutions

The allocating of **research** output grants to institutions will be handled differently (a) during and (b) after the funding migration period discussed in Section 8 which follows.

- 6.2.1 During the triennium 2004/05 to 2006/07, the research development grants for which institutions may be eligible will be added to their block grants. This will be done without any prior application being necessary. Institutions will be entitled to use these additional funds for purposes other than research development, but should note that their block grant totals could fall when research development grants are allocated in the ways prescribed by the new framework. This practice of adding research development grants to block grants will continue until a date to be determined by the Minister of Education.
- 6.2.2 At the end of the migration period and after the date determined by the Minister, institutions which are eligible for research development grants will be required to submit formal applications for these amounts. If an application is approved for year **n**, then the institution will receive, without having to submit further applications, the research development allocations for which it is eligible in year **n+1** and **n+2**. Allocations for further three-year periods will be dependent on assessments of (a) new applications and (b) institutional achievements in research development during the previous triennium.

### 6.3 Example of the calculation of an institutional research output grant for 2004

6.3.1 Suppose that University Y had in year n-2 the totals of research outputs set out in the table below. The totals in this table, using the weightings in Table 8, generate a weighted research output total of 180 for the funding year n.

**Table 10**

<b>Research output totals in year n-2</b>	
Research masters graduates	80
Doctoral graduates	10
Publication units	70

6.2.1 Suppose also that University Y had in n-2 a total of 200 permanently appointed instruction/research staff. On the benchmark contained in Table 10, these staff members should have produced a total of  $200 * 1.25 = 250$  weighted research outputs. Y's shortfall between its normative and actual totals is therefore  $250 - 180 = 70$

6.2.3 Suppose now that the following system-wide totals hold for research outputs for funding year n:

- ◆ normative total of weighted research outputs for the system = 15 500
- ◆ actual total of weighted research outputs = 11 700
- ◆ shortfall counting only those institutions whose actual weighted totals are less than their normative weighted totals = 2 000
- ◆ budget allocation for research outputs = R1 123 million

These totals would generate an unallocated research output surplus for year n of:  
 $[(15\ 500 - 11\ 700) / 15\ 500] * 1\ 123$  million = R275 million.

6.2.4 University Y's **research output grant** for year n would, on these figures, be:

$[\text{Actual weighted research output total} / \text{normative total for system}] * \text{total budgetary allocation for research outputs} = [180 / 15\ 500] * 1\ 123$  million = **R13 million**.

6.2.5 Because University Y's actual weighted total of research outputs is below its normative total, it would in 2004 be **eligible** for a **research development grant**. This would be calculated in this way:

$[\text{Shortfall between Y's normative and actual totals divided by total shortfall of institutions with shortfalls}] * \text{unallocated national research output surplus} = [70 / 2\ 000] * 275$  million = **R10 million**.

6.2.6 During the funding migration period, this R10 million will be added automatically to Y's block grant. After the migration period has ended, if Institution Y wishes to make use of the R10 million research development grant for which it is eligible, it would have to submit an application to the Department of Education.

## 7 INSTITUTIONAL FACTOR GRANTS

### 7.1 Grants for institutions with large proportions of disadvantaged students

- 7.1.1 For the purposes of this grant, disadvantaged students are deemed to be African and coloured students who are South African citizens, and who are enrolled in either (a) contact education programmes or (b) distance education programmes offered by the dedicated distance education institution. For funding year n, calculations are made for each institution of the proportion which African and coloured students who are South African citizens have of their total unweighted FTE contact student enrolment in year n-2. Calculations are also made for the dedicated distance education institution of the proportion which African and coloured students who are South African citizens have of its total unweighted FTE student enrolment.
- 7.1.2 The institutional factor operates by adding an amount to the teaching input grants of institutions, depending on what their proportions are of disadvantaged students. A calculation is made of the teaching input grant generated by an institution's **contact** students, and a proportion is then added to this **contact teaching grant**. In the case of the dedicated distance education institution, a calculation is made of the teaching input grant generated by its **distance** students, and a proportion is then added to this **distance teaching grant**. These proportions are approved by the Minister of Education on a rolling three-year basis. Examples of the factors approved for 2004/05 to 2006/07 and of the additional amounts generated by this factor can be seen in Table 11 below. It is important to stress that this factor operates as a linear and not a step function. So the factor for an institution with a proportion of (say) 48% disadvantaged students would be 2.0%, and for one with (say) 72% disadvantaged students would be 8.0%.

Table 11

<b>Institutional factor grants for disadvantaged students: 2004/05 to 2006/07</b>	
<b>Proportion of African + coloured students in relevant FTE student enrolment (SA citizens only)</b>	<b>Additional amount added to relevant teaching input grant</b>
80% and above	10%
75%	8.75%
70%	7.5%
65%	6.25%
60%	5%
55%	3.75%
50%	2.5%
45%	1.25%
40% and below	0

- 7.1.3 Examples of the application of the disadvantage factor can be seen in the table below:



**Table 12**

<b>Examples of application of institutional factor for disadvantage in contact education institutions</b>			
<b>Institution</b>	<b>Proportion of African + coloured students in contact FTE student enrolment</b>	<b>Contact teaching input grant (Rand millions)</b>	<b>Additional grant for disadvantage (Rand millions)</b>
<b>A</b>	90%	200	<b>20</b>
<b>B</b>	70%	200	<b>15</b>
<b>C</b>	60%	200	<b>10</b>
<b>D</b>	25%	200	<b>0</b>

## 7.2 Grants related to the size of institutions

7.2.1 These size factors take account of economies of scale as the FTE enrolment size of an institution increases. The institutional size factor operates by giving additional teaching input grants to small institutions, depending on the size of their FTE student enrolments. Examples of the additional amounts generated for small institutions by the size factor can be seen in Table 13 which follows. It is important to stress that this factor operates as a linear and not a step function. So the factor for an institution of (say) 7 000 FTE would be 12.9%, and for one with (say) 17 000 would be 5.7%.

**Table 13**

<b>Institutional factor grants for institutional size</b>	
<b>Total FTE student enrolment: contact plus distance</b>	<b>Additional amount added to teaching input grant</b>
4 000 and less	15%
6 000	13.6%
8 000	12.1%
10 000	10.7%
12 000	9.3%
14 000	7.9%
16 000	6.4%
18 000	5.0%
20 000	3.6%
22 000	2.1%
25 000 and more	0

7.2.1 Examples of the application of the size factor can be seen in Table 14

**Table 14**

<b>Examples of application of institutional factor for size</b>			
<b>Institution</b>	<b>Total of contact + distance FTE enrolled students</b>	<b>Teaching input grant (Rands millions)</b>	<b>Additional grant for size (Rands millions)</b>
<b>E</b>	6 000	80	<b>11</b>
<b>F</b>	10 000	150	<b>16</b>
<b>G</b>	16 000	250	<b>16</b>
<b>H</b>	26 000	400	<b>0</b>

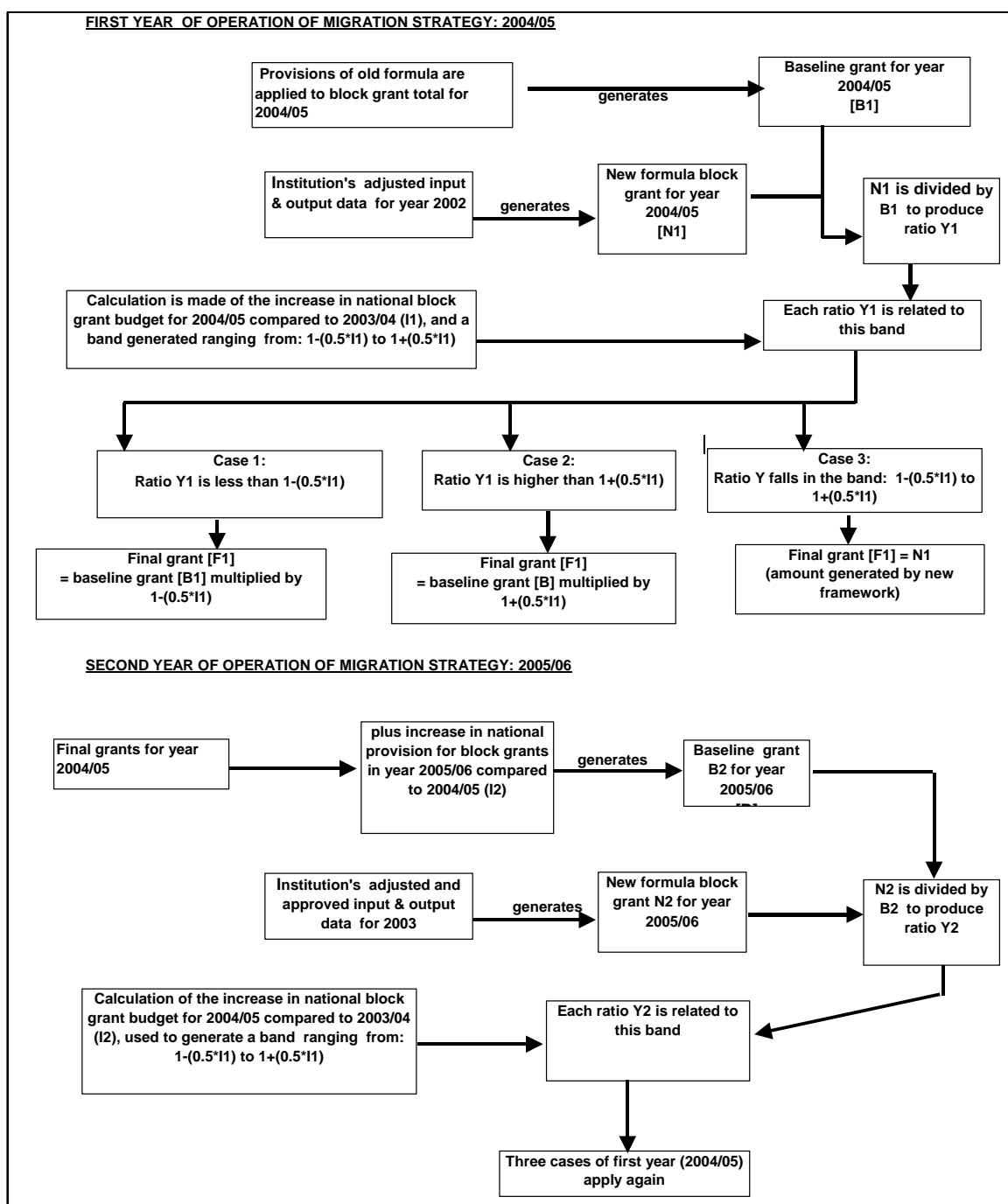
## 8 MOVING FROM THE CURRENT TO THE NEW FUNDING FRAMEWORK

### 8.1 The migration strategy

The 2004/05 funding year will be the first in which the new funding framework is implemented. An appropriate strategy to assist institutions in the move from the old formulas is essential to the implementation of the new funding framework. This migration strategy will have to deal with institutions which will be merging into new institutions in 2004 and 2005 as well as with all others which will not be involved in mergers.

The key features of the migration strategy to be adopted are set out in Diagram 8 below.

**Diagram 8: Implementation of strategy for move from current to new funding framework**



The main steps illustrated in flow Diagram 8 are these:

- 8.1.1 A calculation is made of the total which each institution would receive if the block grant total for 2004/05 were to be distributed according to the provisions of the old funding formula. This becomes the baseline grant **B1** for that institution.
- 8.1.2 Calculations are made for each institution of the grant **N1**, which the new framework generates for it for the funding year 2004/05. These calculations are based on adjusted institutional input and output data for the year 2002.
- 8.1.3 The final grant **F1** which an institution receives in the funding year 2004/05 is dependent on the ratio between its new framework grant **N1**, its baseline grant **B1**, and on the increase between the national budget for block grants in the 2004/05 compared to 2003/04. This increase was 8.3%. The three cases illustrated in the flow diagram are therefore these:
- ◆ **Case 1:** If  $N1/B1 < 95.85\%$ , then the final grant **F1** received by the institution will be 95.85% of **B1**.
  - ◆ **Case 2:** If  $N1/B1 > 104.15\%$ , then final grant **F1** received by the institution will be 104.15% of **B1**.
  - ◆ **Case 3:** If  $N1/B1$  falls in the range of 95.85% to 104.15%, then the institution's final grant **F1** will be its new framework grant **N1**.
- 8.1.4 In second and subsequent years of the operation of the migration strategy, the baseline for the new year (say 2005/06) becomes the final grant for the previous year (2004/05) plus the increase in the national budgetary provision for block grants (in say 2005/06 compared to 2004/05).

## 8.2 Further illustrations of implementation of migration strategy

Table 15 which follow give examples of how the migration strategy is expected to work during the funding years 2004/05 and 2005/06. The table deals with actual examples of a range of historically white and historically black institutions.

**Table 15**  
**Example of application of migration strategy in next two funding years**  
**(Rands millions)**

INSTITUTION	2004/05				2005/06			
	Baseline B1	New formula N1	(N1-B1)/B1 as %	Final grant F1	Baseline B2	New formula N2	(N2-B2)/B2 as %	Final grant F2
V	167	215	28.3%	174	186	229	23.2%	192
W	391	448	14.5%	408	435	478	9.9%	450
X	526	488	-7.2%	505	538	521	-3.2%	521
Y	140	137	-1.8%	137	146	146	0.0%	146
Z	99	88	-11.1%	94	101	93	-7.2%	97

- Notes: (1)** *B1 = baseline grant for first year, derived by using old formula as basis for distribution of 2004/05 block grant*  
*N1 = new formula block grant for 2004/05, based on input and output data for 2002*  
*F1 = final block grant, based on migration strategy outlined in section 8.1*
- ~~~~~(2) *B2 for 2005/06 = F1 for 2004/05 + 6.7% (the expected increase in MTEF allocation for block grants between 2004/05 and 2005/06)*  
*N2 = new formula block grant for 2005/06, based on N for 2004/05 + 6.7%*  
*F2 = final block grant for 2005/06, based on migration strategy outlined in section 8.1*

The key points to note about allocations for 2004/05 in these five examples are these:

- 8.2.1 In the case of institutions V and W, their new formula block grants are expected to exceed their baseline grants in both 2004/05 and 2005/06. The migration strategy has the effect of dampening their final grants to their baseline plus half of the expected increase in total block grants in these two years. For 2004/05, V's final grant  $F1 = \text{baseline } B1 \text{ of R167 million multiplied by } 1.0415 = \text{R174 million}$ . W's final grant  $F1 \text{ for } 2004/05 = B1 \text{ of R391 million} \times 1.0415 = \text{R408 million}$ .
- 8.2.2 In the case of institution X, the new formula block grant is expected to be less than the new formula grant in both 2004/05 and 2005/06. In 2004/05,  $N1$  for institution X is 92.7% of its  $B1$  of R526 million. X's final grant for 2004/05 is therefore  $100 - \text{half increase in block grants between } 2003/04 \text{ and } 2004/05 = 95.85\% \text{ of } B1 = \text{R504 million}$ .
- 8.2.3 In the case of institution Y, its new formula block grant  $N1$  in 2004/05 is 98.2% of its baseline grant  $B1$ . So  $F1$  for institution Y in 2004/05 =  $N$
- 8.2.4 In the final case of institution Z, the new formula grant  $N$  is 89.8% of the baseline grant  $B1$  in 2004/05. The final grant  $F1$  for institution Z in 2004/05 will be 95.85% of its  $B1$  of R99 million = R94 million.

*How framework works Feb 04*