PERFORMANCE-BASED FINANCING IN VOCATIONAL EDUCATION AND TRAINING

ENGLISH ABSTRACT
1. INTRODUCTION

PRESENT FINANCING SYSTEM

The present system of vocational education and training (VET) financing was adopted in 1997. The statutory financing is based on unit costs (average cost), transactions (student numbers) and costs (field-specific; special tasks).

The system has proved effective in that it ensures training opportunities for the whole age group, but it has not encouraged qualitative development and necessary changes.

The development plan Education and research 1999-2004 sets the aim of developing the financing of vocational institutions to provide more incentives for development.

PERFORMANCE-BASED FINANCING PROJECT

At the request of the Ministry of Education, the National Board of Education launched a project on 1 December 2000 geared to develop a performance-based financing system which evaluates outcome and rewards training providers for the placement of their students in employment and in further studies. Another aim is to develop the financing system to have a stronger steering effect.

At this stage, the project focuses on young people’s and adults’ curriculum-based VET.

IMPLEMENTATION AND TIMETABLE

The National Board of Education invited Mr Kauko Niinikoski, Counsellor of Education, to undertake the review, appointed a steering group and nominated 12 different VET providers (local authorities, joint municipal boards) as a taskforce for Mr Niinikoski.

Towards the end of 2001 Mr Niinikoski submitted his proposal for a performance-based financing in initial secondary VET.
2. PERFORMANCE-BASED FINANCING

THE PROPOSAL

The proposal is that the financing system in initial secondary VET be complemented by a system of performance-based financing, which will be introduced as from 1 January 2002. The system is two-fold, consisting of outcome-based funds and a quality award. Outcome-based funds are granted on the basis of certain numerical indicators, the most important being student placement in employment and in further education. Other indicators are the graduation rate, the dropout rate and the training provider’s input into staff development. Most of the data is annually produced by Statistics Finland, some by the National Board of Education.

The quality awards will continue to be granted on the basis of training providers’ written applications, which are supplemented by site visits, when needed. The projected quality themes include support for the development of business and industry, the development of learning and teaching, measures to prevent exclusion, special-needs training, and internationalisation.

It is suggested that during the running-in period (3 yrs.) the appropriation for performance-based financing should be about 3.36 million/year, to be gradually (over five years) increased to some 25.2 million, which represents about three per cent of the core funding of VET.

The decisions concerning performance-based financing are made by the Ministry of Education, but the grants will be not be earmarked. This means that the training provider can divide independently on the allocation of the funds it receives.

Further, the report draws attention to the dispersed ownership in VET. There are 201 training providers in all, a substantial number awarding even under 10 qualifications a year. To underline the providers’ regional responsibilities, the report proposes linking the dispersed units into “fairly” large regional units.

THE SYSTEM

The system of performance-based financing has been presented extensively at different training events. At the request of the National Board, some 20 training providers and six interests groups of various types have given their opinion on the interim report.
These and other opinions show that there is broad agreement on the need to introduce performance-based financing. It is seen to encourage training providers to develop their provision, to highlight the role of VET and to bring positive publicity to it, thereby improving its image.

Performance-based financing is an umbrella concept, consisting of:

a) **Outcome-based funds** granted on the basis of operational performance indicators

b) **Quality awards** granted on the basis of success in larger thematic entities.
A. OUTCOME-BASED FUNDS

- focus on outcome (core results, support results, inputs)
- numerical criteria
- based on statistical data
- annual outcome and development trend.

**INDICATORS**

**Impact**
- effective share: 50% of the performance indicator set

1. Placement in employment
   - 70% of the impact indicator set
   - Regional youth unemployment taken into account
2. Placement in further education
   - 30% of the impact indicator set

**Processes (effectiveness)**
- effective share: 20% of the performance indicator set

1. Dropout rate
   - 50% of the process indicator set
   - “Acceptable” reasons for dropout
2. Graduation rate
   - 30% of the process indicator set
   - number of students graduating in the norm time
3. Utilisation rate
   - 20% of the process indicator set
   - Annual number of students in relation to the maximum number indicated in the institutional licence

**Staff (competence)**
- effective share: 20% of the performance indicator set

1. Formal competence
   - 40% of the set of staff indicators
2. Staff development
   - 60% of the set of staff indicators
   - Training provider’s total financial input
   - contacts with working life 60%
   - other staff development training 40%
**Economy**

- effective share: 10% of the performance indicator set

1. Annual contribution margin
   - 60% of the economic indicator set

2. Annual contribution margin ratio / depreciation
   - 40% of the economic indicator set

**Economic indicators**

**Annual contribution margin**: running income/costs ratio, describes the adequacy of income

**Annual contribution margin ratio**: ratio of annual contribution margin, comparing annual contribution margin to available funds; enables different organisations’ annual contribution margins to be compared

**Annual contribution margin ratio / depreciation**: annual contribution margin ratio compared to depreciation; describes the adequacy of the annual contribution margin for replacement investments.

**Indicators**

- presented as indices; their technical basis and calculation methods are being deliberated by a taskforce set up by the National Board of Education for a term ending on 31 March 2002.
B. QUALITY AWARD IN VET

The quality award is primarily designed to promote the aims of the development plan for education and research 1999-2004. The quality award is granted for excellent implementation of stated thematic entities.

Thematic entities, with projected content:

**Support for the development of business and industry**
- anticipation of changes in working life and other operational environments
- development measures and other regional services
- cooperation in training and development

**Development of learning and teaching**
- curriculum development
- teaching methods and their development
- learning and learning outcome and their assessment

**Prevention of exclusion, special-needs education and immigrants’ training**
- relative share of special-needs students and immigrants
- supportive measures: quality and extent
- impact of supportive measures: dropout rate, graduation rate

**International activities**
- student exchanges
- teacher and expert exchanges
- other internationalisation projects.
3. RECIPIENTS OF PERFORMANCE-BASED FINANCING

Performance-based financing is always allocated to the training provider in a non-earmarked lump sum; that is, the training provider can use the funds at its discretion.

- In order to motivate the staff to pursue performance, it is important that performance-based financing also benefits those who achieve the performance.

As experiences and the statistical base emerge, the aim is to grant performance-based financing without application. The quality award will continue to be granted on the basis of applications.

The recipients will annually amount to about 15-20% of training providers. The quality award will be granted to 3-5 training providers in each series.

Projected quality award series

a. Large multi-field institutions (awarding qualifications in more than one field of study)
   - at least 800 qualifications / 3.5*) years, or 230 qualifications / year
b. Medium-sized and small multi-field institutions (awarding qualifications in more than one field of study)
   - under 800 qualifications / 3.5 years, or 230 qualifications / year
c. One-field institutions (vocational qualifications in one field of study)
   - all in the same series

*) A measure used by Statistics Finland

The division of multi-field institutions into two series is necessary for reasons of competition, because larger institutions usually have much more responsibility for arranging VET (including less popular, but crucial fields) and relevant services in their catchments area.

Apart from the best achievers, the Ministry of Education also rewards training providers who, within the limits of their own (often modest) resources, have achieved commendable development. The criterion is a trend substantiated by performance indicators.
4. IMPLEMENTATION

THE APPROPRIATION

During the running-in period (3 yrs.): 3.36 million annually. After that the intention is to increase the total annual appropriation gradually, drawing on experience, to 16.8 - 25.2 million in 4 - 6 years.

In the outcome-based funds, the allocated sums in each series will be in proportion to student numbers. Although outcome-based funds will constitute the bulk of all performance-based financing, the quality awards must be sizeable enough to interest larger training providers.

- outcome-based: 70-90%
- quality award: 10-30%

EVALUATION DATA

Most of the data needed by the Ministry of Education to evaluate performance will be produced by Statistics Finland. The rest of the data will be collected by the National Board of Education directly from training providers. The written applications for quality awards will be supplemented by site visits when needed.

ADOPTION OF THE SYSTEM

The Ministry of Education has decided that the performance-based financing system will be adopted as from 1 January 2002.

DEVELOPMENT AND DECISIONS-MAKING

The Ministry of Education will appoint a consultative council consisting of few knowledgeable and sufficiently prestigious experts to develop the system and to prepare decisions.

The advisory council will

- evaluate results achieved with the performance-based financing system
- make proposals for content development, e.g. evaluation objects and their effective share of the entity.

The recipients of the quality award will continue to be nominated by a judging panel.

Decisions concerning performance-based financing will be made by the Ministry of Education.
FINANCING OF VOCATIONAL EDUCATION AND TRAINING

APPENDICE