

Presentation to SMC

BUDGET 2024-2026
NWU HIGH LEVEL BUDGET FRAMEWORK



19 June 2023

Budget Process @ NWU



Budget Process @ NWU

- Interactive process
 - All levels of management need to take ownership and participate actively
- Integrated Planning
 - Revising NWU Strategy and APP,
 - Infrastructure and Macro maintenance planning,
 - Workforce planning,
 - Enrolment planning,
 - Financial planning
- Process that each manager needs to follow
 - Step 1: Ensure PLANS are aligned with NWU Strategy and APP
 - Step 2: Link PLANS and RESOURCES that are needed to execute and TIMEFRAME
 - Step 3: Costing = Put R-value to plan (BUDGET)
 - Step 4: Can we afford our plan within the funding available?

Budget Process @ NWU

- Three-year rolling budget (2024-2026)
- UMC approved a High-level budget framework (HLBF) to guide the affordability of the different plans that are budgeted for
- As part of the interactive budget process managers need to revise the 2024 and 2025 detailed budgets and compile detail budgets for 2026 on IDU (budgeting tool)
- All detailed budgets need “to fit into” the HLBF after consolidation

Where are we in the current Budget Process?

as per approve budget timeline

- Approval of the budget process, principles, and timeline ✓
- Prepare HLBF ✓
- Approval of HLBF ✓
- Planning and training, including budget information sessions for managers
- Management teams to revise the detailed 2024 and 2025 budgets and budget in detail for 2026 on IDU, including budget discussions within the Division/Faculty
(3 July – 25 August 2023)
- Budget Show and Tell: Strategic discussion on SMC level
(2 days early in September 2023, dates will be scheduled soon)
- Last round of adjustments and finalisation of budget report **(1-12 September 2023)**
- Approval process **(18 September 2023 – 16 November 2023)**

High-Level Budget Framework (HLBF) 2024-2026



HLBF 2024-2026

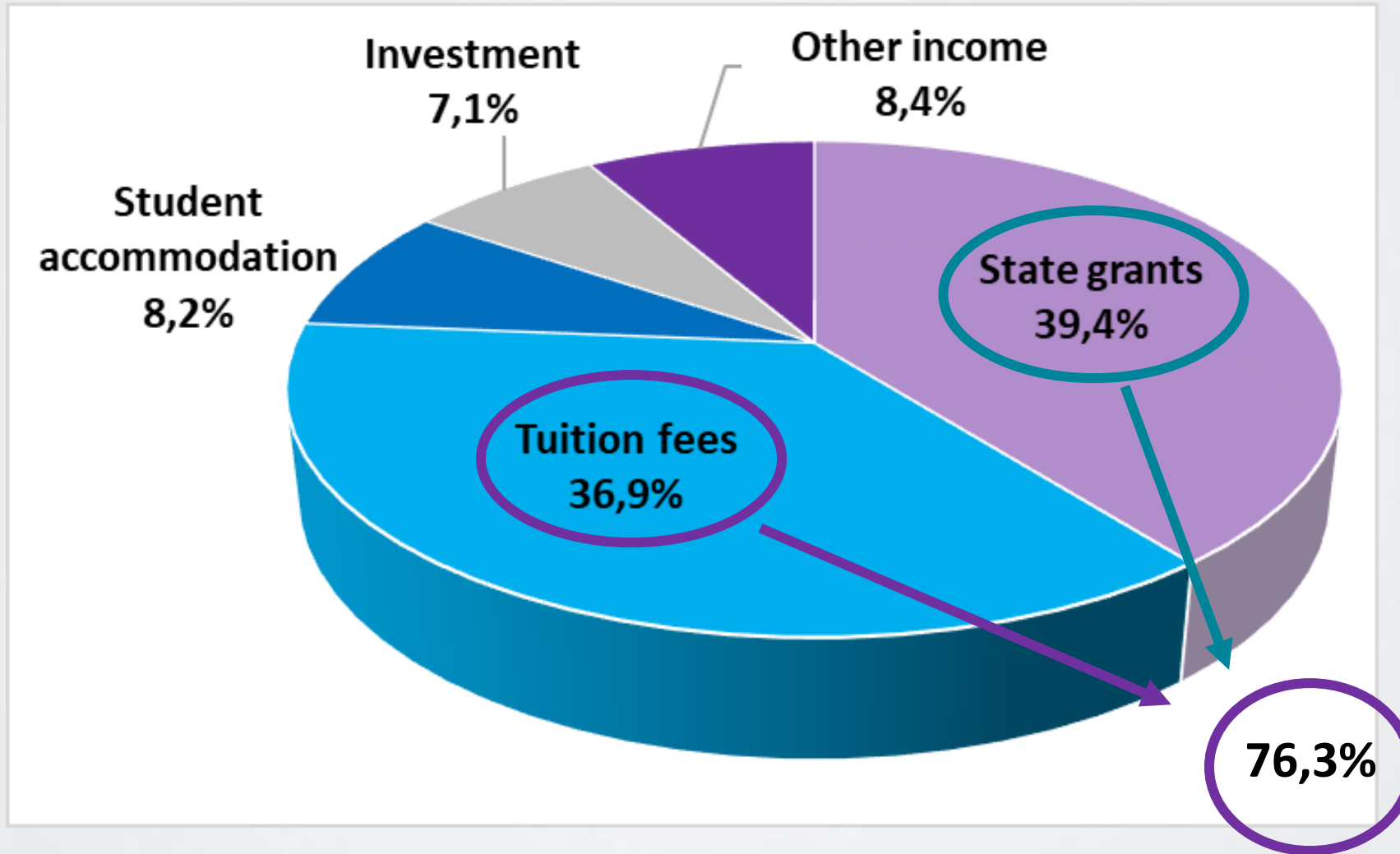
- When compiling the HLBF
 - Step 1: Realistic prediction of income
 - Step 2: Translate income into expenses that can be afford. The cash-flow ratios are used to allocate the expenses in the different expense categories (personnel cost, operating cost, capital cost)
- Information that is important when compiling the HLBF
 - Enrolment plan
 - Sector information, especially funding information as in the Ministerial Statement on University Funding and any indication on fee increases
 - HEMIS data
 - The viability and sustainability indicators
 - Identified risks and concerns (refer to FIM)
 - Mitigation plans
 - Other relevant financial information available

HLBF: Step 1

**REALISTIC
INCOME**



NWU INCOME SOURCES: BUDGET 2023



STATE GRANTS AND TUITION FEES: RISK FACTORS

Enrolment analysis (updated - as on 1 June 2023)

- Enrolments the **biggest driver** for the calculation for tuition fees as well as block grant funding, therefore, under-enrolment the single highest risk factor to take in consideration **when forecasting BLOCK GRANT and TUITION FEE income.**
- The enrolment targets for 2023–2025 were revised during 2022.
- Enrolment status as on 1 June 2023

2023 Enrolments	Planned	Actual (1 Jun '23)	Variance	Actual as % of Planned
Contact: Undergraduate	40 121	40 538	417	100,4%
Contact: Postgraduate	6 154	5 688	-466	81,3%
Distance: Undergraduate	8 697	8 166	-531	91,5%
Distance: Postgraduate	973	933	-40	97,1%
Total NWU	55 945	55 325	-620	98,9%

STATE GRANTS AND TUITION FEES: RISK FACTORS

Enrolment analysis

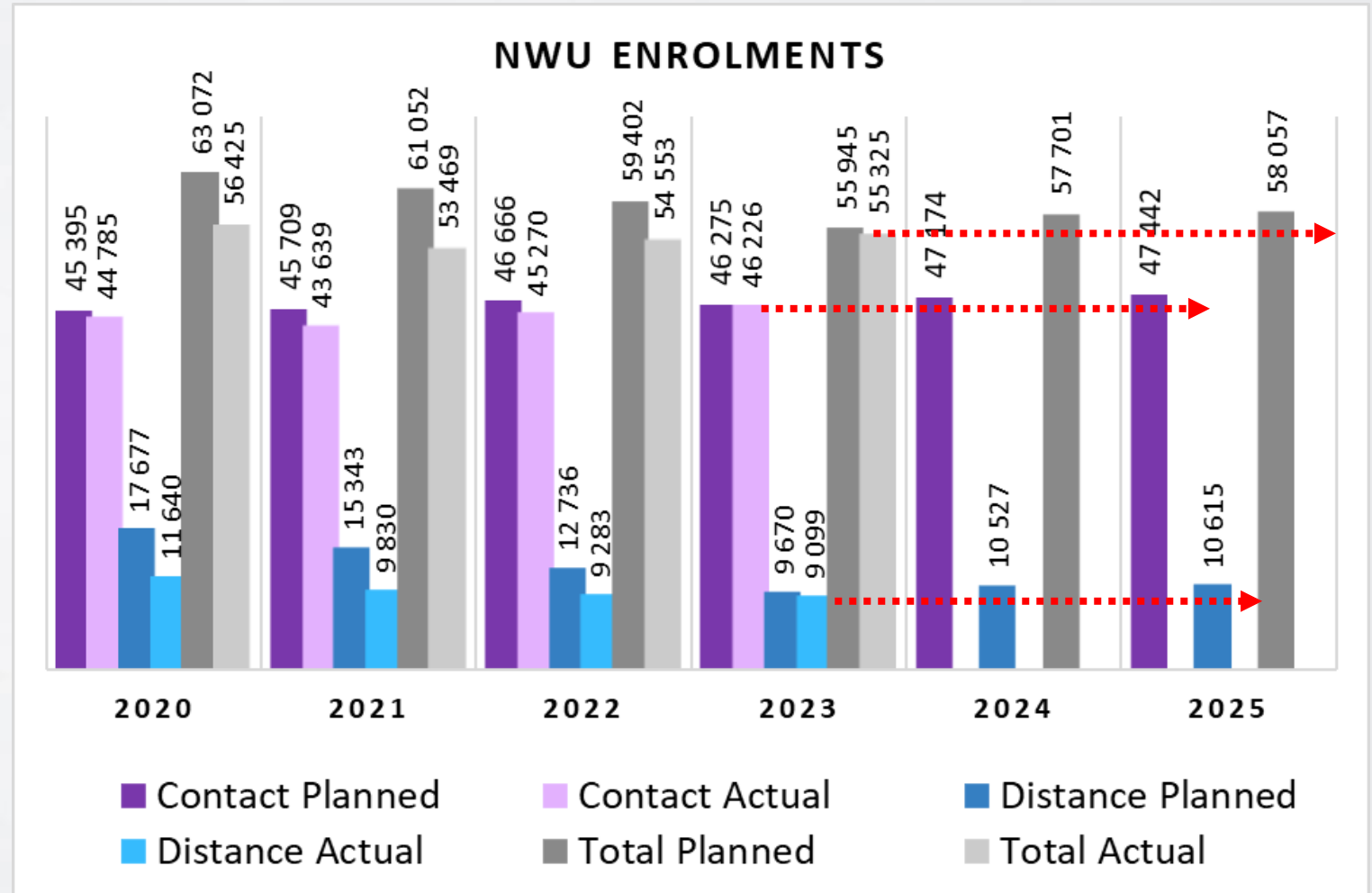
(1 June 2023)

Number of additional enrolments
(% increase) to meet the
2024 enrolment targets:

Total enrolments = 2 376 (4,3%)

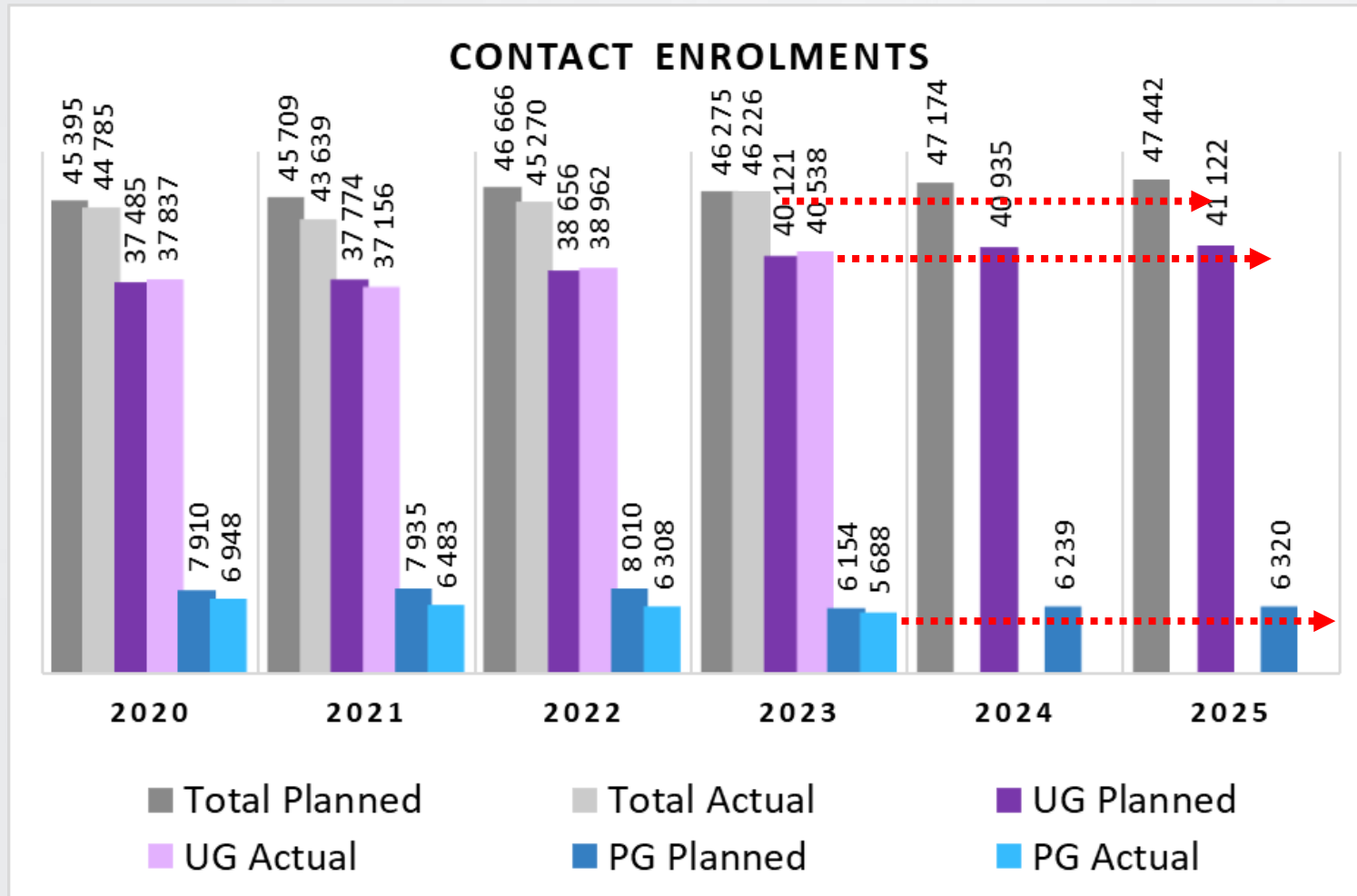
Contact enrolments = 948 (2,1%)

Distance enrolments = 1 428 (15,7%)



STATE GRANTS AND TUITION FEES: RISK FACTORS

Enrolment analysis (1 June 2023)



Number of additional enrolments
(% increase) to meet the
2024 enrolment targets:

Total contact = 948 (2,1%)
Contact UG = 397 (1,0%)
Contact PG = 551 (9,7%)

STATE GRANTS AND TUITION FEES: RISK FACTORS

Enrolment analysis

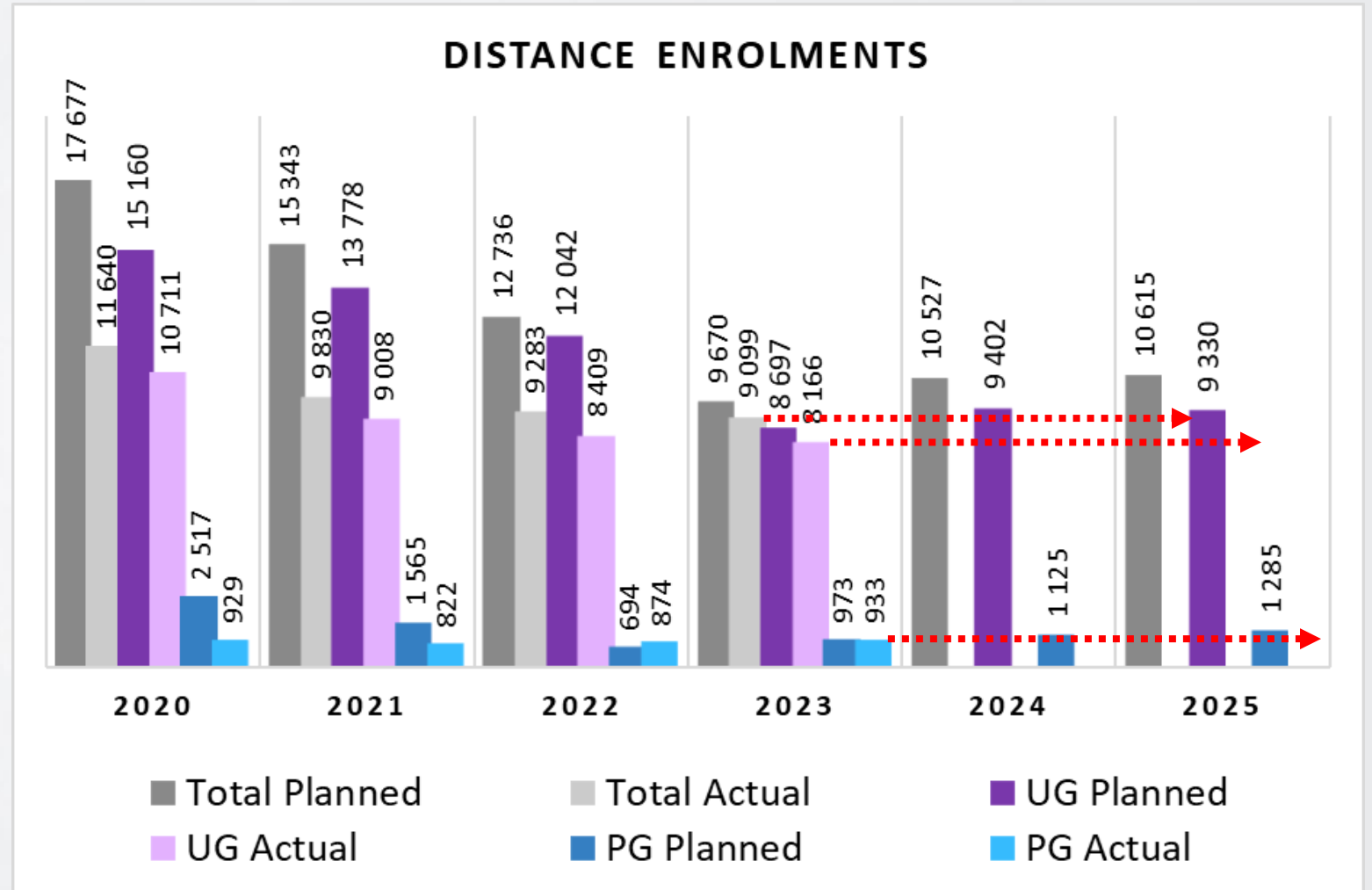
(1 June 2023)

Number of additional enrolments
(% increase) to meet the
2024 enrolment targets:

Total distance = 1 428 (15,7%)

Distance UG = 1 236 (15,1%)

Distance PG = 192 (20,6%)



STATE GRANTS AND TUITION FEES: RISK FACTORS

Enrolment analysis (1 June 2023)

Type of enrolment	Enrolments Actual % growth between 2021 and 2022	Enrolments Actual % growth between 2022 and 2023	Enrolments % growth from actual 2023 to 2024 target	Enrolments % growth from 2024 target to 2025 target
CONTACT Total	3,8%	2,1%	2,1%	0,6%
CONTACT Undergraduate	4,9%	4,0%	1,0%	0,5%
CONTACT Postgraduate	-2,7%	-9,8%	9,7%	1,3%
DISTANCE Total	-5,6%	-2,0%	15,7%	0,8%
DISTANCE Undergraduate	-6,6%	-2,9%	15,1%	-0,8%
DISTANCE Postgraduate	6,3%	6,8%	20,6%	14,2%
NWU TOTAL	2,0%	1,4%	4,3%	0,6%

STATE GRANTS AND TUITION FEES: RISK FACTORS

Impact of under-enrolment on BLOCK GRANT

State budget financial year	2021/22	2022/2023	2023/2024
Student enrolled academic year	2019	2020	2021
NWU Ministerial approved TIU	82 701	93 262	93 529
Sector Ministerial approve TIU	1 473 434	1 590 399	1 616 794
NWU's share in the market	5,6%	5,9%	5,8%
NWU Actual/Forecasted TIU	92 640	88 486	85 984
Percentage of approved TIU	112,0%	94,9%	91,9%
NWU under enrolled TIU		4 776	7 545
NWU % deviation		5,1%	8,1%
If more than 2% deviation adjust funded units with 1/3 of under enrolled units of the TIU more than the 2% deviation		-970	-1 891
Funded units		92 292	91 638

R-value of 2022 penalty = R14,9m
R-value of 2023 penalty = R28,8m

2022 HEMIS final submission (July 2023) still work-in-progress, the impact of a possible under-enrolment in TIU's is unknown

STATE GRANTS AND TUITION FEES: RISK FACTORS

Impact of under-enrolment on BLOCK GRANT

- DHET re-distributed R535.6m (2022: R534.4m) withheld from all universities for over- and under-enrolments more than the acceptable range deviations as described in the Ministerial Statement.
- The funding was reallocated back to 24 universities involved in block grant calculations to assist universities in improving their enrolment planning and to address budget pressures where additional funds have been received.
- NWU received R31.0m (2022: R31.7m) of that as part of the block grant allocation for 2023.
- **As we cannot predict the results of the sector, we cannot assume that there will be again a re-distribution of funds.**

STATE GRANTS AND TUITION FEES: RISK FACTORS

Impact of under-enrolment on BLOCK GRANT

As per Ministerial Statement (December 2022)

- With the submission of 2023 student data, the under and over-enrolment in TIUs will no longer be reduced by only one-third but will increase to 40% in the funding year 2025/26 (two-year lag in subsidy) and a further 10% increase will be implemented as from 2024 (2026/2027 subsidy).
- R5m penalty for universities that submitted their Higher Education Management and Information System (HEMIS) data either late and/or with inaccuracies.

STATE GRANTS AND TUITION FEES: RISK FACTORS

Less state funding available due to financial difficulties of Government

The Ministerial Statement (December 2022) indicated that the **increase in the block grant** funding for the 2024/2025 and 2025/2026 financial years will be **4.5%** for both year vs the 2023/2024 increase of **0.9%**.

Risk factor: Sustainability of the funding

The result: an **increase** in the R-value per block grant unit **below CPI (excluding HEI)**.

Percentage Increase/(Decrease) in R-value per unit (%)					
Block grant category	2020	2021	2022	2023	2024
Teaching inputs	3,8%	2,5%	-2,0%	-1,2%	3,1%
Institutional factors	4,9%	3,4%	-1,8%	-1,2%	0,3%
Teaching outputs	3,6%	8,8%	7,1%	1,9%	0,5%
Research outputs	5,8%	-4,1%	3,5%	-0,9%	0,0%

**vs. CPI
forecast
of 4,6%
+HEI**

STATE GRANTS AND TUITION FEES: RISK FACTORS

High dependency on NSFAS funding

28,2%

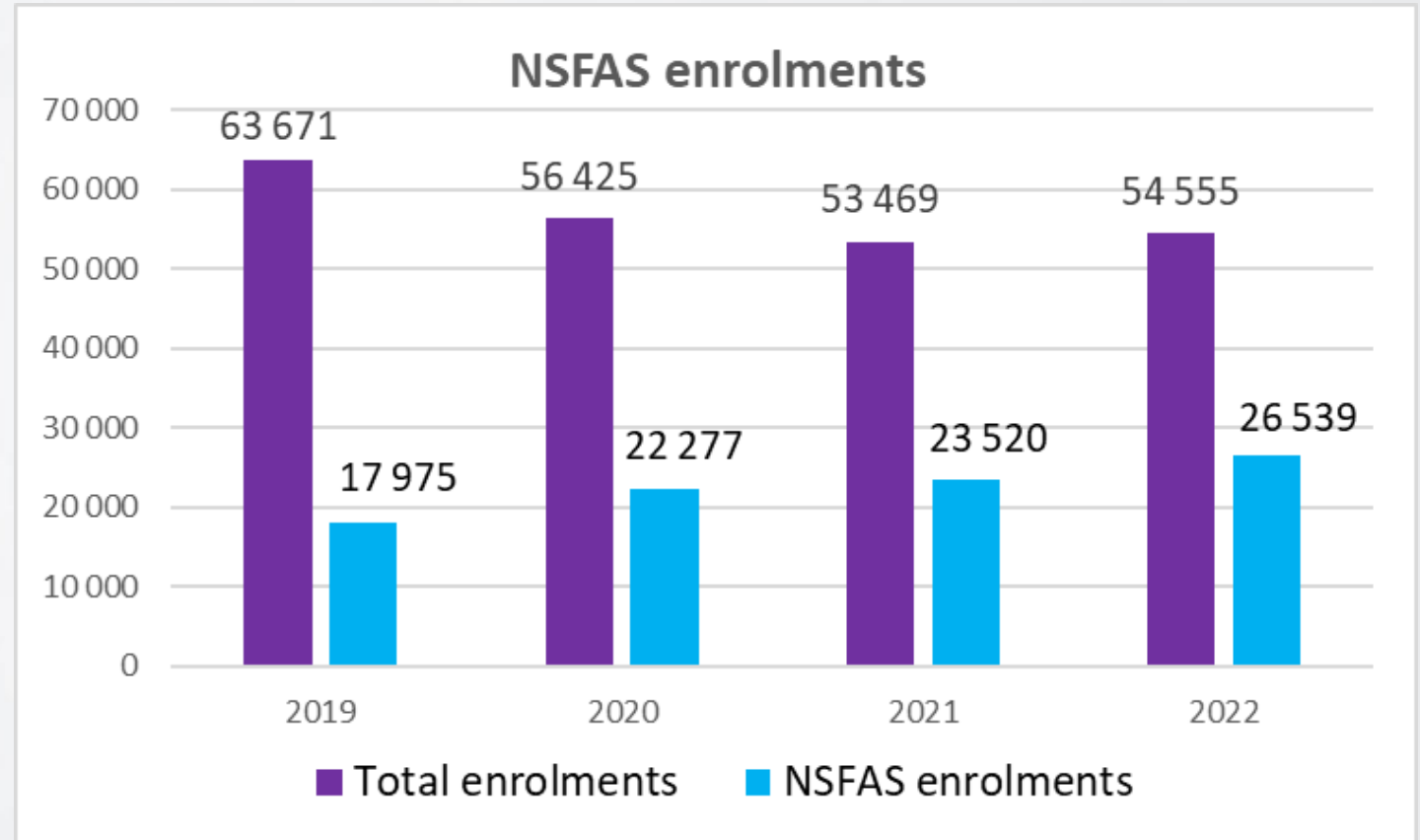
of total enrolments in 2019

48,6%

of total enrolments in 2022

Risk factor:

Sustainability of the funding



STATE GRANTS INCOME

Block grant calculation 2024-2026

- 2022 **final** HEMIS data **not yet available** (final submission 31 July 2023).
- Ministerial Statement December 2022 available. R-value of funding for 2024/25 and 2025/26 but no estimated units for the sector available for 2025/26.
- Assumption: **NWU keep the same % of the sector market as in 2023**, ignore the sub-block categories.
- Will revisit the calculation when the 2022 HEMIS data is available.
- Do modelling on impact if Research output share decline in the sector market.

NWU share in market	2019	2020	2021	2022	2023	average last 5 years
Teaching input grant	5,8%	5,8%	5,6%	5,9%	5,8%	5,8%
Institutional factor	2,7%	2,9%	3,2%	3,5%	3,8%	3,2%
Teaching output grant	7,0%	6,3%	6,3%	6,6%	6,6%	6,6%
Research output grant	7,3%	7,2%	7,6%	6,9%	6,9%	7,2%
TOTAL	6,0%	5,9%	5,9%	6,0%	6,0%	6,0%

STATE GRANTS INCOME

Block grant 2023-2026

	2023 Budget	2023 DHET allocation Actual	2024 Budget	2025 Budget	2026 Budget
	R'000	R'000	R'000	R'000	R'000
TOTAL BLOCK GRANT	-2 326 980	-2 390 454	-2 497 678	-2 610 109	-2 727 564
Percentage increase from previous year	0,2%	-0,4%	7,3%	4,5%	4,5%

The block grant increase with **7.3%** from budget 2023 to 2024 and **4.5%** for 2025 and 2026 which represents the same percentage increase as the R-value increase in the block grant for the sector, as per Ministerial Statement (December 2022).

There was a **0.4% decrease** between the actual 2023 and 2022 allocation as received from DHET.

STATE GRANTS INCOME

Earmarked Grants 2023-2026

Earmarked grant categories	2023 Budget R'000	2023 DHET allocation Actual R'000	2024 Budget R'000	2025 Budget R'000	2026 Budget R'000	Min Statement Dec '22 increase
University Capacity Development grant	-47 660	-47 660	-49 691	-51 927	-54 212	4.5% Increase
Foundation grant	-38 520	-35 130	-36 711	-38 363	-40 089	4.5% Increase
Clinical training grant	-22 911	-22 911	-23 571	-24 632	-25 740	4.5% Increase
Veterinary Sciences grant	-9 627	-14 810	-10 037	-10 489	-10 961	4.5% Increase
TOTAL EARMARKED GRANT	-118 718	-120 511	-120 010	-125 410	-131 002	
Percentage increase from previous year	15,1%		1,1%	4,5%	4,5%	

- **Excluding** Infrastructure efficiency grant.
- Use detailed information as per Ministerial Statement December '22 where available for 2024.
- For 2025 and 2026 use 2024 as base plus the same percentage increase as for the relevant Earmarked Grant from 2023 to 2024 on Ministerial Statement.

TUITION FEES INCOME

Enrolment analysis (1 June 2023)

Type of enrolment	Enrolments Actual % growth between 2021 and 2022	Enrolments Actual % growth between 2022 and 2023	Enrolments % growth from actual 2023 to 2024 target	Enrolments % growth from 2024 target to 2025 target
CONTACT Total	3,8%	2,1%	2,1%	0,6%
CONTACT Undergraduate	4,9%	4,0%	1,0%	0,5%
CONTACT Postgraduate	-2,7%	-9,8%	9,7%	1,3%
DISTANCE Total	-5,6%	-2,0%	15,7%	0,8%
DISTANCE Undergraduate	-6,6%	-2,9%	15,1%	-0,8%
DISTANCE Postgraduate	6,3%	6,8%	20,6%	14,2%
NWU TOTAL	2,0%	1,4%	4,3%	0,6%

- Contact UG growth percentage for 2024 and 2025 seems realistic, use 0% for 2026
- For the rest used a more “realistic growth”
- Contact PG = 1% each year; Distance UG = 0% each year; Distance PG = 8% each year

TUITION FEES INCOME - summary

Tuition fees calculation: Growth and Annual increase

Description	2024 %	2025 %	2026 %
Growth Contact UG	1,6%	0,5%	0,0%
Growth Contact PG	1,0%	1,0%	1,0%
Growth Distance UG	0,0%	0,0%	0,0%
Growth Distance PG	8,0%	8,0%	8,0%
Annual increase: Contact students tuition fees	4,6%	4,6%	4,6%
Annual increase: Distance students tuition fees	5,1%	4,6%	4,6%
Annual increase: Registration and other fees	4,6%	4,6%	4,6%

TUITION FEES INCOME

Tuition fees 2023-2026

	2023 Budget	2023 Actual Mar	2024 Budget	2025 Budget	2026 Budget
	R'000	R'000	R'000	R'000	R'000
<i>Tuition fees: Contact students</i>	-1 995 456	-1 969 685	-2 091 733	-2 198 966	-2 302 099
<i>Tuition fees: Distance students</i>	-173 809	-167 043	-177 870	-188 660	-200 283
Total Tuition fees	-2 169 265	-2 136 728	-2 269 603	-2 387 625	-2 502 382
Registration fees	-118 832	-119 045	-124 521	-130 249	-136 240
Other fees	-7 306	-1 558	-7 106	-7 433	-7 775
TOTAL TUITION AND RELATED FEES	-2 295 404	-2 257 331	-2 401 230	-2 525 307	-2 646 398
% increase from previous year	6,9%		4,6%	5,2%	4,8%

OTHER INCOME

Principle to determine high level budget for other income

- An analysis of 2020 – 2022 budget vs actuals, on a high level
 - Calculate the average actuals for 2020-2022 (3 years)
- Adjust calculated average with 4,5% per year for 2023, 2024, 2025 and 2026

Detailed work to be done by managers

HLBF: Step 2

EXPENSE ALLOCATION



EXPENSE ALLOCATION RATIOS

As NWU budget on a cash-flow basis (thus budget for capital expenses as well), the expense budget is allocated using the cash flow ratios. The expense allocation percentage is a percentage of recurrent income. The different funding envelopes have different allocation ratios

(see Annexure A: Budget Macro document)

Cash-flow ratios for TOTAL NWU

Ratio's	TOTAL NWU			
	2023 %	2024 %	2025 %	2026 %
<i>Cash flow - ratio's</i>				
Personnel costs as % of income	53,8%	53,7%	53,7%	53,6%
Operating costs as % of income	39,4%	39,7%	39,7%	39,8%
Capital costs as % of income	5,8%	5,9%	5,9%	5,9%

EXPENSE ALLOCATION RATIOS

As NWU budget on a cash-flow basis (thus budget for capital expenses as well), the expense budget is allocated using the cash flow ratios. The expense allocation percentage is a percentage of recurrent income. The different funding envelopes have different allocation ratios

(see Annexure A: Budget Macro document)

Ratio's	Council controlled: IS 1&4 (Unrestricted or Designated)			
	2023 %	2024 %	2025 %	2026 %
<i>Cash flow - ratio's</i>				
Personnel costs as % of income	59,6%	59,6%	59,6%	59,6%
Operating costs as % of income	34,3%	34,3%	34,3%	34,3%
Capital costs as % of income	6,1%	6,1%	6,1%	6,1%
	100,0%	100,0%	100,0%	100,0%

STAFF COST BUDGET

- a) Budget for **50% cash flow on the IRR** budget in year of allocation (previously budgeted for full year cash flow) with the implementation date as 1 July each year.
- b) Budget for **9 months cash flow on COLA** budget in year of allocation (previously budgeted for full year cash flow) with the implementation date as 1 April each year.
- c) Budget for a **standard saving of 5% of the personnel cost budget as savings on vacancies** (previously budgeted for the full year per position in the permanent staff structure).
- d) Budget to fund the current **permanent structure** (as per active position list, vacancies budgeted at 85% of the key scale).
- e) Budget for **temp, ad hoc and allowances** (2023 budget allocation plus 2023 COLA), with the pre-condition to re-allocate the funding where needed considering actual spending and motivations for new temp and ad hoc funding.
- f) Budget for the **standard central personnel cost**.
- g) Budget for **COLA**.
- h) Budget for salary revisions and promotions (**3% of permanent structure**, previously budgeted 2% of permanent structure. The additional 1% per year is needs to be allocated to salary revisions for the next 3 years, to increase the IRR budget to cater for better salaries **with the pre-condition that there is a 1% saving on the permanent structure each year for 3 years (2023-2025) as part of staff optimisation project.**
- i) Budget for **bonuses and incentives**.
- j) Budget for **new staff cost allocation** (aligned with the integrated planning information)
- k) Budget for **staff cost mitigation plan** in line with FIM

STAFF COST MITIGATION PLAN

The modelling done after the proposed allocation and the adjustments in the allocation principles as per previous slide:

	S1	S2
	R'000	R'000
2022	338 585	338 585
2023	276 004	247 747
2024	134 789	105 446
2025	-9 455	-39 756

confirms that a staff cost mitigation plan is still needed. The following risk mitigation is proposed: IF the pre-condition as proposed does not realise the risk mitigation is to freeze vacancies in the next year, and thereafter 2%-3% saving each year if we do not increase our income

NEW STAFF COST FUND

- i) New allocations in the academic environment must be motivated by a **growth in student** numbers identified in the enrolment plan / must be linked with **Academic personnel: Student ratios**.
- ii) **Existing funded vacancies** at SMC Portfolio level can be used to accommodate growth areas where possible.
- iii) In the support environment **new areas of service / growth in services needed** and **mission critical positions** will be considered. The motivation must be informed by the consideration as to whether existing roles have been considered for **repurposing where appropriate**.
- iv) The provision of additional staff must be linked to **enhanced productivity / efficiencies / effectiveness / service level**
- v) When vacancies arise because of attrition, explore whether the resultant **vacancy can be utilised for another higher need**.

HLBF: 2024-2026 SUMMARY

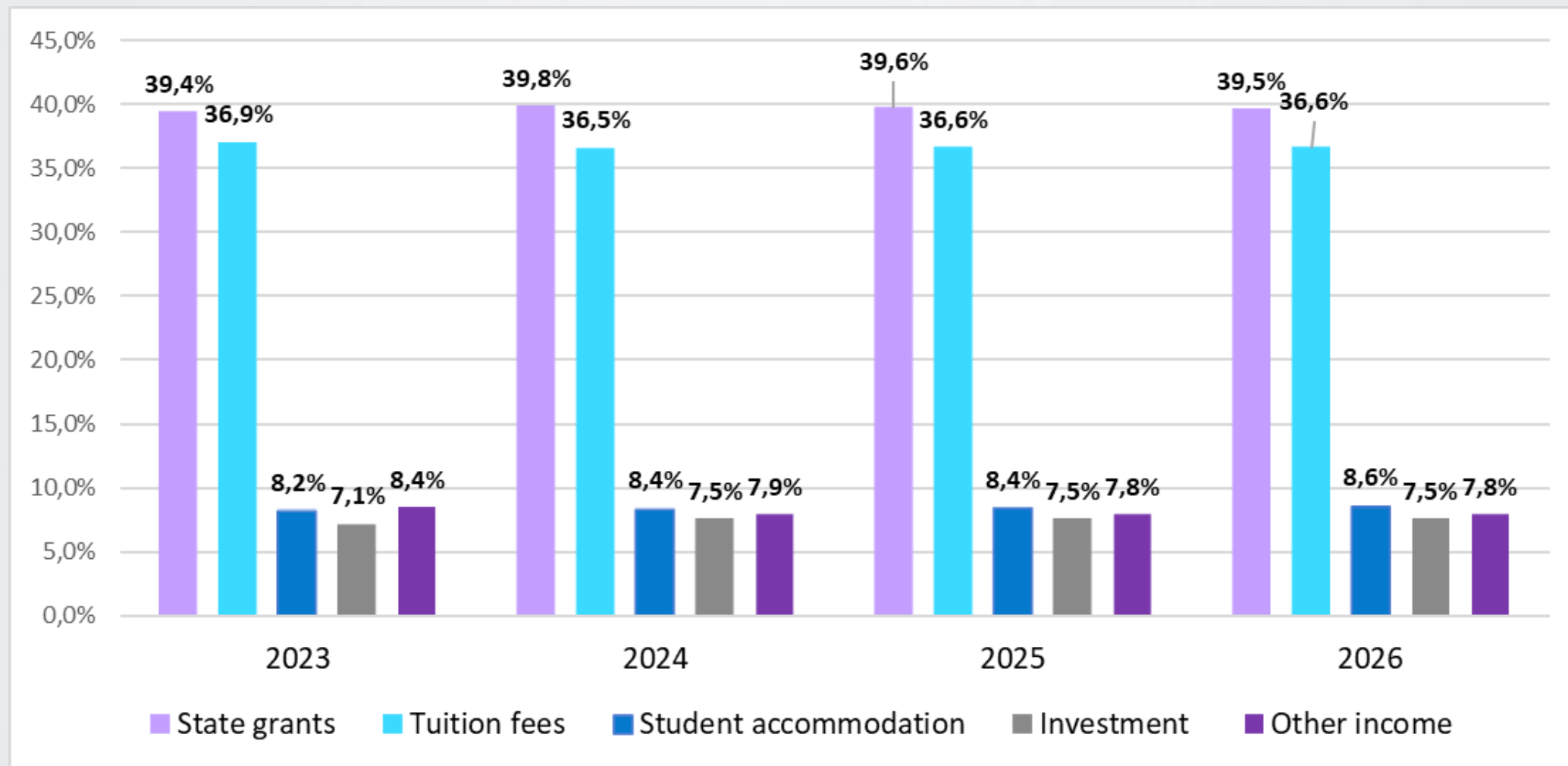


SUMMARY – COUNCIL CONTROLLED IS 1&4

Summary: % increase from previous year	2023 %	2024 %	2025 %	2026 %
Income	6,4%	5,8%	4,8%	4,7%
Personnel cost	5,3%	5,8%	4,8%	4,7%
Operating cost	3,2%	5,8%	4,8%	4,7%
Capital cost (other)	50,4%	5,0%	3,8%	3,5%
Capital buildings	4,0%	10,0%	10,0%	10,0%

*The UMC approved the high-level budget framework 2024-2026 as prepared, with the understanding **that the HLBF will be revisited as and when new and relevant information becomes available during the budget process.***

NWU INCOME SOURCES



Do we execute our plans with the allocated financial resources?



2022 EXPENSE VARIANCE ANALYSIS

(Budget less Actual spending)

	Variance R'000	% of total variance
Personnel cost variance (IS1&4)	258 622	36,6%
Operating cost variance (IS1&4)	122 715	17,4%
Capital cost variance (IS1&4)	14 413	2,0%
IREA/ITEA 2022 allocation	11 991	1,7%
Strategic funds	12 460	1,8%
Earmarked grants	7 282	1,0%
External funding	-39 597	-5,6%
UMC Bufferfunds	3 693	0,5%
Central funds	-2 869	-0,4%
Mitigation plans	276 577	39,1%
Outsourced contracts, maintenance and utilities	72 711	10,3%
Depreciation and finance charges	-31 326	-4,4%
Total recurrent expense variance	706 671	100,0%

Savings R419m
Allocated funding to
Divisions/Faculties

Note:
*Included in actual
spending is also
spending against
previous years reserves*

POSSIBLE CONTRIBUTING FACTORS?

- Change in plans
- Did not execute initial plans
- Was “cheaper” to execute plans than anticipated
- “Fat” in the budget
- Bad planning and costing of plans
- Ineffective internal processes
- Lack of capacity
- External factors
- Shortage in the market of certain equipment

Need to identify the contributing factors to ensure that we utilise the available funding effectively

Guidelines...



GUIDELINES WHEN COMPILING THE BUDGET

GOAL: Relevant and realistic budget

All starts with a PLAN (Step 1)

- Short and medium term (3 years)
- Priorities
- Existing activities
- New activities
- Obsolete activities
- Resources (Staff, operating cost, infrastructure, equipment including replacement plans)

GUIDELINES WHEN COMPILING THE BUDGET

R-value next to the plan (Step 2)

per organization unit- per account(activity) – per month

- Actuals of the past
- Current year's budget and projected actuals
- Zero based budgeting
- Impact of inflation and exchange rate
- Realistic income and expense
- Keep it simple
- Within reality of HLBF

GUIDELINES WHEN COMPILING THE BUDGET

Personnel cost (Staff)

- The permanent personnel structure (**upload the current structure on IDU as per active position list June 2023**)
- Temporary and ad hoc staff costs (**2023 budget plus average 2023 COLA**) plus cost analysis template
- Allowances (**as per payroll costing June 2023**)
- New personnel cost fund request (**via new personnel cost request template – not input on the IDU system**)

GUIDELINES WHEN COMPILING THE BUDGET

Operating cost

- **Not a previous year budget plus CPI exercise**
 - Use prior and actual year (budget and actuals) as a guideline
 - Take into consideration new and obsolete activities (change in plans)
 - Budget for the correct object codes (object guidelines)
 - **Give careful attention to the expected timing of the expenses during the financial year to ensure accurate reporting when using the Year-to- Date budgeted figures.**
- Certain expenses are due in a particular month while others occur every month (spread factor on IDU)

GUIDELINES WHEN COMPILING THE BUDGET

Capital cost

- **Not a previous year budget plus CPI exercise**
- Use replacement plans for computers and all equipment
- Take into consideration new and obsolete activities (change in plans)
- Infrastructure needs via infrastructure 3-year plan **(a parallel process while busy with budget process)**
- Give careful attention to the expected timing of the expenses during the financial year to ensure accurate reporting when using the Year-to- Date budgeted figures (spread factor on IDU)

GUIDELINES WHEN COMPILING THE BUDGET

Other

- Strategic funds request
 - Not a wish list OR overflow from “normal” budget
 - Align with APP and strategy
 - Needs to be submitted via strategic fund request template and project plan
 - Via UMC member
- External funding activity – need to budget for income and expense – cannot budget for deficit
- Earmarked grants (Break-even budget)

GUIDELINES WHEN COMPILING THE BUDGET

Reasonable test (Step 3)

Motivate change in budget

Current budget

Plus: Change in plans

- New accounts/projects/plans/changes in circumstances
- Less: Old/obsolete accounts/projects/plans/changes in circumstances

Plus: Inflation

Less: Savings

= Budget next 3 years

HELPLINE DURING BUDGET PROCESS



Your Financial Planner

- there to assist with advice and information
- there to assist by asking relevant questions
- there to assist with time management to make sure all deadlines can be met

