

GOVERNMENT NOTICE

DEPARTMENT OF HIGHER EDUCATION AND TRAINING

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CONTINUING EDUCATION TRAINING ACT 2006 (ACT 16 OF 2006)

THE NATIONAL NORMS AND STANDARDS FOR FUNDING TECHNICAL AND VOCATIONAL EDUCATION AND TRAINING COLLEGES

I, Bonginkosi Emmanuel Nzimande, Minister of Higher Education and Training, with the concurrence of the Minister of Finance hereby publish the amended national Norms and Standards for Funding Technical and Vocational Education and Training Colleges (NSF–TVET Colleges) in accordance with section 23 of the Continuing Education and Training (CET) Act, 2006 (Act No. 16 of 2006), as set out in the Schedule. The date for implementation of the funding norms will be 01 April 2015.



Dr BE Nzimande, MP

Minister of Higher Education and Training

Date: 23/04/2015

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ABBREVIATIONS AND ACRONYMS

DHET	Department of Higher Education and Training
CET	Continuing Education and Training
FBR	Funding Base Rate
FET	Further Education and Training
GRAP	Generally Recognised Accounting Practice
HE	Higher Education
ILO	International Labour Organisation
MEC	Member of the Executive Council
MTEF	Medium Term Expenditure Framework
NATED	National Accredited Technical Diploma
NC(V)	National Certificate (Vocational)
NEDLAC	National Economic Development and Labour Council
NQF	National Qualifications Framework
NSFAS	National Student Financial Aid Scheme
PFMA	Public Finance Management Act
PPP	Public Private Partnership
SAIVCET	South African Institute of Vocational and Continuing Education and Training
SAQA	South African Qualifications Authority
SETA	Sector Education and Training Authority
TVET	Technical and Vocational Education and Training

HISTORICAL OVERVIEW OF THE TVET COLLEGE SECTOR FUNDING

Where the word college is used in these norms, it refers to TVET college

What services are funded?

The emphasis is on a shift towards training that tackles skills and unemployment problems more aggressively through, for instance, more relevant training content and the cost effective use of college facilities and resources. The funding norms specify how Government, in collaboration with industry stakeholders, should determine what programmes should be offered where and to what extent, and how colleges must receive funding to respond to these needs.

Equity and redress

The funding norms are pro-poor in that they accord access to those who cannot afford to pay fees through a bursary scheme that is administered by the National Student Financial Aid Scheme (NSFAS). A means test is conducted to determine the eligibility for bursary funding. A bursary provided by the state enables poorer and academically capable students not to pay college fees.

The funding norms emphasise the importance of concentrating public funds on training that is not being adequately financed by the private sector, and this would to a large extent be training for the historically disadvantaged. Colleges are required to incorporate targets related to race, gender and special needs representativity within their three-year strategic plans that they draw up in collaboration with the Department of Higher Education and Training (DHET).

The size of the TVET college sector

By international standards, the size of the Technical and Vocational Education and Training (TVET) college sector is too small for the size and level of development of our economy. The 15 to 19 age cohort, which should comprise an important target for this sector, has a mere 2% enrolment rate in technical and vocational education and training. Industrialised countries have over 6% of the youth cohort in vocational education and so it can be argued that the college sector should increase threefold.

Improved management of the sector flowing from the merger process, in conjunction with the new funding norms and an injection of public funds into the sector will work together to bring about the necessary expansion, not just because more training is supplied, but also because transformation within the sector leads to stronger demand on the part of youth, employees, employers and the unemployed.

Governance at the national level

Currently, DHET strategic plan guides what happens in the public TVET college sector. However, these mechanisms are inadequate to ensure that the quality and quantity of services offered by the colleges respond to social and economic needs.

The funding norms assign specific planning responsibilities and powers to the national and college levels. At all levels, collaboration with relevant government organs as well the private sector is emphasised. Specifically, dedicated research into the cost of delivering programmes and the optimal service delivery targets of the college sector as a whole is the responsibility of DHET to work closely with colleges to develop and implement three-year strategic and annual performance plans for each college. Through this mechanism national priorities are to be translated into funded activities run by the colleges.

The funding formula

In terms of these funding norms and standards, the bulk of DHET funding of colleges is in the form of formula funding of programmes, where the formula takes into account a range of service delivery issues, including the types of programmes being offered (the NC(V) and NATED Report 191 programmes as approved in a national register), FTE students, cost of delivery including staff, capital infrastructure requirements, and the ability of colleges to utilise resources efficiently. The funding formula introduces a system of resourcing that is more sensitive to the actual cost of service delivery and takes into consideration outputs and quality. The norms allow for public funding of the private college sector to address training needs identified by government which cannot be met immediately by the public colleges.

Capital investment in colleges

The capital stock of colleges has reportedly been depreciating, and the readiness to address new challenges clearly hinges on more capital investment.

Capital expenditure needs, for the replacement of existing stock, is dealt with by the new funding formula. However, especially during the initial growth period, additional capital funding is required. As early as 2005, National Treasury earmarked funds for this purpose, representing a many-fold increase to existing capital investment levels. The funding norms establish a framework for capital expenditure above the replacement level, as well as for college access to capital loans and participation in public-private partnerships (PPPs).

College fees and affordability

Three measures in the funding norms tackle the problem of excessive private cost for poorer students. Firstly, the funding formula and the college planning frameworks makes a clear link between public funding that is available and services that must be offered. Better public funding of public priority programmes is thus envisaged. Secondly, fees are to be capped at levels that are in tune with the level of public funding and the estimated total cost of service delivery. Thirdly, bursary funding will be allocated to colleges to cover college fees for academically capable students who cannot afford to pay college fees. This policy makes it the responsibility of DHET to determine bursary funds across colleges and allocate bursary funds accordingly.

Services to other clients

Colleges currently charge a variety of organisations, both public and private, for training services provided. There is currently no legal framework dealing specifically with college income from organisations other than DHET. The use of DHET-funded capital infrastructure to cross-subsidise services for other clients has been a concern.

Responsiveness of colleges to other clients parallel to the delivery of programmes covered by the funding formula will continue to be encouraged. However, this should support economic development and should not conflict with the core business of colleges to provide training according to agreements concluded with DHET. This policy outlines what existing financial management and reporting regulations should be applied in this regard, and new requirements will be established where gaps exist.

Planning and reporting cycles

In terms of this policy, clear steps for planning and reporting in the sector are established. Moreover, the explicit linking of plans, budgets and service delivery through three-year performance agreements following a basic national format is intended to assist in a more transparent planning process that will involve a greater range of stakeholders.

A. INTRODUCTION

The purpose of this policy

1. This policy governs all funding and expenditure by the Department of Higher Education and Training (DHET) of programmes listed in the register of nationally approved programme offered by public TVET colleges. Furthermore, this policy establishes certain approaches and procedures that DHET and public colleges should follow to improve alignment between different streams of public and private funding in the area of technical and vocational education and training.
2. This policy emanates from section 23 of the *Continuing Education and Training (CET) Act, 2006 (Act No.16 of 2006)*, which requires the Minister of Higher Education and Training to determine norms and standards for the funding of public colleges.
3. This policy is intended to advance a number of the goals of government relating to people's education rights, skills development, curriculum transformation, job creation, poverty alleviation, economic growth, regional cooperation and the building of a free, democratic and equitable South Africa. Some of the key government policy documents that inform this policy are the following: *Education White Paper 4; White Paper for Post-School Education and Training (PSET), A Programme for the Transformation of Further Education and Training Colleges (1998); A New Institutional Landscape for Public Further Education and Training Colleges (2001); Human Resource Development Strategy for South Africa (2001); National skills development strategy (2005); the National Certificate (Vocational): A Qualification on Levels 2, 3 and 4 of the NQF (2006)*.
4. This policy further represents a major consolidation and refining of Government's position on the public funding of programmes offered at TVET colleges. However, there are aspects of this policy that must inevitably change and be further refined as the education and training sector in the country evolves and develops. This policy must thus be read as an important milestone in a process of on-going debate and policy refinement with respect to the public funding of programmes offered at TVET colleges.

People's education rights

5. This funding policy is an important tool whereby Government supports and promotes the education rights of South Africa's people. The policy is explicitly designed to tackle the apartheid legacy of unequal access to technical and vocational education and training, and inequalities in terms of the quality of education services.
6. The Bill of Rights confers on all people in the country the right to further education. The Bill specifies that the state must make further education progressively available and accessible, through reasonable means.
7. The public funding of TVET colleges serves to promote the fulfilment of people's constitutional rights to further education. Moreover, this aspect of public funding assists people to realise their full potential in terms of their lifelong learning and career paths, in particular where history and social inequities have put people at a disadvantage.

Development of the country and the region

8. Technical and vocational education and training in South Africa, and policies and strategies for the public funding of this service at TVET colleges must be carefully considered so that the economic and development challenges of the country can be tackled with maximum effectiveness. Three inter-linked and over-arching challenges stand out:
 - (a) The country has a legacy of high unemployment that has proved difficult to address through any simple policy solutions. Labour absorption in the formal economy has been low, resulting in sustained high unemployment and forced participation, sometimes on a purely survivalist basis, in the informal economy. Government's strategy is to sustain a range of policies and programmes on both the supply and the demand sides of the labour market to reduce unemployment and promote a movement from the 'second economy' into the 'first economy'. Education and training on its own cannot solve the problem, though it is an important ingredient in the short-term solutions as well as the long-term strategies. The challenge in technical and vocational education and training at TVET colleges is both a quantitative and qualitative one – more education and training must occur in skills areas that are of greater relevance for the labour market. There is an under-supply of skills to the economy across the board, at the high, intermediate and low skills levels. Skills are needed both to facilitate employment with established employers, and to assist entrepreneurial self-employment. Specific vocational skills must be underpinned by a solid base of general literacy and numeracy skills. The importance of strengthening these general education foundations as an economic imperative should not be overlooked.
 - (b) Nation-building requires a focus on specific educational activities. In particular, as part of their life skills training students need to learn what rights and duties apply to employers and employees in the workplace, how to interact with others in a diverse multi-lingual environment, and how to deal with health challenges such as HIV and AIDS. Education should improve the range of life choices citizens enjoy – this has been shown to be good not just for individuals but for the society and economy as a whole. Nation-building requires a reduction in the extreme income inequalities prevailing in South Africa, to a large degree caused by educational inequalities which lead to exceptionally high incomes for a few, and extremely low incomes for a great number of low skilled employed

individuals. Technical and vocational education and training has an important role to play here.

- (c) Globalisation brings with it increasing pressure for local producers to be globally competitive, and to remain abreast of new technologies and production processes. The shift in demand has been from unskilled to skilled labour. Moreover, there is increasingly a demand for people who are capable of adapting easily to new technologies and new responsibilities in the workplace. This implies the need for a reserve of 'redundant' human capacity that may not be required immediately, but is necessary for future adaptation and expansion. Traditional training approaches that focus narrowly on one form of production are of limited value in this context, and the challenge for technical and vocational education and training is to provide students with a solid base in particular skills, whilst giving them the skill of responding to new production modes. The challenge of production innovation applies not only to the formal economy, but also to the informal economy, which presents important opportunities for short-term income and job generation as part of the formalisation process. Whilst the skills development pressures brought about by globalisation are important, they should not be exaggerated. Training policies need to take cognisance of the fact that there are parts of the economy which are less 'globalised' and that may have more localised and conventional training needs.
9. Technical and vocational education and training has a role to play in the development of the Southern African and African regions. This sector in South Africa should contribute to regional development through inter-institutional linkages, the offering of programmes to students from other countries, and through the sharing of governance and policy experience.

Trends in technical and vocational education and training

10. Government's funding priorities are informed by best practices around the world and research undertaken by bodies such as the ILO and UNESCO on the delivery of technical and vocational education and training. The following findings stand out:
- (a) To become more responsive, public institutions must themselves engage with stakeholders in the local economy, collecting, analysing and disseminating labour market data, entering into training agreements with stakeholders, for instance learnership agreements, fomenting entrepreneurship and assisting entrepreneurs to access financial credit. Whilst research activities at the college level should be regarded as important, this should not detract from the importance of developing tools and training programmes at the national level to facilitate the college-level work, or from the importance of national research work as described in paragraph 19.
 - (b) Making public institutions responsive is not just a matter of diversifying the range of services offered. The quality of teaching across the board, in practical and theoretical fields, needs to improve. Incentives should be in place to underpin this.
 - (c) The relative sizes of budgets destined for TVET colleges, and university education needs closer scrutiny. The various budget options need to be weighed up carefully, and, where necessary, budgetary shifts should be phased in. Alignment between public funding and private funding in the interests of equity and redress is important.

- (d) Diversification in the range of services offered must go hand in hand with the development of clearer national curriculum frameworks, which at a macro level can serve as a basis for planning, costing and budgeting. Portability of credits is important.
- (e) Technical and vocational education and training tends to be more costly to deliver than general FET in schools. However, this should not detract from the possibility of more efficient service delivery in certain programmes.
- (f) Good governance of the sector is best served by a mix of bottom-up and top-down processes. It is important for government to establish and maintain the national curriculum framework, a set of public funding priorities, financial and other accounting rules that accommodate the multitude of services required, and regulations governing the involvement of public institutions in partnerships, especially where these partnerships involve income generation. Unnecessary complexity in these rules and frameworks should be avoided. Institutions need to feed upwards their best practices so that these can be assessed and possibly taken to scale. Good governance also involves on-going formal and informal interaction with employer and employee organisations, from the national level down to the level of institutions.

Specific challenges in the South African technical and vocational education and training sector

11. This funding policy will be used to address the following challenges that still persist in the TVET college system:
- (a) The net participation rate in the TVET college sector was estimated at 2.7% in 2005. The introduction of this funding policy aims to ensure that TVET colleges are accessible to economically active youth and adults outside of the school system, who wish to improve their skills, gain access to better jobs or to progress to higher education.
 - (b) This policy aims to reverse the low enrolments in colleges as compared to universities so that a pyramid shaped education system is gradually established in which the TVET college sector serves more students.
 - (c) Quality problems linked to the history of under-funding of colleges are a serious threat to the education and training offered by TVET colleges. In the past, this has impacted negatively on the ability of graduates to find employment. The NATED Report 191 and NC(V) policy is designed to ensure that TVET colleges offer high quality priority skills programmes that are relevant and responsive to the needs of a growing economy. This funding policy will help ensure that more youth are enrolled in high priority skills programmes.
 - (d) Effective lecturers at TVET colleges are key to bringing about the transformation of these institutions. The development of the lecturer corps to deal with new challenges needs to go hand in hand with greater flexibility in terms of the timing, mode and location of the service offered. Physical facilities at the institutions should be more extensively utilised.

B. A FRAMEWORK FOR THE PUBLIC FUNDING OF TECHNICAL AND VOCATIONAL EDUCATION AND TRAINING

Positioning public funding of technical and vocational education and training at TVET colleges

12. Technical and vocational education and training is clearly a joint responsibility of government and the private sector. It is important that public and private funding of this activity should complement each other. Two major public areas of responsibility stand out. One is the promotion of widespread and appropriate technical and vocational education and training programmes for the historically disadvantaged, who are usually not in a position to purchase these services privately. Another is the development of skills in industries, including niche industries offering special opportunities for the country, where the private sector is not investing adequately in the necessary human resources development.
13. The goal of prioritising the historically disadvantaged in the public funding system is to be balanced with an approach, similar to the approach followed in the FET schooling system that promotes broadly inclusive public institutions that are representative of society in general. This balance is required in the interests of nation-building. To achieve this, the funding formula has three key components. The first is the government subsidy which covers 80% of the programme costs. The second is placing a cap on college level fees, thus limiting the portion of programme cost which may be charged to 20% of the programme cost. The third is the establishment of a national bursary system to ensure that students who are academically capable but poor are assisted to pay college fees.
14. Research indicates that private funding of technical and vocational education and training outside of the school system in South Africa is high, probably higher than public funding. At the same time, private spending directed towards on-the-job training has been declining substantially. It is imperative that public funding should be positioned in such a way that it complements private funding in the achievement of the country's development goals. Specifically, this involves a few key imperatives:
 - (a) The current practice in public TVET colleges of offering public services whilst also selling services to the private sector should continue, and is in fact encouraged by this policy as a way of making these institutions more responsive and innovative. This echoes the position of White Paper 4. However, this policy also lays down certain guidelines and restrictions in this regard. In particular, it is important for there to be a clear accounting division between publicly funded and privately funded services in colleges in order to avoid a situation in which public funding is used to cross-subsidise privately offered services. This can put the quality of the public service at risk, and results in prices for private services that are below the market value, because they do not capture the full cost of the service.
 - (b) Some public resources should be dedicated towards the monitoring and regulation of private colleges. This can provide government with important information that is needed in the planning of public funding in public TVET colleges. In addition the regulation of private colleges is an important public service that can combat illegal and unethical practices in the training market. Provision for this has been made in Chapter 6 of the CET Act.

- (c) Whilst the CET Act, does not envisage public funds flowing to private colleges, it is important for government to consider this as one potential way of advancing the development goals of the country. Many countries with strong and vibrant public college sectors earmark a limited portion of public funding for private education institutions in order to fill training gaps and encourage healthy competition in the sector. This policy, in particular the formula funding of programmes (described from paragraph 26), could be adapted in order to allow for the public funding of private colleges. For this purpose separate conditions for the granting of subsidies to private colleges will be developed and published by the Minister.
- (d) South Africa has a well-developed legal framework for Public-Private Partnerships (PPPs). Options such as PPPs in terms of which private colleges utilise public facilities to offer training that is needed by the economy should be explored as part of the joint DHET-college planning process referred to in paragraph 91 onwards.

Poor performance by TVET colleges

- 15. In the interests of quality TVET services in the public sector, and in order to minimise inefficient utilisation of funds, it is important that the new funding system should be sensitive to the outputs achieved by public colleges. There are two ways in which the new system deals with the matter of efficiency and outputs. Firstly, the system allows DHET to expand enrolment in colleges that prove to be efficient and decrease enrolment in inefficient colleges. This is made possible through the joint DHET-college planning process. Secondly, the system includes an output bonus, which should be considered a performance incentive that eligible colleges can utilise to improve their facilities, conduct further research, or for some similar developmental activity. The output-related aspects of the system are obviously dependent on the credible measurement of college performance, both in terms of successful completions (or the throughput rate) and in terms of the labour market performance of graduates.

Role of the public TVET colleges

- 16. This policy considers public TVET colleges to be critical for the delivery of cost-effective public services that make a real difference to skills development, labour market readiness amongst our youth and the growth of the economy. At the same time, the funding system described here establishes new roles and responsibilities for the college councils and college management. What is strongly emphasised in this policy is a collaborative planning approach involving the college stakeholders, government and employer and employee organisations from the private sector. To a large degree, public funding of public TVET colleges is envisaged as the procurement of specific training services by government, linked to a clear and annual joint DHET-college planning cycle that considers local, provincial and national demands, as well as the adequacy of the physical and human capital of colleges to deliver the specific services.
- 17. Public TVET colleges should continue to be responsible for the structuring of their college fees, including college fees charged for publicly funded programmes. This arrangement allows managers in colleges to be responsive to local cost pressures and pressures relating to the ability of students to pay fees. However, this policy assumes that it is important for the structuring of college fees, particularly fees charged for publicly funded programmes, to be subject to certain guidelines and restrictions aimed at advancing equity and efficiency in the delivery of public services.

18. The White Paper 4 does not preclude the possibility of TVET colleges offering Higher Education programmes, though it opposes excessive mission drift in colleges away from the TVET sector. The White Paper further states that HE programmes should be funded through the relevant HE funding policies, and not this policy. This policy, therefore, applies to TVET services only. In this policy, all income received for HE training services in colleges is considered part of the fee-for-service income described in paragraph 76 onwards.

Research, monitoring and planning

19. Public expenditure on research, monitoring and systems development is important for the success of the new funding system. The following clearly require on-going funding.

- (a) Research focussing on the effectiveness of public expenditure in the sector.

In this respect, comparisons by DHET across programmes being offered, across public colleges, across provinces and between the public and private sectors are important. There should be a strong emphasis on the generation of time series data that can indicate whether the effectiveness of the system is improving. Tracer studies that gauge the success rates of graduates in the labour market should be undertaken. Paragraphs 85 - 87 below deal with the important matter of the costing of TVET college programmes.

- (b) Monitoring of the sector, and the development of monitoring systems that can improve the relevance and reliability of data.

- (c) The development and maintenance of a national plan for college enrolments, spending and outputs.

This work depends strongly on there being good research and effective monitoring systems. DHET's role in determining national strategies for the volume and type of training to be offered, at an aggregate level, in TVET colleges across the country is crucial.

- (d) The development of information systems, including financial accounting systems.

Given the need for nationally standardised systems, and the cost of developing these systems, this responsibility should rest with DHET at the national level. This policy has implications for the information systems that are required in the sector.

20. The National Skills Authority, established in terms of the *Skills Development Act, 1998*, will continue to play an important role in guiding DHET strategies with respect to the funding of TVET. Moreover, the to be established South African Institute of Vocational and Continuing Education and Training (SAIVCET) will, amongst others, provide much needed support to TVET colleges and the skills development system.

Policy development in the sector

21. This funding policy is expected to evolve as other related policies evolve, and as new best practices emerge. Policies and frameworks that can be expected to shape this policy in the future are the TVET college curriculum, learnership system maintained by DHET, and policies governing the Sector Education and Training Authorities (SETAs).

C. THE SYSTEM FOR FUNDING PUBLIC FURTHER EDUCATION AND TRAINING COLLEGES

Redress principles for public funding

22. Public funding of public TVET colleges must contribute towards the redress of past inequalities. This means that the funding system must deal with two things. Firstly, it must ensure that students or potential students from socio-economically disadvantaged households receive funding at a favourable level, both to deal with additional costs relating to, for example, additional tuition time needed, and to deal with inability to pay college fees. Secondly, funding should be linked, even if indirectly, to targets dealing with the representativity of college student populations in terms of gender, race and disability.
23. The aim of government is to ensure that the TVET college sector as a whole is representative of the country's population in terms of gender, race and disability. Moreover, it is the aim of government to bring about better representativity within different programmes, for example a greater presence of female students in Engineering, Finance and ICT programmes. At the college level, the aim should be to promote the national representativity targets through better recruitment of under-represented groups

Types of funding for public TVET colleges

24. The income of TVET colleges can be divided into the following seven streams:
 - (a) Formula funding of programmes
 - (b) Earmarked capital funding
 - (c) Earmarked recurrent funding
 - (d) College fees
 - (e) Student financial aid
 - (f) Fee-for-service income
 - (g) Other private funding
25. Section D below deals with the formula funding of programmes stream. The remaining funding streams are dealt with in Section E.

D. FORMULA FUNDING OF PROGRAMMES

What the funding system is designed to do

26. Formula funding of programmes as captured in the formula funding grid is designed to promote particular goals in service delivery. The intention is for the formula funding grid to be only as complex as is necessary for the promotion of these goals. The goals are as follows:

- (a) To promote transparency and easy comparability in colleges in terms of what programmes are being offered, the number and categories of people reached by programmes, how programmes are funded and success rates.
 - (b) To promote predictability over the medium term whilst providing the necessary space for flexibility. It is important to interpret the formula funding grid together with the paragraphs in this policy that allow for flexibility in the implementation process, particularly during the transition to the new system (see paragraphs 120 - 123). The funding system should promote good planning, whilst not stifling effective management.
 - (c) To promote equity through the provision of bursary funding to colleges for students who are academically capable but cannot afford to pay college fees.
 - (d) To promote quality and efficiency in a manner that is sensitive to historical inequities through an incentive system that takes into account both absolute success rates and improvements over historical success rates.
27. Formula funding of programmes is intended to cover the recurrent costs of delivering TVET programmes, but also certain capital costs associated with those programmes, specifically costs relating to the replacement of the facilities and equipment used. Moreover, the formula funding of programmes is intended to cover college overhead costs, specifically those relating to administration and student support. Overhead costs have been incorporated within the formula funding of programmes based on the understanding that most overhead costs are sensitive to college size. The approach taken in the policy is aimed at encouraging efficient practices with respect to the organisation of administration, student support services, college marketing, management and other activities associated with overhead costs. An exception from this approach is accommodated within the earmarked recurrent funding stream (see paragraphs 65 - 67).
28. The funding system does not envisage a different level of funding for distance education. This position is in line with White Paper 4, which stipulates that funding should not be differentiated by mode or locus of training. Where the offering of distance programmes by a college results in financial savings, this should be adequately reported on, and the alternative utilisation of the funds should be made clear in the relevant reports.
29. It is recognised that delivering services to special needs students may entail a higher unit cost. This additional cost is not explicitly linked to enrolment figures by special needs categories and per college, partly because of the information difficulties associated with such an approach. Instead, the cost of an expected level of special needs coverage is incorporated within the funding base rate referred to in paragraph 86 and used where enrolment targets for these students are set. Moreover, attainment of enrolment targets by colleges, including enrolment targets for special needs students, receives explicit attention in the annual joint DHET-college planning process referred to in paragraphs 91 - 96.
30. Whilst this policy does provide an explicit set of rules for the formula funding of programmes, in order for the implementation of these rules to be totally successful, this policy should lead to the formulation of user-friendly operational manuals for use by TVET colleges and DHET managers, in which real-life examples and implementation advice are provided. DHET will provide these manuals to ensure that a uniform approach and understanding is developed.

General definitions

31. **Programme:** This refers to a nationally approved programme and is contained in the national register of programmes (see paragraph 36) approved by the Minister in terms of section 43(1) of the CET Act. The definition of programme used in the formula funding grid and applicable to TVET colleges is specific to this policy and is not necessarily the equivalent of the NQF definition of a programme.
32. **Formula funding of programmes:** This is the system for funding the nationally approved TVET college programmes. These programmes will consume the great bulk of public funding destined for TVET colleges. The system works basically as follows: DHET sets a ***funding base rate***, in rand terms, describing the cost of delivering a basic TVET college programme. DHET also sets a ***funding weight*** for each programme eligible for formula funding, where this weight indicates how much more than the funding base rate it costs to deliver a particular programme. Each programme is also assigned an ***assumed fee level*** representing the cost that college fees can be expected to cover. For each programme within a college, ***individual students*** are multiplied by the ***programme duration*** in order to obtain the ***full-time equivalent students***. An ***applied total funding weight*** is calculated for each programme in each college, representing public funding to be received for each full-time equivalent student. This weight takes into account expected fees. The weight is multiplied by the full-time equivalent students to obtain the ***programme weight*** of each programme. The sum of all programme weights, the ***college programme weight***, is multiplied by the funding base rate in order to obtain a ***college allocation***. To this allocation is added an ***output bonus***, giving the final amount to be transferred to the college.
33. **Formula funding grid:** This is a schema used to organise formula funding of programmes. The formula funding grid appears in Annexure A of this policy. The schema, which appears in a blank version and a version with dummy data, should be used to illustrate the funding policy contained in the paragraphs that follow. The same formula funding grid applies to all public TVET colleges in the country. One formula funding grid, as presented in Annexure A, is designed to cover the formula-funded services of one institution during the course of one academic year. Several versions of the grid should be used to cover several years in the planning cycle. The formula funding grid does not deal with the private income of colleges or public funding other than formula funding of programmes. The formula funding grid is a tool for the planning of public funded TVET services delivered by a college, plus a tool for determining how much formula funding of programmes a college should receive. Further details on how the formula funding grid should be used are provided from paragraph 26 onwards.
34. **In-line issues:** These are planning issues relating to individual programmes offered by a college. They are captured in the top part of the formula funding grid. Each line in the top part of the formula funding grid would normally contain a different programme. Only where the same programme is being offered to different groups of students on different time bases, for example part-time and full-time, may a programme be repeated. All programmes on the national register offered by a college within a year must be entered in the in-line part of the formula funding grid.
35. **Bottom-line issues:** These are global planning issues that apply to a college as a whole. They are captured in the bottom part of the formula funding grid.

The register of nationally approved TVET college programmes.

36. The formula funding grid uses information provided in the register of nationally approved TVET college programmes. The national register must contain details relating to the nationally approved TVET college programmes. DHET maintains this register, and makes it available to the public and stakeholders in the TVET college sector on an annual basis.
37. The register of nationally approved TVET college programmes must, as a minimum, include the following information relating to each programme (see paragraphs 38 - 60 for definitions of the various pieces of information):
- (a) Programme name
 - (b) Programme type
 - (c) NQF level
 - (d) NQF Sub-framework
 - (e) DHET programme code
 - (f) NQF organising field
 - (g) SAQA credits
 - (h) Funding weights for personnel
 - (i) Funding weights for capital expenditure
 - (j) Funding weights for non-personnel non-capital

Details on the determination of funding weights are provided in paragraph 87. In addition, the national register should indicate the typical programme duration, for example whether the programme is typically a one-year programme. The national register does not indicate hard and fast programme duration, as this aspect of service delivery requires some flexibility.

The in-line part of the formula funding grid

38. The following paragraphs describe the meaning of each of the columns, from left to right, of the in-line part of the formula funding grid appearing in Annexure A. The in-line part of the formula funding grid indicates the programme choice and information from the national register of approved TVET college programmes. The information in the columns influences the formula funding of the college.
39. **DHET programme code:** This is the unique identifier of a programme included in the register of nationally approved TVET college programmes.
40. **National Qualifications Framework Organising field:** This is the organising field of the programme (e.g. 06: Manufacturing, Engineering and Technology).

41. **National Qualifications Framework level:** This is the NQF level of the programme (e.g. NQF Level 02).
42. **Programme name:** This is the name of the programme as listed in the register of nationally approved TVET college programmes (e.g. Engineering and Related Design).
43. **SAQA credits:** This is the number of credits that the programme carries within the NQF. This is indicated in the register of nationally approved TVET college programmes (e.g. 130 credits).
44. **Programme duration:** This is the duration of the programme in terms of the academic year. The value is a number expressed to two decimal places, and may be 1.00 or less than 1.00. A value of 1.00 indicates that the programme covers one academic year on a full-time basis. In the case of the approved National Certificate (Vocational) (NC(V)) TVET programmes, each programme has by definition a programme duration of 1.00. With respect to other programmes, SAQA specifications, relating for instance to the contact time required for the programme, should guide the determination of the programme duration wherever possible. In the absence of some other benchmark stipulated in policy, the applicable benchmark is that a full-time programme is one that involves 1200 hours of contact time. For example, a programme that covers only 300 hours of contact time would have programme duration of 0.4. A programme with programme duration of 1.00 in one line of the formula funding grid may reappear in another line with lower programme duration, if the same programme is also being offered part-time to another group of students.
45. **Funding weights (by economic category):** This is a weight attached to each economic category of each nationally approved TVET programme to represent the cost of delivering the programme relative to the funding base rate (explained in paragraph 87). The economic categories to be used are (1) personnel cost, (2) capital infrastructure cost and (3) non-personnel non-capital (or 'npnc' or non-personnel recurrent) cost. A specific programme may therefore have the funding weights 1.0, 1.1 and 1.3 for the personnel, capital and 'npnc' categories respectively. The funding weight is always expressed to one decimal point. A funding weight of 1.0 means that the cost of delivering the programme with respect to the economic category in question is equal to the funding base rate value for that category. A personnel funding weight of 1.1, to take an example, would mean that the actual delivery cost with respect to personnel is 10% higher than what is indicated in the funding base rate for personnel. Funding weight values are specified on the register of nationally approved TVET college programmes. All programmes would have funding weights specified. When a funding weight is multiplied by the corresponding economic category of the funding base rate (described in paragraph 86), the expected cost as determined by DHET is obtained.
46. **Assumed fee level:** This is an indicator ranging in value from 0.00 to 1.00 that indicates the expected level of fee-charging for each programme on the register of nationally approved TVET college programmes. A value of 0.20 would indicate that DHET expected 20% of the full cost of the programme to be covered through college fees. The assumed fee level must be informed by clear analysis of historical trends with respect to college fees and the education and training market in general.
47. **Actual total funding weight:** This is the weight that indicates the allocation that will be transferred to the college per programme and per full-time equivalent student, relative to the overall funding base rate (explained in paragraph 86). A value of 1.00 indicates that the allocation is expected to be equal to the overall funding base rate. The Actual Total Funding Weight (ATFW) takes into account several things: programme cost as reflected in the funding

weights (FW_p , FW_c and FW_n); the funding base rates per economic category as determined by DHET (FBR_p , FBR_c , FBR_n and their sum FBR_{Tot}); and the assumed fee level for the programme (AFL). Each funding weight is multiplied by the corresponding funding base rate, and the sum of the three values is then adjusted downwards according to the assumed fee level. The formula is as follows:

$$T = \frac{(FW_p \times FBR_p) + (FW_c \times FBR_c) + (FW_n \times FBR_n)}{FBR_{Tot}} \times (1 - AFL)$$

(where T represents $ATFW$)

48. **Individual students:** This is the number of actual students enrolled in each programme entered in the formula funding grid. The determination of these numbers constitutes a crucial part of DHET-college planning process. Where a student is enrolling for a number of subjects less than the total required by the programme, e.g. seven subjects for NC(V) programmes a value of 1/7 per subject will be applied.

49. **Full-time equivalent students:** This is the number of full-time equivalent students in a programme entered in the formula funding grid. Full-Time Equivalent (FTE) students are the number of individual students multiplied by the programme duration. The formula is as follows:

$$FTE \text{ students} = \text{Individual students} \times \text{Programme duration}$$

The number of FTE students per programme is a key determinant of the funding that should flow to each programme that is offered by a college.

50. **Programme weight:** This is the total weight of the programme, after the actual approved cost of service delivery, enrolment numbers and programme duration have been taken into account. The Programme Weight (PW) is expressed to one decimal place, and T is the Actual Total Funding Weight ($ATFW$) multiplied by Full-Time Equivalent students (FTE):

$$PW = T \times FTE; \text{ (where } T \text{ represents } ATFW)$$

51. **Labour market segment:** This is the segment of the labour market receiving the chief focus of a programme entered in the formula funding grid. This specification occurs in the formula funding grid to encourage a focus on labour market imperatives. It does not influence the funding formula directly. The values in this column would refer to the following labour market segments: employed persons; unemployed persons 15-24 years of age, unemployed persons 25-34 years of age; unemployed adults over age 35. Values are entered in the column to represent the most prevalent labour market status of enrolled students. If the same programme is being offered to different groups of students that are clearly distinct in terms of their labour market status, the same programme should be repeated in the formula funding grid. The determination of the labour market segment, which would often relate to anticipated, not actual, enrolment, must occur during the joint DHET-college planning process described in paragraph 91 below.
52. **Past successful completions:** This is the number of students who successfully completed the programme in question during one or more past years. The precise number of past years to be considered is determined during the annual joint DHET-college planning process. Past successful completions, together with past enrolments (see the next paragraph) are used to gauge the efficiency of service delivery during previous years, and hence the eligibility of the college for output bonus funding in the bottom-line determinations.

53. **Past enrolments:** This is the number of students who could have completed the programme in question, in other words the number of enrolled students, during the past one or more years. The years considered and the rules for counting students would be the same as for the past successful completions (see previous paragraph).

The bottom-line part of the formula funding grid

54. **College programme weight:** This is the sum of all the programme weight values in the formula funding grid. This forms the basis of the formula funding for a college.
55. **Sum of past successful completions and enrolments:** This is the sum of the values referred to in paragraphs 51 and 52. These totals are important inputs into the determination of the output bonus referred to in paragraph 59.
56. **Assumed value of fees charged:** This is a calculated value using values from the in-line part of the formula funding grid as well as the total funding base rate of DHET. Specifically, the programme weight values and the assumed fee level values from the in-line part of the grid are needed. The assumed value of fees charged should reflect the total monetary value of the assumed fee level, and is used as an important benchmark against which to measure the correctness of the fee-setting processes described in paragraph 70.
57. **Assumed value of fee income:** This is the expected monetary value of college fee income.
58. **College allocation before output bonus:** This is the total monetary allocation for the college before the addition of a possible output bonus. The College Allocation before output bonus ($CA1$, where 1 represents before output bonus) is the College Programme Weight (CPW) referred to in paragraph 54 multiplied by the total funding base rate (FBR_{Tot}) of DHET.

$$CA1 = CPW \times FBR_{Tot}$$

The sub-total for each of the three economic categories should be calculated using the category-specific funding base rate from the bottom-line part of the grid and the assumed fee level, full-time equivalent students and category-specific funding weight from the in-line part of the grid. The sub-totals for the three economic categories should not be the total college allocation simply split up in proportion to the category-specific funding base rates, as this would not yield an accurate result.

59. **Output bonus:** This is a monetary bonus which the college receives in recognition of efficient or outstanding service delivery. The methodology for calculating the bonus is a DHET determination. However, in arriving at the methodology, the following should be considered:
- (a) The ratio of past successful completions to past enrolments, and previous versions of this ratio, applicable to previous years (see paragraphs 51 and 53). Both absolute levels of this ratio, and improvements in this ratio over time, should be taken into account.
 - (b) Attainment of development targets in the strategic plan of the college, including targets relating to the representivity of students.
 - (c) Average examination scores attained by students.

The methodology must be transparent to all colleges in the country. Moreover, it should be determined at a sufficiently early point in time to allow colleges to adjust their planning and management towards the attainment of the identified outputs.

60. **College allocation:** This is the total allocation to the college after all adjustments have been made. This is the final allocation provided by the formula funding grid. However, it may not be equal to the total funding for the college received from DHET if (1) there is funding other than formula funding that is to be paid to the college (see Section E) or (2) there are funds allocated during a previous year that were not utilised and should thus be deducted off the allocation (see paragraph 103).

E. OTHER FUNDING STREAMS

Earmarked capital funding

61. This public funding stream covers items not covered by the capital infrastructure portion of the funding base rate (see paragraph 86 below). Hence this stream covers two types of capital expenditure: (1) Capital expenditure to expand the infrastructure of existing campuses, or to construct new campuses; (2) Capital expenditure required to address capital infrastructure backlogs inherited from spending in the past.
62. Earmarked capital funding may take a variety of forms, for example conditional grants declared in terms of the Division of Revenue Act, or matching grants involving joint investment with the private sector. Moreover, this type of funding is always conditional in the sense that it is earmarked for specific capital investments, where these investments are integrated into the strategic plans of colleges.
63. DHET must ensure that transparent and fair procedures are followed in the allocation of earmarked capital funding to colleges. However, it is not a requirement that all colleges be funded equitably with respect to this stream in every financial year. Targeting of particular colleges during particular years is thus permissible. However, in the medium to long term, the distribution of earmarked capital funding across colleges must be equitably pro-poor.
64. Earmarked capital funding is an important means for making colleges more accessible for the physically disabled. DHET should ensure that sufficient earmarked capital funding is made available to adapt existing infrastructure in such a way that full access in this regard becomes possible.

Earmarked recurrent funding

65. This public funding stream is similar to the earmarked capital funding stream, except that it deals with recurrent items. It is earmarked for projects of a developmental nature, in particular staff development and implementation of computerised systems, and college-level research. In addition, the earmarked recurrent funding stream covers inputs that are considered part of a basic minimum package of recurrent inputs required more or less equally by all colleges.
66. DHET may determine a basic minimum package required by all colleges to cover basic overhead expenses outside of the formula funding of programmes stream. Such a package, which should be considered earmarked recurrent funding, could take the form of a financial

transfer, employee posts or goods and services. Regardless of its form, the monetary value of the basic minimum package should be clearly reflected in the financial statements of colleges. DHET may vary the size of the basic minimum package by college, based on criteria that are fair and fully transparent.

67. Transparency and equity requirements for earmarked recurrent grants directed towards development projects are the same as those applicable to earmarked capital grants and described in paragraph 61 onwards.

College fees

68. The CET Act makes it clear that public TVET colleges may raise revenue through the charging of college fees. For the purposes of this policy, college fees are fees charged to students by public TVET colleges to cover the portion of the training cost not covered by formula funding of programmes. For the purposes of this policy, then, college fees do not include hostel fees, or fees charged for programmes that do not receive public TVET funding.
69. The formula funding of programmes, described from paragraph 27 has implications for what may be considered fair practice with respect to college fees. In particular, the level of the college fees charged should not deviate substantially from what is implied by the assumed fee level described in paragraph 46.
70. In accordance with paragraph 17, the responsibility for structuring college fees charged for programmes receiving formula funding rests with colleges. However, the net effect of this structuring should be that the total planned income from college fees should be more or less equal to what is implied by the assumed fee levels per programme. The total planned income from college fees may be up to 10% higher than the assumed fee level described in paragraph 46, without there being a need for DHET approval. Moreover, the college fee charged to a student for any particular programme, subject to formula funding should not deviate substantially from the rand amount implied by the assumed fee level for that programme. Any deviation outside of the bands referred to here require DHET approval, within the DHET-college planning process. The way the transition occurs from the outgoing fee structures of colleges to the new fee structures implied by this policy is linked to how the transition to more normalised per student spending is achieved across colleges. This transition matter is referred to in paragraph 120.

71. DHET must establish and maintain a national TVET college bursary system. The administration of this bursary scheme will be managed by NSFAS. This must include a means test designed to gauge the financial needs and academic capability of public TVET college students, as well as the necessary tools required to implement the means test. DHET must further formulate rules and guidelines regarding allocation of bursaries to colleges, as well as awarding of such bursaries. The bursary systems shall aim at ensuring that an inability to pay college fees does not constitute a barrier to academically capable student's access to a formula funded programme at a public TVET college. The means test and accompanying rules and guidelines must be based on best practice and research findings, and aimed at providing public TVET colleges with a system within which responsiveness to student need and programme cost can be managed by the college. DHET requirements and guidelines shall be sufficiently detailed and binding to establish a transparent system and to enforce key policy imperatives.
72. The rules and guidelines regarding bursaries referred to in the previous paragraph should incorporate an efficiency element whereby students who repeat programmes should be less eligible for bursaries than students who enrol for programmes for the first time.
73. Colleges must manage bursaries in accordance with paragraph 71 to 72.

Student financial aid

74. In this policy, student financial aid is funding, in the form bursaries or loans, provided by the state or private organisations to students, possibly through the public TVET colleges, to deal with costs such as college fees, accommodation, transport as well as subsistence costs.
75. DHET should monitor the situation with respect to needs-based funding over and above the bursaries, and make proposals for systems and partnerships where necessary. Options involving agreements between the state and public and private lending institutions should be explored.

Fee-for-service income

76. This stream of funding is income derived by public TVET colleges from training services offered on a market basis to private and public clients outside of the formula funding system. Income received for HE training services offered under the auspices of HE institutions in terms of CET Act, is considered as part of the fee-for-service income.
77. Paragraph 18 of this policy explains the need to ensure that fee-for-service prices are not cross-subsidised by public funds intended for formula funded programmes. In other words, fee-for-service prices should reflect the true cost of offering the service. To enforce this, DHET will monitor the prices of fee-for-service training offered, relative to the cost of formula funded training as reflected in the national register of TVET college programmes (see paragraph 36). The requirement is that fee-for-service training should not be offered at a price that is lower than the cost of an equivalent formula funded programme.
78. Clearer information in the training market relating to the cost of delivering training programmes, can greatly assist private and public employers in planning their human resource development activities. Given that DHET will be engaged in extensive research work relating to the costing of training programmes, in order to realise the system of formula funding of programmes, DHET

will be well placed to provide the market with valuable information and guidance relating to training costs. DHET, in collaboration with the Department of Trade and Industry, may develop pricing manuals that can be used by public TVET colleges, other providers, and employers, to assist in the provision and procurement of training.

79. DHET must investigate the feasibility of developing and maintaining a national list of recommended prices for training programmes other than those training programmes appearing in the national register of TVET programmes. Such a list could assist in the monitoring of prices referred to in paragraph 77, and could be used by employers to plan their procurement of services offered by various providers, but in particular public TVET colleges.

Other private funding

80. This stream of private funding is all private funding not covered in the preceding paragraphs of Section E. This stream would include, amongst other things, development funding from international and local donor agencies, and income derived from the sale of goods produced by students as part of a training programme.

F. FINANCIAL MANAGEMENT AT PUBLIC TVET COLLEGES

81. It is not the purpose of this policy to provide general financial management rules for public TVET colleges. The use of GRAP, external auditors, internal audit and risk management will become entrenched across all colleges. College management toolkits developed by DHET are being used in a number of colleges. It is important for this work to continue, and for financial management requirements to become nationally standardised.
82. DHET must pay particular attention to the development of accounting structures and practices that allow for a clear separation of public and private income and expenditure. Financial accounts must be arranged in such a way that the utilisation of publicly financed infrastructure for fee-for-service programmes is reflected as such, so that the financial cost of this is clear. Similarly, the utilisation of the same staff members for the offering of public and private training services should result in separate public and private accounting of the related income and expenditure.
83. DHET must pay special attention to the matter of the financial reserves of colleges, and private loans taken by colleges to fund infrastructural and other development. Practices in this regard should not place the sustainability of colleges at risk, nor should they result in excessive mission drift away from the role of colleges as public providers of TVET.

While section 24 (2) of the CET Act, says: "*A public college may not raise money by means of loans or overdraft without approval of the Minister,*" these norms and standards do not provide the criteria and conditions under which the Minister may approve the raising of loans. DHET in consultation with the National Treasury will develop procedures, criteria and conditions under which the Minister may consider approval.

G. NATIONAL PLANNING

Maintenance of the register of nationally approved TVET college programmes

84. The register of nationally approved TVET college programmes as described in paragraph 36, must be maintained by DHET. DHET must ensure that this register is easily accessible to public TVET colleges, as well as to other stakeholders in the vocational education and training market.

The Funding Base Rate and the costing of programmes

85. Much of the maintenance of the register of nationally approved TVET college programmes involves updating the estimated costs of delivering the nationally approved TVET programmes. During the initial implementation of this policy, substantial work is required to establish an initial set of cost information on nationally approved TVET programmes. Thereafter, most work must concentrate on updating costs in line with inflation rates and other incremental cost if applicable that are applicable to the inputs in question, and on the costing of new or revised training programmes.
86. A Funding Base Rate (FBR) must be maintained and used as a benchmark for the costing of all other nationally approved TVET programmes. The funding base rate is a rate, expressed in monetary rand terms, indicating the cost of delivering a basic one-year full-time programme. The funding base rate is split into the three economic categories of (1) personnel, (2) capital infrastructure and (3) non-personnel non-capital. The funding base rate should describe the cost of delivering the least costly programme that exists or might exist. This means that the base rate may describe a hypothetical low-cost programme rather than an existing programme. Cost effective class size and a minimal requirement for equipment and infrastructure should be assumed. Minimum administration and student support overhead costs, as well as industry liaison costs, should moreover be assumed. The expected additional cost of providing services for a representative number of **special needs** students will be separately determined from the standard FBR and an additional amount added to the funding base rate which will be used to calculate the programme cost for these students at the same time when the FBR is calculated by DHET. The rate must cover annual depreciation in capital stock. In other words, the funding base rate should be adequate to build reserves needed for periodic replacement of facilities and equipment. It need not cover infrastructure backlogs and infrastructure expansion costs. The hypothetical programme must be a useful point of departure from which to gauge the cost of other programmes, which would all be more costly or equally costly.
87. In addition to costing the basic hypothetical services implied by the funding base rate, DHET must indicate the costs of all programmes on the register of nationally approved TVET college programmes relative to the funding base rate. This must lead to the funding weights required for the formula funding grid (see paragraph 33). These funding weights must include industry liaison time, as well as all the cost aspects covered by the funding base rate (see previous paragraph). The programme-specific funding weights should take into account the fact that actual class size is often lower than the theoretical class size, due to the fact that colleges may not achieve economies of scale, or because one college may not be able to fill several classes offering the same programme to maximum capacity. The average additional cost implied by these issues should be worked into the funding weights. An important part of the costing work is the formulation of the costing methodology. A sound methodology can greatly reduce the

attention that must be paid to each separate training programme, and can bring a greater degree of consistency to the entire costing exercise.

Finalisation of public funding strategies

88. On the basis of the research referred to in paragraph 19, and through an appropriate consultation process, national targets must be formulated relating to the number of graduates for various programmes needed from the public colleges. It is important that these targets should only be as specific as credible research allows. Experience in other countries has shown that an excessively detailed level of national planning, often referred to as 'manpower planning', is not feasible, given the complexity of the training demand trends, and also the system that supplies the graduates. At the same time, however, there needs to be a critical level of national planning, and target-setting, particularly where it is very clear that there is an under-supply or an over-supply of particular types of graduates.
89. Public funding strategies, including targets relating to the output of the TVET college sector, will be shaped within a planning horizon that is at least 3 years (MTEF). Five to twenty year plans are common in other countries. However, it is important for national targets, to be confirmed on an annual basis, so that the annual DHET-college planning process can be guided by a clear and unambiguous set of priorities. For this reason, DHET must confirm training targets for publicly funded TVET college training by March of each year. These training targets would focus in particular on overall output increases required, and increases in the outputs of specific types of graduates.
90. The development of public funding strategies for technical and vocational education and training must involve a critical level of participation by various government stakeholders, and non-government stakeholders. DHET will ensure that a major series of national consultations occurs at least every three years to deal specifically with public funding priorities in technical and vocational education and training, including the public funding of TVET colleges. These consultations must include, as a minimum, representatives from the Department of Trade and Industry, National Treasury, several major employer and employee organisations, several Higher Education institutions, and several public TVET colleges, and private TVET provider organisations. Prior to these consultations, DHET will provide stakeholders with the basic information packages and research outputs necessary for successful consultations to occur. DHET will also ensure that on an annual basis the National Economic Development and Labour Council (NEDLAC) becomes involved in the finalisation of public spending strategies for TVET.

H. THE ANNUAL JOINT DHET-COLLEGE PLANNING PROCESS

Basic elements

91. For the purposes of the paragraphs that follow, the 'medium term' means the coming three college years for which planning must occur. This is partially in accordance with the Medium Term Expenditure Framework (MTEF) of the Public Finance Management Act, the difference being that the college year begins in January, whilst the government's financial year begins in April. The term 'first MTEF year' refers to the first college year within the medium term. The

term 'current year' refers to the college year immediately prior to the medium term and 'previous year' refers to the college year prior to the current year.

92. Section 10 of the CET Act, requires public TVET colleges to develop strategic plans. This requirement is being fulfilled across all colleges, though the annual joint DHET-college planning process described here has wide-ranging implications for the formats and contents of the college strategic plans, and the annual processes that lead to the finalisation of strategic plans. For example, the formula funding grid in Annexure A of this policy should form part of the strategic plan of each college.
93. It is vital that various stakeholders apart from DHET and colleges should comment on the annual joint DHET-college planning process. DHET must hence ensure that a minimum level of broad consultation occurs with a range of stakeholders, which should include, as a minimum, employers, employees, and private providers of TVET training. At least one provincial consultation and at least one college-specific consultation per college should occur in each year. These consultations should be strongly guided by the national strategic priorities referred to in paragraph 89 and 90.
94. It is crucial for the annual joint DHET-college planning process to be informed by reliable and timely data. This implies major improvements to information systems which, as indicated in paragraph 19 require national funding. In particular, existing unit record systems that house data on individual college students would need to be enhanced, partly to deal adequately with student-level data relating to socio-economic status and with the aggregation of part-time students to full-time equivalent students.
95. The annual joint DHET-college planning process is partly about learning from experience, and thereby improving the capacity of colleges to deliver quality training efficiently and equitably. It is therefore important that this process should be characterised by honest and informed assessments of past performance. Such assessments should include analyses based on the available financial and non-financial data, as well as the consideration of the qualitative inputs of the various TVET college stakeholders. There should be a strong focus on building relationships of trust and mutual respect between stakeholders for this process to be successful.
96. Below, the annual joint DHET-college planning process is described with reference to, firstly, capital investment planning, secondly, a review of past formula funding and, thirdly, the forward planning of formula funding. All these activities should be scheduled in such a way that strategic plans, with finalised funding components approved by DHET, are ready by 30 October of each year. The resultant plans must cover, as a minimum, the medium term.

Capital and Human Resource Investment Planning

97. This planning links strongly to earmarked capital and recurrent funding described in paragraphs 61 and 65. This investment planning should in other words focus strongly on the physical capital needed to address infrastructure backlogs and expansion, and also on investment in systems and the college staff.
98. This should start with an assessment of the adequacy of the physical and human capital to deliver on government training requirements in the past. This assessment should include an analysis of how the college balances the offering of publicly funded and privately funded training programmes. If infrastructure inadequacies with respect to the offering of publicly

funded programmes can be resolved through a reduction in the level of private services offered, then such a reduction should be regarded as optimal.

99. The assessment should lead to college-specific proposals, which will be prioritised by DHET in accordance with the earlier paragraphs on earmarked funding. The result will be an updating of national plans for the capitalisation of the public TVET college sector.

Review of past formula funding

100. The planning of the formula funding for the new medium term must begin with a review of past years, and developments in the current year. The specifications relating to the formula funding grid, and described in Section D of this policy, should inform the review process. This process will be coordinated and supported by DHET.
101. The review should include an assessment of the deviation between the economic category breakdown of previous allocations, and the economic category breakdown reflected in accounts of actual expenditure. It is not a requirement that colleges must comply with the economic category breakdown in respect of non-personnel non-capital and capital infrastructure replacement of the allocation calculated in the formula funding grid. However, a substantial deviation should be analysed to assess whether the funding weights in the register of nationally approved TVET college programmes are inappropriate, or whether a college is allocating funds inefficiently across the three economic categories. In particular, the review must assess whether the college is investing sufficient funds from the formula funding stream into the maintenance and replacement of capital equipment and facilities given that the funding weights cover this cost.
102. Though not explicitly linked to the formula funding grid, representatively of students in terms of gender, race and disability must be considered in terms of the redress principles described in paragraph 22. The level of compliance with past targets should receive attention, and reasons for non-compliance should be assessed.
103. A clawback mechanism must be applied where the following has occurred: Less training took place in the previous year, in terms of FTE students, than was planned for in the formula funding grid applicable to the previous year. In this case, under-enrolment in certain programmes can be compensated for by over-enrolment in certain other programmes. However, under-enrolment where actual enrolment is less than 97% of the planned enrolment in terms of full-time equivalent students, must lead to the enforcement of the clawback mechanism. DHET, with the college, should calculate the clawback amount applicable to the current year, and should deduct this amount from the funding of the next year.
104. DHET must assess prices to determine fee-for-service income of colleges and determine whether there is evidence of cross-subsidisation of privately offered services through the use of funds intended for public services. Financial accounts with a separation between public and private services, as specified in paragraph 82, should also be scrutinised to assess whether cross-subsidisation has occurred. If this has occurred, plans for the future should correct this and continual and deliberate cross-subsidisation by a college can result in a financial clawback using the mechanism referred to in paragraph 103.

Forward planning of formula funding

105. Planning for the three years of the medium term should pay particular attention to bringing enrolments in nationally approved TVET programmes (as described in paragraph 36) in line with national strategies and targets in this regard. Moreover, the planning process should deal with the labour market segment focus, and the representativity of students. Future targets for the representativity of the student population must be set, in particular where it is clear that student groups are under-represented.
106. The enrolment targets per programme must be consulted, but ultimately DHET approves the programmes and enrolments that are subject to formula funding. The process may involve reprioritising the emphasis placed on private services. For example, the need to increase the utilisation of college infrastructure for the offering of nationally approved TVET programmes may require a college to reduce private training. Planning in this regard should occur with care, taking cognisance of contracts between the college and private clients.

Reporting requirements

107. In terms of section 25 (3) of the CET Act, public colleges are required to produce annual financial reports, and to comply with any reasonable additional reporting requirement established by the Minister. Moreover, section 42 of the Act requires the Director-General of DHET to produce an annual report on the quality of Technical and Vocational Education and Training in the country. This would include both public and private colleges which have been respectively declared or registered in terms of Act 16 of 2006. DHET must ensure that the core national set of service delivery indicators and reporting requirements developed with National Treasury in terms of the Public Finance Management Act, and partly applicable to the TVET college sector, are applied at the college level in order to advance an integrated quality monitoring system embracing financial and non-financial data.

The annual cycle of public resourcing

108. The following paragraphs establish the reporting and planning obligations of DHET and TVET colleges in terms of the annual cycle.
109. By the last day of September of each year, final annual reports of TVET colleges must be submitted to DHET. These reports, which are referred to in section 25 (3) of the CET Act, must include audited financial statements and any additional information required by the Minister in terms of the Act.
110. By 31 March of each year, DHET must release agreed upon national targets and priorities relating to number of students and types of training required in future years, in terms of paragraph 88. This step may involve the confirmation of targets set in previous years, as opposed to the setting of new targets.
111. By 30 April of each year, DHET and TVET colleges must have begun the annual DHET-college planning process, described elsewhere in this policy. This process always begins with a review of past trends, in particular as regards formula funding, enrolments, representativity and capital investments.

112. By 31 July of each year, DHET must have finalised the funding rate applicable for the next college year, as described in paragraph 86. Moreover, funding weights and the assumed fee levels for new programmes, if any, on the register of nationally approved TVET college programmes should be confirmed by this date.
113. Also by 31 July of each year, means test data collected during the current year on the socio-economic status of students must have been processed by DHET to determine the bursary needs for each college.
114. By 31 October of each year, the annual DHET-college planning process must have been completed. By this date, medium to long term strategic plans of colleges, which must include the formula funding grids for the following three years, agreed to in accordance with paragraph 107 must be submitted to DHET by colleges.
115. By 30 November of each year, DHET must provide colleges with a schedule of payments to be made to colleges for services to be rendered during the following college year. This schedule must agree with the budgets and plans applicable to the following year. Payments to colleges should occur in line with this schedule, except where corrective measures such as clawback must be applied.

The schedule must be compiled based on the use of the tranches of payment of academic year. The first tranche must not exceed 50% due to TVET colleges and payable in the first month of the financial year. The second tranche must be paid not later than October in the same financial year. Any correction or adjustments such as clawback must be made from the second tranche at this time. Any clawback action must be made after due consultation with the affected college.

116. DHET must transfer unspent personnel funds back to colleges on or before the 31 March of the Government financial year concerned.
 - (a) In terms of the CET Act, the staff of public colleges consists of persons appointed by the Minister in posts that the Minister establishes for the respective colleges and council established posts. The Minister is required to remunerate staff appointed by the Minister from funds allocated to the respective colleges in accordance with these norms and standards.
 - (b) In terms of Section 22 of the CET Act, the Minister must from money appropriated for this purpose by Parliament fund public colleges on a fair, equitable and transparent basis and the Minister may, subject to the norms and standards, impose any condition in respect of an allocation of funding and different conditions in respect of different public colleges, different further education and training programmes or different allocations, if there is a reasonable basis for such differentiation. Also subject to the requirements in these minimum norms and standards, the Minister must determine further appropriate measures for the redress of past inequalities.
 - (c) In terms of Section 24 of the CET Act, the funds of a public college consist of funds allocated by the state and other sources of funding, such as donations or contributions received, money raised by the college, money raised by loans, subject to Ministerial approval, income from investment, income from services rendered, student fees, student and employee accommodation and any other source.

- (d) In terms of Section 25 of the CET Act, the public college must, keep complete accounting records of all assets, liabilities, income and expenses and any other financial transactions, adhere to standards not inferior to the requirements of the Public Finance Management Act.
 - (e) In terms of Section 26 of the CET Act, if the management staff (or council) of a public college fails to comply with any provision of this Act under which an allocation from money appropriated by Parliament is paid to the college, or with any condition subject to which any allocation is paid to the public college, the Minister may call upon the management staff (or council) to comply with the provision or condition within a specified period. If the management staff (or council) thereafter fails to comply with the provision or condition timeously, the Minister may withhold payment of any portion of any allocation appropriated by Parliament in respect of the public college concerned.
117. The Department will retain funds, annually, from the subsidy allocation to public TVET colleges, in order to remunerate the employees in posts established by the Minister for the TVET college. The portion of the subsidy allocation to be retained by DHET will be 63% of the FULL cost of the TVET funded programmes according to these funding norms. The 63% will be calculated on the total budgeted programme allocation on DHET voted estimations however, the percentage allocation per college of employee remuneration will vary depending on the funding weights per college. The full cost of the funded programmes consists of 80% of government subsidy allocation and 20% of assumed college fee level as explained in paragraph 13 .
- Where these funds have not been fully expended, DHET will transfer these unexpended funds back to the college concerned on condition that:
- (a) these funds will be utilised to offset any funds determined in terms of the clawback mechanism outlined in paragraph 103, if any;
 - (b) that the funds will be utilised by the college for non-remuneration staff costs such as staff development, within a staff development plan recommended collectively by staff to the Academic Board for recommendation to the Council of the TVET college concerned and finally approved by the Director-General of DHET; however
 - (c) subject to a motivated application from the TVET college, to defray remuneration of staff where such staff would have been remunerated by DHET in the financial year concerned; and
 - (d) subject to any conditions that may be determined by DHET policy on utilisation of such funds, if such policy is determined.
118. In terms of the CET Act, the Minister must, on an annual basis, provide sufficient information to public colleges regarding the funding referred to in paragraph 117 to enable the colleges to prepare their budgets for the next financial year.

Academic performance

119. A student may be funded for a maximum of two years at the same NQF Level in a nationally approved qualification unless a motivation by the college is made by means of a special request to the DHET for an extension for funding.

I. TRANSITION TO THE NEW SYSTEM

120. The transition from the various outgoing systems, some national, and some specific to individual provinces or even colleges, to the new system established by this policy, implies a number of key challenges, and possible solutions. A successful transition depends on a solid understanding of recent trends and practices, and the building of a common understanding of and commitment to the new system.

The transition challenges and solutions

121. Historically, staffing at public TVET colleges has involved the attaching of large post establishments to colleges. These post establishments have been prescriptive with respect to the mix of employee types. They severely limit the ability of colleges to respond to changing demands in the training market, and hence to generate the quantity and type of skills needed by the country's youths and adults. This funding policy envisages a situation in which the staffing of colleges occurs within the ambit of the formula funding of programmes described in this policy. This goal must be realised in stages, however, partly through careful negotiation with the relevant employee organisations. Given that the college sector is an expanding one, and given that the new service delivery system brings with it exciting opportunities for college staff, a collaborative partnership approach between the employer and employee is envisaged. Specifically, it is envisaged that as a first step, the monetary value of the existing post establishments will be brought in line with the formula funding of programmes. By means of careful analysis of existing employment modalities and negotiation with relevant stakeholders, and guided by the need to address the skills needs of the country, DHET will assume a leadership role in dealing with this challenge.
122. Average spending on each full-time equivalent student, as well as the breakdown of spending across the three economic categories referred to in paragraph 86, varies greatly from college to college. The same applies to fees charged, and the way in which private and public funding is combined. Much of the variation is related to the fact that spending is inadequate in some colleges, and inefficient and excessive in some other colleges. Inadequate spending is associated with poor quality training, but even colleges with high spending levels are, in some cases, delivering a service below an acceptable level. The challenge is to bring spending in colleges in line with what it actually costs to deliver a quality service. Changes in spending levels that are too abrupt can result in instability in the sector, and an inability to spend new funds efficiently. It is thus important that the normalisation of spending levels should occur gradually, yet as rapidly as circumstances permit. It is envisaged that the per spending levels implied by the formula funding of programmes will be made clear from the outset, but that the convergence of historical spending patterns with the new spending patterns will take some years. During the transitional period, then, certain colleges may on average spend more or less per full-time equivalent student than what is implied by the new policy. DHET will develop and manage plans that will align the

system with the funding norms of this policy. Moreover, there will be engagement with Treasury by DHET aimed at ensuring that the MTEF budgets relating to TVET colleges are harmonised with the readiness of the sector to implement the new funding norms, and to increase student enrolment levels.

123. The clawback mechanism referred to in paragraph 103 is intended to promote efficiency in the system. It should not cause undue instability in the public funding of TVET colleges. Careful in-year monitoring by DHET and colleges of enrolments and spending should prepare colleges for the possible application of the clawback mechanism.

THE FORMULA FUNDING GRID: Explanation of in-line column headings		
<i>DHET code</i>	Department of Higher Education and Training programme code	This is the 9-digit code of DHET used to identify one of the nationally approved programmes of the TVET colleges. Codes appear in this column only under the heading 'DHET CORE'.
<i>Reg of Nat Appr Prog</i>	Register of nationally approved TVET college programmes	<p>The register consists of the following:</p> <ul style="list-style-type: none"> (a) Programme name (b) Programme type (c) NQF level (d) NQF Sub-framework (e) DHET programme code (f) NQF organising field (g) SAQA credits (h) Funding weights for personnel (i) Funding weights for capital expenditure (j) Funding weights for non-personnel non-capital
<i>NQF OF</i>	National Qualifications Framework Organising field	<p>One of the twelve NQF Organising fields. Values are from '01' to '12', as specified in regulation 452 of SAQA of 1998. These values are reproduced here:</p> <ul style="list-style-type: none"> 01: Agriculture and Nature Conservation 02: Culture and Arts 03: Business, Commerce and Management Studies 04: Communication Studies and Language 05: Education, Training and Development 06: Manufacturing, Engineering and Technology 07: Human and Social Studies 08: Law, Military Science and Security 09: Health Sciences and Social Services 10: Physical, Mathematical, Computer and Life Sciences 11: Services 12: Physical Planning and Construction
<i>NQF level</i>	National Qualifications Framework level	NQF level. Permissible values are any of the values 1 to 8, as specified in regulation 452. However, likely values are 2 to 4, which are the levels corresponding to the TVET band.
<i>Prog name</i>	Programme name	The name of the programme.
<i>SAQA cred</i>	SAQA credits	The number of credits assigned to a unit standard or a qualification by SAQA.
<i>Prog dur</i>	Programme duration	The proportion of a college year that is needed for the completion of the programme. This value is expressed as a number to two decimal points. The value can be equal to or less than 1.00, but not greater than 1.00. As an example, a programme conducted over a trimester would have the value 0.33 (or 0.34 for the third in a series of three trimesters).

<i>FW pers</i>	Funding weight for personnel	The funding weight for personnel applicable to the programme. The value is a number to one decimal point only. The value is taken from the national register of core programmes.
<i>FW cap</i>	Funding weight for capital expenditure	The funding weight for capital items applicable to the programme. The value is a number to one decimal point only. The value is taken from the national register of core programmes.
<i>FW npnc</i>	Funding weight for non-personnel non-capital	The funding weight for items other than personnel and capital items applicable to the programme. The value is a number to one decimal point only. The value is taken from the national register of core programmes.
<i>AFL</i>	Assumed fee level	The proportion of total cost that is assumed to be covered by college fees. The value is a number to two decimal points. The value is taken from the national register of core programmes.
<i>ATFW</i>	Actual total funding weight	The overall funding weight for the programme before the programme duration and enrolment adjustments but after considering the assumed fee level (<i>AFL</i>) from the bottom-line part of the grid. The formula is described in paragraph 47 of the policy.
<i>Stud</i>	Individual students	The number of individual students enrolled in the programme. This value is determined through the joint DHET-college planning process.
<i>FTE</i>	Full-time equivalent students	The number of full-time equivalent students in the programme. This value is calculated as follows: $FTE = Stud \times Prog\ dur$.
<i>PW</i>	Programme weight	The total weight assigned to the programme, with funding weights, assumed fees and bursaries, enrolment and duration taken into account. This value is calculated as follows: $PW = T \times FTE$; where T represents the actual total funding weight (<i>ATFW</i>).
<i>LMS</i>	Labour market segment	The segment of the labour market receiving the chief focus of this service. Values, which are determined through the DHET-college planning process, are: 'BE' for mainly budding entrepreneurs 'EE' for mainly employed persons 'OE' for mainly operating entrepreneurs with employment potential 'UA' for mainly unemployed adults over age 35 'UY' for mainly unemployed youth up to age 35 These values are not used for any calculation. They are simply illustrative of the college plan.
<i>AFS</i>	Alternative funding source	The source of funding other than formula funding of programmes. Values can be: 'EL' for employers (learnerships) 'EO' for employers (other) 'SL' for SETA (learnerships) 'GE' for state (education department) 'GO' for state (other) These values are illustrative, and are not used in any calculation.
<i>Past SC</i>	Past successful completions	The number of successful completions amongst past enrolments. The value is a number calculated according to an agreement between DHET and the college relating to the number of past years to take into account.
<i>Past enrol</i>	Past enrolments	The number of students enrolled in past years, where that number is comparable to past successful completions.

